JK Tyre and Industries Limited (Revised)

September 12, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	3,183.44	CARE A+; Stable	Revised from CARE A; Stable
Long-term / Short-term bank facilities	855.00	CARE A+; Stable / CARE A1	Revised from CARE A; Stable / CARE A1
Short-term bank facilities	1,170.00	CARE A1	Reaffirmed
Long-term / Short-term LT/ST instrument	140.00	CARE A+; Stable / CARE A1	Revised from CARE A; Stable / CARE A1

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The revision in the ratings for the bank facilities and instruments of JK Tyre and Industries Limited (JKTI) takes into account the improved operational and financial performances of the company in FY23 (refers to the period from April 1 to March 31) as characterised by increasing scale of operations, better working capital management and improved leverage and coverage indicators, which is expected to sustain going forward as well. During FY23, the consolidated revenue witnessed a growth of 23% resulting in compounded annual growth rate (CAGR) growth of 10% over past 6 years. On the operating profitability front, the company has registered a marginal improvement in the PBILDT margin in FY23 to 9.09% from 8.95%, but the margins improved substantially in Q1FY24 to 12.29% at a consolidated level. The moderation in prices of raw materials along with the company's focus on increasing share of premium SKUs in the sales mix, increasing share in passenger car market, improving scale and capacity utilisation is likely to aid enhancement in the profitability of the company in FY24. The upgrade in the ratings factors the improvement in adjusted overall gearing (including LC acceptances and dealer deposits) which has triggered the positive rating sensitivity of overall gearing ratio less than 2.00x on a sustained basis. It also factors in the improved net leverage (net debt including LC acceptances and dealer deposits to PBILDT) position of JKTI in FY23 to 4.21x and is expected to improve further to below 3x by end of FY24. This shall be aided by sequential improvement in operating profitability, effective working capital management and lower capex intensity vis-à-vis earlier years. Furthermore, JKTI raised equity in FY23 which also positively impacted the capital structure. The debt levels are expected to peak in FY24 as the planned truck and bus radial (TBR) and passenger car radial (PCR) capacity expansion is completed by March 31, 2024, or early Q1FY25.

The ratings also factor in its strong position in the domestic tyre industry characterised by established market position in the TBR segment, with presence across all the user segments and its wide marketing and distribution network. CARE ratings expects the robust passenger vehicle demand is expected to drive the volume growth in FY24 followed by commercial vehicles and 2/3-wheelers.

The ratings are, however, constrained by volatility in raw material prices, exposure to foreign currency fluctuation risks, and competitive nature of the industry. Any cost overruns in the announced capacity expansion plans by JKTI, delays in deriving the likely benefits and/or a sharp rise in the raw material prices, increase in import of Chinese tyres and slower-than-expected de-leveraging could lead to deterioration in the credit metrics which remains a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- The ability of the company to sustain or increase its scale of operations with PBILDT margins of 14% or more on a sustained basis.
- The ability to improve the capital structure and net leverage such that net total debt (including acceptances and dealer deposits) to PBILDT is below 2.5x on a sustained basis.

Negative factors

- Decline in the profitability as marked by PBILDT margin below approximately 10% on a sustained basis.
- Any increase in debt (other than envisaged) due to capex or higher working capital requirement leading to deterioration in the net total debt (including acceptances and dealer deposits) to PBILDT of over 3.5x on a sustained basis.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Analytical approach: Consolidated
Consolidated; owing to strong operational and strategic linkages with its subsidiaries (Cavendish Industries Ltd and JKTSA). The entities are in the same line of business, sell under common brands and have common management and control. The entities considered in consolidation are mentioned in Annexure-6 below.

Outlook: Stable
Stable outlook for JKTI reflects its likelihood to maintain its market position which coupled with healthy demand scenario and improving profitability for tyre players shall enable it to sustain healthy operating and financial performance over the medium term.

Detailed description of the key rating drivers:

Key strengths

Robust volume growth and improved realisation aid strong topline growth
During FY23, the company witnessed robust demand for passenger and commercial vehicles. The sales volume for 2/3-wheeler tyres witnessed the highest growth amongst all the segments at 15% which was followed by PCR and TBR achieving 11% growth. However, truck and bus bias and non-truck bias segment each witnessed a 4% volume degrowth thereby leading to a volume growth of 14% on a consolidated basis.

