

Retail Equity Research

JK Tyre & Industries Limited

Auto Components

BSE CODE: 530007

NSE CODE: JKTYRE

Bloomberg CODE: JKI:IN

SENSEX: 40,146

HOLD

12M Investment period

Rating as per Small Cap

CMP Rs. 73

TARGET Rs. 79

RETURN 8% 

(Closing: 26-10-20)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Mixed results; Outlook cautious

JK Tyre is one among the leading manufacturers of tyres in the world. The company also manufactures tubes and flaps along with providing automotive services.

- Revenue grew 5.6% YoY to Rs. 2,275cr in Q2FY21 driven by improvements in the economy and automotive sector.
- EBITDA rose to Rs. 355cr (+19.8% YoY), as margin expanded 180bps YoY to 15.6% with the reduction in fixed costs. However, reported net profit fell 38.3% YoY.
- Company plans to reap benefits from replacement and export market and utilize the opportunity of higher anti-dumping duty by US on Chinese market.
- Low interest rates, focus on exports, and benefits from replacement market should boost the performance in the medium-term. However, we remain cautious on the stock given near-term uncertainties. We downgrade our rating on the stock to HOLD with a revised target price of Rs. 79 based on 14.5x FY22E adj. EPS.

Replacement market opportunities boost revenue

Revenue from operations rose 5.6% YoY to Rs. 2,275cr in Q2FY21 with the resumption of economic activities along with benefit from the replacement market contributed from truck, bus and farm sectors. The Company generated more than two-third of the revenue from replacement market and around 20% from export. In H1FY21, it added 900 dealers and looks to add more in H2FY21 to expand its presence in retail segment. By geography, India contributed ~90% of total sales and posted growth of 11% YoY to Rs. 2,041cr, but Mexico sales was down by 18.1% YoY to Rs. 278cr.

Margin improves with cost effective measures

The Company reported Q2FY21 EBITDA of Rs. 355cr (+19.8% YoY) along with expansion of EBITDA margin by 180bps YoY to 15.6% due to cost cutting measures adopted by the company. However, the reported net profit fell by 38.3% YoY to Rs. 105cr due to higher deferred taxes occurred during the quarter. Adjusted net profit fell 61.8% YoY after adjusting for one-off exceptional item. With cost reduction strategies, it planned to achieve savings on interest cost along with reduction in working capital requirements.

Focus on emerging opportunities

US put in place 25%-37% anti-dumping duty on Chinese tyres after the anti-China sentiments. Latin America also imposed 5%-15% anti-dumping duty as Chinese tyres are not safe and performance is low compared to other tyre manufacturing countries. JK Tyre will use this opportunity to grab foreign market through export along with opportunities in domestic and foreign replacement market. There is increase in demand from US, Canada, and other regions.

Outlook and valuation

The company has taken several measures to reduce its fixed costs. It is focusing more on replacement business and getting benefit from the improved business sentiments. Currently, economy is picking up but the pace of recovery is slow. We remain cautious on the stock in the near-term given uncertainties around developments in automotive sector. Hence, we downgrade our rating to HOLD on the stock with a revised target price of Rs. 79.0 based on 14.5x FY22E adj. EPS.

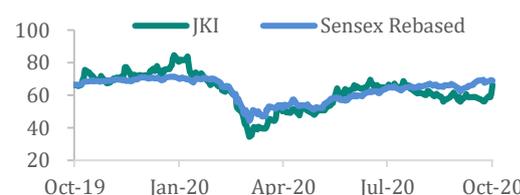
Company Data

Market Cap (cr)	Rs. 1,795
Enterprise Value (cr)	Rs. 6,858
Outstanding Shares (cr)	24.6
Free Float	44.0%
Dividend Yield	1.0%
52 week high	Rs. 88
52 week low	Rs. 32
6m average volume (lac)	1.4
Beta	0.8
Face value	Rs. 2

Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	56.2	56.2	56.2
FII's	2.5	2.1	2.2
MFs/Insti	1.9	2.1	2.9
Public	22.8	23.3	26.5
Others	16.5	16.3	12.2
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	9.3%	40.4%	10.3%
Absolute Sensex	6.7%	27.7%	4.2%
Relative Return*	2.6%	12.7%	6.1%

