**BUY**

# JK Tyre

## Outperformance and deleveraging to drive re-rating

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**Auto Ancillaries** ▸ Initiating Coverage ▸ **October 10, 2023**

**TARGET PRICE (Rs): 415**

**We initiate coverage on JK Tyre (JKI) with a BUY and 55% upside, at 10x FY25E PER; we believe JKI's stock price can potentially double over 3 years. Amid tyre industry's structural improvements (curtailed imports, enhanced export competitiveness, premiumization, calibrated capex), JKI has been outperforming peers over past 12 quarters (vs. over 20% underperformance in FY13-20) via structural transformation in: i) competitive position (higher-than-peer spends on R&D, marketing; distribution expansion), ii) operating efficiencies, iii) financial discipline (calibrated capex). We build-in around 8%/58% rev./PAT CAGR for FY23-26E; this, with sizeable deleveraging (~1.4x net debt/EBITDA in FY26E vs. 3.5x in FY23), should boost FY26E RoCE to ~21% (FY23: 11%), driving valuation convergence towards larger peers.**

**JK Tyre: Financial Snapshot (Consolidated)**

| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Revenue | 1,19,830 | 1,46,449 | 1,61,597 | 1,74,353 | 1,86,218 |
| EBITDA | 10,733 | 12,978 | 21,008 | 23,538 | 26,071 |
| Adj. PAT | 1,976 | 3,246 | 8,197 | 10,796 | 12,727 |
| Adj. EPS (Rs) | 8.0 | 13.2 | 33.3 | 41.4 | 48.8 |
| EBITDA margin (%) | 9.0 | 8.9 | 13.0 | 13.5 | 14.0 |
| EBITDA growth (%) | (17.8) | 20.9 | 61.9 | 12.0 | 10.8 |
| Adj. EPS growth (%) | (39.2) | 30.7 | 211.6 | 24.4 | 17.9 |
| RoE (%) | 7.2 | 10.4 | 21.9 | 23.8 | 23.0 |
| RoCE (pre-tax, %) | 9.3 | 10.8 | 18.9 | 20.0 | 20.9 |
| P/E (x) | 33.3 | 20.3 | 8.0 | 6.5 | 5.5 |
| EV/EBITDA (x) | 10.8 | 8.6 | 5.3 | 4.8 | 4.1 |
| P/B (x) | 2.3 | 1.9 | 1.6 | 1.4 | 1.1 |
| FCFF yield (%) | (7.4) | 4.8 | 6.1 | 8.1 | 10.2 |

*Source: Company, Emkay Research*

### Industry structure improving: healthy growth, lower imports, calibrated capex

Over 80% drop in TBR, PCR imports since FY20 (on Government's push for domestic industry protection), sharp rise in export competitiveness (China +1, India's inherent labor cost advantage), premiumization (e.g., SUV tyres) and controlled capex (largely brownfield expansions/de-bottlenecking) have improved the tyre industry's underlying structure. We expect stable-to-positive medium-term growth prospects (~7% volume CAGR till FY26E; outpacing capacity additions) amid general focus on calibrated capex.

### JKI's outperformance to sustain, on R&D, distribution and marketing efforts

JKI delivered over 20% under-performance vs. peers over FY13-20 but has been outperforming since FY21 (refer ***Exhibit 10***); we believe this is set to continue, driven by competitiveness-enhancing efforts to win in high-growth high-margin segments (larger PCR/SUV tyres, exports), spanning: i) R&D (overcame gap vs. peers with multiple innovative launches like 'Puncture Guard' tyres, 'Smart tyres', Green tyres, EV tyres (largest supplier to E-buses), etc., ii) distribution expansion (over 60% since FY18), and iii) recalibrated marketing spends (towards branding rather than short-term promotions).

### Multiple margin initiatives, controlled capex to accelerate deleveraging

Better competitive standing, premiumization efforts (targets 45% from larger PCR vs. ~25% now; similarly sharp fall in economy brand share) and cost controls to drive FY26E margins to 14% (Q1FY24: 12.3%). Judicious capex (20-40% lower outgo in ongoing programs vs. the past) and deleveraging thrust (targeting 25% long-term debt reduction by FY26) to lead to net debt/EBITDA of 1.4x in FY26E vs. 3.5x/4.7x in FY23/FY22.

### Valuations to converge towards larger peers on all-round improvement

We believe that consequent to i) strong 58% EPS CAGR, ii) improved B/S with FY25E FCF yield/net D/E of ~8.1%/~0.8x and iii) accelerated ESG/sustainability efforts, JKI's valuation multiples would start converging towards that of peers/industry average. We initiate coverage with BUY and 1Y upside of 55% (10x FY25E PER vs. ~19x for industry). **Key risks:** Sharp demand slowdown, major spike in RM, adverse outcome in CCI ruling.

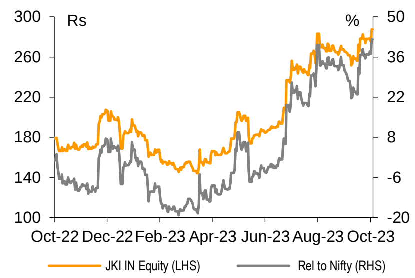
| | |
|---|---|
| Target Price – 12M | Sep-24 |
| **Change in TP (%)** | **NA** |
| Current Reco. | BUY |
| Previous Reco. | NR |
| Upside/(Downside) (%) | 55.4 |
| CMP (09-Oct-23) (Rs) | 267.2 |

| **Stock Data** | **Ticker** |
|---|---|
| 52-week High (Rs) | 291 |
| 52-week Low (Rs) | 142 |
| Shares outstanding (mn) | 246.2 |
| Market-cap (Rs bn) | 66 |
| Market-cap (USD mn) | 790 |
| Net-debt, FY24E (Rs mn) | 45,370 |
| ADTV-3M (mn shares) | 2 |
| ADTV-3M (Rs mn) | 476.9 |
| ADTV-3M (USD mn) | 5.7 |
| Free float (%) | 43.7 |
| Nifty-50 | 19,512 |
| INR/USD | 83.3 |
| **Shareholding, Jun-23** | |
| Promoters (%) | 56.3 |
| FPIs/MFs (%) | 8.7/1.4 |

**Price Performance**

| (%) | 1M | 3M | 12M |
|---|---|---|---|
| Absolute | 2.0 | 8.2 | 49.1 |
| Rel. to Nifty | 3.7 | 7.2 | 32.3 |

**1-Year share price trend (Rs)**

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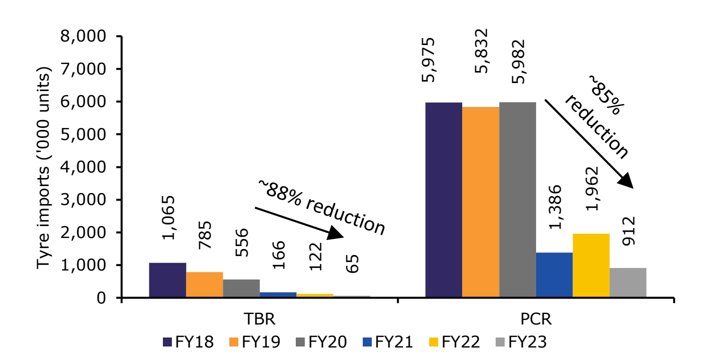
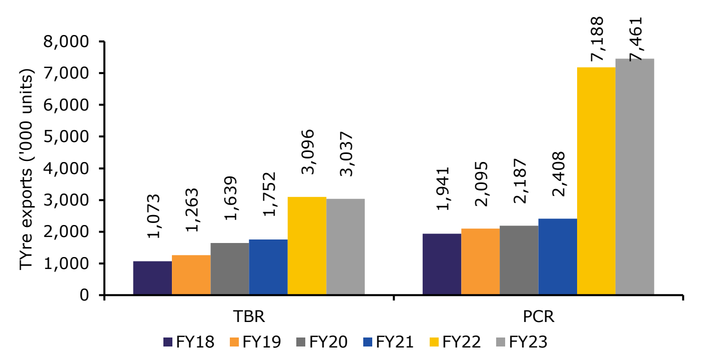
# Story in Charts

**Exhibit 1: Led by the Government's import restrictions, TBR, PCR imports have collapsed more than 80% since FY20**



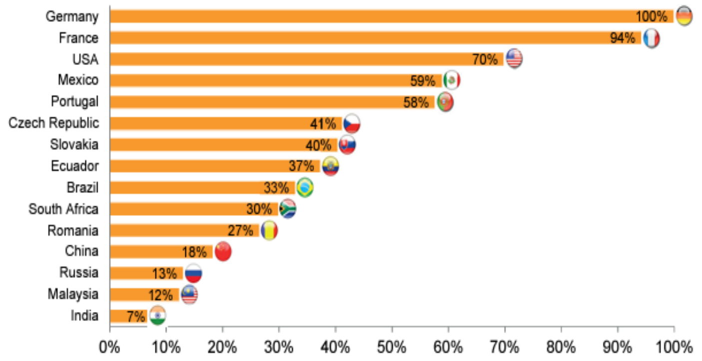

*Source: Ministry of Commerce & Industry, Emkay Research*

**Exhibit 2: Tyre exports from India in key categories have grown multifold since FY18**



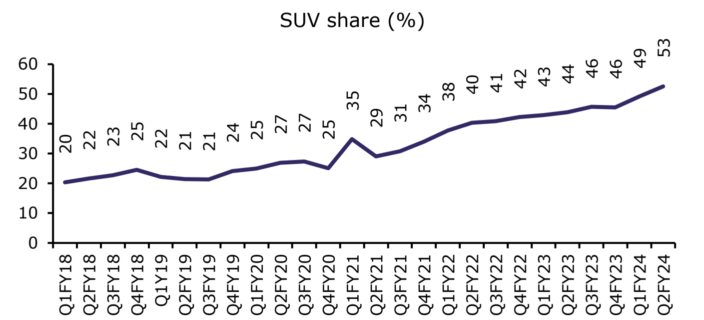

*Source: Ministry of Commerce & Industry, Emkay Research*

**Exhibit 3: India enjoys major labor cost advantage in tyres (Index)**



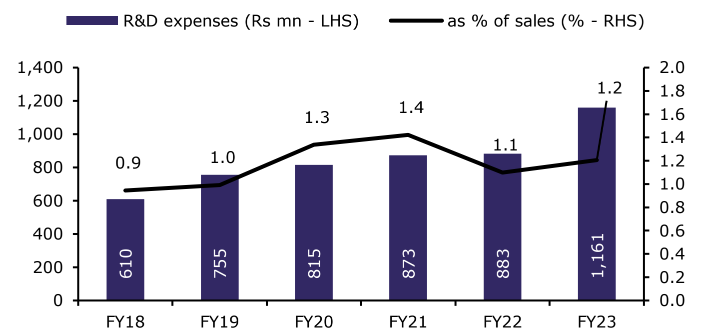

*Source: Continental AG (Fact Book)*

**Exhibit 4: SUV share in PV sales now over 50%— doubled since FY18—would reflect in tyre replacement with a typical 2-3 year lag**



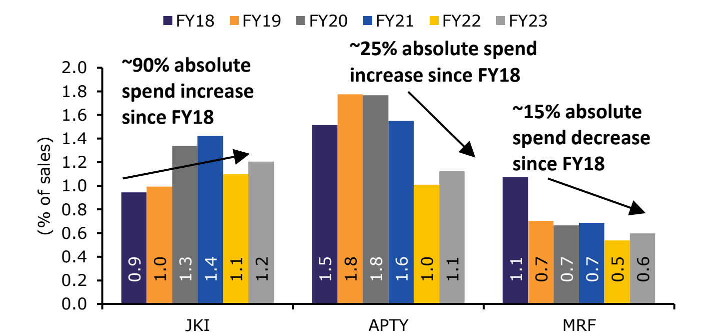

*Source: SIAM, Emkay Research; Note – Q2FY24 till Aug-23*

**Exhibit 5: JKI's absolute spends on R&D have risen ~90% since FY18 to ~Rs1.2bn**



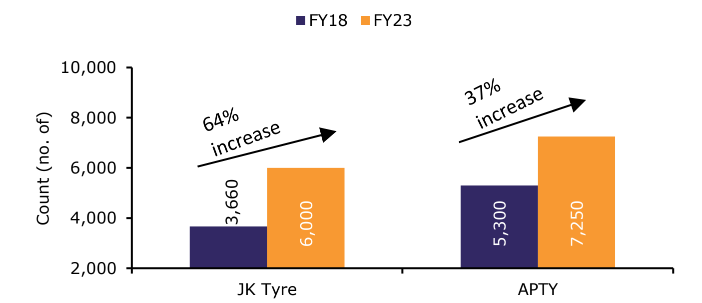

*Source: Company, Emkay Research*

**Exhibit 6: Gap in R&D spending (% of sales) vs. competition substantially reduced; JKI now ahead of peers**



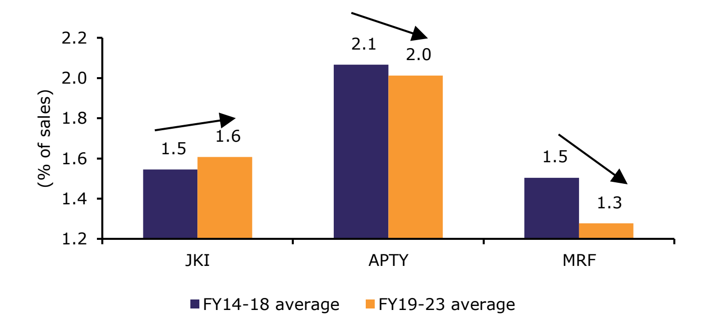

*Source: Company, Emkay Research*

**Exhibit 7: Pursuant to ramp-up in distribution footprint, JKI has substantially closed the gap with competitors like APTY**



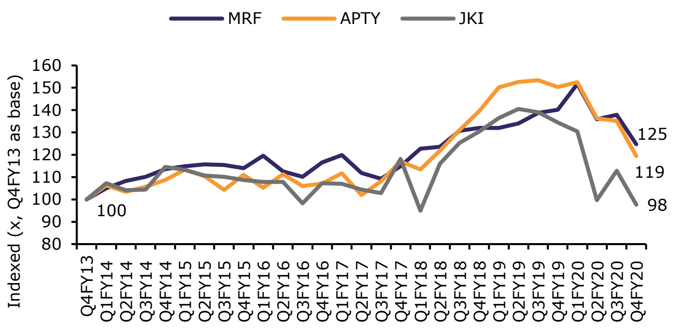

*Source: Company, Emkay Research*

**Exhibit 8: JKI has made up ground with competition in recent years, in terms of advertisement and sales promotion spends**



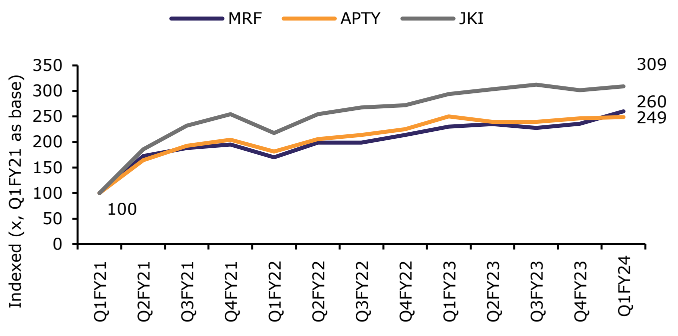

*Source: Company, Emkay Research*

**Exhibit 9: JKI underperformed larger peers by over 20%, in indexed revenue terms, over FY13-20…**



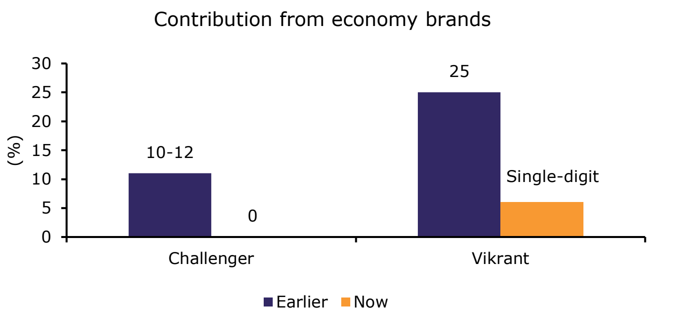

*Source: Company, Emkay Research; Note: standalone operations*

**Exhibit 10: …however, it has sharply outperformed in the past 3 years, amid structural initiatives on R&D, distribution and marketing**



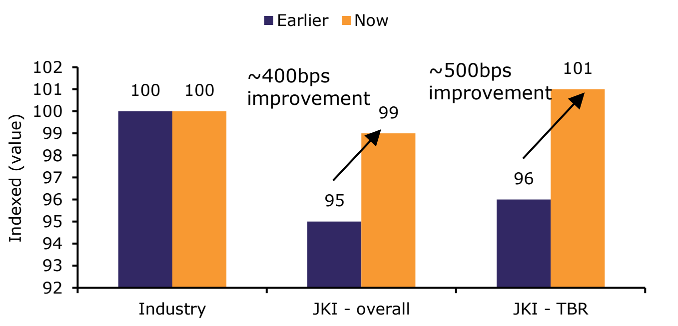

*Source: Company, Emkay Research; Note : standalone operations*

**Exhibit 11: JKI has worked on 'premiumizing' its product portfolio; contribution from economy brands now sharply lower**



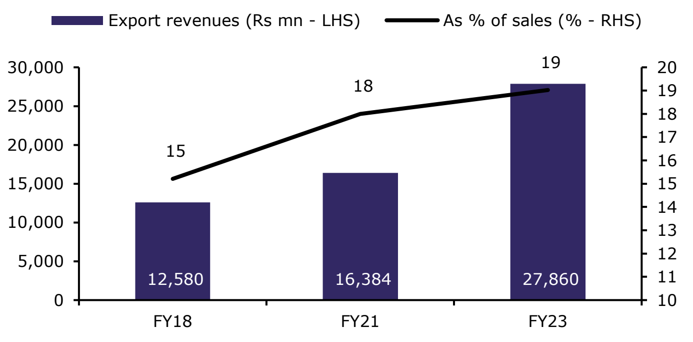

*Source: Company, Emkay Research*

**Exhibit 12: JKI's price positioning vs. industry has improved significantly over the past ~5 years, particularly in TBR**



