JK Tyre & Industries Ltd

May 03, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	3,064.25 (Reduced from 3,658.98)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus; Outlook: Stable)
Long Term / Short Term Bank Facilities	280.00	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Revised from CARE A-; Stable / CARE A2+ (Single A Minus ; Outlook: Stable / A Two Plus)
Short Term Bank Facilities	1,170.00	CARE A1 (A One)	Revised from CARE A2+ (A Two Plus)
Total Bank Facilities	**4,514.25 (Rs. Four Thousand Five Hundred Fourteen Crore and Twenty-Five Lakhs Only)**		
Long Term / Short Term LT/ST Instrument	140.00	CARE A (FD); Stable / CARE A1 (FD)	Revised from CARE A- (FD); Stable / CARE A2+ (FD)
Total Long Term /Short Term Instruments	**140.00 (Rs. One Hundred Forty Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

With continuous increase in CIL's (Cavendish Industries Limited, subsidiary of JKTI) contribution to the overall JKTI's consolidated credit profile, CARE has taken a combined view of CIL and JKTI in arriving at the ratings of JKTI.

The revision in the rating assigned to the bank facilities of JK Tyre & Industries Limited takes into account the better than envisaged operating performance and leverage for JKTI and CIL Combined in FY21 (refers to period from April 01, 2020 to March 31, 2021). Working capital efficiencies have aided the debt reduction. The operating performance has shown improvement primarily due to increased demand in the replacement and export market post lifting of the lockdown owing to imports restrictions on tyre by the Directorate General of Foreign Trade and initiatives taken by the company, recovery in economic activities & pick up in automobile demand, personal mobility coupled with demand for Passenger car radial and farm tyres due to festive season and channel expansion. The ratings continue to derive strength from the experienced promoters and JKTI's long track record of operations, its established market position in the truck and bus radial (TBR) segment, and its wide marketing and distribution network. These rating strengths are partially offset by its leveraged capital structure and exposure to foreign currency fluctuation risks, raw material prices volatility and competitive nature of the industry.

At the time of earlier reviews, CARE has taken note of the intimation by the company regarding the instructions by the Enforcement Directorate (ED) to freeze one of its bank accounts. According to the JKTI's management, the company has not received any notice for any investigation from the ED with respect to the said matter. The matter is currently sub-judice and CARE will monitor further developments, if any, in this regard, going forward.

Rating Sensitivities:

Positive Factors: *Factors that could lead to positive rating action/upgrade.*

- Ability of the company to increase its scale of operations by more than 25% from its current levels on a combined basis with PBILDT margins of 15% or more.
- Ability to improve the capital structure marked by overall gearing (on combined basis) of less than 2.00x on a sustained basis.

Negative Factors: *Factors that could lead to negative rating action/downgrade.*

- Decline in profitability as marked by PBILDT margin below ~10% on a sustained basis.

- Lower than expected improvement in the combined operational performance or any further increase in debt (other than envisaged) leading to deterioration in the capital structure.
- Any outcome arising from the ED attachment of the bank account of JKTI which has a negative impact on the credit profile of the company.