During FY23, the demand from replacement market was stable but the share of original equipment manufacturers (OEMs) in the sales mix improved as the OEMs witnessed a pent-up demand, as the supply constraints eased up. Also, on the export front, the Y-o-Y growth was flat on account of dampened Q4 leading to improved share of OEM and replacement in overall sales mix. JKTI ranks amongst the first four domestic tyre manufacturing companies on the basis of overall revenue share and has presence across majority of all the tyre segments. CARE Ratings notes that JKTI is a market leader in the truck and bus tyre segment and is gaining market share in the truck and bus and PCR tyre segment.

During FY23, the revenue from operations (consolidated) of the company witnessed a jump of 23% and stood at ₹14,681 crore as compared with ₹11,983 crore in FY22. The growth in the revenue was driven by a volume growth of 14% and balance was on account of improved realisation. Overall capacity utilisation was at around 84% on a consolidated level, 87% for India operations, JK Tyre was standalone 88% and Cavendish Industries Limited (CIL) was at 85%. However, the profitability improved only marginally as overall raw material prices increased by 9% which the company was able to offset partially by resorting to price hike of 11%.

In Q1FY24, the revenue from operations witnessed a growth of 2% on quarterly basis and 2% on a Y-o-Y basis.

Going forward, CARE Ratings expects the PCR tyres to grow by 10-12% in FY24 and CV tyres to grow by 6%-7% in FY24, as Q1FY24 was dampened on account of pre buying in Q4FY23 pursuant to the transition to OBD-2 emission norms. Moreover, the emerging demand scenario is expected to be quite robust in the commercial vehicle segment and is likely to grow going forward as well at a steady pace on the back of higher government infrastructure spending and increased vehicle penetration due to last mile connectivity emanating from improved economic outlook.

Improved profitability in FY23 with further improvement likely in FY24 and expected to sustain in medium term
During FY23, the prices of crude derivatives, namely, carbon back which constitutes 15% of total raw material cost increased by 22% on a Y-o-Y basis mainly due to the onset of Russi-Ukraine conflict in March 2022. Furthermore, chemicals used in the manufacturing process, which also constitutes 15% of the total raw material cost also increased by 27% on a Y-o-Y basis. However, the prices of natural rubber, which forms 35% of the total raw material cost decreased by 4% on a Y-o-Y basis and other raw materials witnessed price increase in the range of 2%-22%. However, in H2FY23, the prices of raw material started cooling off which was also reflected in the improved margins of the company. The margins for Q3FY23 and Q4FY23 was higher than the margins in H1FY23, as the company started using low cost raw materials with a lag and same stood at 9.39% and 10.35% compared with 7.91% in Q2FY23. Despite the increase in raw material prices, the company was able to largely maintain its PBILDT margin and improve the same marginally with its focus on improving operational efficiency, effectively managing working capital cycle and improving capacity utilisation. Accordingly, on a full year basis, the PBILDT margin stood at 9.09% (₹1,334 crore) compared with 8.95% (₹1,073 crore) in FY22. CARE Ratings expects the operating profit margin for full year FY24 to improve and shall stay higher than the margins reported in Q1FY24 on account of benefits of operating leverage and continuous efforts of the management towards premiumization of the portfolio and less volatility in input prices.

Improving leverage and further improvement expected in FY24

CARE Ratings notes that during FY23, the leverage and solvency indicators of the company has improved owing to the improved profitability of the company and reduction in term debt and further improvement is expected in FY24.

The consolidated gross debt of the company stood at ₹5,876 crore (including LC acceptance of ₹248 crore and dealer deposits of ₹746 crore) compared with ₹6,330 crore (including LC acceptance of ₹474 crore and dealer deposits of ₹636 crore). The reduction is on mainly account reduction in long term debt to the extent of ₹235 crore and reduction in LC acceptances by ₹226 crore. The term debt reduced from ₹3,176 crore (including fixed deposit and leases) in FY22 to ₹2,941 crore (including fixed deposit and leases). However, the reduction term debt has been offset to an extent as the company has replaced ₹143 crore of short-term debt at JK Tornel from India with long-term debt from local Mexican banks and owing to the unfavourable foreign exchange fluctuation there has been an increase to the extent of ₹76 crore.

The net total debt (including LC acceptance and dealer deposits) to PBILDT ratio for FY23 stood at 4.21x compared with 5.9x in FY22.

Given the announced capex is majorly scheduled to be completed in FY24, the debt levels are to remain flat on absolute level in FY24 and thereafter reduce by ₹400 crore – ₹500 crore each year. CARE Ratings expects the leverage ratios to improve further in FY24 as the profitability for FY24 improves. For FY24, the net debt to PBILDT is expected at below 3x, and for FY25 the same is expected to remain below 2.5x.

