

Shubh Nivesh



Pricing discipline and healthy financials merit a BUY...

About the stock: JK Tyre (JKT) is a leading tyre manufacturer with presence across auto OEM's and aftermarket. It serves various automotive segments via India, Mexico plants with dominance in truck/bus radial (TBR) space domestically.

- FY24 segment mix – truck/bus ~54%, PCR ~29%, 2/3-W ~4%, others ~13%
- FY24 channel mix – aftermarket ~61%, OEM ~23%, exports ~16%

Investment Rationale:

- Pricing discipline to ensure healthy sustainable margin profile:** Rubber and crude derivatives form bulk of raw material costs at tyre companies. Consequently, domestic tyre industry has largely witnessed volatile margin profile in the past with industry realising healthy margins during periods of benign raw material prices and lower margins during period of elevated raw material costs. Also, high competitive intensity in aftermarket used to limit margin gains at tyre companies. Encouragingly, however, currently the industry is witnessing conscious pricing discipline. The case in point being, during Q4FY24, almost all tyre companies reported stable gross margins & guided for price hikes to offset the impact of recent rise in rubber prices & EPR (Extended producer responsibility) provisioning. This we believe is structurally positive for tyre players ensuring healthy sustainable double-digit margins going forward. JK tyre with its leadership in TBR segment as well as incremental play in PCR space is expected to benefit from this trend, thereby reporting stable margins of ~14% over FY24-26E.
- Balance sheet considerably de-leveraged, improves margin of safety:** JK Tyre used to possess one of the most levered balance sheets in the domestic tyre space with net debt as of FY20 pegged at ~₹ 5,400 crore with corresponding Net Debt: Equity at ~2.2x. With rise in profitability as well as concentrated efforts on cash flow generation for debt retirement as well as timely equity infusions, its net debt is down to ~₹ 3,700 crore as of FY24 with Net Debt: Equity now comfortably placed at ~0.8x. With sustenance of healthy double-digit margins & calibrated capex spends we expect it to further reduce to ~₹ 2,800 crore by FY26E & Net Debt: Equity improving to 0.4x, providing pertinent re-rating trigger for JKT, in our view.
- Return ratios turn healthy double digit, inexpensive valuations:** With highest ever Sales, EBITDA and PAT clocked in FY24 and 13.8% operating margin profile, return ratios have turned healthy double digit at JKT with FY24 RoE/RoCE pegged at ~17%. With stable margin profile and further retirement of debt, we expect return ratios to further improve to ~19% levels by FY26E. JKT is presently trading at ~5.6x EV/EBITDA and <10x PE on FY26E which is quite inexpensive given his b/s and return ratios profile.

Rating and Target Price

- With steady growth prospects, stable margin profile, improved B/S and healthy return ratios coupled with inexpensive valuations, we assign **BUY** rating on JK Tyre and value it at ₹ 525 i.e. 7x EV/EBITDA on FY26E.



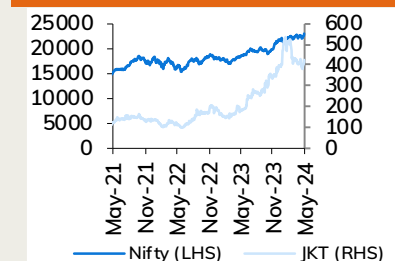
Particulars

Particular	₹ crore
Market Capitalization	10,845
Total Debt (FY24P)	4,473
Cash & Investments	781
EV (₹ Crore)	14,538
52 week H/L (₹)	554 / 180
Equity capital (₹ crore)	52.1
Face value (₹)	₹ 2

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	56.3	56.3	53.1	53.1
FII	8.7	10.3	12.2	15.3
DII	1.2	1.3	5.8	5.2
Other	33.8	32.2	28.9	26.4

Price Chart



Recent event & key risks

- We expect sales, PAT at JKT to grow at CAGR of 9%, 23%, respectively, over FY24-26E. Margins are seen at ~14% levels
- Key Risk: (i) Pressure on gross margins amid volatile raw material prices, (ii) Delay in debt reduction amid capex spends

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Key Financial Summary

Key Financials(₹ crore)	FY19	FY20	FY21	FY22	FY23	FY24P	5 year CAGR (FY19-24P)	FY25E	FY26E	2 year CAGR (FY24P-26E)
Net Sales	10,370	8,725	9,102	11,983	14,645	15,002	7.7%	16,462	17,807	9.0%
EBITDA	1,114	988	1,306	1,073	1,298	2,078	13.3%	2,232	2,463	8.9%
EBITDA Margins (%)	10.7	11.3	14.4	9.0	8.9	13.8		13.6	13.8	
Net Profit	176	151	319	210	263	786	34.8%	993	1,186	22.8%
EPS (₹)	7.8	6.1	13.0	8.5	10.7	30.2		36.2	43.3	
P/E	53.5	67.9	32.1	48.8	39.0	13.8		11.5	9.6	
RoNW (%)	7.7	6.5	11.9	7.4	7.7	17.5		18.6	18.7	
RoCE (%)	9.2	7.4	11.8	8.1	10.2	17.0		17.4	18.3	

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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