Detailed description of the key rating drivers
Key Rating Strengths

Better than expected operating performance in FY21 and improved financial profile in 9MFY21:
As per operational performance for FY21, JKTI along with CIL are operating at Capacity more than 90%. During Q1FY21 (refers to period from April 01 to June 30) financial performance of the company was subdued on account of nationwide lockdown imposed during the period and the subsequent impact that Covid-19 had on the entire economy resulting in further sluggishness in the end user auto industry. The company's sales volumes however gradually picked up quarter on quarter with the easing of the lockdown restrictions. During Q3FY21, TOI (total operating income) of JKTI standalone registered a Q-o-Q growth of 25% & Y-o-Y growth of 18% to reach Rs. 1851 crores as against Rs. 1482 crores in Q2FY21 and Rs. 1568 crores in Q3FY20 while in case of CIL TOI (total operating income) registered a Q-o-Q growth of 18% & Y-o-Y growth of 30% to reach Rs. 788 crores as against Rs. 667 crores in Q2FY21 and Rs. 608 crores in Q3FY20. As per the management, growth is driven by strong demand owing to imports restrictions on tyre by the Directorate General of Foreign Trade and initiatives taken by the company, recovery in economic activities resulting in higher utilization of vehicles, increased preference for personal mobility coupled with robust demand for 2/3-wheeler tyres due to festive season, rural demand and channel expansion in JKTI. On account of increased demand, company's capacity utilization increased to 98% in Q4FY21 and 97% in Q3FY21 (on per MT basis) and CIL's capacity utilization increased to 95% in Q4FY21 as against 62% in Q4FY20 and it registered Y-o-Y growth in sales from all the segments for the quarter. However, due to recent increase in the prices of natural rubber & Crude due to uptick in the demand, operating margins of the company are expected to moderate in Q4FY21 although because of strong operating performance during the last few quarters, the profitability margins for the whole year are expected to remain strong. In 9MFY21, on combined basis the PBILDT margins stood at 15.24%. The impact of the increased raw material cost has been mitigated up to some extent with the price increase of around 2% taken by the company in Q4FY21 and additional 2-3% in April 2021. Going forward in FY22 the margins are expected to decline marginally with increase in the raw material cost partially mitigated by the price hikes taken by JKTI

Focus on high margin TBR segment with presence across market segments and improving product mix: JKTI has been focusing on TBR segment and has witnessed steady pace of radialization in the past few years. TBR segment commands around 20% premium over bias tyres which has driven steady profitability despite fall in turnover in the past. There has been continued increase in revenue contribution from relatively higher margin radial tyres whose proportion in the overall revenue has increased from 58% in FY16 to 64% in FY20 (refers to period from April 01 to March 31), it has however decreased partly in 9MFY21 due to strong demand from farm tyres. On a combined level (JKTI + CIL), share from replacement market (in value terms) stood at 66% in FY21 (66% in FY20) and share from OEM stood at 20% in FY21 (20% in FY20) and balance by exports. Group has further ramped up their 2W/3W tyres production which also entail higher margins and contribution from this segment has increased from nil in FY17 to almost 6% in 9MFY21.

Debt reduction in FY21 albeit leveraged capital structure: Total combined (JKTI+CIL) debt (estimated) decreased y-o-y and stood at Rs. 4505 crore as on March 31, 2021 (Rs 954 crore of working capital borrowings and balance is long term debt) as against Rs. 5220 crores as on March 31, 2020 (Rs 1666 crore of working capital borrowings and balance is long term debt). The same has been on account of higher accretion of profits, repayments of long-term debt and lower working capital borrowings. As discussed with the management, during the lockdown period, the company has worked towards realisation from debtors and liquidation of old stock, as a result of which working capital position of the company improved. Working capital borrowings has also declined on account of Covid funding received by the company. JKTI has availed COVID funding from the banks for ~Rs 155 crore & out of the same ~Rs. 115 crores is outstanding as on March 31, 2021. These funds have supported the working capital requirements of the company and has helped in lowering its working capital utilization.
As on March 31, 2020 the overall gearing (including LC backed creditors and dealer deposits) a combined basis stood high at 2.95x, compared to 3.05x as on March 31, 2019. The same has however reduced to 2.61 x as on Dec 31, 2020 JKTI along with CIL has no major capex plans going ahead and additional capacities would be created only through de-bottlenecking activities and there will be maintenance capex. The capital structure continues to be leveraged for the group however the management has guided that the long-term debt shall further reduce 44% on combined basis for JKTI and CIL by end of FY24 with scheduled debt repayments and no major debt funded capex plans which shall aid in the improvement of the leverage and is a key monitorable going ahead.