However, any delay in implementing the projects, higher-than-expected debt, substantial increase in raw material prices, and increased competition from imports or cost overruns shall adversely affect the leverage/credit profile of the company and shall remain a key monitorable.

Sustained improvement in working capital cycle

Over the years, the company has improved its working capital cycle and working capital requirement owing to significant efforts taken by the management. The net operating cycle has come down from 85 days in FY20 to 60 days in FY23. Furthermore, working capital (working capital borrowings + acceptances + dealer deposits) as a percentage of topline has also reduced from 30% in FY20 to 20% in FY23 despite the significant increase in topline which reflects the control exercised on the receivables and inventory cycle on account of the management's initiatives to rationalise inventory holding.

Reduced capex intensity

The company has planned capex of ₹790 crore consisting of PCR capacity expansion by 16.06 lakh tyres p.a. requiring capital outlay of ₹530 crore and TBR capacity expansion by 3.42 lakh tyres p.a. requiring an outlay of ₹260 crore. The PCR capacity expansion project shall be undertaken in JKTI, while the TBR capacity expansion shall be undertaken in CIL. The company's targeted debt: equity ratio for these projects is 1.5:1 for PCR project and 2.13:1 for the TBR project. For the PCR project, the company has also received infusion from IFC of ₹240 crore, which shall release the internal accruals for reducing the debt of the company. Given the increasing scale of the company, capex as a percentage of topline has reduced compared to the past. This provides comfort about the management's capacity to execute the planned projects without increasing the leverage as experienced in the past. Timely completion of the announced projects, cost overruns, and robust demand to absorb the additional production shall remain key monitorable.

Diversified product portfolio and wide distribution network

The customer-wise revenue mix of JKIT on a consolidated basis is OEM: replacement: export at 23%: 60%: 17%, respectively, in FY23 (PY: 20%: 59%: 21%). The pent-up demand from OEM players and overall flat export growth is also reflected in the altered sales mix with OEMs experiencing higher share.

The segment-wise revenue mix for truck and bus bias /radial, passenger line radial, 2W&3W and others stood at 54%, 28%, 4% and 14%, respectively, in FY23 (PY: 62%, 18%, 5% and 15%). The company's focus on increasing share in the PCR tyre market and the strong demand experienced in the PCR segment is also reflected in the sales mix, with PCR segment experiencing significant increase in the sales mix.

JKTI has a widespread distribution network across the country with more than 6000+ dealers and 500 distributors. The company is targeting 6500+ dealers and 850+ brand shops in next 2 years from the present level. The company also has over 626 exclusive passenger car tyre retail outlets by the name of Steel Wheels & Xpress Wheels for small town and semi-urban markets which also caters to two-three wheelers. It also has 64 JK Tyre truck wheels (fully equipped tyre service centres offering total tyre solutions).

Key weaknesses

High competition prevalent in the tyre market

The group faces competition not only from the domestic players but also from Chinese tyre manufacturers. In past years, due to imposition of anti-dumping duty till December 2022 and further imposition of anti-subsidy duty in June 2019, the competition from Chinese players is mitigated to an extent. Furthermore in June 2020, the government imposed curbs on the imports of certain new pneumatic tyres used in motor cars, busses, lorries and motorcycles in a move to promote domestic manufacturing. Putting the goods under restricted category means an importer would now require a licence or permission from the DGFT for imports. Earlier, the import of these tyres was allowed without any restrictions.

However, now on the domestic front, with the removal of anti-dumping duty on Chinese tyres or removal of restrictions on imports, the domestic players are expected to face increasing competition. Nevertheless, the group continues to face competition from other Indian players. CARE Ratings observes that the long-standing relationships of the group with OEMs, however, help mitigate competition to an extent.

Exposure to exchange rate movement and raw material price volatility

The raw materials constitute around 60%-65% of the TOI. Rubber and crude oil are global commodities and prices vary across all international markets. The tyre business is highly sensitive to the movement in rubber and crude oil prices, and in the past, the PBILDT margins have been fluctuating in the range of 8% to 15% from periods FY15 – FY23.

JKTI is exposed to the exchange rate fluctuation risks as it has significant export income and import payments for raw material requirements (which are around 50% imported), besides having foreign currency loans (FCLs). While the FCLs of CIL are fully hedged, JKTI's FCLs are not hedged which exposes it to the foreign exchange fluctuation risk; however, the natural hedge in its business enables it to partially mitigate the risk. Consequently, the company's margins are highly susceptible to foreign exchange volatility. During FY23, the loss on account of unfavourable foreign exchange fluctuation stood at ₹59.18 crore as opposed to profit of ₹13. 95 crore in FY22.

