FEBRUARY 18, 2015

CARE ASSIGNS 'CARE A1+' RATING TO COMMERCIAL PAPER OF JK TYRE & INDUSTRIES LTD

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings[1]	Remarks
Proposed Commercial Paper*	300	CARE A1+ (A One Plus)	Assigned

**carved out of the sanctioned working capital limits of the company*

Rating Rationale

The rating takes into account the continued increase in profits in H1FY15 (refers to the period April 01 to September 30) leading to reduction in the gearing levels and improvement in the liquidity position. The rating also takes into account the expected improvement in the auto sector on the back of improved macro-indicators. Furthermore, the ratings continue to factor in the strength derived from the experience of the promoters, JKTI's long-track record of operations, its established market position in truck and bus radial (TBR) segment coupled with ramp-up of operations at its all-radial Chennai plant and wide marketing and distribution network. However, the rating continues to remain constrained by the elevated financial leverage, though improved during FY14 (refers to the period April 1 to March 31) and H1FY15; the working capital intensive nature of operations; exposure to foreign currency risks and raw material price volatility. The rating also takes note of JKTI's proposed capital expenditure towards increasing its capacities at its Chennai plant.

The ability of the company to scale-up operations while maintaining the profitability levels as well as effective execution of the growth plans would be the key rating sensitivities.

Background

JKTI, the flagship company of the JK group (Eastern Zone), is headed by Dr R P Singhania as the chairman and managing director. JKTI manufactures the entire range of radial as well as bias tyres for trucks, buses, Light Commercial Vehicles (LCVs), utility vehicles, cars, jeeps, tractors and off-the-road (OTR) vehicles with manufacturing facilities in Kankroli-Rajasthan, Banmore-Madhya Pradesh, Mysore-Karnataka and Chennai-Tamil Nadu. JKTI supplies its products to both the Original Equipment Manufacturers (OEMs) and the replacement market. The share of the replacement market has been traditionally high with approximately 63% share of sales during FY14 and the rest from OEMs, exports and others.

On a total operating income of Rs.5,967 crore (PY: Rs.5,444 crore), JKTI earned a PBILDT and PAT of Rs.671 crore (PY: Rs.500 crore) and Rs.135 crore (PY: Rs.106 crore), respectively in FY14. As per the provisional results for H1FY15, JKTI reported a total operating income of Rs.3,099 crore with PBILDT of Rs.350 crore and PAT of Rs.97 crore.

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

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[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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CIN - L67190MH1993PLC071691