

Retail Equity Research

JK Tyre & Industries Limited

Auto Components

BSE CODE: 530007

NSE CODE: JKTyre

Bloomberg CODE: JKI:IN

SENSEX: 40,248

HOLD

12M Investment period

Rating as per Small Cap

CMP Rs 72

TARGET Rs 77

RETURN 7% ↑

(Closing: 05-11-19)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Challenging times ahead

JK Tyre is one of the leading manufacturers of tyres in the world. The company has a network of 4,000 dealers and around 250 dedicated outlets.

- Revenue was down 13.6% YoY in Q2FY20 owing to the ongoing slowdown in automobile sector.
- EBITDA margin was up by 330bps YoY to 13.7% on account of lower employee and other expenses.
- Adj. PAT jumped two fold compared to Q2FY19 due to the gains from reassessment of deferred tax asset using new corporate tax rate of 22%
- Pre-buying of BS-VI vehicles and radialisation of tyres could drive growth in the coming years. However, the near-term outlook remains challenging due to sluggish economic growth. We reiterate our HOLD rating on the stock with a revised target price of Rs 77 based on 6.4x FY21E adj. EPS.

Sluggish top-line

Company registered revenue decline of 13.6% in Q2FY20 reaching Rs. 2,155cr, owing to the continued softness in the automobile sector. Weak demand in the domestic market affected the domestic sales while exports gained momentum. Domestic revenue slumped 16.5% YoY and revenue from Mexico gained 5.2% YoY in Q2FY20. Although a new entrant in 2/3 wheeler tyres, the company was able to register 20.0% YoY growth in the segment. The company plans to focus on exports in the near-term to maintain sustainable growth rate.

Reported PAT jumps threefold

EBITDA margin was up by 330bps YoY to 13.7% as employee and other expenses declined 9.3% and 6.9% YoY respectively. Reduction of corporate tax to 22.0% came in as a sweetener in the tough times. The company has reassessed deferred tax liability at 25.2% instead of 34.9%, leading to reversal of provision for deferred tax liability of Rs. 158.0cr. Reported PAT increased threefold to Rs. 170cr in Q2FY20 (vs. Rs. 52cr in Q2FY19), while adjusted PAT (adjusted for favourable forex moves and VRS costs) jumped two fold to Rs. 220 cr. (vs. 94cr. In Q2 FY19).

Focus on Digital analytics; Radialisation to drive growth

Riding on the wave of digital analytics, the company began to leverage the data to improve growth prospects. With the acquisition of stake (26.0%) in Treel mobility solutions, company has launched a product which helps the customers to monitor real time tyre pressure and other tyre dynamics. The company is also trying to analyze customer buying behavior to improve the product quality. There is an increasing trend towards radial tyres in the truck segment, contributing to the company's revenue. According to the company, ~82.0% of the overall truck/bus segment and ~62.0% of the OEM segment may move towards radialisation.

Outlook and valuation

Company expects Indian economy to improve in the second half of this year. By October 2020, the company plans to regain the growth momentum. The pricing of BS-VI vehicles and build up inventory, along with sluggish automobile growth remains to be a challenge in the near term. Hence, we estimate we reiterate our HOLD rating with a revised target price of Rs. 77.

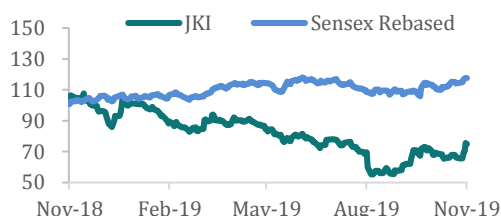
Company Data

Market Cap (cr)	Rs.1,777
Enterprise Value (cr)	Rs.7,547
Outstanding Shares (cr)	24.6
Free Float	48.0%
Dividend Yield	2.1%
52 week high	Rs.112
52 week low	Rs.53
6m average volume (lacs)	0.8
Beta	1.0
Face value	Rs.2