Experienced promoters and management: The JK Group is one of the leading conglomerates and has business interests across the globe, spanning over 105 countries. The promoters have an experience of around four decades in the tyre business. The company's operations are headed by Dr R P Singhania (the Chairman and Managing Director) who handles the day-to-day affairs. Besides, the management team also comprises of experienced and well-qualified members, namely, Mr. Anshuman Singhania (Managing director), Mr. Arun K. Bajoria (Director & President - International Operations) who bring more than 50 years of collective industry experience to the Board. They are ably supported by a team of professionals in the day to day affairs. Bengal & Assam Co Ltd (BACL) which is the holding arm of the JK group of entities holds 52.80% of JKTI share capital as on Dec 31, 2020.

Long-track record of operations: JKTI has been engaged in tyre manufacturing since 1975 and is among the leading tyre manufacturers in India. After pioneering passenger car radialization (PCR) in 1977, the company accelerated the pace of radialization in India and remains a market leader in the TBR segment. JKTI established its first tyre manufacturing facility in Kankroli, Rajasthan, in 1975 with an installed capacity of 5 lakh tyres per annum (p.a.). As on March 31, 2021, the company had nine plants in India with overall capacity of 24.36 million tyres p.a. (15.39 million tyres p.a. in JKTI standalone and 8.98 million tyres p.a. in CIL) and three plants in Mexico with a capacity of 7.9 million tyres p.a. Over the years, the company has received various accreditations and prestigious awards in respect of quality improvement and customer satisfaction.

Established brand with diversified product portfolio and wide distribution network: JKTI is a leading player in the domestic tyre market with a market share of close to 24% in Truck Bus segment and has a long-standing relationship with established OEM's. JKTI caters to the various user segments including truck & bus (both bias and radial tyres), LCV (bias & radial), PCR, farms, off-the-road tyre radials (OTR) with highest revenue contribution from the TBR segment in JKTI. JKTI has a widespread distribution network across the country with approximately 5,800 dealers and 360 distributors, during FY21, company has added around 1450 new dealers to further its pan India presence. The company also has over 415 exclusive passenger car tyre retail outlets by the name of *Steel Wheels* and *179 Xpress Wheels* for small town and semi-urban markets which also caters to two-three wheelers. It also has 54 fully equipped tyre service centres offering total tyre solutions, called JK Tyre Truck Wheels. Over the years, apart from JK Tyre Truck Wheels service centres, JKIL had taken several initiatives to improve the quality of service such as Fleet Management, and JK Tyre Care centres which offer one-stop solution for truck/bus tyre customers.

Liquidity: Adequate

JKTI has an adequate liquidity profile. The company's average utilization for working capital borrowing at maximum level was around 63% during the 12-month period ending Jan 2021, which provides some buffer with JKTI to fund its working capital requirements. The utilization has primarily decreased due to free cash flow being generated by JKTI with no capex plans. Going ahead also it is expected that the company will generate cash flows which will be primarily utilized in funding the working capital requirements and debt repayments with no capex plans going ahead in medium term. Cash and bank balance on a combined basis stood at Rs. 127 crores as on December 31, 2020. Going forward JKTI & CIL on a combined basis have debt repayments of Rs. 560 crore in FY22, which are expected to be funded through internal accruals.

JKTI has availed Covid funding along with CIL for ~Rs 160 crore in FY21 & this is to be repaid over two to three years timeframe. JKTI is also supporting the working capital requirements of its subsidiaries CIL and JKTSA by way of infusion of equity and loans and advances, extended credit period, etc as & when required. Further, JKTI and HASETRI (Hari Shankar Singhania Elastomer & Tyre Research Institute) have entered into a research grant agreement on September 18, 2019 valid for ten years, as per which JKTI has hired HASETRI to carry out to carry out the research and development projects. As per the agreement, JKTI will provide the estimated funds approximately Rs 43.50 crore (including payment to labour, contractors, purchase of materials and equipment, consumables and support services in relation to the project) required to carry out the projects.