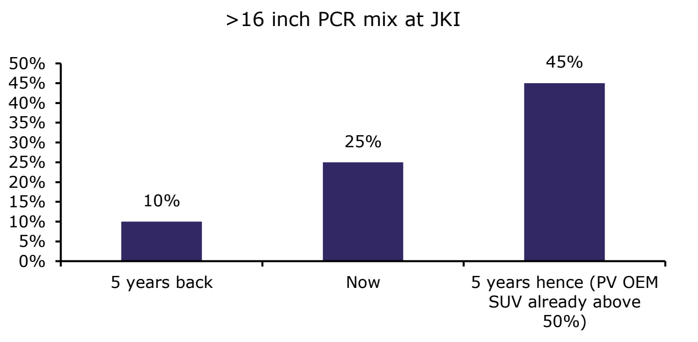

*Source: Company, Emkay Research*

**Exhibit 13: JKI's exports contribution up ~400bps since FY18, even on a much larger revenue base**



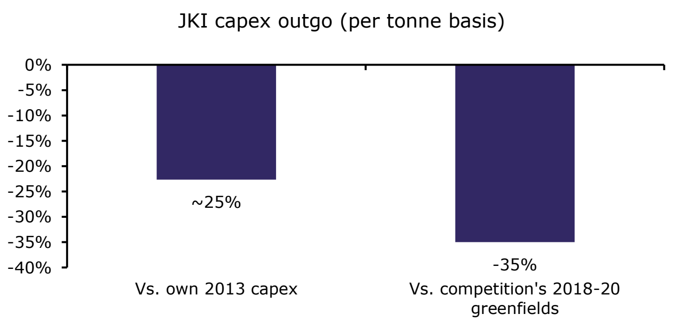

*Source: Company, Emkay Research*

**Exhibit 14: Targets ~45% contribution from larger tyres (>16") in PCR vs. ~25% now/~10% five years ago**



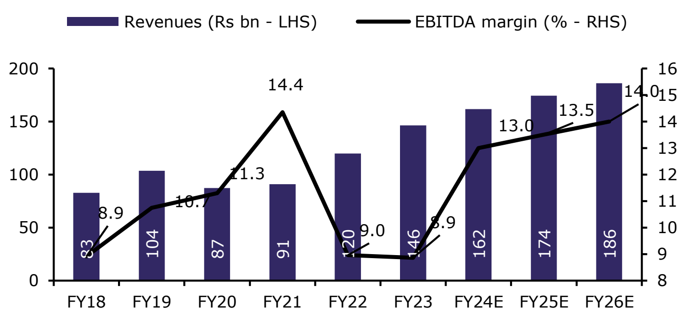

*Source: Company, Emkay Research*

**Exhibit 15: JKI's ongoing ~Rs8bn capex program (PCR, TBR) is ~20-40% cheaper than its previous own/peer programs**



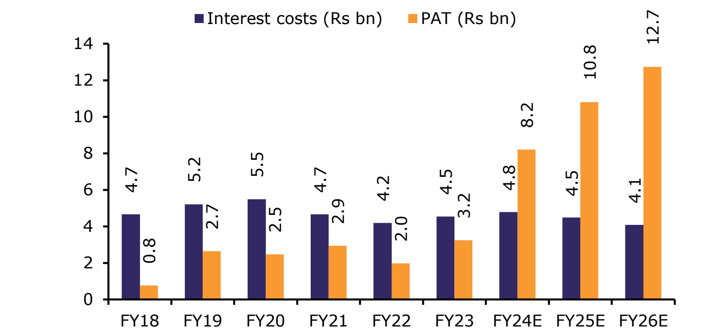

*Source: Company, Emkay Research*

**Exhibit 16: We expect ~8% consolidated revenue CAGR, with margins seen rising to 14% by FY26E vs. ~12.3% in Q1FY24**



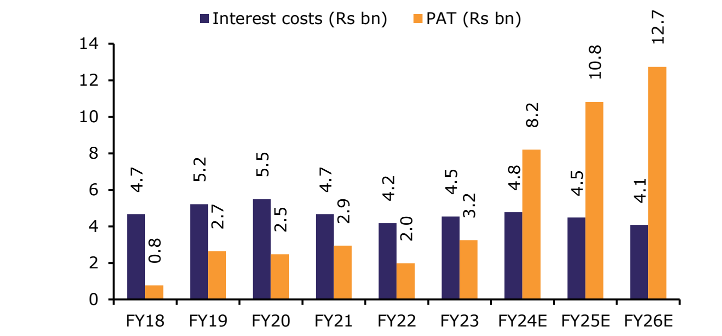

*Source: Company, Emkay Research*

**Exhibit 17: Backed by higher profitability and lower interest outgo, adjusted PAT to rise to ~Rs12.7bn**



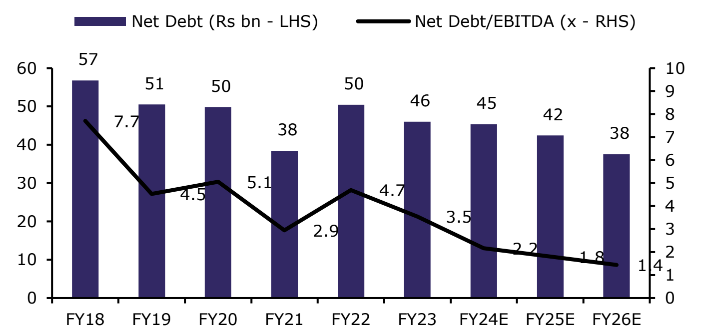

*Source: Company, Emkay Research*

**Exhibit 18: Jump in earnings coupled with controlled capex to drive FCF generation**



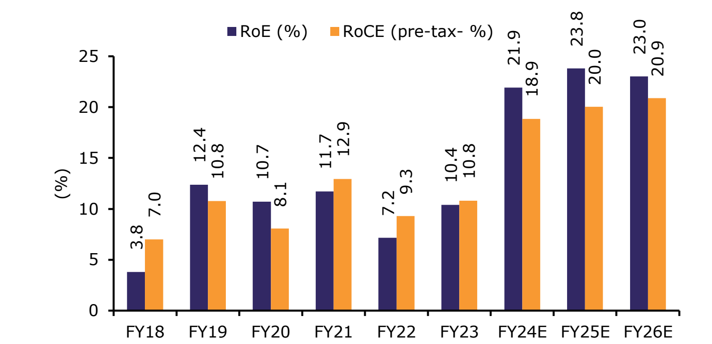

*Source: Company, Emkay Research*

**Exhibit 19: We expect net debt/EBITDA at ~1.4x in FY26E vs. ~3.5x in FY23 and ~4.7x in FY22**



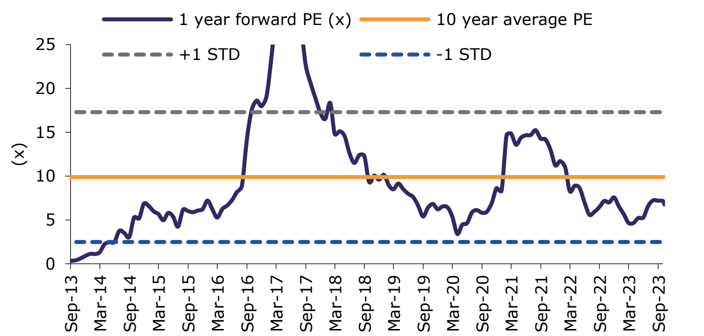

*Source: Company, Emkay Research*

**Exhibit 20: Buoyed by all-round improvements, Company's RoCE seen at ~21% in FY26E vs. ~11% in FY23**



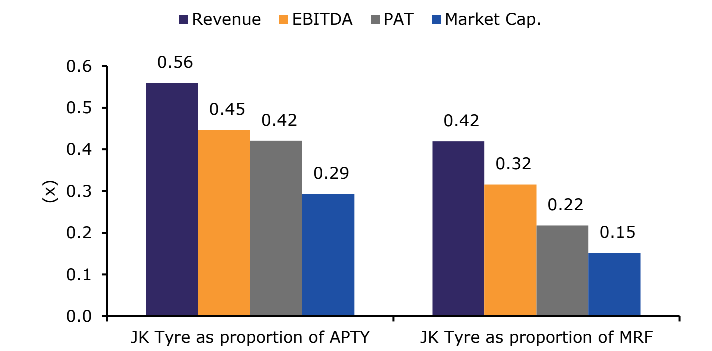

*Source: Company, Emkay Research*

**Exhibit 21: JKI trades well below its LTA PER on 1-year forward basis**




*Source: Bloomberg, Emkay Research*

**Exhibit 22: JKI's gap vs. competition in valuation terms is much larger than the gap in performance terms**




*Source: Company, Emkay Research; Note: revenue, EBITDA, PAT based on the FY18-23 average for standalone operations; market cap is current*

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# Initiate coverage with BUY, 55% upside

- **The domestic tyre industry's structure has improved in recent years,** amid i) >80% drop in imports of key categories like TBR and PCR, post Government's imposition of import restrictions; ii) sharp improvement in export-competitiveness and exports; iii) premiumization trend playing out in 4Ws (rising SUV share in PVs, rising radialization in trucks/buses); and iv) controlled capex spends amid focus on profitability and return ratios.
- **JKI has outperformed peers like MRF and APTY since FY21,** after having been a sharp laggard for majority of the past decade (>20% under-performance on indexed basis), amid concerted efforts to win in high-growth, high-margin segments like larger PCR and exports, encompassing: i) R&D (overcame gap vs. peers; now a leader); ii) distribution (>60% channel expansion since FY18); and iii) marketing (for better brand perception, pricing power; gap reduced vs. competition).
- **Profitability triggers, controlled capex to drive deleveraging:** JKI's improved competitive standing, premiumization efforts (targeting 45% contribution from larger PCR vs. 25% now) and cost controls would drive margins to 14% by FY26E (Q1FY24: 12.3%). Judicious capex (~20-40% lower outgo in ongoing programs vs. past programs at JKI/peers) and deleveraging thrust (25% long-term debt reduction planned by FY26) would drive net debt/EBITDA to ~1.4x in FY26E vs. 3.5x/4.7x in FY23/FY22, resp.
- **Expect valuations to converge towards larger peers:** Based on structurally-strengthened positioning across growth, margin and BS parameters which are seen propelling RoCE to ~21% in FY26E vs. ~11% in FY23, we argue that JKI's valuation should start converging towards larger peers, thereby driving substantial value creation. We initiate coverage on JK Tyre with a BUY recommendation and 1-year forward upside of ~55%. We believe JKI's stock price can potentially double in three years.

**Exhibit 23: We build-in 8%/26%/58% CAGR in consol. revenue/EBITDA/EPS, respectively, over FY23-26E**

| Rs mn | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|
| Revenue | | | | | | |
| India | 82,189 | 1,03,528 | 1,23,760 | 1,37,330 | 1,49,234 | 1,60,828 |
| Standalone | 61,345 | 80,321 | 96,179 | 1,05,011 | 1,14,584 | 1,23,751 |
| Cavendish | 20,844 | 23,208 | 27,580 | 32,319 | 34,650 | 37,077 |
| Mexico (Tornel) | 11,335 | 21,191 | 26,727 | 28,723 | 29,927 | 30,526 |
| less: intersegment | 2,520 | 4,904 | 4,044 | 4,463 | 4,815 | 5,142 |
| **Consolidated** | **91,003** | **1,19,815** | **1,46,442** | **1,61,590** | **1,74,346** | **1,86,211** |
| *Revenue growth (% YoY)* | *4.4* | *31.7* | *22.2* | *10.3* | *7.9* | *6.8* |
| | | | | | | |
| Consolidated EBITDA | 13,063 | 10,733 | 12,978 | 21,008 | 23,538 | 26,071 |
| Growth YoY (%) | 33 | (18) | 21 | 62 | 12 | 11 |
| **Consol. EBITDAM (%)** | **14.4** | **9.0** | **8.9** | **13.0** | **13.5** | **14.0** |
| | | | | | | |
| Consolidated adj. PAT | 2,935 | 1,976 | 3,246 | 8,197 | 10,796 | 12,727 |
| Growth YoY (%) | 19 | (33) | 64 | 153 | 32 | 18 |
| **Consolidated EPS (Rs)** | **11.9** | **8.0** | **13.2** | **33.3** | **43.8** | **51.7** |
| | | | | | | |
| Consolidated Net Debt | 38,425 | 50,447 | 46,054 | 45,370 | 42,449 | 37,536 |
| **Net debt/equity (x)** | **1.4** | **1.8** | **1.4** | **1.1** | **0.9** | **0.6** |
| | | | | | | |
| Capex | 2,623 | 3,792 | 5,340 | 8,000 | 8,500 | 8,500 |
| FCF | 15,673 | -8,572 | 5,323 | 6,819 | 9,078 | 10,931 |
| | | | | | | |
| **Pre-tax RoCE (%)** | **12.9** | **9.3** | **10.8** | **18.9** | **20.0** | **20.9** |

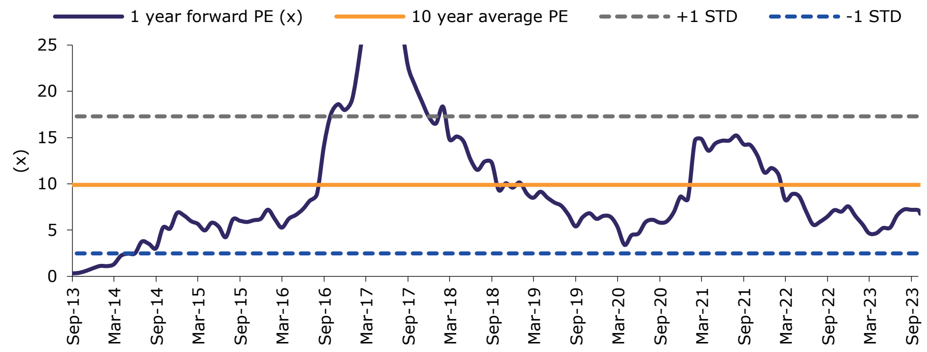
*Source: Company, Emkay Research*

**Exhibit 24: JKI's stock price can potentially double over 3 years**

| Rs mn | Actual | Emkay estimates | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **FY23** | **FY24E** | **FY25E** | **FY26E** | **FY27E** | **FY28E** | **FY23-26E CAGR** | **FY23-28E CAGR** |
| Revenues | 1,46,449 | 1,61,597 | 1,74,353 | 1,86,218 | 1,91,327 | 1,95,339 | 8% | 6% |
| EBITDA | 12,978 | 21,008 | 23,538 | 26,071 | 26,977 | 27,738 | 26% | 16% |
| EBITDAM (%) | 8.9 | 13.0 | 13.5 | 14.0 | 14.1 | 14.2 | | |
| Adj. PAT | 3,246 | 8,197 | 10,796 | 12,727 | 13,574 | 14,391 | 58% | 35% |
| Net debt | 46,054 | 45,370 | 42,449 | 37,536 | 30,442 | 21,668 | | |
| Net debt/EBITDA (x) | 3.5 | 2.2 | 1.8 | 1.4 | 1.1 | 0.8 | | |
| *RoCE (pre-tax, %)* | *10.8* | *18.9* | *20.0* | *20.9* | *20.2* | *19.6* | | |
| Target PER (x) | | | 10.0 | | | 12.0 | | |
| **TP (Rs)** | | | **415** | | | **625** | | |
| **Upside (%)** | | | **55** | | | **134** | | |

*Source: Emkay Research*

**Exhibit 25: JKI is currently trading well below its LTA 1-year forward PER**




*Source: Bloomberg, Emkay Research*

**Exhibit 26: We initiate coverage on JKI with a BUY recommendation and 1-year TP of Rs415/share (~55% upside); we believe JKI's stock price can a potential doubler in 3 years**

| Rs mn | 1 Yr - potential upside | 3 Yr - potential upside |
|---|---|---|
| FY25E adj. PAT | 10,796 | NA |
| FY27E adj. PAT | NA | 13,574 |
| Target PER multiple (x) | 10.0 | 12.0 |
| Comment | In line with LTA | 20% above LTA PER |
| Target Market Cap | 1,07,962 | 1,62,883 |
| No. of shares (mn) | 261 | 261 |
| **Target price (Rs)** | **415** | **625** |
| CMP | 267 | 267 |
| **Potential upside (%)** | **55** | **134** |

*Source: Emkay Research*

**Exhibit 27: Valuation comparison — Domestic and global peers**

| Company | Mcap (Rs bn) | Mcap (US$ bn) | CMP (Rs/share) | P/E (x) | | | EV/EBITDA (x) | | | FY23-FY25E EPS CAGR (%) | ROE (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | | FY23E | FY24E | FY25E |
| Consensus estimates | | | | | | | | | | | | | |
| Indian Companies | | | | | | | | | | | | | |
| APTY | 242 | 3 | 380 | 21.9 | 14.5 | 12.4 | 8.8 | 6.7 | 6.0 | 33 | 9 | 12 | 13 |
| BIL | 495 | 6 | 2,562 | 45.9 | 34.3 | 27.0 | NA | 21.5 | 17.3 | 30 | NA | 18 | 19 |
| MRF | 456 | 5 | 1,07,550 | 55.9 | 25.7 | 21.9 | 19.7 | 11.1 | 9.7 | 60 | 6 | 12 | 12 |
| Ceat | 86 | 1 | 2,125 | 46.2 | 15.4 | 14.0 | 11.1 | 7.1 | 6.5 | 82 | 6 | 15 | 15 |
| **JKI** | **70** | **1** | **267** | **20.3** | **8.0** | **6.5** | **8.6** | **5.3** | **4.8** | **82** | **10** | **22** | **24** |
| TVS Srichakra | 27 | 0 | 3,472 | 34.1 | NA | NA | 14.3 | NA | NA | NA | 8 | NA | NA |
| **Average** | | | | **37.4** | **19.6** | **16.4** | **12.5** | **10.4** | **8.8** | **57.3** | **7.7** | **15.6** | **16.6** |
| Global Companies | | | | | | | | | | | | | |
| Bridgestone | 2,323 | 28 | 39 | 11.9 | 10.8 | 10.2 | 5.5 | 5.1 | 4.6 | 8 | 11 | 12 | 12 |
| Goodyear | 282 | 3 | 12 | 16.9 | NA | 8.7 | 5.1 | NA | 4.8 | 39 | 4 | NA | 6 |
| Michelin | 1,830 | 22 | 31 | 10.4 | 9.1 | 8.8 | 5.2 | 4.5 | 4.2 | 9 | 12 | 13 | 12 |
| **Average** | | | | **13.0** | **9.9** | **9.2** | **5.2** | **4.8** | **4.5** | **18.7** | **9.0** | **12.3** | **10.0** |

*Source: Bloomberg, Emkay Research; Note: Bloomberg consensus estimates, except for APTY and JKI*

**Exhibit 28: Valuation comparison — Auto & Auto ancillary coverage universe**

| | EBITDA Margin (%) | | | ROE (%) | | | ROCE (%) | | | P/E (x) | | | EV/EBITDA (x) | | | P/BV (x) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E |
| AL | 8.1 | 11.8 | 11.9 | 16.4 | 30.6 | 29.8 | 14.8 | 24.9 | 24.9 | 39.0 | 18.4 | 16.8 | 17.2 | 10.7 | 9.7 | 5.3 | 4.7 | 4.2 |
| Atul Auto | 4.9 | 8.8 | 10.3 | 1.5 | 7.6 | 12.2 | 2.6 | 7.7 | 11.8 | 317.7 | 58.2 | 32.6 | 61.1 | 31.0 | 20.2 | 4.2 | 3.7 | 3.2 |
| Bajaj Auto | 18.0 | 19.1 | 19.2 | 21.6 | 27.9 | 30.9 | 18.3 | 23.9 | 26.9 | 25.2 | 19.7 | 17.3 | 18.6 | 14.4 | 12.4 | 5.4 | 5.3 | 5.1 |
| Eicher Motors | 23.8 | 25.4 | 26.2 | 21.1 | 23.5 | 23.9 | 18.6 | 20.3 | 20.4 | 32.3 | 24.6 | 20.6 | 24.2 | 18.3 | 14.5 | 5.4 | 4.5 | 0.0 |
| Escorts | 9.4 | 13.5 | 13.7 | 8.6 | 14.6 | 13.9 | 8.3 | 13.6 | 13.7 | 60.8 | 27.8 | 26.1 | 51.9 | 21.4 | 18.2 | 3.8 | 3.4 | 3.1 |
| HMCL | 11.8 | 14.0 | 14.1 | 17.9 | 22.9 | 24.0 | 15.0 | 19.7 | 21.0 | 20.7 | 15.3 | 13.8 | 12.9 | 9.6 | 8.7 | 3.4 | 3.2 | 3.0 |
| M&M | 12.2 | 13.0 | 13.0 | 19.6 | 20.0 | 18.3 | 15.2 | 17.3 | 16.2 | 24.0 | 20.4 | 19.3 | 17.6 | 13.8 | 12.4 | 3.8 | 3.3 | 2.9 |
| MSIL | 9.4 | 11.2 | 11.6 | 14.1 | 18.6 | 18.8 | 13.4 | 17.4 | 18.2 | 38.3 | 25.6 | 22.3 | 23.9 | 15.9 | 13.5 | 4.5 | 3.9 | 0.0 |
| Tata Motors | 9.2 | 13.6 | 13.0 | 1.6 | 36.4 | 28.1 | 4.0 | 14.5 | 13.7 | 323.5 | 11.8 | 10.8 | 9.6 | 4.8 | 4.3 | 3.7 | 2.7 | 2.1 |
| TVS Motor | 10.1 | 11.4 | 11.9 | 27.4 | 32.9 | 33.2 | 20.1 | 26.1 | 29.3 | 47.7 | 31.7 | 24.8 | 27.5 | 19.2 | 15.5 | 9.3 | 7.4 | 5.9 |
| Amara Raja | 13.0 | 13.7 | 13.7 | 15.0 | 15.4 | 14.7 | 14.7 | 14.3 | 14.2 | 14.8 | 12.7 | 11.9 | 8.0 | 6.8 | 6.3 | 1.9 | 1.7 | 0.0 |
| Apollo Tyres | 13.5 | 15.3 | 15.4 | 8.8 | 11.8 | 12.4 | 7.2 | 10.0 | 11.0 | 21.9 | 14.9 | 12.9 | 8.5 | 6.7 | 5.9 | 1.7 | 1.5 | 0.0 |
| Exide | 10.7 | 12.5 | 13.0 | 8.3 | 9.7 | 9.8 | 8.4 | 9.9 | 9.9 | 24.1 | 19.4 | 17.9 | 13.7 | 11.1 | 10.1 | 5.4 | 6.6 | 8.2 |
| SAMIL | 7.9 | 8.9 | 9.9 | 7.5 | 12.6 | 15.4 | 6.4 | 9.3 | 11.9 | 39.4 | 21.5 | 15.9 | 11.6 | 8.6 | 6.3 | 2.6 | 2.3 | 2.1 |
| Bharat Forge | 25.5 | 27.0 | 27.6 | 14.9 | 17.2 | 16.8 | 10.5 | 12.5 | 12.6 | 45.2 | 35.3 | 32.0 | 27.5 | 21.3 | 19.2 | 5.7 | 5.1 | 4.5 |
| Uno Minda | 11.1 | 11.5 | 11.9 | 17.2 | 18.1 | 18.8 | 12.5 | 13.5 | 14.6 | 52.0 | 41.5 | 34.1 | 28.2 | 22.7 | 18.7 | 7.0 | 5.9 | 5.1 |
| RMKF | 22.3 | 22.6 | 23.1 | 19.5 | 23.9 | 21.8 | 13.0 | 15.4 | 15.3 | 42.8 | 28.5 | 25.1 | 16.9 | 13.9 | 12.3 | 6.0 | 5.0 | 4.3 |
| MSUMI | 11.1 | 12.6 | 13.7 | 39.8 | 48.0 | 50.1 | 31.7 | 38.1 | 45.9 | 56.2 | 38.7 | 31.4 | 35.5 | 26.0 | 21.2 | 17.0 | 14.6 | 13.1 |
| Suprajit | 11.4 | 12.3 | 14.5 | 13.2 | 15.9 | 20.3 | 11.4 | 12.4 | 15.8 | 35.5 | 25.9 | 17.6 | 17.6 | 14.7 | 10.8 | 3.9 | 3.3 | 2.8 |
| **JK Tyre** | **8.9** | **13.0** | **13.5** | **10.4** | **21.9** | **23.8** | **10.8** | **18.9** | **20.1** | **35.7** | **21.7** | **8.6** | **11.3** | **9.0** | **5.5** | **2.5** | **2.1** | **1.7** |
| **Average** | **12.6** | **14.6** | **15.1** | **15.2** | **21.5** | **21.9** | **12.8** | **17.0** | **18.4** | **64.8** | **25.7** | **20.6** | **22.2** | **15.0** | **12.3** | **5.1** | **4.5** | **3.6** |