Liquidity: Adequate

The company on a consolidated basis has cash and bank balance of ₹173 crore as on March 31, 2023, current investments of ₹11.17 crore, ₹69 crore in debt-service reserve account (DSRA) and ₹13 crore in deposit repayment reserve account. For FY23, the consolidated gross term debt repayment stood at ₹584 crore (JKTI – ₹327 crore, CIL - ₹214 crore and JKTSA - ₹43 crore). The total repayments due in FY24, FY25 and FY26 are ₹482 crore, ₹435 crore and ₹459 crore, respectively. Against this, the GCA is expected at to remain in the range of ₹1,000 crore - ₹1400 crore.

The maximum and average utilisation of working capital limits in JKTI (combined basis) was 76% and 67%, respectively, for the 12 months ended June 2023. On the other hand, the maximum and average utilisation for JKTI on a standalone basis stood at 74% and 64%, and for CIL, the same stood at 87% and 81%, respectively for the 12-month period ended June 2023. The high utilisation is on account of higher capacity utilisation on the back of increased volumes and increase in the prices of raw material. The consolidated working capital cycle improved to 60 days for FY23 (FY22: 66 days, FY21: 74 days, FY20: 85 days) due to the controls exercised by the company on the receivables and inventory side. The working capital management is further aided by dealer deposits, which stood at ₹746 crore as on March 31, 2023. The management has planned capex of ₹1,503 crore well spread over FY24 and FY25, including maintenance capex of ₹304 crore. The same shall be funded through debt to the extent of ₹702 crore and rest shall be funded by internal accruals / equity.

Environment, social, and governance (ESG) risks

The tyre manufacturing industry is energy and fuel-intensive, and the manufacturing process results in higher carbon emissions and other environmental risks. On the social front, the company is exposed to the health and safety effects of its operations on the society and its employees and changing preference of the end-user requiring investments in the form of support and contribution to the community affected in and due to the manufacturing process. The below initiatives are undertaken by the company:

Environmental: JKTI has adopted the 6"R" strategy, viz., Reduce, Reuse, Recycle, Renew, Redesign, and Remanufacture. The company is committed to the goal of being a Green and Clean Company with sustainable use of green energy, green technology in manufacturing and reduction in dependence on fossil fuels. During FY23, JKTI achieved a total energy benchmark level of 8.50 GJ/Ton of production, which ranks among the best companies in the sector worldwide. Reduction of 61.45% in GHG Emission (Scope 1 & 2) has been achieved over the base year. JKTI is recognised as a global leader for the lowest water uses per kg of tyre manufactured as well.

Social: As a responsible corporate citizen, the company has been undertaking and participating in the socially important projects in the fields of health, education, adult literacy, livelihood enhancement, environment conservation, rural development, renewable energy, among others, ever since it commenced operations.

Governance: The company follows the global best practices and upholds the highest standards of corporate governance and compliance. It is building an agile and resilient business on the bedrock of its values of transparency, accountability, integrity and intellectual honesty, that ensure their ability to create sustained value for their stakeholders.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Auto Ancillary Companies
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Tyres & Rubber Products

JKTI, the flagship company of the JK group, is headed by Dr R P Singhania as its chairman and managing director. It is a one of the leading tyre manufacturers in India and amongst the top 25 manufacturers in the world with a wide range of products catering to diverse business segments including, truck/bus, light commercial vehicles (LCV), passenger cars, multi-utility vehicles (MUV) and tractors. As on March 31, 2023, JKTI has a global presence in 105 countries with nine plants in India and three in Mexico, with total consolidated capacity of 33 million tyres per annum.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	Q1FY24(UA)
Total operating income	11,983*	14,681	3,718
PBILDT	1,073*	1,334	457
PAT	201	263	159
Overall gearing (times)^	2.09	1.58	NA
Interest coverage (times)	2.56	2.94	3.75

A: Audited UA: Unaudited; NA: Not Available; Note: 'the above results are latest financial results available'
^Including creditors on LC and acceptances.
*Includes Government Incentive of ₹90 crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fixed Deposit-FD (Long-term)/ FD (Short-term)		-	-	-	140.00	CARE A+; Stable / CARE A1
Fund-based-Long term		-	-	-	1700.00	CARE A+; Stable