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	56.2	56.2	56.2
FII's	3.9	3.6	2.1
MFs/Insti	2.9	3.0	2.9
Public	19.8	20.2	20.7
Others	17.3	16.9	18.0
Total	100.0	100.0	100.0
Promoter pledge	16.2	19.9	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	30.6%	-14.2%	-31.4%
Absolute Sensex	9.7%	3.3%	15.2%
Relative Return*	20.9%	-17.5%	-46.6%

*over or under performance to benchmark index



Consolidated (cr)	FY19A	FY20E	FY21E
Sales	10,370	10,620	11,601
Growth (%)	23.5	2.4	9.2
EBITDA	1,114	1,200	1,276
EBITDA Margin (%)	10.7	11.3	11.0
Adj. PAT	265	230	297
Growth (%)	242.5	-13.5	29.6
Adj. EPS	10.8	9.3	12.1
Growth (%)	215.5	-13.5	29.6
P/E	8.5	7.7	6.0
P/B	1.0	0.7	0.6
EV/EBITDA	7.1	6.3	5.7
ROE (%)	7.7	7.5	10.4
D/E	2.3	2.2	1.9

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	2,155	2,494	(13.6)	2,575	(16.3)	4,730	4,933	(4.1)
EBITDA	296	262	12.9	240	23.7	536	588	(8.8)
EBITDA margins	13.8	10.5	320bps	9.3	450bps	11.3	11.9	(60bps)
Depreciation	92	79	15.8	91	0.5	183	156	16.8
EBIT	205	183	11.7	148	37.9	353	431	(18.1)
Interest	140	128	9.4	139	0.7	278	249	11.9
Other Income	7	54	(87.7)	6	10.4	13	61	(79.0)
Exceptional Items	(50)	(42)	19.8	5	n.m.	(46)	(66)	(30.6)
PBT	22	68	(68.3)	21	4.5	42	178	(76.3)
Tax	(147)	20	(837.6)	5	n.m.	(142)	63	(326.7)
Share of profit from Associate	(1)	(3)	n.m.	0	n.m.	0	(6)	n.m.
Minority Interest	(2)	(6)	(61.1)	(1)	203.8	(3)	(6)	(47.4)
Reported PAT	170	52	227.4	17	905.9	187	116	61.1
Adjustments	50	42	19.8	(5)	n.m.	46	66	(30.6)
Adjusted PAT	220	94	134.6	12	n.m.	233	182	28.0
No. of shares	24.6	22.7	8.5	24.5	0.4	24.6	22.7	8.6
EPS (Rs)	9.0	4.1	116.2	0.5	n.m.	9.4	8.0	17.8

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs. cr	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	11,172	12,055	10,620	11,601	(4.9)	(3.8)
EBITDA	1,122	1,279	1,200	1,276	7.0	(0.2)
Margins (%)	10.0	10.6	11.3	11.0	130bps	40bps
Adj. PAT	188	296	230	297	22.3	0.3
EPS	7.7	12.0	9.3	12.1	20.8	0.8

PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	8,318	8,397	10,370	10,620	11,601
% change	19.6	1.0	23.5	2.4	9.2
EBITDA	1,132	737	1,114	1,200	1,276
% change	(0.8)	(34.9)	51.2	7.7	6.3
Depreciation	291	299	316	357	337
EBIT	841	438	798	843	940
Interest	440	466	521	573	564
Other Income	135	135	(7)	(20)	-
PBT	535	107	270	250	376
% change	(20.0)	(80.0)	153.2	(7.7)	50.5
Tax	155	44	94	63	83
Tax Rate (%)	29.0	41.1	34.8	25.2	22.0
Reported PAT	375	66	176	190	297
Adj*	(69)	11	89	40	-
Adj PAT	306	77	265	230	297
% change	(40.1)	(74.7)	242.5	(13.5)	29.6
No. of shares (cr)	22.7	22.7	24.6	24.6	24.6
Adj EPS (Rs)	13.5	3.4	10.8	9.3	12.1
% change	(40.1)	(74.7)	215.5	(13.5)	29.6
DPS (Rs)	2.5	1.5	1.5	1.5	1.5
CEPS (Rs)	26.4	16.6	23.6	23.8	25.8

BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	295	131	170	219	361
Accounts Receivable	1,795	1,545	1,945	1,965	2,135
Inventories	1,320	1,448	1,689	1,731	1,937
Other Cur. Assets	650	650	642	646	660
Investments	79	134	137	222	245
Gross Fixed Assets	8,213	8,560	8,817	9,081	9,362
Net Fixed Assets	5,786	5,875	5,975	5,881	5,826
CWIP	321	309	270	256	243
Intangible Assets	7	261	247	239	234
Def. Tax (Net)	40	33	48	63	83
Other Assets	371	181	195	197	202
Total Assets	10,665	10,567	11,316	11,419	11,926
Current Liabilities	2,061	2,610	2,735	2,765	2,985
Provisions	119	60	73	75	78
Debt Funds	5,749	5,382	5,630	5,855	5,780
Other Liabilities	627	414	458	75	99
Equity Capital	45	45	49	49	49
Reserves & Surplus	1,919	1,916	2,235	2,466	2,805
Shareholder's Fund	1,965	1,961	2,284	2,516	2,855
Minority Interest	145	142	136	134	129
Total Liabilities	10,665	10,567	11,316	11,419	11,926
BVPS (Rs)	87	86	93	102	116

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	667	365	492	547	634
Non-cash adj.	151	284	532	275	668
Changes in W.C	(712)	(12)	(228)	(39)	(180)
C.F. Operation	106	637	797	783	1,122
Capital exp.	(281)	(418)	(258)	(263)	(281)
Change in inv.	(500)	(74)	(24)	(120)	(61)
Other invest.CF	(54)	98	20	35	38
C.F - Investment	(835)	(394)	(261)	(348)	(304)
Issue of equity	-	-	198	-	-
Issue/repay debt	1,329	124	(159)	225	(75)
Dividends paid	(68)	(68)	(41)	(37)	(37)
Other finance.CF	(431)	(464)	(519)	(573)	(564)
C.F - Finance	830	(409)	(522)	(385)	(676)
Chg. in cash	100	(166)	14	49	142
Closing cash	295	131	170	219	361

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	13.6	8.8	10.7	11.3	11.0
EBIT margin (%)	10.1	5.2	7.7	7.9	8.1
Net profit mgn.(%)	4.5	0.8	1.7	1.8	2.6
ROE (%)	19.1	3.4	7.7	7.5	10.4
ROCE (%)	10.7	5.8	9.9	9.9	10.7
W.C & Liquidity					
Receivables (days)	78.8	67.2	68.5	67.5	67.2
Inventory (days)	111.0	100.7	92.2	94.9	96.7
Payables (days)	102.0	81.0	87.3	88.9	90.7
Current ratio (x)	1.1	0.8	1.0	1.0	1.0
Quick ratio (x)	0.5	0.4	0.5	0.5	0.5
Turnover & Leverage					
Gross asset T.O (x)	1.2	1.0	1.2	1.2	1.3
Total asset T.O (x)	0.9	0.8	0.9	0.9	1.0
Int. covge. ratio (x)	1.9	0.9	1.5	1.5	1.7
Adj. debt/equity (x)	2.7	2.6	2.3	2.2	1.9
Valuation					
EV/Sales (x)	1.0	1.0	0.8	0.7	0.6
EV/EBITDA (x)	7.6	11.7	7.1	6.3	5.7
P/E (x)	10.0	42.0	8.5	7.7	6.0
P/BV (x)	1.6	1.7	1.0	0.7	0.6



Recommendation Summary



Dates	Rating	Target
6-Jun-17	BUY	212
25-Jun-18	BUY	152
26-Aug-19	HOLD	60
06-Nov-19	HOLD	77

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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