*Source: Bloomberg, Emkay Research*

# Underlying industry structure improving; expect ~7% volume CAGR till FY26E

*"What we are trying to do is make sure our domestic industry gets a fair play. How can it be that one country does not allow tyres to be exported to them but wants free imports of tyres from that country into India? There has to be equal, fair and reciprocal arrangement."*

*– Piyush Goyal, Minister of Commerce and Industry, 2020*

- **The structure of the domestic tyre industry has improved in recent years** amid: i) >80% drop in imports post the imposition of import restrictions; ii) sharp growth in exports and export-competitiveness; and iii) premiumization trend playing out in 4Ws (increasing SUV share in PVs and rising radialization levels in trucks/buses).
- **Over 80% drop in TBR, PCR imports since FY20:** With a view to protect the domestic industry, the government had: i) imposed anti-dumping duty (ADD) on certain TBR tyre imports from China over 2017-22 (ranging at USD245-452/ton); and ii) placed imports of tyres belonging to certain segments under the 'Restricted' category' (vs. 'Free' category earlier) since Jun-20, thereby helping improve demand and profitability prospects of Indian manufacturers over the past 5 years. Imports, which formed a sizable ~13% of the domestic consumption in FY18 in key categories like TBR and PCR, now stand reduced to ~1-2%.
- **Sharp improvement in India's export competitiveness driven by regulatory support, supply chain diversification and jump in product quality:** Concurrent with the period of import protection, the industry has been able to clock a strong exports CAGR of ~17% (over FY18-22), pointing to enhanced global competitiveness and positioning, driven by increasing adoption of 'China +1' (incl. anti-dumping and countervailing duties on Chinese/other Asian tyres by various global economies), India's inherent cost advantage, market seeding efforts by major players as well as improvement in product quality of tyres, courtesy investments in newer technologies like radials, as evidenced by developed economies like USA (19%), Germany (7%), UK (4%) and France (4%) being among the top importers of Indian tyres. Industry body Automotive Tyre Manufacturer's Association (ATMA) expects India's share in the global tyre trade to double to ~6% by 2030 (*refer link*).
- **Tyre space to benefit from premiumization trends in underlying industries:** Key premiumization trends under way in PVs (increasing sales of SUVs – now over 50% of industry volumes vs. ~25% as of end-FY18) and CVs ('radialization' – now estimated at ~50% vs. ~44%/~22% 5/10 years ago, respectively), and the resultant upgrades in tyre sizes/technology is another structural improvement for the industry.

*"We can increase our share of global trade, which is currently pegged at 3%, to 6% in this decade. While we have doubled it in the last four years, we can do the same over the next five years"*

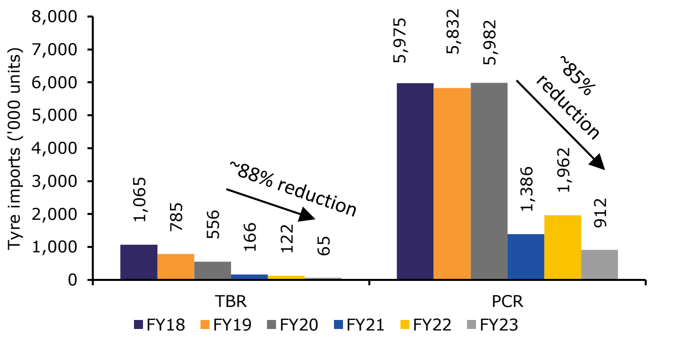
*- Satish Sharma, Chairman, ATMA, 2023*

- **Taking a calibrated capex approach:** We also note that unlike past cycles, capacity additions across the space are currently controlled/calibrated, with a tendency to prioritize brownfields/de-bottlenecking over large-ticket greenfield expansions.
- **Industry's profitability to remain strong:** Amid the industry's: i) stable-to-positive demand prospects, ii) growth being tilted in favor of the replacement channel, iii) improving underlying industry mix (increasing sales of larger/more-advanced tyres), and iv) reducing import content, we expect its profitability to remain strong.
- **RM prices currently well off recent highs:** Despite prices of oil and rubber having recently spiked , they remain well below the highs seen in the past 2-3 years; we expect no significant strain in gross margins, given i) established pricing recovery mechanism in OEMs (mix of indexation and negotiation-based recovery, including recovery with a lag in some cases), ii) reasonably-high capacity-utilization rates (~80% & above in Q4FY23 for most players), with expectations of continued demand recovery (especially on the replacement front), and iii) their specific market characteristics in several crude oil-based derivatives used in tyre manufacturing.
- **Expect ~7% industry volume CAGR over medium term:** Amid a stable-to-positive demand scenario over the medium term, led by improvement in replacement demand, we expect domestic tyre industry volume CAGR of ~7% till FY26E (ahead of industry capacity addition). We note that ATMA expects the industry to more than double in size to USD22bn by 2032, implying ~9% long-term revenue CAGR, backed by rising vehicular demand, growing vehicular parc, continuous Government spends on infrastructure, and efforts in R&D and technology.

## A. Sharp drop in imports pursuant to imposition of restrictions by the Government

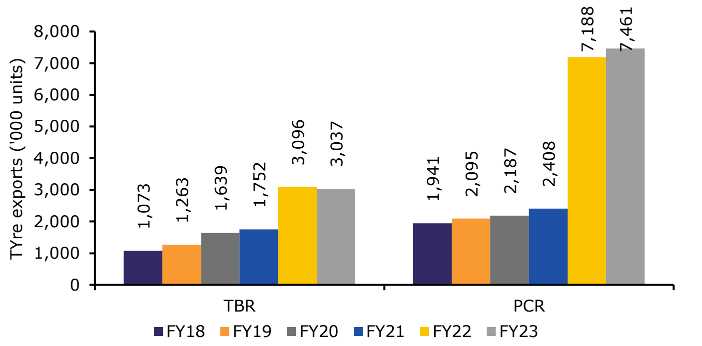
- **Over 80% drop in TBR, PCR imports since FY20:** With a view to protect the domestic industry, the government had: i) imposed anti-dumping duty (ADD) on certain TBR tyre imports from China over 2017-22 (ranging at USD245-452/ton); and ii) placed imports of tyres belonging to certain segments under the 'Restricted' category' (vs. 'Free' category earlier) since Jun-20, thereby helping improve demand and profitability prospects of Indian manufacturers over the past 5 years. Imports, which formed a sizable ~13% of the domestic consumption in FY18 in key categories like TBR and PCR, now stand reduced to ~1-2%.
- While recently the Government has reportedly allowed certain relaxations in restrictions to players willing to set up domestic capacities, as per our industry interactions, any relaxation is expected to be limited to ~10-20% of earlier allowed limits. Moreover, as per channel checks, we note that pricing difference vs. Chinese imports has now narrowed to ~10% vs. ~25-30% earlier.

**Exhibit 29: Led by the Government's import restrictions, TBR, PCR imports have collapsed more than 80% since FY20**




*Source: Ministry of Commerce & Industry, Emkay Research*

**Exhibit 30: Share of imports in domestic consumption is now miniscule vs. double-digit share a few years ago**




*Source: Ministry of Commerce & Industry, Emkay Research*

**Exhibit 31: Types of imported tyres placed under the 'Restricted' category since Jun-20 by the Government**

| ITC HS Code | Item description | Existing policy | Revised policy |
|---|---|---|---|
| 40111010 | Of a kind used on motor cars (including station wagons and racing cars): Radials | Free | Restricted |
| 40111090 | Of a kind used on motor cars (including station wagons and racing cars): Other | Free | Restricted |
| 40112010 | Of a kind used on buses and lorries: Radials | Free | Restricted |
| 40112090 | Of a kind used on buses and lorries: Other | Free | Restricted |
| 40114010 | Of a kind used on motorcycles: For motorcycles | Free | Restricted |
| 40114020 | Of a kind used on motorcycles: For scooters | Free | Restricted |
| 40114090 | Of a kind used on motorcycles: Other | Free | Restricted |
| 40115010 | Of a kind used on bicycles: Multi-cellular Polyurethane (MCP) tubeless Tyres | Free | Restricted |
| 40115090 | Of a kind used on bicycles: Other | Free | Restricted |

*Source: Ministry of Commerce & Industry, Emkay Research*

**In Jun-20, the Government had moved tyre imports from the 'free' to the 'restricted' category, with a view to protect the domestic industry**

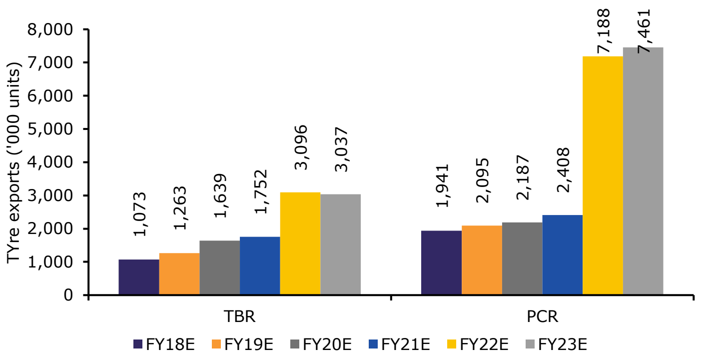
*"What we are trying to do is make sure our domestic industry gets a fair play. How can it be that one country does not allow tyres to be exported to them but wants free imports of tyres from that country into India? There has to be equal, fair and reciprocal arrangement. If other countries are desirous of 1.3 billion- Indian market opportunity, they will also have to give our country's businesses equal opportunity to engage in their countries. They can't put overarching technical barriers or overarching regulations on our products and then complain if we put any standards in our country"*

*– comments by Piyush Goyal, Minister of Commerce & Industry in 2020 (refer link)*

## B. Strong leaps in India's export competitiveness

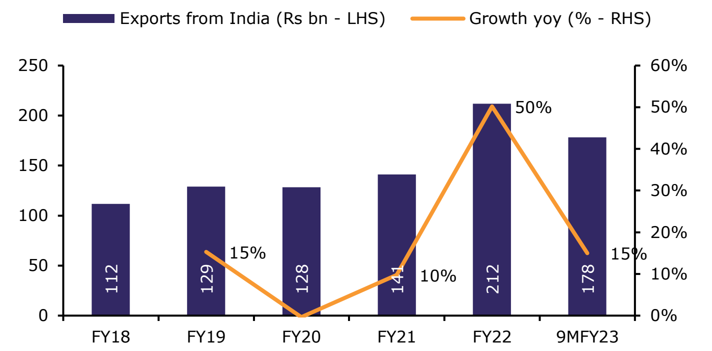
- **Sharp improvement in India's export competitiveness driven by regulatory support, supply chain diversification and jump in product quality:** Concurrent with the period of import protection, the industry has been able to clock a strong exports CAGR of ~17% (over FY18-22), pointing to enhanced global competitiveness and positioning, driven by increasing adoption of 'China +1' (incl. anti-dumping and countervailing duties on Chinese/other Asian tyres by various global economies), India's inherent cost advantage, market seeding efforts by major players as well as improvement in product quality of tyres, courtesy investments in newer technologies like radials, as evidenced by developed economies like USA (19%), Germany (7%), UK (4%) and France (4%) being among the top importers of Indian tyres. Industry body Automotive Tyre Manufacturer's Association (ATMA) expects India's share in the global tyre trade to double to ~6% by 2030 (*refer link*).

**Exhibit 32: Tyre exports from India in key categories have grown multifold since FY18**



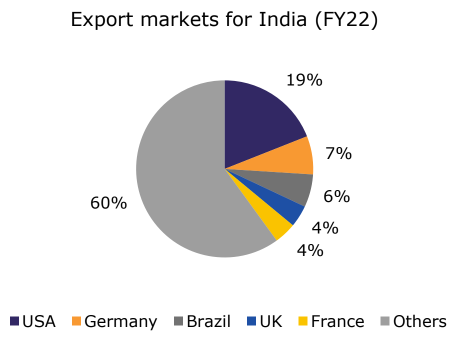

*Source: Ministry of Commerce & Industry, Emkay Research*

**Exhibit 33: 50%/15% YoY industry exports growth in FY22/9MFY23 to Rs212bn/Rs178bn, respectively**



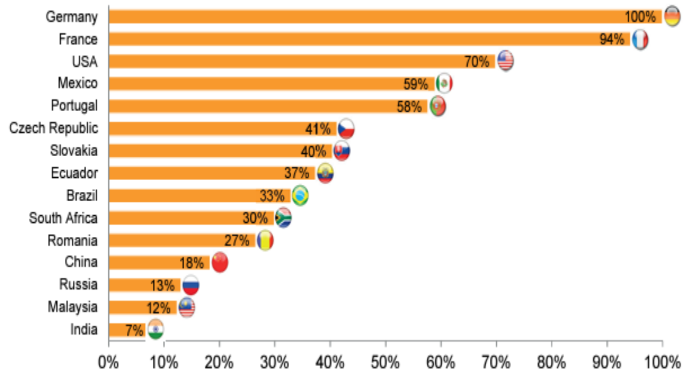

*Source: Industry, Emkay Research*

**Exhibit 34: Developed markets (USA, Europe) are among the highest importers of Indian tyres**




*Source: Company, Emkay Research*

**Exhibit 35: India has major labor cost advantage in tyres (Index)**




*Source: Continental AG (Fact Book)*

### Industry body ATMA sees scope to double India's exports share in 5 years

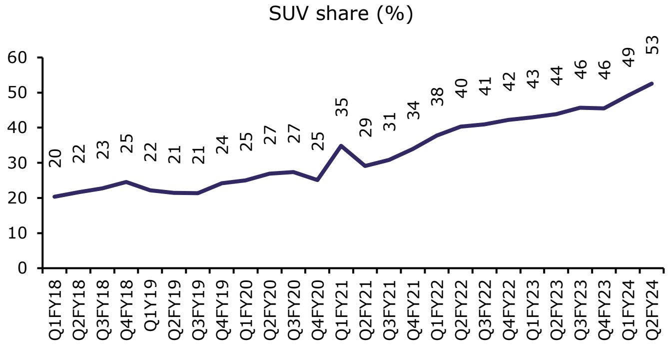
*"There is a basic principle in manufacturing that it always flows to the lowest cost centre.* ***With high levels of automation, renaissance with manufacturing, cost arbitrage and the wide talent pool available in the country, we have been able to elevate the quality of our products, which has pushed the Indian tyre industry to become a great manufacturing destination. Our automotive market is maturing very fast and because of the regulations, the tyre technology in India is mirroring what is required in overseas markets.*** *While there are differences, from a basic technology point of view, we are there.* ***Given our cost structures on one hand and the technology investments on the other, as well as India's position in the global scheme of things, we can enhance our addressability of the markets that we serve.*** *If we get our game together, we have a huge opportunity to export Indian tyres. Therefore, we foresee exports growing faster than the domestic in the future.* ***We can increase our share of global trade, which is currently pegged at 3%, to 6% in this decade. While we have doubled it in the last four years, we can do the same over the next five years****"*

*- comments by Satish Sharma, Chairman, ATMA, in 2023 (refer link)*

## C. Premiumization underway in underlying industry

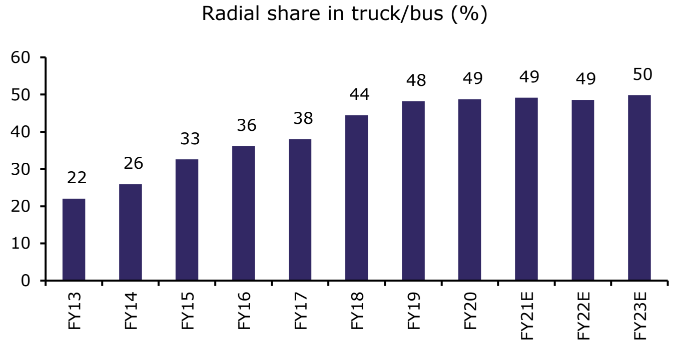
- **Tyre space to benefit from premiumization trends in underlying industries:** Key premiumization trends under way in PVs (increasing sales of SUVs – now over 50% of industry volumes vs. ~25% as of end-FY18) and CVs ('radialization' – now estimated at ~50% vs. ~44%/~22% 5/10 years ago, respectively), and the resultant upgrades in tyre sizes/technology is another structural improvement for the industry.

**Exhibit 36: SUV share in PVs now over ~50%—doubled since FY18—would reflect in tyre replacement with typical 2-3 year lag**




*Source: SIAM, Emkay Research; Note – Q2FY24 till Aug-23*

**Exhibit 37: In the truck/bus segment, share of radial tyres has grown to ~50% vs. ~22%/~44% in FY13/FY18, respectively**




*Source: Industry, Emkay Research*

## D. Industry taking calibrated capex approach

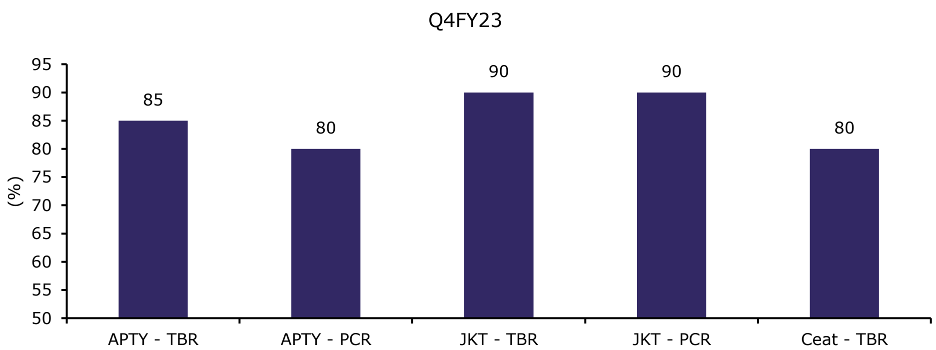
- **Taking a calibrated capex approach:** We also note that unlike past cycles, capacity additions across the space are currently controlled/calibrated, with a tendency to prioritize brownfields/de-bottlenecking over large-ticket greenfield expansions.