Key Rating Weaknesses

Exposure to volatility in the raw material prices and exchange rate movement: Raw materials constitute around 65% of the total operating costs. Natural rubber is the major raw material for manufacturing tyres, constituting 60% of the total raw material costs. Rubber and crude oil are global commodities and prices vary across all international markets. The tyre business is highly sensitive to movement in rubber & crude oil prices. The average price of natural rubber (NR) in FY20 stood at Rs. 124.73/kg (Rs 127.26/kg in FY19 and Rs 137.23/kg in FY18). JKTI's PBILDT margin remains sensitive to any volatility in input prices, including those of natural rubber and crude, considering raw material costs represent about 60% of the revenue. Recently there has been an increase in the prices of natural rubber (from Rs. 130.57 per kg in Mar 2020 to ~Rs. 158 kg in March 2021) & Crude (from USD 32.2 per barrel in Mar 2020 to USD 60.46 per barrel in March 2021) due to increased demand and these may impact the profitability margin of the industry including JK Group going ahead if the same is not passed on. The increased raw material cost has been mitigated up to some extent with the price increase taken by the company in Q4FY21 and April 2021. Going forward, impact of increased raw material cost on the profitability margins of the company will be a key monitorable.

Further, JKTI is exposed to exchange rate fluctuation risks as it has significant export income and import payments for raw material requirements, besides having foreign currency loans (FCLs). While the natural hedge in its business enables it to partially mitigate the risk, it remains exposed to foreign exchange fluctuation risks on its FCL, which are not hedged. Consequently, the company's margins are highly susceptible to foreign exchange and volatility in input costs.

Industry Outlook: India is one of the largest automobile markets in the world, which makes the country one of the leading markets for tyres. The tyre industry is directly affected by the performance of the automobile industry, which, in turn, depends on the overall economic growth. In FY20, the industry sales witnessed a sharp decline of 14.8% y-o-y vis-à-vis a growth of about 6.4% witnessed during FY19 led by factors such as increased insurance costs, uneven monsoon, high ownership costs, curtailed lending by the NBFC segment, weak festival demand, weak consumer sentiments and the spread of Covid-19 in the country. After the initial two months of FY21, which witnessed near nil level of sales due to lockdowns, the automotive sector has rebounded. The automotive sector has shown a quick recovery in recent months and data for 11MFY21 shows that passenger vehicles and two wheelers have reached nearly 85% of FY20 levels. While tractors have outperformed FY20 by clocking almost 20% more sales in FY21, the demand for three wheelers is still slow and is expected to take much longer to recover.
Although a sizeable portion of auto components production caters to OEMs, the aftermarket or the replacement market has emerged as a crucial source of revenue for the auto components industry over the past few years. The replacement market contributes around 60% of the total sales volume of the domestic tyre industry, while around 28% is attributed to the auto manufacturing companies.
Going ahead, headwinds for the industry will be high input costs. The imposition of strict state wise lockdowns in April and/or May will dampen the industry's growth as production levels would deteriorate and closure of dealer showrooms will lead to fall in retail sales. Given the rapid surge in covid- 19 cases across the country, Q1-FY22 sales volumes for all segments are expected be on the lower side. CARE Ratings expects H1-FY22 to be softer and sales to gain pace October onwards, with festivities, wedding season, assuming the reopening of schools, colleges, offices and rise in infrastructural and mining activities.

Analytical approach: For arriving at the ratings of JKTI, CARE has taken Combined view of JKTI and CIL owing to CIL being the subsidiary of JKTI with strong operational and strategic linkages between the two entities being in the same line of business.
Note: Earlier CARE had taken a Standalone approach with factoring in the operational linkages & the financial support which JKTI has to extend to its subsidiaries.