*over or under performance to benchmark index



Consolidated (cr)	FY20A	FY21E	FY22E
Sales	8,725	7,629	8,335
Growth (%)	(15.9)	(12.6)	9.2
EBITDA	988	814	1,056
EBITDA Margin (%)	11.3	10.7	12.7
Adj. PAT	257	(47)	134
Growth (%)	(3.3)	n.m.	n.m.
Adj. EPS	10.4	(1.9)	5.4
Growth (%)	(10.9)	n.m.	n.m.
P/E	7.0	n.m.	13.4
P/B	0.8	0.8	0.8
EV/EBITDA	7.6	8.4	6.3
ROE (%)	6.5	n.m.	5.6
D/E	2.4	2.2	2.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Revenue	2,275	2,155	5.6	1,131	101.2	3,406	4,730	(28.0)
EBITDA	355	296	19.8	(4)	n.m.	351	536	(34.5)
EBITDA margins	15.6	13.8	180bps	(0.3)	n.m.	10.3	11.3	(100bps)
Depreciation	97	92	5.4	97	(0.2)	193	183	5.7
EBIT	259	205	26.2	(100)	n.m.	158	353	(55.3)
Interest	123	140	(11.5)	131	(5.4)	254	278	(8.7)
Other Income	12	7	73.6	7	58.7	19	13	48.5
Exceptional Items	21	(50)	n.m.	(33)	n.m.	(12)	(46)	n.m.
PBT	167	22	673.9	(257)	n.m.	(89)	42	n.m.
Tax	58	(147)	n.m.	(54)	n.m.	4	(142)	n.m.
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	5	(2)	n.m.	(5)	n.m.	(1)	(3)	n.m.
Reported PAT	105	170	(38.3)	(199)	n.m.	(94)	187	n.m.
Adjustments	(21)	50	n.m.	33	n.m.	12	46	(73.2)
Adj. PAT	84	220	(61.8)	(166)	n.m.	(82)	233	n.m.
No. of shares	24.6	24.6	-	24.6	-	24.6	24.6	-
Adj. EPS (Rs.)	3.4	9.0	(61.8)	(6.7)	n.m.	(3.3)	9.4	n.m.

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	8,954	10,092	7,629	8,335	(14.8)	(17.4)
EBITDA	977	1,142	814	1,056	(16.7)	(7.6)
Margins (%)	10.9	11.3	10.7	12.7	(20bps)	140bps
Adj. PAT	48	180	(47)	134	n.m.	(25.6)
Adj. EPS	1.9	7.3	(1.9)	5.4	n.m.	(26.0)

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Revenue	8,397	10,370	8,725	7,629	8,335
% change	1.0	23.5	(15.9)	(12.6)	9.2
EBITDA	737	1,114	988	814	1,056
% change	(34.9)	51.2	(11.4)	(17.6)	29.7
Depreciation	299	316	378	383	371
EBIT	438	798	610	431	684
Interest	466	521	549	531	471
Other Income	135	(7)	(78)	(12)	-
PBT	107	270	(17)	(113)	213
% change	(80.0)	153.2	(106.2)	572.5	(288.6)
Tax	44	94	(166)	(46)	87
Tax Rate (%)	41.1	34.8	988.6	41.0	41.0
Reported PAT	66	176	151	(59)	134
Adj*	11	89	106	12	-
Adj PAT	77	265	257	(47)	134
% change	(74.7)	242.5	(3.3)	(118.2)	(388.2)
No. of shares (cr)	22.7	22.7	24.6	24.6	24.6
Adj EPS (Rs.)	3.4	11.7	10.4	(1.9)	5.4
% change	(74.7)	242.5	(10.9)	(118.1)	(388.2)
DPS (Rs.)	1.5	1.5	0.7	-	0.7
CEPS (Rs.)	16.6	25.6	25.8	13.7	20.5

CASH FLOW

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	365	492	529	324	506
Non-cash adj.	284	532	398	531	581
Changes in W.C	(12)	(228)	419	459	(230)
C.F. Operation	637	797	1,346	1,314	857
Capital exp.	(418)	(258)	(274)	(191)	(250)
Change in inv.	(74)	(24)	(60)	-	-
Other invest.CF	98	20	(92)	38	43
C.F - Investment	(394)	(261)	(426)	(153)	(207)
Issue of equity	-	198	-	-	-
Issue/repay debt	124	(159)	(346)	(600)	(150)
Dividends paid	(68)	(41)	(45)	-	(17)
Other finance.CF	(464)	(519)	(572)	(531)	(471)
C.F - Finance	(409)	(522)	(963)	(1,131)	(639)
Chg. in cash	(166)	14	(43)	30	11
Closing cash	131	170	137	167	178