**Exhibit 38: Unlike in past cycles, no major greenfield additions being planned…**

| Company | Segment | Comment | Cost (Rs bn) |
|---|---|---|---|
| JK Tyre | PCR | Increasing to 12.3mn tyres (Standalone) | 5.3 |
| JK Tyre | TBR | Increasing ~10% to ~4mn tyres (Cavendish) | 2.6 |
| APTY | | No major growth capex planned | |
| Ceat | TBR | Expanding by 45k tyres/month in Phase 1 | 7.0 (3 years) |

*Source: Company, Emkay Research*

**Exhibit 39: Capacity utilization fairly high across industry players; yet, focus largely remains on calibrated capex spends via brownfield expansion/de-bottlenecking**




*Source: Company, Emkay Research*

### Strong industry preference for de-bottlenecking/brownfield expansion…

*"**We are going for the next at least two years on a capex light model**, which would be mainly maintenance capex and IT digitalization related and sustainability related. No, there is no growth capex. It is maintenance.*

*When I need growth, all the capex that we're putting in now in digitalisation, AI, machine learning is going towards enhancement of productivity. And that's why we are looking at a capex light model to try and see how we can free up more capacity in both PCR and in Truck Bus Radial and that's how the growth is going to come. When I need -- I'm not even going into looking at a brownfield expansion right now because the entire focus is on enhancing productivity and debottlenecking some of our plants.*

*And as we've highlighted, we continue to invest in areas of digitalisation, sustainability, etc. So there is no-growth capex planned. We are undertaking productivity improvement programmes across categories … that we are looking at AI, ML, etc., to drive improvements in capacity. And hence we believe that, that itself will provide the cushion if the market growth is beyond a certain level.*

*It would be difficult to give you a quantum on how much we would gain out of productivity or focus on AI/ML, but a broad number, a safe number would be mid-to-high single-digits is what we would target to have improvements of capacity."*

***– comments by the Management of APTY during Q4FY23 earnings call***

*"Our total capex for FY'24 is likely to be around INR 750 crores. And that INR 750 crores includes project capex for Ambernath where we are doing agri-radial. Some downstream two-wheeler plant at Nagpur, downstream passenger car radial at Chennai, then some specialty bias capacity conversion in our older factories, plus our normal capex. And we're also spending some money on debottlenecking.*

*Our Halol capacity utilization has crossed 90% level. And therefore, we think it is important to resume the Chennai TBR expansion, which was approved by Board earlier. The Board had approved the full project of around 90,000 tyres. We are taking up only half of that as Phase 1, about 45,000 tyres. The total capex over the years will be around INR 700 crores. This investment fits well into our plan of incurring bite-sized capex every year and into our pecking order of capital allocation across categories.*

***See, normally when you do a debottlenecking, capex per tonne is lower. And obviously, on that capex, the incremental ROI would be higher than the greenfield or a brownfield kind of capex.***

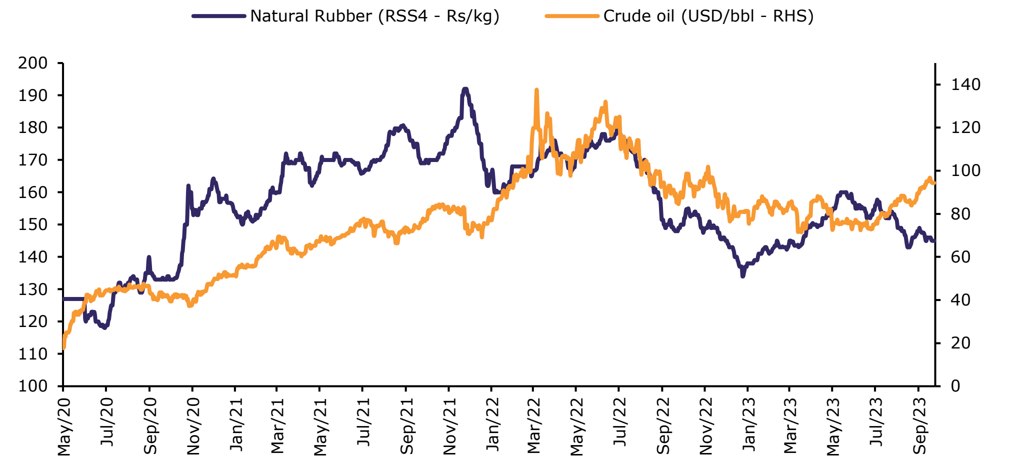
*I think as we also earlier mentioned that we have created enough upstream capacities. Downstream, we're involving lower lead times, would be considered in our annual plan. And anything which is greenfield, our larger capex is where it requires some planning. We have enough headroom for us to generate revenue from the capacity that we have already created."*

***– comments by the Management of Ceat in its Q1FY24 earnings call***

## E. Industry profitability to remain strong

- Amid the industry's: i) stable-to-positive demand prospects, ii) growth being tilted in favor of the replacement channel, iii) improving underlying industry mix (increasing sales of larger/more-advanced tyres), and iv) reducing import content, we expect its profitability to continue improving. We note that large industry players are currently either operating at close-to-peak margins (e.g. APTY) or seeing strong improvement (e.g. MRF, JKI).
- **Sharp commodity inflation of past 2 years largely neutralized:** After recording a sharp jump over FY21-H1FY23, prices of key raw materials like natural rubber and crude-oil saw a ~18-20% correction till Q1FY24—thereby compressing industry gross margins (historically ~35-39% on average for major players, depending on product mix). However, driven by efforts on product mix and cost actions, industry participants were able to largely neutralize the input inflation.
- **RM prices currently well off recent highs:** Despite prices of oil and rubber having recently spiked , they remain well below the highs seen in the past 2-3 years; we expect no significant strain in gross margins, given i) established pricing recovery mechanism in OEMs (mix of indexation and negotiation-based recovery, including recovery with a lag in some cases), ii) reasonably-high capacity-utilization rates (~80% & above in Q4FY23 for most players), with expectations of continued demand recovery (especially on the replacement front), and iii) their specific market characteristics in several crude oil-based derivatives used in tyre manufacturing.

**Exhibit 40: Commodities, despite their recent increase, still well below highs of the past 2 years**



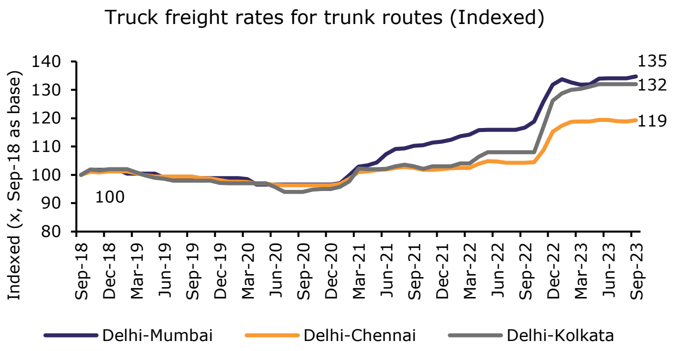

*Source: Bloomberg, Emkay Research*

## F. Expect ~7% medium term industry CAGR amid stable demand prospects

- **Expect ~7% industry volume CAGR over medium term:** Amid a stable-to-positive demand scenario over the medium term, led by improvement in replacement demand, we expect domestic tyre industry volume CAGR of ~7% till FY26E (ahead of industry capacity addition). We note that ATMA expects the industry to more than double in size to USD22bn by 2032, implying ~9% long-term revenue CAGR, backed by rising vehicular demand, growing vehicular parc, continuous Government spends on infrastructure, and efforts in R&D and technology.

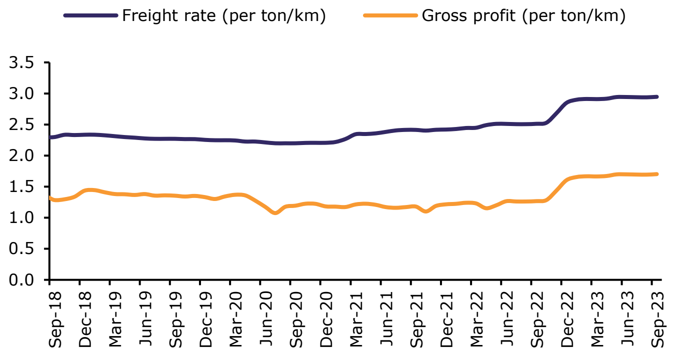
- In the near-to-medium term, while momentum in the 4W OEM channel (PVs, CVs) is expected to moderate given the high base, replacement demand growth is set to sustain and improve on the back of the strong OEM sales since FY21 and ~1-3-year replacement cycles (~1-2 years in TBR, ~2-3 years in PCR). This is set to be supported by a revival in the 2W OEM space, where recovery has started accelerating and broadening, to include rural/entry-level segments as well. While the recent weakness in the export channel could persist for another 3-6 months, we expect growth to revive from next year, once the ongoing macro-related challenges in major markets meaningfully subside.

**Exhibit 41: Truck freight rates on key routes have grown strongly in the past year and remain resilient**



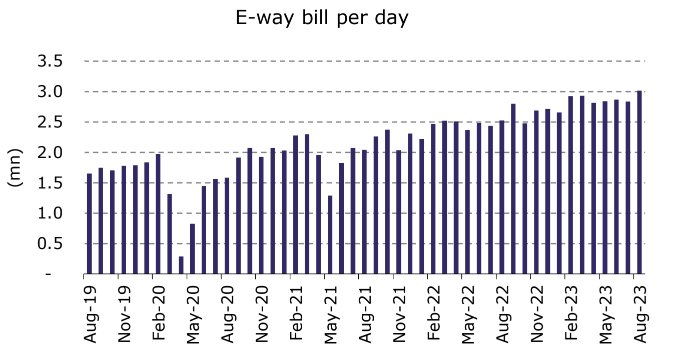

*Source: CMIE, Emkay Research*

**Exhibit 42: Profitability of fleet operators is intact, amid stable fuel prices**



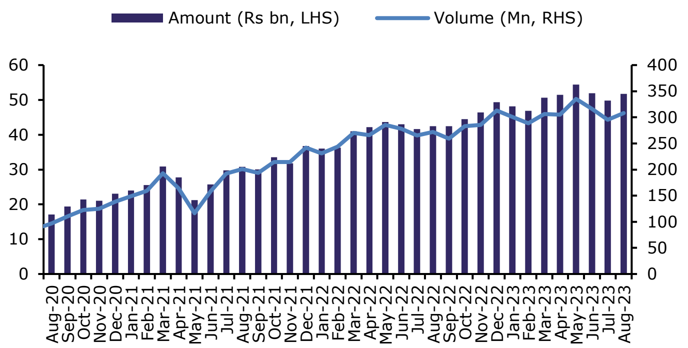

*Source: CMIE, Emkay Research*

**Exhibit 43: E-way bill generation at an all-time high**



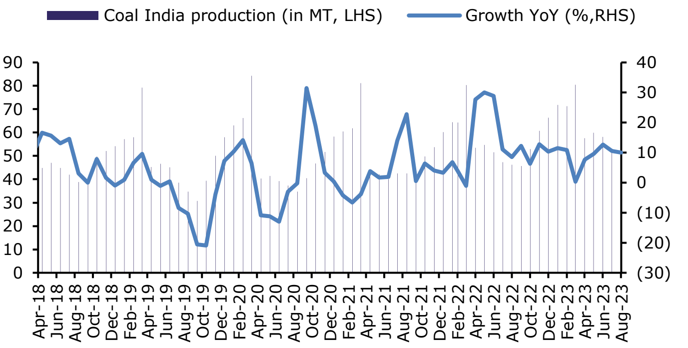

*Source: GSTN, Emkay Research*

**Exhibit 44: Toll collections and volumes at a healthy level**



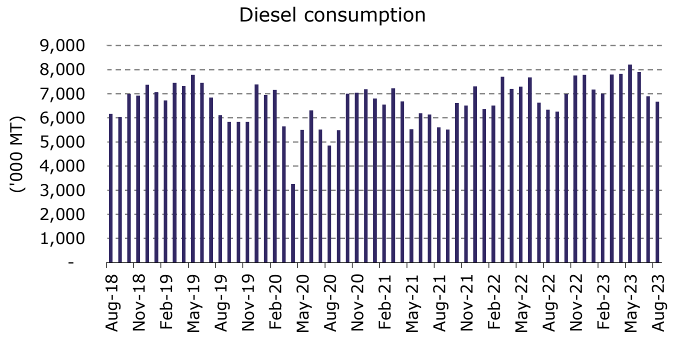

*Source: NPCI, Emkay Research*

**Exhibit 45: Coal India's production levels rising (volumes down in recent months, on seasonality)**




*Source: Coal India, Emkay Research*

**Exhibit 46: Diesel consumption increasing, notwithstanding the recent slowdown owing to the usual seasonality**




*Source: PPAC, Emkay Research*

**Exhibit 47: Major players by and large expect healthy traction for replacement demand going ahead**

| Q1FY24 | Comment |
|---|---|
| JKI | Replacement demand looking robust amid high truck utilization along with onset of monsoons and tapering of inflation. In most regions, there is a strong pickup in core sectors like cement, steel, mining. |
| APTY | OEM demand is coming back in CV segment as well as PCR. Replacement volumes would be much healthier in H2 compared to H1. |
| Ceat | If rural demand pickups up, company would be positive on 2W front with market growth possibly in high single digit to low double digit. Passenger car tyres could see high single digit or growth. There could be some constraint on the commercial vehicle demand on both OEM and replacement side |

*Source: Company, Emkay Research*

**Exhibit 48: We expect ~7% growth in domestic tyre production over FY23E-26E, led by the replacement segment**

| Production Tyres (units) | FY22E | FY23E | FY24E | FY25E | FY26E | FY18E-23E CAGR (%) | FY23E-26E CAGR (%) |
|---|---|---|---|---|---|---|---|
| Truck and bus | 187,34,100 | 193,75,086 | 211,18,844 | 225,97,163 | 241,78,964 | 1% | 8% |
| LCV | 96,50,900 | 99,81,105 | 102,80,538 | 106,91,760 | 111,19,430 | -1% | 4% |
| Cars and UV's | 546,26,000 | 635,22,709 | 679,69,299 | 727,27,150 | 778,18,050 | 8% | 7% |
| Total 2/3 wheelers | 821,48,000 | 888,76,074 | 956,40,389 | 1025,51,669 | 1099,71,454 | -2% | 7% |
| Total tractors | 132,65,000 | 122,13,150 | 128,23,807 | 132,08,521 | 136,04,777 | 15% | 4% |
| **Total** | **1784,24,000** | **1939,68,125** | **2078,32,877** | **2217,76,263** | **2366,92,676** | **2%** | **7%** |

*Source: Industry, Emkay Research*

**Exhibit 49: We expect OEM share of production to decrease across major segments**

| OEM to Replacement ratio (x) | FY22E | FY23E | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Truck and bus | 0.20 | 0.29 | 0.29 | 0.28 | 0.25 |
| Cars and UV's | 0.59 | 0.67 | 0.67 | 0.65 | 0.62 |
| Total 2/3 wheelers | 0.95 | 0.95 | 0.88 | 0.91 | 0.93 |
| **Total** | **0.71** | **0.84** | **0.78** | **0.80** | **0.80** |

*Source: Industry, Emkay Research*

**Exhibit 50: Replacement volumes expected to grow at ~8% CAGR over FY23-26E**

| Replacement as % of total consumption (%) | FY22E | FY23E | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Truck and bus | 84 | 77 | 77 | 78 | 80 |
| Cars and UV's | 63 | 60 | 60 | 60 | 62 |
| Total 2/3 wheelers | 51 | 51 | 53 | 52 | 52 |
| **Total** | **58** | **56** | **57** | **57** | **57** |

*Source: Industry, Emkay Research*

**Exhibit 51: Overall product mix to remain largely similar**

| Product mix in Production (%) | FY22E | FY23E | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Truck and bus | 10 | 10 | 10 | 10 | 10 |
| Cars and UV's | 31 | 33 | 33 | 33 | 33 |
| Total 2/3 wheelers | 46 | 46 | 46 | 46 | 46 |
| **Total** | **100** | **100** | **100** | **100** | **100** |

*Source: Industry, Emkay Research*

# JKI catching up with peers amid all-round structural improvements

*"Over the years we have made a conscious effort in increasing the overall volume in higher inch category. We are seeing that every quarter we are able to get at least a couple of percentage points up on these premium products."*

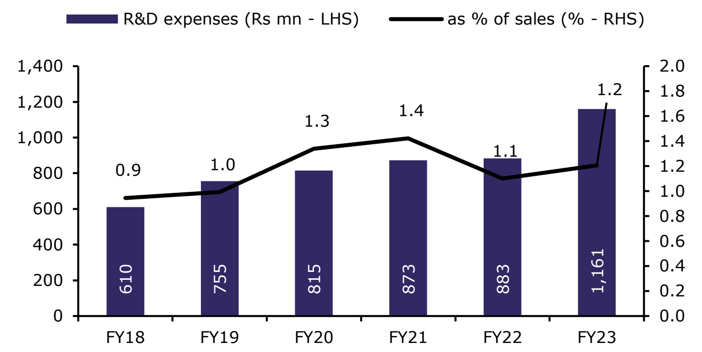
*– Management comments in Q1FY24 concall*

- Over the years, JKI has undertaken various structural initiatives to improve its competitive positioning across R&D, distribution and sales promotion.
- **R&D spends up ~90% since FY18; JKI now out-spending competition:** JKI, which boasts of a rich history of innovation efforts and also has a centralized tech center (with over 200 R&D and technology scientists and engineers), has in recent years intensified focus on areas like advanced and alternate materials (e.g. developed 'UX Green' PCR tyre with 80% sustainable, recycled and renewable material), nanotechnology, process and product simulations predictive technology, advanced tyre mechanics, etc. Absolute R&D spends at the company have grown ~90% from FY18 levels, with spending gap vs. competition sharply reducing; JKI now leads peers in terms of R&D spends as a proportion of sales. In the past few years, the company has introduced several innovative products like 'EV tyres', 'smart tyres', 'green tyres', 'puncture guard' tyres, 'low rolling resistance' tyres, etc., which are gaining traction in the market.
- **Over 60% increase in distribution footprint; catching up fast with competition:** With domestic dealer count now above 6,000 (~60% increase from FY18 levels), JKI has closed the dealer-count gap with key competitors. Further, the company is also leveraging its substantial and improving positioning with large fleet operators (~60% market share; present with ~1,260 of the top ~1,800 operators in the country, up from ~690 as of FY18) to scale up its fleet management business (~Rs6bn revenues in FY23; JKI has a head-start of over 5 years vs. competition).
- **Focused branding activities underway:** With a view to improve brand perception and thus obtain better pricing power in the longer run, the company has also been focusing on higher advertisement and sales promotion expenses, with a recalibration of approach towards branding activities vs. consumer schemes in the past. Here as well, JKI's spends on proportion of sales basis are now closer to/ahead of APTY/MRF than in earlier years.
- **JKI's strong premiumization focus driving better pricing power:** JKI remains focused on the TBR and higher-margin PCR segments (e.g. with the aid of the ongoing PCR capex program of Rs5.3bn, JKI targets ~45% contribution from larger-sizes, i.e. >16inch tyres in the future vs. ~25% currently/~10% 3 years ago). **Mix is also improving in the Truck/bus and 2W/3W segments, with increasing sales of premium brands and declining contribution from economy brands**; for instance, sales contribution from economy brand *Challenger* (for 2/3Ws and TBR) is now negligible (vs. ~10-12% earlier) —similarly, in the truck/bus segment, contribution from brand *Vikrant* has dropped, from ~25% earlier to a single-digit now. Through its ongoing efforts, the company has been able to improve its price positioning by ~400bps/500bps overall/in TBR, thus structurally raising profitability.
- JKI's revenue performance has been a sharp laggard compared with peers like MRF and APTY, for most of the past decade, delivering a >20% under-performance (indexed basis) over FY14-20. However, **amid concerted efforts on various fronts (discussed above), revenue performance has substantially improved—with JKI growing ahead of peers since FY21.**
- We believe stable industry prospects accompanied by the company's initiatives should help deliver ~8% revenue CAGR till FY26E for JKI.
- **Expect consol. margins at 14% in FY26E amid multiple triggers:** The company's improved competitive standing, premiumization drive, innovative launches ('smart tyres' now contribute ~10% of PCR sales), increased efficiencies (e.g. downtime reduction via rising digitalization) and cost control measures (e.g. ~58% power sourcing from solar in standalone operations to reduce power/fuel costs) are already driving margins higher (12.3% EBITDA margin in Q1FY23 vs. 9% for FY22). We build-in further increase in consolidated EBITDA margins to 14% by FY26E.