Applicable Criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
Criteria for Short Term Instruments
CARE's Policy on Default Recognition
Financial Ratios - Non-Financial Sector
Rating Methodology - Manufacturing Companies
Rating Methodology- Auto Ancillary Companies
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Liquidity Analysis of Non-financial sector entities
Criteria for rating Credit Enhanced Debt

About the Company
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 that includes Truck/Bus, LCV (Light commercial vehicles), Passenger Cars, MUV (Multi utility vehicles) and Tractors. JKTI has a global presence in 105 countries with nine plants in India and three in Mexico, with total consolidated capacity of 32 million tyres per annum.

Combined Financials

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	9MFY21 (UA)
Total operating income	9229	7679	5615
PBILDT	1021	937	856
PAT	176	171	161
Overall gearing (times)^	3.04	2.95	2.56
Interest coverage (times)	2.11	1.79	2.53

A: Audited, UA: Un-Audited,
^Including Dealer Deposits

JKTI Financials

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)	9MFY21 (UA)
Total operating income	7641	6120	4133
PBILDT	759*	678	571
PAT	204	229	119
Overall gearing (times)^	2.28	2.16	1.78
Interest coverage (times)	2.40	1.98	2.73

A: Audited, UA: Un-Audited
**Does not include one-time income of Rs 48 crore in FY19.*
^Including Dealer Deposits

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

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	1700.00	CARE A; Stable
Non-fund-based - ST-BG/LC	-	-	-	960.00	CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	280.00	CARE A; Stable / CARE A1
Term Loan-Long Term	-	-	March 2034	1364.25	CARE A; Stable
Fund-based - ST-Term loan	-	-	-	210.00	CARE A1
Fixed Deposit-FD (Long-term)/ FD (Short-term)	-	-	-	140.00	CARE A (FD); Stable / CARE A1 (FD)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based-Long Term	LT	1700.00	CARE A; Stable	-	1)CARE A-; Stable (09-Mar-21) 2)CARE A-; Negative (25-Aug-20)	1)CARE A; Negative (05-Jul-19)	1)CARE A+; Negative (05-Oct-18)
2.	Non-fund-based - ST-BG/LC	ST	960.00	CARE A1	-	1)CARE A2+ (09-Mar-21) 2)CARE A2+ (25-Aug-20)	1)CARE A1 (05-Jul-19)	1)CARE A1+ (05-Oct-18)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	280.00	CARE A; Stable / CARE A1	-	1)CARE A-; Stable / CARE A2+ (09-Mar-21) 2)CARE A-; Negative / CARE A2+ (25-Aug-20)	1)CARE A; Negative / CARE A1 (05-Jul-19)	1)CARE A+; Negative / CARE A1+ (05-Oct-18)
4.	Term Loan-Long Term	LT	1364.25	CARE A; Stable	-	1)CARE A-; Stable (09-Mar-21) 2)CARE A-; Negative (25-Aug-20)	1)CARE A; Negative (05-Jul-19)	1)CARE A+; Negative (05-Oct-18)
5.	Fund-based - ST-Term loan	ST	210.00	CARE A1	-	1)CARE A2+ (09-Mar-21) 2)CARE A2+ (25-Aug-20)	1)CARE A1 (05-Jul-19)	1)CARE A1+ (05-Oct-18)
6.	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn (19-Aug-20)	1)CARE A1 (05-Jul-19)	1)CARE A1+ (05-Oct-18)
7.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (09-Apr-19)	1)CARE A1+ (05-Oct-18)
8.	Fixed Deposit-FD (Long-term)/ FD (Short-term)	LT/ST	140.00	CARE A (FD); Stable / CARE A1 (FD)	-	1)CARE A- (FD); Stable / CARE A2+ (FD) (09-Mar-21)	1)CARE A; Negative / CARE A1 (05-Jul-19)	1)CARE A+; Negative / CARE A1+ (05-Oct-18)

						2)CARE A-; Negative / CARE A2+ (25-Aug-20)		

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
1. Term loan	Prepayment allowed with prepayment penalty of 1% of outstanding amount
B. Non-financial covenants	
1. Term loan	Borrower shall submit performance data of the Plants on quarterly basis

Annexure 4: Complexity level of various instruments rated for this company

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
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