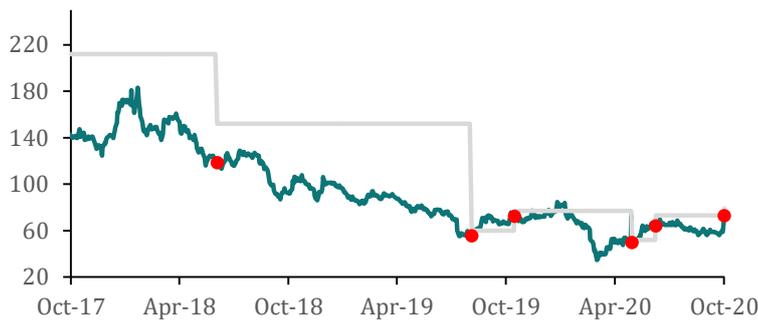
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	131	170	137	167	178
Accounts Receivable	1,545	1,945	1,848	1,450	1,542
Inventories	1,448	1,689	1,618	1,233	1,333
Other Cur. Assets	650	642	602	597	607
Investments	134	137	146	146	146
Gross Fixed Assets	8,560	8,817	9,091	9,282	9,532
Net Fixed Assets	5,875	5,975	6,171	5,979	5,857
CWIP	309	270	277	263	250
Intangible Assets	261	247	212	212	215
Def. Tax (Net)	33	48	77	79	87
Other Assets	181	195	202	229	237
Total Assets	10,567	11,316	11,290	10,353	10,453
Current Liabilities	2,610	2,735	2,760	2,508	2,489
Provisions	60	73	94	78	80
Debt Funds	5,382	5,630	5,730	5,130	4,980
Other Liabilities	414	458	280	277	436
Equity Capital	45	49	49	49	49
Reserves & Surplus	1,916	2,235	2,282	2,211	2,328
Shareholder's Fund	1,961	2,284	2,331	2,260	2,377
Minority Interest	142	136	95	99	90
Total Liabilities	10,567	11,316	11,290	10,353	10,453
BVPS (Rs.)	86	101	95	92	96

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab. & Return					
EBITDA margin (%)	8.8	10.7	11.3	10.7	12.7
EBIT margin (%)	5.2	7.7	7.0	5.6	8.2
Net profit mgn.(%)	0.8	1.7	1.7	n.m.	1.6
ROE (%)	3.4	7.7	6.5	n.m.	5.6
ROCE (%)	5.8	9.9	7.5	5.8	9.2
W.C & Liquidity					
Receivables (days)	67.2	68.5	77.3	69.4	67.5
Inventory (days)	100.7	92.2	110.6	98.6	96.7
Payables (days)	81.0	87.3	115.5	109.0	96.2
Current ratio (x)	0.8	1.0	0.9	0.8	0.8
Quick ratio (x)	0.4	0.5	0.4	0.4	0.4
Turnover & Leverage					
Gross asset T.O (x)	1.0	1.2	1.0	0.8	0.9
Total asset T.O (x)	0.8	0.9	0.8	0.7	0.8
Int. coverage ratio (x)	0.9	1.5	1.1	0.8	1.5
Adj. debt/equity (x)	2.6	2.3	2.4	2.2	2.0
Valuation					
EV/Sales (x)	1.0	0.7	0.9	0.9	0.8
EV/EBITDA (x)	11.7	6.9	7.6	8.4	6.3
P/E (x)	42.0	7.9	7.0	n.m.	13.4
P/BV (x)	1.7	0.9	0.8	0.8	0.8

Recommendation Summary



Dates	Rating	Target
6-Jun-17	BUY	212
25-Jun-18	BUY	152
26-Aug-19	HOLD	60
6-Nov-19	HOLD	77
22-May-20	HOLD	52
30-Jun-20	ACCUMULATE	73
27-Oct-20	HOLD	79

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside. The stock may still be a quality stock.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

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

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

General Disclosures and Disclaimers

CERTIFICATION

I, Saji John author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit, a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION: The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE: GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific

investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER: We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

JURISDICTION: The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES: GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities. In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Saji John, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226