## A. JKI's R&D spends now catching up to competition

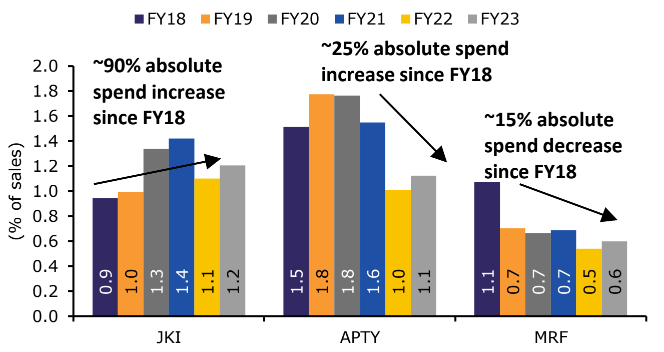
- **R&D spends up ~90% since FY18:** JKI, which boasts of a rich history of innovation efforts and also has a centralized tech center (with over 200 R&D and technology scientists and engineers), has in recent years intensified focus on areas like advanced and alternate materials (e.g. developed 'UX Green' PCR tyre with 80% sustainable, recycled and renewable material), nanotechnology, process and product simulations predictive technology, advanced tyre mechanics, etc. Absolute R&D spends at the company have grown ~90% from FY18 levels, with spending gap vs. competition sharply reducing; JKI now leads peers in terms of R&D spends as a proportion of sales.
- In the past few years, the company has introduced several innovative products like 'EV tyres', 'smart tyres', 'green tyres', 'puncture guard' tyres, 'low rolling resistance' tyres, etc., which are gaining traction in the market.
- In the EV tyre space, the company has developed the complete range of offerings for the commercial, passenger and 2/3W categories. JKI is the market leader for electric buses and currently supplies to the likes of JBM, TTMT, Olectra, AL and VECV. In PVs, the 'Ranger HPE' brand caters to SUVs; the company is in talks with PV OEMs and has commenced supplies in the aftermarket. On the 2/3W front, JKI has been on-boarded by multiple aggregators and OEMs like Benling; it is awaiting approval from the likes of Ola and Ather.

**Exhibit 52: JKI's absolute R&D spends in FY23 were ~90% higher than in FY18**




*Source: Company, Emkay Research*

**Exhibit 53: JKI's gap in R&D spending (% of sales) with competition reduced substantially; now ahead of peers**




*Source: Company, Emkay Research*

**Exhibit 54: History of innovation at JKI**

| Sr. No. | Comment |
|---|---|
| 1 | Pioneer in radial technology in India; market leader in TBR |
| 2 | First in India with OE fitment of tubeless passenger radials |
| 3 | First in India to launch high performance H, V and Z-rated passenger radials |
| 4 | First in India to launch TPMS based on sensor technology |

*Source: Company, Emkay Research*

**Exhibit 55: Recently-launched innovative products at JKI**

**TBR - JUH XF & JDH XF**

- ✓ Fuel Saver Technology Design
- ✓ Low RRC & Low Noise
- ✓ High Mileage

**Puncture Guard Tyre**

- ✓ Self-repair multiple punctures
- ✓ Hassle-free ride throughout life
- ✓ Better Traction & Ride Comforts

**Levitas Ultra (UHP)**

- ✓ Utmost Comfort
- ✓ Low Cabin Noise & high durability
- ✓ Shortest braking distance

**PCR – UX Royale**

- ✓ 5 Rib Asymmetric Design
- ✓ Stable Shoulder Tread Blocks
- ✓ Variable Draft Groove Technology

**2 wheeler - Blaze**

- ✓ High Speed Stability
- ✓ Ride Comfort & Smooth Cornering
- ✓ High Mileage & Better traction

**Farm - Shresth**

- ✓ Step Lug Design & Superior Tread
- ✓ Superior Dimensions & aesthetics
- ✓ High Load Caring Capacity & Control

*Source: Company*

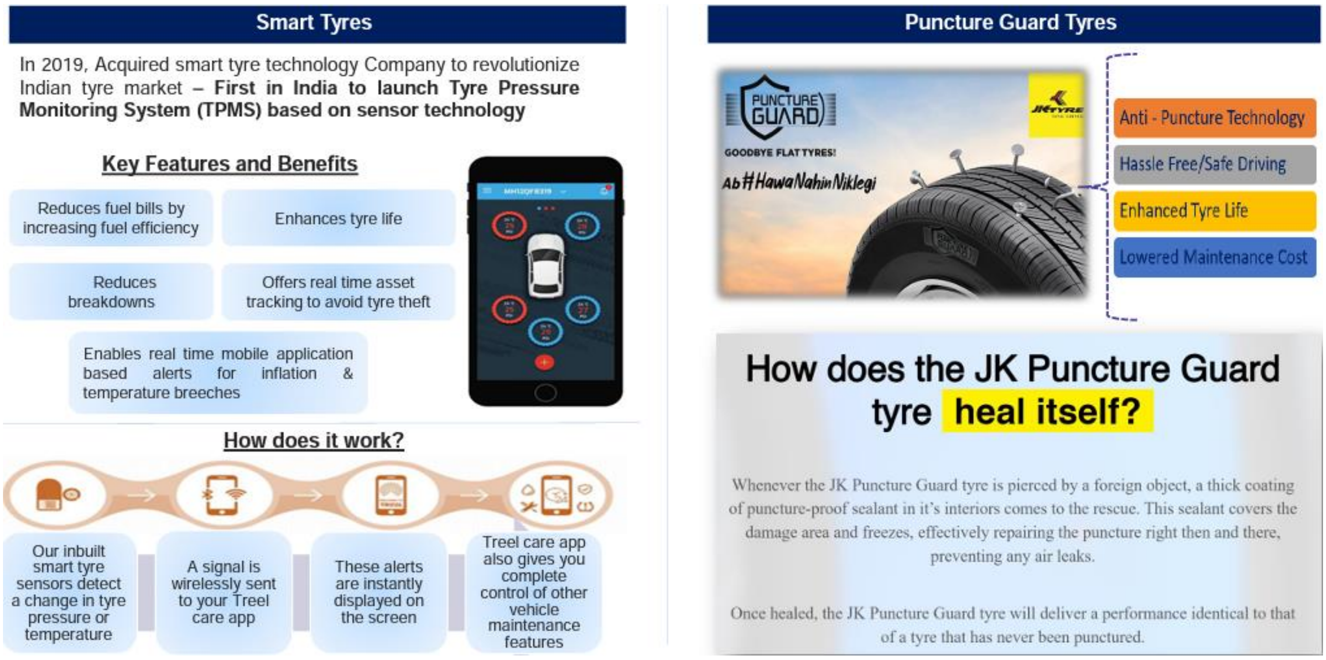
**Exhibit 56: JKI's Green Tyre – 'UX Green'**

**JK Tyre develops PCR Tyre with 80% sustainable, recycled & renewable material – "*First Company to achieve this level*"**

- Developed with highly sustainable materials like natural rubber, bio attributed materials and oil, recycled rubber powder, recovered carbon black, recycled polyester and steel wire.
- Majority of these materials are ISCC (International Sustainability & Carbon Certification) certified.
- Developed & Engineered by the R&D team at the "Raghupati Singhania Centre of Excellence"- JK Tyre's Global Tech Centre at Mysore.
- Reinforces JK Tyre's serious commitment to advancing sustainable growth and boosting societal value creation, moving towards carbon neutrality by 2050.


*Source: Company*

**Exhibit 57: JKI's 'Smart tyre' and 'Puncture Guard' offerings**

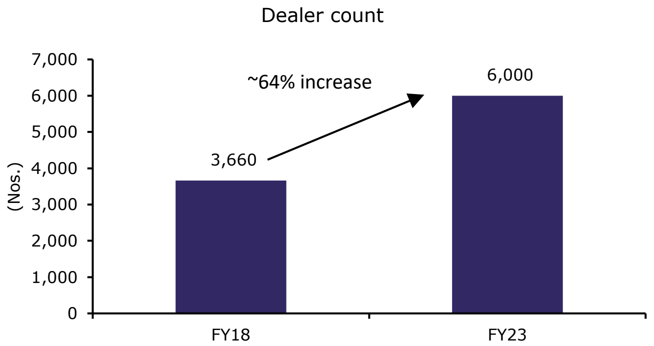



*Source: Company*

## B. Strong ramp-up in distribution footprint

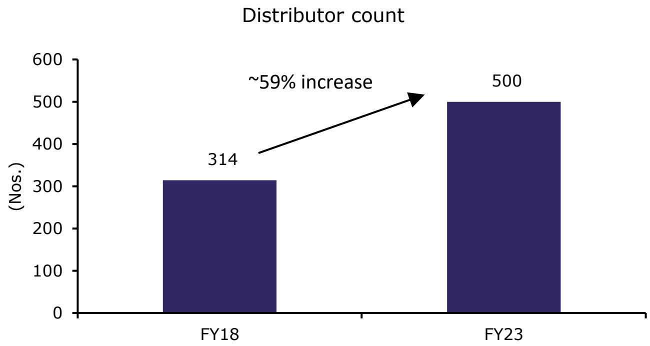
- **Over 60% increase in distribution footprint; catching up fast with competition:** With domestic dealer count now above 6,000 (~60% increase from FY18 levels), JKI has closed the dealer-count gap with key competitors. Further, the company is also leveraging its substantial and improving positioning with large fleet operators (~60% market share; present with ~1,260 of the top ~1,800 operators in the country, up from ~690 as of FY18) to scale up its fleet management business (~Rs6bn revenues in FY23; JKI has a head-start of over 5 years vs. competition).

**Exhibit 58: Domestic dealer count up by 64% since FY18**



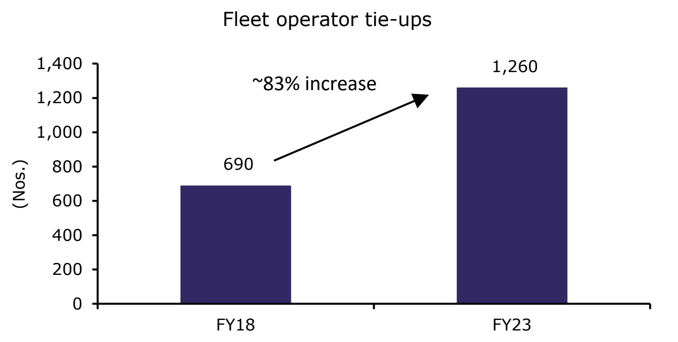

*Source: Company, Emkay Research*

**Exhibit 59: Domestic distributor count up ~59% since FY18**



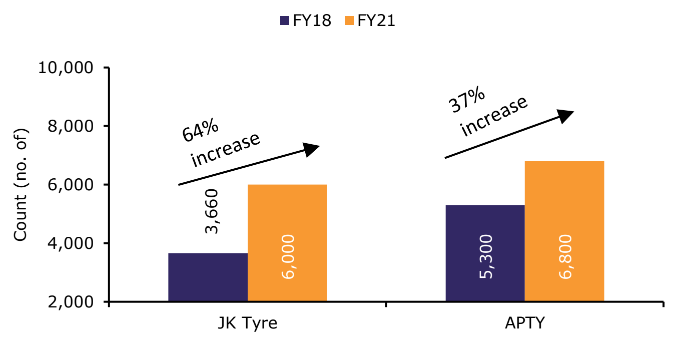

*Source: Company, Emkay Research*

**Exhibit 60: JKI has tie-ups with ~1,260 large fleet operators (~60% market share)**




*Source: Company, Emkay Research*

**Exhibit 61: Pursuant to ramp-up in the distribution footprint, JKI has substantially closed the gap with competitors like APTY**



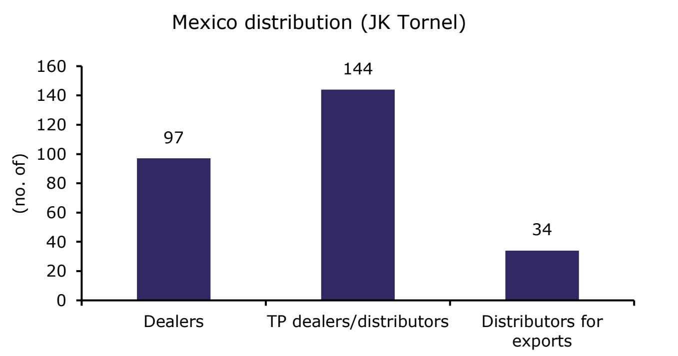

*Source: Company, Emkay Research*

**Exhibit 62: Improving presence across various touch-point styles**

| Channel | Description | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|---|---|
| Truck Wheels | Fully equipped tyre service centers | 28 | 45 | 48 | 58 | 64 | 64 |
| Steel Wheels | Exclusive passenger car tyre retailing | 283 | 335 | 380 | 415 | 421 | 421 |
| Xpress Wheels | Catering to small towns and semi-urban markets | 59 | 114 | 143 | 200 | 205 | 205 |
| Tread centers | Value added services such as re-treading | 28 | 35 | 39 | 45 | 57 | 69 |

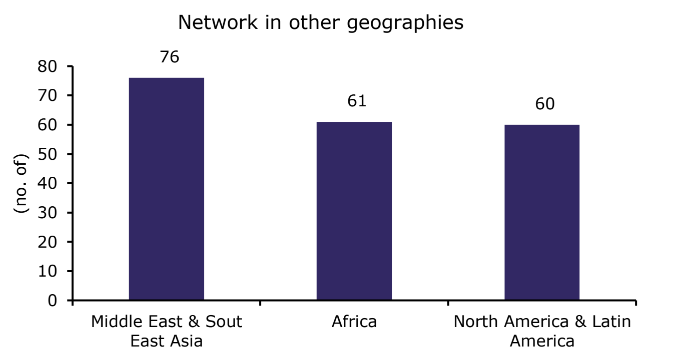
*Source: Company, Emkay Research*

**Exhibit 63: Distribution reach in Mexico**




*Source: Company, Emkay Research; Note: 'TP' = third party*

**Exhibit 64: Distribution network in other geographies**

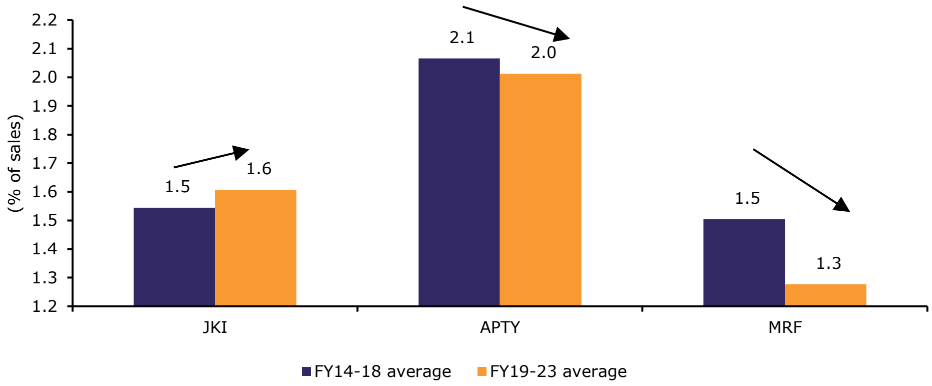



*Source: Company, Emkay Research*

## C. Branding efforts underway to enhance positioning

- **Focused branding activities underway to improve positioning:** With a view to improve brand perception and thus obtain better pricing power in the longer run, the company has also been focusing on higher advertisement and sales promotion expenses, with a recalibration of approach towards branding activities vs. consumer schemes in the past. Here as well, JKI's spends on proportion of sales basis are now closer to/ahead of APTY/MRF than in earlier years.

**Exhibit 65: JKI has made up ground with competition in recent years, in terms of advertisement and sales promotion spends**




*Source: Company, Emkay Research*

**Exhibit 66: Presence of JKI's '*Puncture Guard*' tyres in select models**

| **UX Royale** | | |
|---|---|---|
| **Size (no. of inches)** | **OEM** | **Models** |
| 17 | Hyundai | Creta |
| 17 | Kia | Seltos |
| 17 | MG | Hector |
| 16 | MSIL | Brezza, Baleno, Ciaz |
| 16 | Toyota | Innova Crysta |
| 16 | Hyundai | Elite i20 |
| 15 | MSIL | Baleno, Ciaz, Ignis |
| 15 | Hyundai | Verna |
| 15 | Honda | City, Amaze |
| 14 | MSIL | Swift, Swift Dzire |
| 14 | Honda | Amaze, Brio |

| **Ranger HT** | | |
|---|---|---|
| **Size (no. of inches)** | **OEM** | **Models** |
| 17 | TTMT | Harrier |
| 17 | M&M | XUV500 |
| 17 | Toyota | Fortuner |
| 15 | M&M | Scorpio, Bolero |

| **UX Touring** | | |
|---|---|---|
| **Size (inches)** | **OEM** | **Models** |
| 16 | Toyota | Innova Crysta |
| 15 | Toyota | Innova |

*Source: Company, Emkay Research*

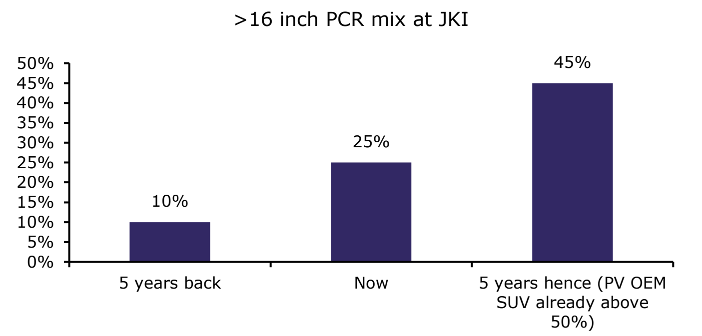
**Exhibit 67: Recent entries in JKI's OEM model list; increasing OEM presence across categories should translate into incremental gains for the replacement segment**

| Year | PV | LCV | 2Ws |
|---|---|---|---|
| FY21 | Hyundai Creta | Tata Intra | |
| | Kia Seltos | Tata Gold | |
| | Maruti New Swift | Force Traveler | |
| | Maruti New Swift Dzire | | |
| | Maruti New Wagon R | | |
| FY22 | Hyundai Alcazar | | TVS Apache |
| | Kia Carens | | |
| FY24 | Hyundai Exter | | |

*Source: Company, Emkay Research*

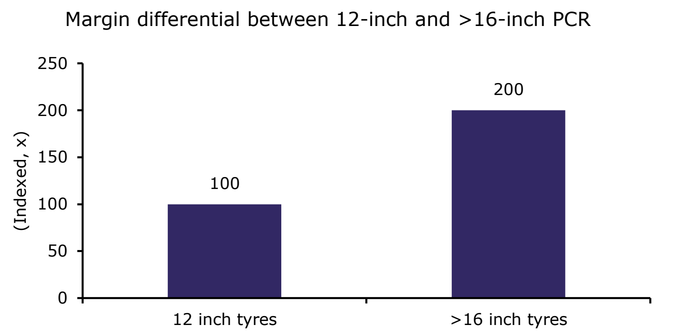
- **JKI's strong premiumization focus driving better pricing power:** JKI remains focused on the TBR and higher-margin PCR segments (e.g. with the aid of the ongoing PCR capex program of Rs5.3bn, JKI targets ~45% contribution from larger-sizes, i.e. >16inch tyres in the future vs. ~25% currently/~10% 3 years ago). Mix is also improving in the Truck/bus and 2W/3W segments, with increasing sales of premium brands and declining contribution from economy brands; for instance, sales contribution from economy brand *Challenger* (for 2/3Ws and TBR) is now negligible (vs. ~10-12% earlier)—similarly, in the truck/bus segment, contribution from brand *Vikrant* has dropped, from ~25% earlier to a single-digit now. Through its ongoing efforts, the company has been able to improve its price positioning by ~400bps/500bps overall/in TBR, thus structurally raising profitability.