Non-fund-based - LT/ ST-BG/LC		-	-	-	855.00	CARE A+; Stable / CARE A1
Non-fund-based - ST-BG/LC		-	-	-	960.00	CARE A1
Non-fund-based - ST-BG/LC		-	-	-	210.00	CARE A1
Term loan-Long term		-	-	31-03-2034	1483.44	CARE A+; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based-Long term	LT	1700.00	CARE A+; Stable	-	1)CARE A; Stable (03-Jan-23) 2)CARE A; Stable (06-Oct-22)	1)CARE A; Stable (07-Jul-21) 2)CARE A; Stable (03-May-21)	1)CARE A-; Stable (09-Mar-21) 2)CARE A-; Negative (25-Aug-20)
2	Non-fund-based - ST-BG/LC	ST	960.00	CARE A1	-	1)CARE A1 (03-Jan-23) 2)CARE A1 (06-Oct-22)	1)CARE A1 (07-Jul-21) 2)CARE A1 (03-May-21)	1)CARE A2+ (09-Mar-21) 2)CARE A2+ (25-Aug-20)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	855.00	CARE A+; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (03-Jan-23) 2)CARE A; Stable / CARE A1 (06-Oct-22)	1)CARE A; Stable / CARE A1 (07-Jul-21) 2)CARE A; Stable / CARE A1 (03-May-21)	1)CARE A-; Stable / CARE A2+ (09-Mar-21) 2)CARE A-; Negative / CARE A2+ (25-Aug-20)
4	Term loan-Long term	LT	1483.44	CARE A+; Stable	-	1)CARE A; Stable (03-Jan-23)	1)CARE A; Stable (07-Jul-21)	1)CARE A-; Stable (09-Mar-21)

						2)CARE A; Stable (06-Oct-22)	2)CARE A; Stable (03-May-21)	2)CARE A-; Negative (25-Aug-20)
5	Non-fund-based - ST-BG/LC	ST	210.00	CARE A1	-	1)CARE A1 (03-Jan-23) 2)CARE A1 (06-Oct-22)	1)CARE A1 (07-Jul-21) 2)CARE A1 (03-May-21)	1)CARE A2+ (09-Mar-21) 2)CARE A2+ (25-Aug-20)
6	Commercial paper-Commercial paper (Carved out)	ST	-	-	-	-	-	1)Withdrawn (19-Aug-20)
7	Fixed deposit-FD (Long-term)/ FD (Short-term)	LT/ST*	140.00	CARE A+; Stable / CARE A1	-	1)CARE A; Stable / CARE A1 (03-Jan-23) 2)CARE A; Stable / CARE A1 (06-Oct-22) 3)CARE A; Stable / CARE A1 (22-Jun-22)	1)CARE A (FD); Stable / CARE A1 (FD) (07-Jul-21) 2)CARE A (FD); Stable / CARE A1 (FD) (03-May-21)	1)CARE A- (FD); Stable / CARE A2+ (FD) (09-Mar-21) 2)CARE A-; Negative / CARE A2+ (25-Aug-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fixed Deposit-FD (Long-term)/ FD (Short-term)	Simple
2	Fund-based-Long term	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple
4	Non-fund-based - ST-BG/LC	Simple
5	Term loan-Long term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here]

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure-6: Entities being consolidated

Companies	Holding/Subsidiary/Associate	% Holding
J.K. International Ltd	Subsidiary	100.00
J.K. Asia Pacific Ltd.	Subsidiary	100.00
J.K. Asia Pacific (S) Pte. Ltd.	Subsidiary	100.00
Lankros Holdings Ltd	Subsidiary	100.00
Sarvi Holdings Switzerland AG	Subsidiary	100.00
3DInnovations Private Ltd	Subsidiary	100.00
JK Tornel S.A. de C.V	Subsidiary	99.98
Comercializadora America Universal, S.A. de C.V.	Subsidiary	99.98
Compania Hulera Tacuba, S.A. de C.V.	Subsidiary	99.98
Compania Hulera Tornel, S.A. de C.V	Subsidiary	99.98
Compania Inmobiliaria Norida, S.A. de C.V.	Subsidiary	99.98
General de Inmuebles Industriales, S.A. de C.V.	Subsidiary	99.98
Gintor Administracion, S.A. de C.V	Subsidiary	99.98
Hules Y Procesos Tornel, S.A. de C.V	Subsidiary	99.98
Cavendish Industries Ltd.	Subsidiary	87.48
Valiant Pacific LLC	Associate	49.00
Western Tire Holdings, Inc	Associate	40.00
Western Tires, Inc.	Associate	40.00
Treel Mobility Solutions Pvt. Ltd.	Associate	26.00
Hari Shankar Singhania Elastomer and Tyre Research Institute(HASETRI)	Associate	24.00
Dwarkesh Energy Ltd.	Associate	35.00

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