**Exhibit 68: JKI targets ~45% contribution from larger tyres (>16") in PCR vs. ~25% now/~10% five years ago**



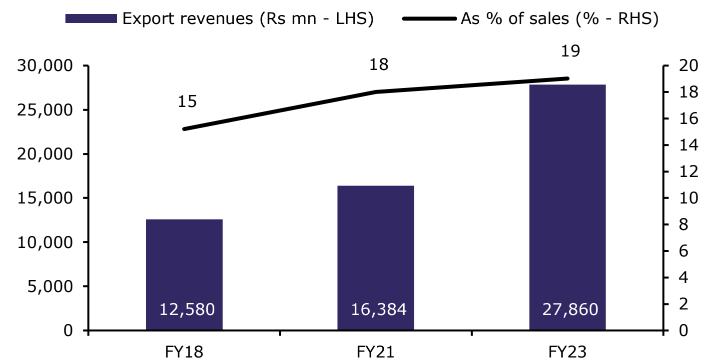

*Source: Company, Emkay Research*

**Exhibit 69: Margins in >16" tyres are over 10% higher compared with the 12" category in PCR**



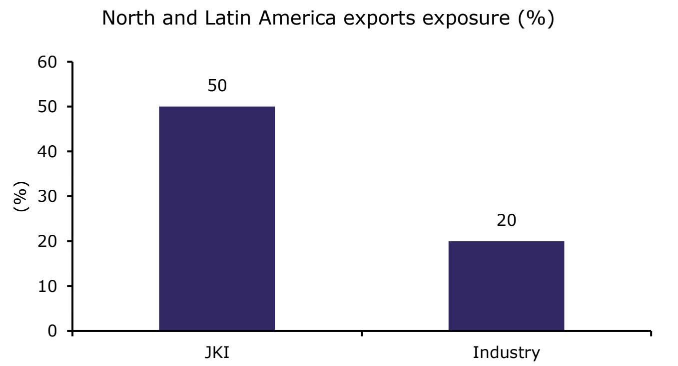

*Source: Company, Emkay Research*

**Exhibit 70: JKI has been able to increase revenue contribution by ~400bps from exports since FY18, on a much larger revenue base**



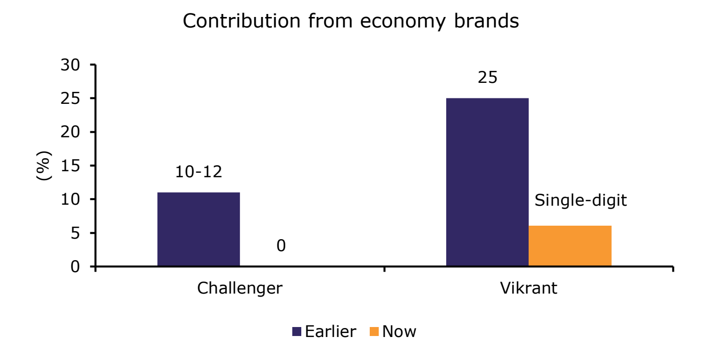

*Source: Company, Emkay Research*

**Exhibit 71: North America and Latin America form over 50% of JKI's India exports**



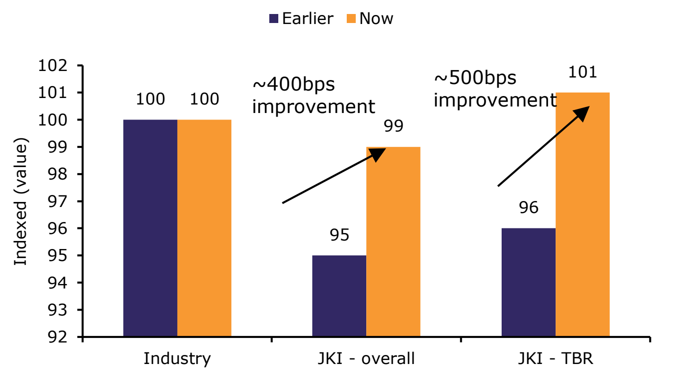

*Source: Company, Emkay Research*

**Exhibit 72: JKI has consciously worked on 'premiumizing' its product portfolio; contribution from economy brands now sharply lower**




*Source: Company, Emkay Research*

**Exhibit 73: JKI's price positioning vs. industry has improved significantly over the past ~5 years, particularly in TBR**




*Source: Company, Emkay Research*

### Conscious portfolio premiumization efforts underway at JKI

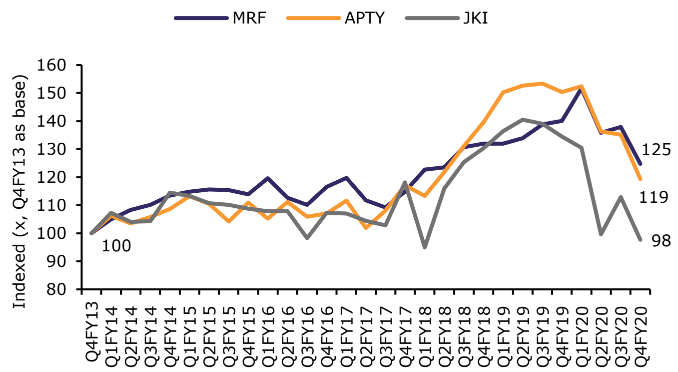
*"In TBR also we have premium SKUs like the energy efficient, fuel efficient series, the extra mileage series which are demanding a premium in the market place, similarly in PCR when we go for the 16 inch and above, those tyres are definitely selling at better premium and the realization of margins are better.* ***So, over the years we have made a conscious effort in increasing the overall volume in higher inch category. We are seeing that every quarter we are able to get at least a couple of percentage points up on these premium products****. So, this overall enriches the entire product mix. We have launched the* ***Levitas Ultra*** *range of tyres which is in the luxury car segment that is also started selling in some numbers we are also going to have some more premium products that will be launched in the near future. So, all these are efforts towards our drive on premiumization. Our introduction of Levitas in the Ultra Luxury segment has also added to the premiumization which is on the 17 inch and above and we will be continuously introducing more products in that category."*

***- comments by the Management of JKI in the Q1FY24 concall***

## D. Outperforming peers since FY21 on concerted efforts to improve positioning

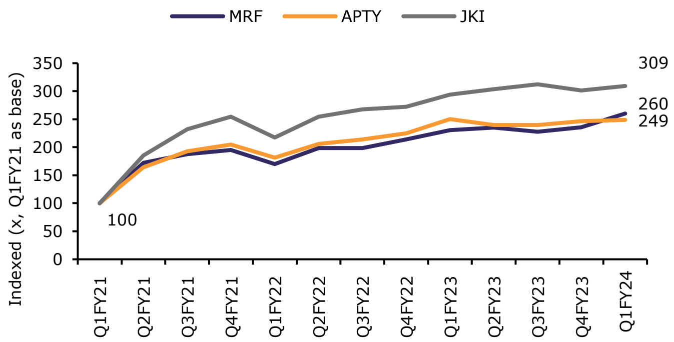
- JKI's revenue performance has been a sharp laggard compared with peers like MRF and APTY, for most of the past decade, delivering a >20% under-performance (indexed basis) over FY14-20. However, **amid concerted efforts on various fronts (discussed above), revenue performance has substantially improved—with JKI growing ahead of peers since FY21.**
- We believe stable industry prospects accompanied by the company's initiatives should help deliver ~8% revenue CAGR till FY26E for JKI.

**Exhibit 74: JKI underperformed larger peers by over 20%, in indexed revenue terms, over FY13-20…**




*Source: Company, Emkay Research*

**Exhibit 75: …however, it has sharply outperformed in the past 3 years, amid structural initiatives on R&D, distribution and marketing**




*Source: Company, Emkay Research*

## E. Multiple margin-growth triggers for JKI

- **Expect consol. margins at 14% in FY26E amid multiple triggers:** The company's improved competitive standing, premiumization drive, innovative launches ('smart tyres' now contribute ~10% of PCR sales), increased efficiencies (e.g. downtime reduction via rising digitalization) and cost control measures (e.g. ~58% power sourcing from solar in standalone operations to reduce power/fuel costs) are already driving margins higher (12.3% EBITDA margin in Q1FY23 vs. 9% for FY22). We build-in further increase in consolidated EBITDA margins to 14% by FY26E.

# Strong focus on deleveraging amid calibrated capex outgo

- **Calibrated capex in store; cost outgo ~20-40% lower than past:** JKI's ongoing capex program (~Rs8bn for expanding PCR/TBR capacities by ~35%/~10%, including via de-bottlenecking) is taking place at a much lower outgo than past programs undertaken at the company as well as by peers (~20% lower outgo on per-ton basis compared with the 2013 program, ~30-40% lower outgo on per-ton basis compared with the last major greenfield announcements by competition).
- **Expanding capacities in high-margin PCR, TBR via brownfield/de-bottlenecking:** Ongoing capex program is targeted towards incrementally margin- and RoCE-accretive products segments like SUV tyres, with asset turns also expected to be superior vs. overall profile (up to ~1.2x asset turns in brownfield/de-bottlenecking vs. ~1x for greenfield; these capex needs would be met by mix of internal accruals and debt). For instance, PCR capacity addition (for >16inch tyres) is expected to command superior margins compared to the existing blended PCR profitability. We expect JKI to continue strengthening its position and focus on higher-margin categories through calibrated brownfield additions/debottlenecking; we build ~Rs25bn capex outgo over FY23-26E (including maintenance capex of ~Rs7.5bn).
- **25% long term debt reduction targeted; improving profitability and control on capex to drive net debt to EBITDA at ~ 1.4x in FY26E vs. ~3.5x in FY23:** Historically, JKI has been among the more leveraged tyre companies (average Debt/Equity at ~2x over FY13-23 vs. ~0.7x for the industry; partly due to Cavendish acquisition). However, the company now aims to significantly reduce debt on books (~Rs42.5bn consolidated net debt as of Jun-23), and targets 25% reduction in long-term debt by FY26, including via tight control on working capital. We believe that improving profitability along with cost actions and judicious capex spends should help substantially improve cash generation at JKI, in turn driving deleveraging, with net debt/EBITDA at ~1.4x in FY26E vs. ~3.5x/~4.7x in FY23/FY22, respectively.
- We expect RoCE to rise to ~21% (pre-tax) in FY26E vs. ~11% in FY23.

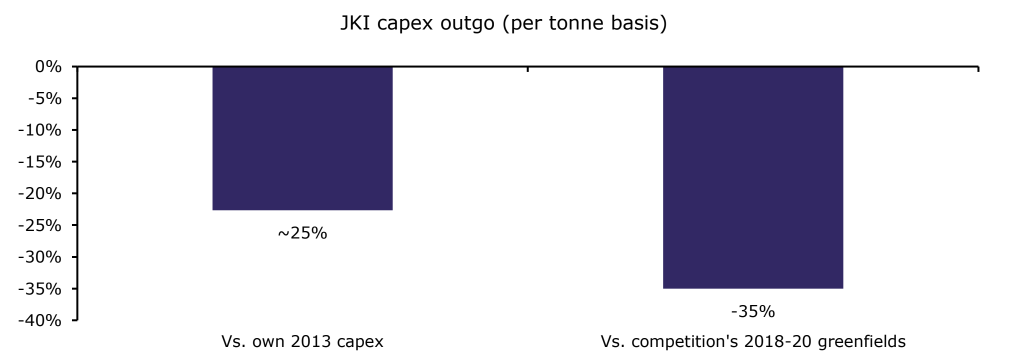
### JKI plans 25% long-term debt reduction by FY26

*"Debt reduction definitely is there on the cards with the efficient working capital management in the first quarter itself. We have reduced the overall debt by Rs. 252 Crores. Presently, we are at Rs.4250 Crore of net debt in June'23. As far as long-term debt is concerned we have a target to reduce the long-term debt by 25% till FY26, this is after considering the new debt which, we will be raising for the existing projects we are implementing as of now. With the efficient working capital management overall debt will reduce."*

\- ***comments by the Management of JKI in the Q1FY24 concall***

\-

**Exhibit 76: JKI's ongoing ~Rs8bn capex program (PCR, TBR) is ~20-40% cheaper than its previous own/peer programs**




*Source: Company, Emkay Research*

# Financials: Expect 8%/26%/58% CAGR in consol. revenue/EBITDA/EPS, respectively, over FY23-26E

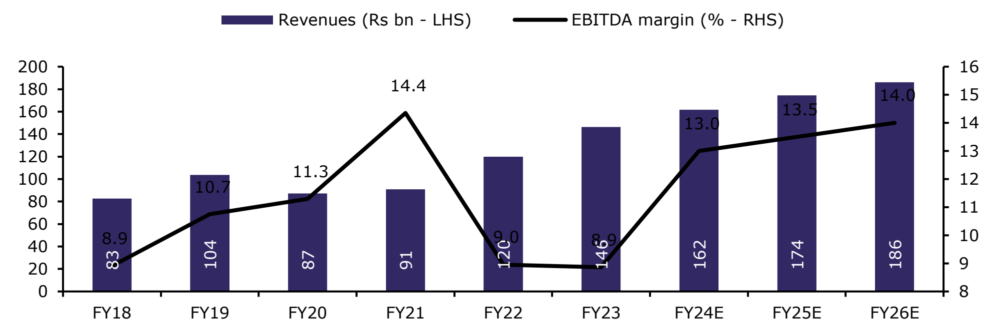
- We expect JKI's consolidated revenue CAGR at ~8% over FY23-26E.
- Ongoing profitability efforts (product premiumization, cost controls) would help drive improvement in margins to ~14% by FY26E vs. ~12.3% in Q1FY24.
- Owing to the lower interest outgo, consolidated PAT CAGR would clock at 58% to Rs12.7bn, with consolidated EPS placed at Rs51.7.
- We expect Net debt/EBITDA at ~1.4x in FY26E vs. ~3.5x/~4.7x in FY23/FY22, respectively.
- Amid all-round structural improvements, RoCE would improve to ~21% (pre-tax) in FY26E vs. ~11% in FY23.

**Exhibit 77: We build-in 8%/26%/58% CAGR in consol. revenue/EBITDA/EPS, respectively, over FY23-26E**

| Rs mn | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|---|
| Revenue | | | | | | |
| India | 82,189 | 1,03,528 | 1,23,760 | 1,37,330 | 1,49,234 | 1,60,828 |
| Standalone | 61,345 | 80,321 | 96,179 | 1,05,011 | 1,14,584 | 1,23,751 |
| Cavendish | 20,844 | 23,208 | 27,580 | 32,319 | 34,650 | 37,077 |
| Mexico (Tornel) | 11,335 | 21,191 | 26,727 | 28,723 | 29,927 | 30,526 |
| less: intersegment | 2,520 | 4,904 | 4,044 | 4,463 | 4,815 | 5,142 |
| **Consolidated** | **91,003** | **1,19,815** | **1,46,442** | **1,61,590** | **1,74,346** | **1,86,211** |
| *Revenue growth (% YoY)* | *4.4* | *31.7* | *22.2* | *10.3* | *7.9* | *6.8* |
| | | | | | | |
| Consolidated EBITDA | 13,063 | 10,733 | 12,978 | 21,008 | 23,538 | 26,071 |
| Growth YoY (%) | 33 | (18) | 21 | 62 | 12 | 11 |
| **Consol. EBITDAM (%)** | **14.4** | **9.0** | **8.9** | **13.0** | **13.5** | **14.0** |
| | | | | | | |
| Consolidated adj. PAT | 2,935 | 1,976 | 3,246 | 8,197 | 10,796 | 12,727 |
| Growth YoY (%) | 19 | (33) | 64 | 153 | 32 | 18 |
| **Consolidated EPS (Rs)** | **11.9** | **8.0** | **13.2** | **33.3** | **43.8** | **51.7** |
| | | | | | | |
| Consolidated Net Debt | 38,425 | 50,447 | 46,054 | 45,370 | 42,449 | 37,536 |
| **Net debt/equity (x)** | **1.4** | **1.8** | **1.4** | **1.1** | **0.9** | **0.6** |
| | | | | | | |
| Capex | 2,623 | 3,792 | 5,340 | 8,000 | 8,500 | 8,500 |
| FCF | 15,673 | -8,572 | 5,323 | 6,819 | 9,078 | 10,931 |
| | | | | | | |
| **Pre-tax RoCE (%)** | **12.9** | **9.3** | **10.8** | **18.9** | **20.0** | **20.9** |

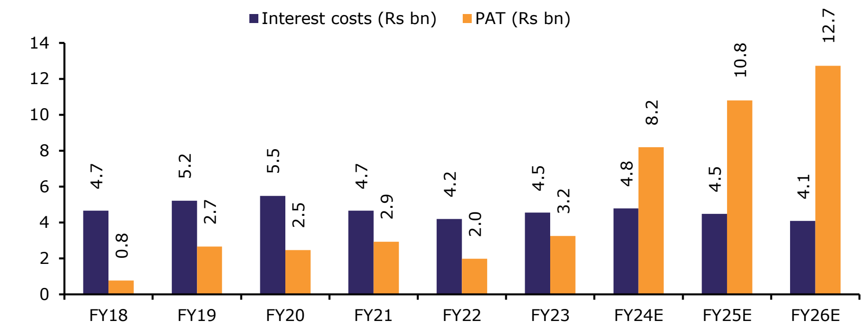
*Source: Company, Emkay Research*

**Exhibit 78: We expect ~8% consolidated revenue CAGR, and margins rising to 14% by FY26E vs. ~12.3% in Q1FY24**



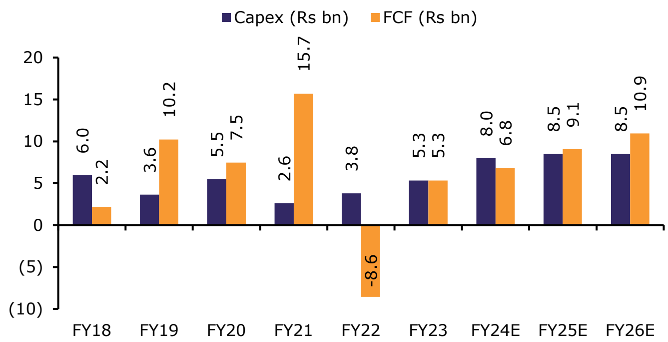

*Source: Company, Emkay Research*

**Exhibit 79: Backed by higher profitability and lower interest outgo, adjusted PAT to rise to Rs12.7bn**



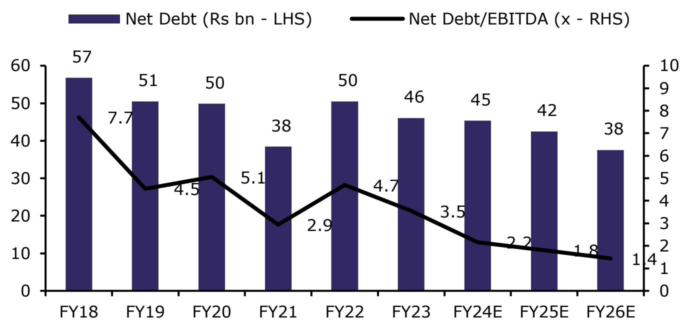

*Source: Company, Emkay Research*

**Exhibit 80: Higher profitability, controlled capex to drive FCF generation**



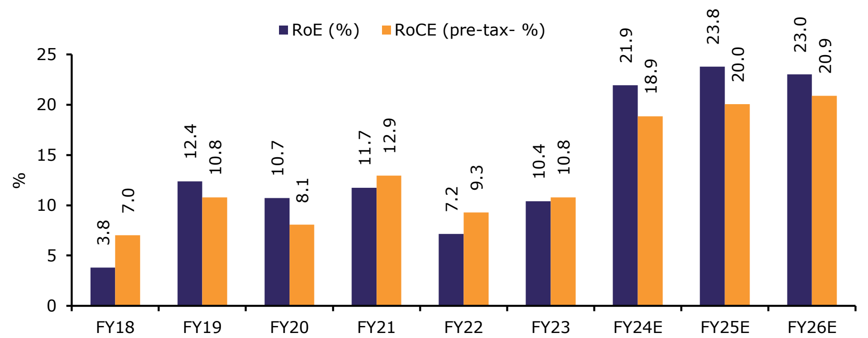

*Source: Company, Emkay Research*

**Exhibit 81: We expect net debt/EBITDA at ~1.4x in FY26E vs. ~3.5x in FY23 and ~4.7x in FY22**




*Source: Company, Emkay Research*

**Exhibit 82: Buoyed by all-round improvement, RoCE seen at ~21% in FY26E vs. ~11% in FY23**

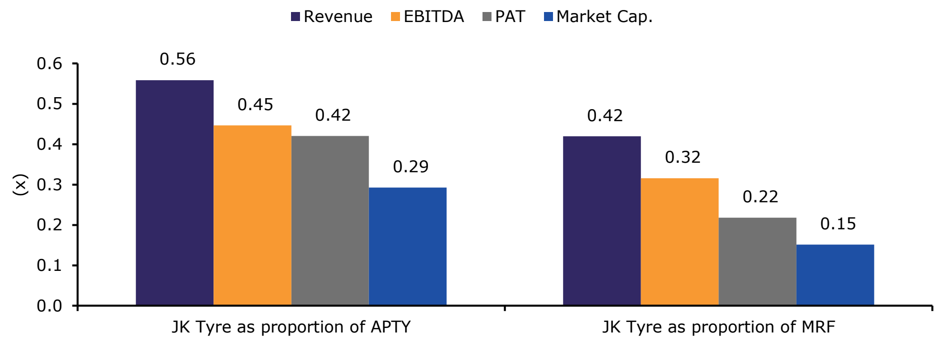



*Source: Company, Emkay Research*

# JKI's structural transformation to ensure valuation convergence with industry

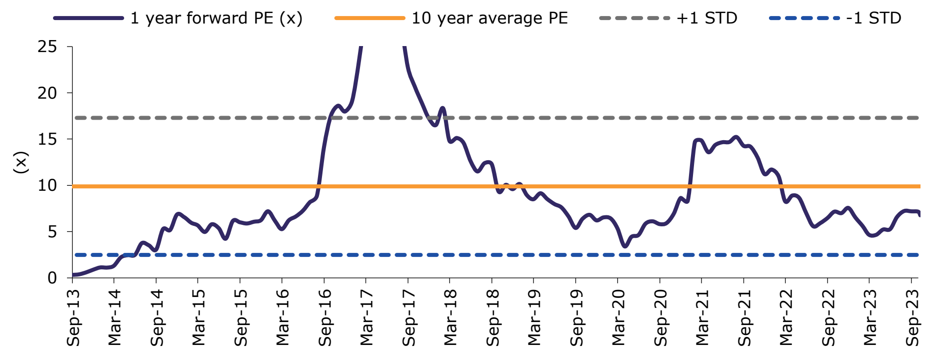
- JKI has enjoyed a strong run-up in stock price over the past 3 years (~4-5x vs. ~2-3x for competition), amid industry-wide improvements in demand (post-Covid), falling input prices (over the past year) and convergence of revenue performance with larger peers.
- We argue that with sustained benefit from improvements in structural transformation across growth, margin, BS and, consequently, return ratios yet to play out, the company's valuation should also converge further with larger peers, thereby driving substantial value creation from the shareholder point of view.

**Exhibit 83: JKI's gap with competition in valuation terms is much larger than that in performance terms**




*Source: Bloomberg, Emkay Research; Note: revenue, EBITDA, PAT based on FY18-23 average for standalone operations; market cap is current*

**Exhibit 84: JKI continues to trade below its LTA PER on 1-year forward basis**




*Source: Bloomberg, Emkay Research*

**Exhibit 85: Valuation comparison — Domestic and global peers**

| Company | Mcap (Rs bn) | Mcap (US$ bn) | CMP (Rs/share) | P/E (x) | | | EV/EBITDA (x) | | | FY23 -25E EPS CAGR (%) | ROE (%) | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | FY23 | FY24E | FY25E | FY23 | FY24E | FY25E | | FY23E | FY24E | FY25E |
| **Consensus estimates** | | | | | | | | | | | | | |
| Indian Companies | | | | | | | | | | | | | |
| APTY | 242 | 3 | 380 | 21.9 | 14.5 | 12.4 | 8.8 | 6.7 | 6.0 | 33 | 9 | 12 | 13 |
| BIL | 495 | 6 | 2,562 | 45.9 | 34.3 | 27.0 | NA | 21.5 | 17.3 | 30 | NA | 18 | 19 |
| MRF | 456 | 5 | 1,07,550 | 55.9 | 25.7 | 21.9 | 19.7 | 11.1 | 9.7 | 60 | 6 | 12 | 12 |
| Ceat | 86 | 1 | 2,125 | 46.2 | 15.4 | 14.0 | 11.1 | 7.1 | 6.5 | 82 | 6 | 15 | 15 |
| **JKI** | **70** | **1** | **267** | **20.3** | **8.0** | **6.5** | **8.6** | **5.3** | **4.8** | **82** | **10** | **22** | **24** |
| TVS Srichakra | 27 | 0 | 3,472 | 34.1 | NA | NA | 14.3 | NA | NA | NA | 8 | NA | NA |
| **Average** | | | | **37.4** | **19.6** | **16.4** | **12.5** | **10.4** | **8.8** | **57.3** | **7.7** | **15.6** | **16.6** |
| Global Companies | | | | | | | | | | | | | |
| Bridgestone | 2,323 | 28 | 39 | 11.9 | 10.8 | 10.2 | 5.5 | 5.1 | 4.6 | 8 | 11 | 12 | 12 |
| Goodyear | 282 | 3 | 12 | 16.9 | NA | 8.7 | 5.1 | NA | 4.8 | 39 | 4 | NA | 6 |
| Michelin | 1,830 | 22 | 31 | 10.4 | 9.1 | 8.8 | 5.2 | 4.5 | 4.2 | 9 | 12 | 13 | 12 |
| **Average** | | | | **13.0** | **9.9** | **9.2** | **5.2** | **4.8** | **4.5** | **18.7** | **9.0** | **12.3** | **10.0** |

*Source: Bloomberg, Emkay Research; Note: Bloomberg consensus estimates, except for APTY and JKI*

**Exhibit 86: We initiate coverage on JKI with a BUY recommendation and 1-year TP of Rs415/share (~55% upside); we believe JKI 's stock price can potentially double in 3 years**

| Rs mn | 1 Yr - potential upside | 3 Yr - potential upside |
|---|---|---|
| FY25E adj. PAT | 10,796 | NA |
| FY27E adj. PAT | NA | 13,574 |
| Target PER multiple (x) | 10.0 | 12.0 |
| Comment | In line with LTA | 20% above LTA PER |
| Target Market Cap | 1,07,962 | 1,62,883 |
| No. of shares (mn) | 261 | 261 |
| **Target price (Rs)** | **415** | **625** |
| CMP | 267 | 267 |
| **Potential upside (%)** | **55** | **134** |

*Source: Emkay Research*

# Key risks and concerns

- **Delay in deleveraging cycle; resumption of large-ticket greenfield capex programs –** JKI plans to reduce long-term debt by 25% till FY26; we believe this would play a key role in substantially improving its profitability and return ratios and, in turn, driving valuation convergence with competition (average Debt/Equity over FY13-23 for the industry is ~0.7x vs. ~2x for JKI). We believe the company's current thrust on deleveraging is aided by its preference for brownfield/de-bottlenecking capacity expansions, which entail lower cost outgo and quicker payback. Any change in this preference towards large-ticket greenfield expansions/delay in the deleveraging exercise would pose significant risk to our investment thesis on JKI.

- **Relaxation of import restrictions –** While tyre imports for certain categories (including TBR, PCR) continue to be restricted, the Government—considering the overall growth of the industry—has recently issued fresh guidelines for tyre companies, committing to invest in India for greenfield or brownfield projects related to tyres falling under the Restricted List. While specific details are not unavailable yet, this could imply increased competition for domestic players, including JKI. We note, however, that as per our industry interactions, any relaxation is expected to be limited to ~10-20% of earlier allowed limits (imports formed ~13% of TBR, PCR consumption in FY18). Moreover, as per channel checks, we note that pricing difference vs. Chinese imports has now narrowed to ~10% vs. ~25-30% earlier.

- **Sustained, sharp increases in commodity prices –** While the industry has largely countered RM inflation over FY21-H1FY23, companies may not be able to fully pass-on a sustained, sharp increase in commodities like crude oil and rubber from current levels, thereby posing a threat to profitability as a whole and our margin estimates for JKI.

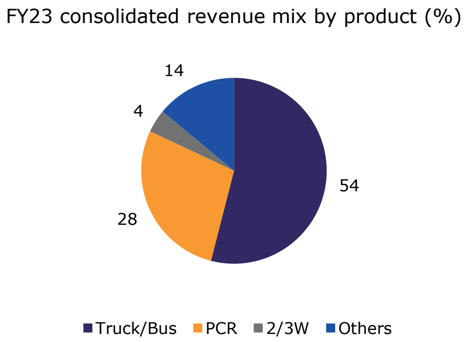
- **Prolonged slowdown in OEM and exports –** While domestic replacement demand is expected to be reasonably healthy over the medium term, any prolonged slowdown in 4W (CV, PV) channels or in exports would pose a downside risk to our growth estimates for the company (especially in the case of TBR, where JKI particularly enjoys strong positioning).

- **Adverse outcome of the CCI order –** The Competition Commission of India (CCI) in Feb-2022 published an order for alleged contravention of Section 3 of the Competition Act, 2002 against JKI and certain other domestic tyre manufacturing companies, and had imposed a penalty of ~Rs3.1bn on the company. JKI filed an appeal to the National Company Law Appellate Tribunal (NCLAT) against the said CCI order. The NCLAT, through an order dated in Dec-2022, has disposed of the aforementioned appeals, after taking note of the multiple errors in the CCI Order and remanded the matter back to the CCl, to re-examine the matter on merits and to consider reviewing the penalty (if violation is established) in accordance with the provisions of the Competition Act. The CCI has filed an appeal against the NCLAT order; however, no notice has been received by JKI till date; based on legal advice, it continues to believe that it has a strong case and, accordingly, no provision has been made in the accounts. JKI has mentioned that there has been no wrongdoing on the part of the company and that it never indulged in or was part of any cartel or undertook any anti-competitive practices.

# Annexure 1 – Company background

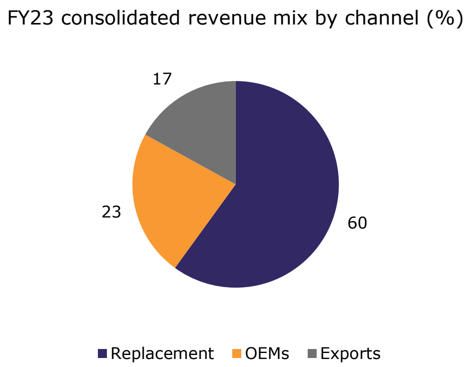
JK Tyre is the flagship company of the JK Group, and is headed by Dr. Raghupati Singhania as its Chairman and Managing Director. It is one of the leading tyre manufacturers in India and among the top-25 globally, with a wide range of products catering to diverse business segments including, truck/bus, light commercial vehicle (LCV), passenger car, multi-utility vehicle (MUV) and tractor. As of FY23, the company has an extensive dealer/distributor network (>6,000) with presence in over 100 countries; JKI has a consolidated manufacturing capacity of 33mn tyres/622k MT a year, spanning nine plants in India and three in Mexico, with a global workforce of more than 10,000 people.

**Exhibit 87: CVs and PVs combined form ~82% of the consolidated revenue mix**



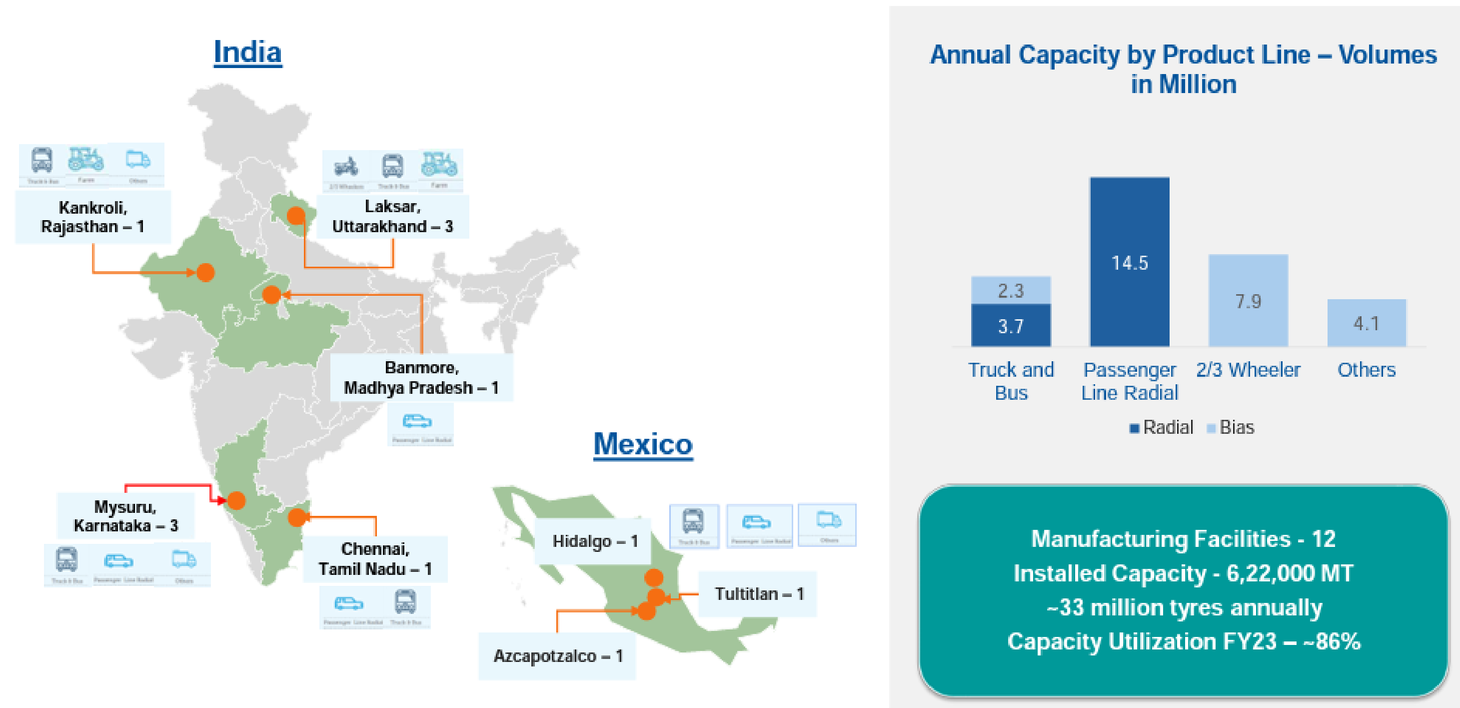

*Source: Company, Emkay Research*

**Exhibit 88: Consolidated revenue mix by channel**



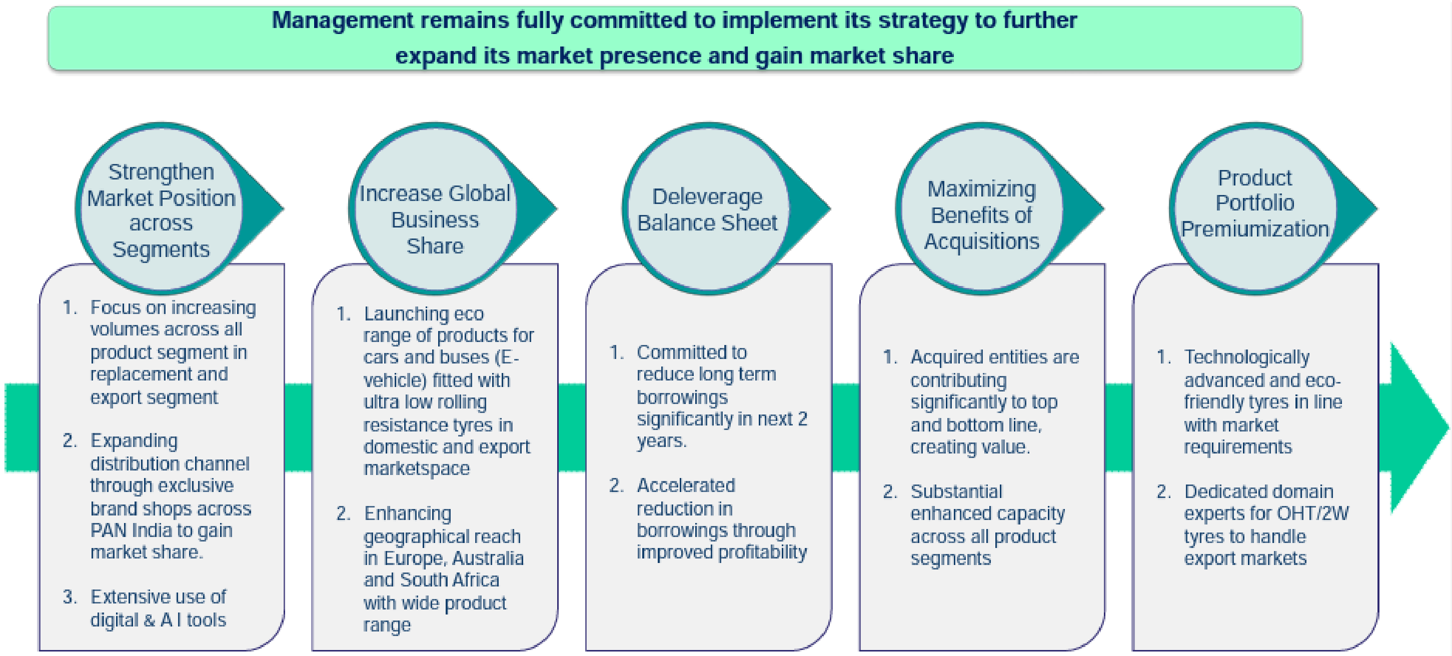

*Source: Company, Emkay Research*

**Exhibit 89: Manufacturing presence of JK Tyres**




*Source: Company*

**Exhibit 90: Strategic priorities**




*Source: Company*

**Exhibit 91: Key customers across product categories**


*Source: Company*

# Annexure 2 – Subsidiaries (Cavendish Industries, JK Tornel)

## Cavendish Industries

JKI acquired Cavendish Industries from Kesoram Industries in FY17 at an EV of ~Rs21.7bn, significantly expanding its production capacities in TBR and 2/3W. Presently Cavendish is a ~87.5% subsidiary of JKI, with the remaining shareholding held by Valiant Pacific LLC (in which JKI holds 49% stake). As of FY21, key OEM customers included HMCL, BJAUT, M&M (farm division) and other 2/3W players, incl. EVs. Since acquisition, installed capacity at Cavendish has risen from ~155MT/day to ~530MT/day, largely attributable to the 30k MT/year addition in TBR capacity in FY19 and FY20. Currently, the company is undertaking expansion of ~300k tyres/year at Cavendish, at a cost of ~Rs2.6bn.

**Exhibit 92: Operational performance at Cavendish over the years**

| (Rs mn) | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|
| Revenue | 23,160 | 22,210 | 25,644 | 29,824 | 38,641 |
| *Growth YoY (%)* | *38* | *-4* | *15* | *16* | *30* |
| EBITDA | 2,620 | 2,590 | 3,915 | 1,792 | 2,868 |
| *EBITDA margin (%)* | *11.3* | *11.7* | *15.3* | *6.0* | *7.4* |
| Net debt/EBITDA (x) | 6.9 | 7.0 | 4.9 | 11.1 | 6.6 |

*Source: Company, Capitaline, Emkay Research*

In FY23, Cavendish recorded its highest-ever turnover, of ~Rs38.7bn (up ~29% YoY). Production was also at an all-time high across product categories. The company enhanced its presence in the EV 2/3 wheeler market by launching several new products. We believe that the domestic 2W industry recovery (ongoing and accelerating) would help improve operational performance at Cavendish going forward.

## JK Tornel, Mexico

JK Tornel (wholly-owned subsidiary) covers JKI's Mexican operations (3 plants with annual production capacity of ~7.9mn units). Tornel was acquired by JKI in 2008. It presently dominates the Mexican market, supplying to the largest mass merchandisers and commanding a leadership position in passenger car radials. It also provides value-added services to farm OEM clients in USA.

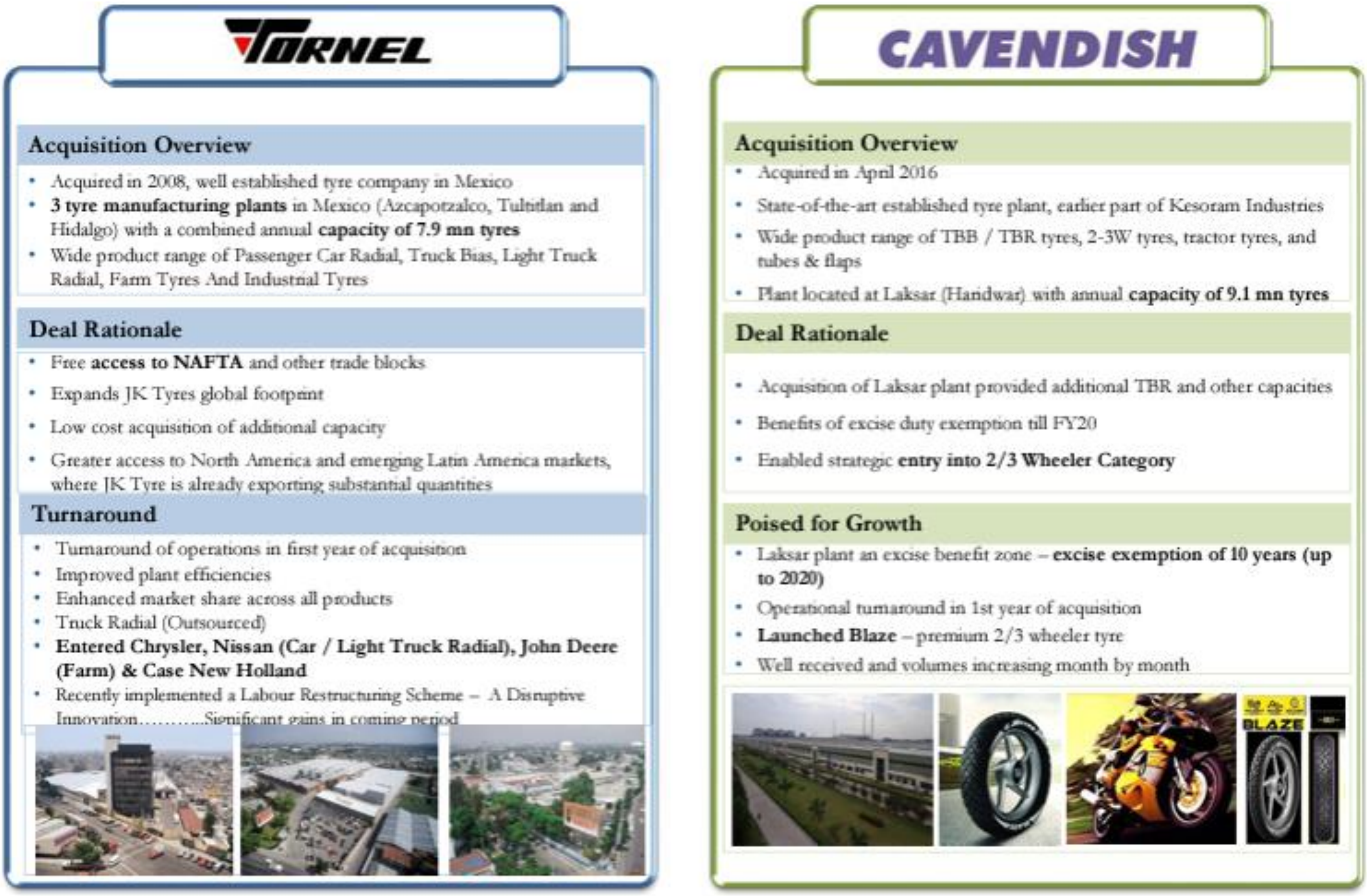
**Exhibit 93: Performance at JKI's Mexico operations (JK Tornel) over the years**

| (Rs mn) | FY19 | FY20 | FY21 | FY22 | FY23 |
|---|---|---|---|---|---|
| Revenue | 13,085 | 11,911 | 11,335 | 21,191 | 26,727 |
| *Growth YoY (%)* | | *-9* | *-5* | *87* | *26* |
| EBIT | 778 | 353 | 257 | 1,421 | 1,608 |
| *EBIT margin (%)* | *5.9* | *3.0* | *2.3* | *6.7* | *6.0* |

*Source: Company, Emkay Research*

In FY23, JK Tornel achieved turnover of ~Rs26.7bn, registering growth of 26% YoY. EBITDA stood at ~Rs2,150mn (~8% margins) vs. ~Rs.1,870mn in FY22 (~8.8% margins), amid headwinds in US and Latin American markets (de-stocking at distributor level partly due to pass-through of reduction in ocean freight rates).

**Exhibit 94: JKI's acquisition history**




*Source: Company; Note: Jan-2020 presentation*

## Annexure 3 – Sustainability initiatives

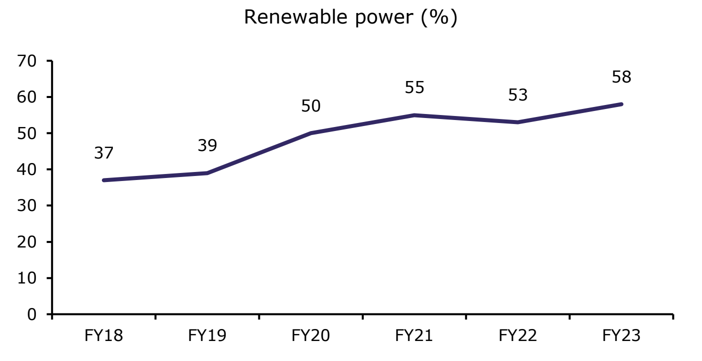
- JKI's vision statement (*To be a green and trusted mobility partner*) reflects its commitment to grow in a sustainable/responsible manner. The company aspires to reduce carbon intensity by 2030 and achieve carbon neutrality by 2050. To this end, efforts are underway in focus areas like water conservation, energy consumption, emission reduction, sustainable materials and waste generation, etc, with significant progress achieved across various metrics over the years.
- In terms of product development, the company has introduced a 'Green Sustainable' product line ('Green tyres') sourced from 80% sustainable materials. Such materials include natural rubber, bio-attributed SBR and BR, bio-based oil, recycled rubber powder, recovered carbonaceous black, recycled polyester, and steel wire. The product line is now ready for deployment for OEMs as well as retail customers.
- The company has garnered a score of 75 out of 100 for its ESG performance from CareEdge, vs. the industry's average score of 65.

**Exhibit 95: JKI has undertaken several sustainability-related initiatives in key focus areas**

| Parameter | Measure | | Comments |
|---|---|---|---|
| GHG emission intensity | GJ/ton of finished product | - | **Focus on use of green and clean energy has resulted in reduction in JKI's GHG emissions by ~61.5% over the past 9 years** |
| | | - | Installed solar panels throughout the manufacturing units |
| | | - | Undertaken initiatives like adapting boilers for biomass compatibility, substituting coal usage, increasing reliance on renewable electricity, implementing nitrogen-based curing and LPG substitution |
| | | - | **Renewable sources contribute 58% to power consumption** |
| Energy intensity | Eq. $CO_2$ | - | Reduced energy intensity by 31% over the past 9 years |
| | | - | Globally ranked among the top-3 companies, in terms of lowest energy consumption |
| Specific raw water intensity | KL/tone | - | Actively engaging in activities like harvesting pits, trenching, de-silting |
| | | - | **Is a global benchmark for lowest water intensity, surpassing all competition** |
| Specific power consumption | KwH/kg | - | Achieved significant reduction in power consumption; lowest level till date |

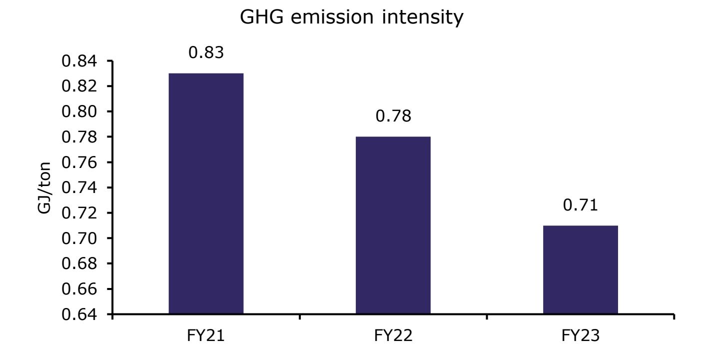
*Source: Company, Emkay Research*

**Exhibit 96: Share of renewables in power consumption has risen to 58% in FY23**



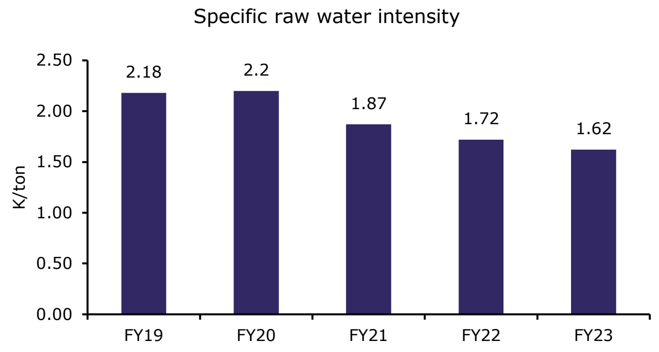

*Source: Company, Emkay Research*

**Exhibit 97: Almost 62% reduction in greenhouse gas (GHG) emissions in the past 9 years**



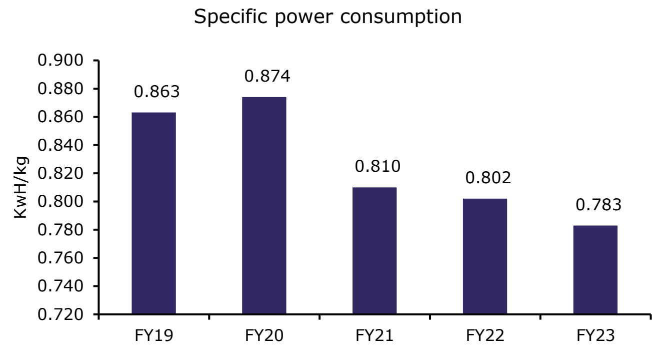

*Source: Company, Emkay Research*

**Exhibit 98: Lowest specific raw-water intensity globally**




*Source: Company, Emkay Research*

**Exhibit 99: Sharp decrease in specific power consumption**




*Source: Company, Emkay Research*

**Exhibit 100: Performance progress on selected ESG metrics**

| Focus Area | Metric | Base value of index (FY21) | FY22 | FY23 |
|---|---|---|---|---|
| Water conservation | kl storage capacity created | 100 | 200 | 469 |
| Water conservation | Raw water consumption intensity (kl/ton) | 100 | 106 | 118 |
| Energy consumption | Total energy consumption intensity (GJ/ton) | 100 | 102 | 106 |
| Climate action | GHG emission intensity (Scope 1 and Scope 2, $tCO_2e$/ton) | 100 | 107 | 117 |
| Climate action | % of renewable power usage of total power | 100 | 97 | 105 |
| Climate action | % of biomass usage of total fuel | 100 | 206 | 254 |
| Sustainable product material consumption | % use of renewable materials | 100 | 98 | 115 |
| Sustainable product material consumption | % use of fossil-based materials | 100 | 101 | 101 |
| Product efficiency | % weight reduction (passenger tyres) | 100 | 100 | 107 |
| Product efficiency | % weight reduction (TBR) | 100 | 100 | 100 |
| Product efficiency | % improvement in rolling resistance (passenger tyres) | 100 | 108 | 117 |
| Product efficiency | % improvement in rolling resistance (TBR) | 100 | 100 | 118 |
| Waste generation | % of process waste to finished product (Radial) | 100 | 84 | 73 |

*Source: Company, Emkay Research*

**Exhibit 101: Performance progress on selected ESG metrics**


*Source: Company*

# JK Tyre: Consolidated Financials and Valuations

**Profit & Loss**

| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| **Revenue** | **1,19,830** | **1,46,449** | **1,61,597** | **1,74,353** | **1,86,218** |
| Revenue growth (%) | 31.6 | 22.2 | 10.3 | 7.9 | 6.8 |
| **EBITDA** | **10,733** | **12,978** | **21,008** | **23,538** | **26,071** |
| EBITDA growth (%) | (17.8) | 20.9 | 61.9 | 12.0 | 10.8 |
| Depreciation & Amortization | 3,854 | 4,071 | 4,524 | 4,845 | 5,180 |
| **EBIT** | **6,879** | **8,907** | **16,484** | **18,693** | **20,891** |
| EBIT growth (%) | (25.2) | 29.5 | 85.1 | 13.4 | 11.8 |
| Other operating income | 0 | 0 | 0 | 0 | 0 |
| Other income | 366 | 365 | 383 | 403 | 423 |
| Financial expense | 4,191 | 4,545 | 4,785 | 4,479 | 4,085 |
| **PBT** | **3,054** | **4,728** | **12,082** | **14,617** | **17,228** |
| Extraordinary items | (36) | 615 | 0 | 0 | 0 |
| Taxes | 1,087 | 1,465 | 3,866 | 3,800 | 4,479 |
| Minority interest | (9) | 17 | 19 | 20 | 21 |
| Income from JV/Associates | 0 | 0 | 0 | 0 | 0 |
| **Reported PAT** | **2,012** | **2,630** | **8,197** | **10,796** | **12,727** |
| PAT growth (%) | (39.2) | 30.7 | 211.6 | 31.7 | 17.9 |
| **Adjusted PAT** | **1,976** | **3,246** | **8,197** | **10,796** | **12,727** |
| **Diluted EPS (Rs)** | **8.0** | **13.2** | **33.3** | **41.4** | **48.8** |
| Diluted EPS growth (%) | (39.2) | 30.7 | 211.6 | 24.4 | 17.9 |
| **DPS (Rs)** | **1.5** | **2.0** | **5.5** | **6.4** | **7.4** |
| **Dividend payout (%)** | **18.4** | **18.7** | **16.5** | **15.5** | **15.2** |
| EBITDA margin (%) | 9.0 | 8.9 | 13.0 | 13.5 | 14.0 |
| EBIT margin (%) | 5.7 | 6.1 | 10.2 | 10.7 | 11.2 |
| Effective tax rate (%) | 35.6 | 31.0 | 32.0 | 26.0 | 26.0 |
| **NOPLAT (pre-IndAS)** | **4,431** | **6,147** | **11,209** | **13,832** | **15,459** |
| Shares outstanding (mn) | 246.3 | 246.3 | 246.3 | 260.8 | 260.8 |

*Source: Company, Emkay Research*

**Balance Sheet**

| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| Share capital | 493 | 493 | 493 | 493 | 493 |
| Reserves & Surplus | 27,991 | 33,469 | 40,316 | 49,434 | 60,229 |
| **Net worth** | **28,483** | **33,962** | **40,808** | **49,926** | **60,721** |
| Minority interests | 992 | 997 | 997 | 997 | 997 |
| Deferred tax liability (net) | 3,182 | 3,211 | 3,211 | 3,211 | 3,211 |
| **Total debt** | **52,204** | **48,824** | **46,875** | **44,524** | **40,591** |
| **Total liabilities & equity** | **84,861** | **86,993** | **91,891** | **98,658** | **1,05,520** |
| Net tangible fixed assets | 61,980 | 62,088 | 64,593 | 68,065 | 71,386 |
| Net intangible assets | 2,254 | 2,528 | 2,528 | 2,528 | 2,528 |
| Net ROU assets | 0 | 0 | 0 | 0 | 0 |
| Capital WIP | 1,062 | 1,950 | 2,921 | 3,103 | 3,103 |
| Goodwill | 0 | 0 | 0 | 0 | 0 |
| Investments [JV/Associates] | 1,384 | 1,383 | 1,383 | 1,383 | 1,383 |
| **Cash & equivalents** | **1,757** | **2,770** | **1,504** | **2,074** | **3,055** |
| Current assets (ex-cash) | 53,171 | 52,672 | 58,120 | 63,186 | 67,996 |
| Current Liab. & Prov. | 36,747 | 36,397 | 39,159 | 41,682 | 43,930 |
| **NWC (ex-cash)** | **16,424** | **16,275** | **18,961** | **21,504** | **24,065** |
| **Total assets** | **84,861** | **86,993** | **91,891** | **98,658** | **1,05,520** |
| Net debt | 50,447 | 46,054 | 45,370 | 42,449 | 37,536 |
| Capital employed | 84,861 | 86,993 | 91,891 | 98,658 | 1,05,520 |
| **Invested capital** | **80,658** | **80,890** | **86,082** | **92,097** | **97,978** |
| BVPS (Rs) | 115.7 | 137.9 | 165.7 | 191.5 | 232.9 |
| Net Debt/Equity (x) | 1.8 | 1.4 | 1.1 | 0.9 | 0.6 |
| Net Debt/EBITDA (x) | 4.7 | 3.5 | 2.2 | 1.8 | 1.4 |
| Interest coverage (x) | 0.6 | 0.5 | 0.3 | 0.2 | 0.2 |
| **RoCE (%)** | **9.3** | **10.8** | **18.9** | **20.0** | **20.9** |

*Source: Company, Emkay Research*

**Cash flows**

| Y/E Mar (Rs mn) | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| PBT | 3,054 | 4,728 | 12,082 | 14,617 | 17,228 |
| Others (non-cash items) | 8,045 | 8,616 | 9,309 | 9,324 | 9,265 |
| Taxes paid | (1,602) | (1,598) | (3,866) | (3,800) | (4,479) |
| Change in NWC | (14,322) | (450) | (2,687) | (2,542) | (2,561) |
| **Operating cash flow** | **(4,780)** | **10,663** | **14,819** | **17,578** | **19,431** |
| Capital expenditure | (3,792) | (5,340) | (8,000) | (8,500) | (8,500) |
| Acquisition of business | 144 | (111) | 0 | 0 | 0 |
| Interest & dividend income | 275 | 156 | 0 | 0 | 0 |
| **Investing cash flow** | **(3,648)** | **(5,451)** | **(8,000)** | **(8,500)** | **(8,500)** |
| Equity raised/(repaid) | 0 | 0 | 0 | 0 | 0 |
| Debt raised/(repaid) | 12,041 | (3,380) | (1,949) | (2,351) | (3,933) |
| Payment of lease liabilities | 508 | 433 | 0 | 0 | 0 |
| Interest paid | (4,191) | (4,545) | (4,785) | (4,479) | (4,085) |
| Dividend paid (incl tax) | (594) | (445) | (1,351) | (1,678) | (1,933) |
| Others | 1,190 | 4,060 | 0 | 0 | 0 |
| **Financing cash flow** | **8,446** | **(4,311)** | **(8,084)** | **(8,508)** | **(9,951)** |
| Net chg in Cash | 18 | 901 | (1,265) | 570 | 980 |
| OCF | (4,780) | 10,663 | 14,819 | 17,578 | 19,431 |
| Adj. OCF (w/o NWC chg.) | 9,542 | 11,113 | 17,506 | 20,120 | 21,993 |
| FCFF | (8,572) | 5,323 | 6,819 | 9,078 | 10,931 |
| FCFE | (12,488) | 933 | 2,034 | 4,599 | 6,846 |
| OCF/EBITDA (%) | (44.5) | 82.2 | 70.5 | 74.7 | 74.5 |
| FCFE/PAT (%) | (620.6) | 35.5 | 24.8 | 42.6 | 53.8 |
| **FCFF/NOPLAT (%)** | **(193.5)** | **86.6** | **60.8** | **65.6** | **70.7** |

*Source: Company, Emkay Research*

**Valuations and key Ratios**

| Y/E Mar | FY22 | FY23 | FY24E | FY25E | FY26E |
|---|---|---|---|---|---|
| P/E (x) | 33.3 | 20.3 | 8.0 | 6.5 | 5.5 |
| P/CE(x) | 11.3 | 9.0 | 5.2 | 4.5 | 3.9 |
| P/B (x) | 2.3 | 1.9 | 1.6 | 1.4 | 1.1 |
| EV/Sales (x) | 1.0 | 0.8 | 0.7 | 0.6 | 0.6 |
| EV/EBITDA (x) | 10.8 | 8.6 | 5.3 | 4.8 | 4.1 |
| EV/EBIT(x) | 16.9 | 12.6 | 6.7 | 6.0 | 5.1 |
| EV/IC (x) | 1.4 | 1.4 | 1.3 | 1.2 | 1.1 |
| FCFF yield (%) | (7.4) | 4.8 | 6.1 | 8.1 | 10.2 |
| FCFE yield (%) | (19.0) | 1.4 | 3.1 | 6.6 | 9.8 |
| Dividend yield (%) | 0.6 | 0.7 | 2.1 | 2.4 | 2.8 |
| **DuPont-RoE split** | | | | | |
| Net profit margin (%) | 1.6 | 2.2 | 5.1 | 6.2 | 6.8 |
| Total asset turnover (x) | 1.5 | 1.7 | 1.8 | 1.8 | 1.8 |
| Assets/Equity (x) | 2.8 | 2.8 | 2.4 | 2.1 | 1.8 |
| **RoE (%)** | **7.2** | **10.4** | **21.9** | **23.8** | **23.0** |
| **DuPont-RoIC** | | | | | |
| NOPLAT margin (%) | 3.7 | 4.2 | 6.9 | 7.9 | 8.3 |
| IC turnover (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **RoIC (%)** | **6.1** | **7.6** | **13.4** | **15.5** | **16.3** |
| **Operating metrics** | | | | | |
| Core NWC days | 50.0 | 40.6 | 42.8 | 45.0 | 47.2 |
| **Total NWC days** | **50.0** | **40.6** | **42.8** | **45.0** | **47.2** |
| Fixed asset turnover | 1.2 | 1.4 | 1.4 | 1.4 | 1.4 |
| Opex-to-revenue (%) | 24.0 | 22.8 | 24.5 | 24.2 | 23.8 |

*Source: Company, Emkay Research*

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