JK Tyre and Industries Limited (Revised)

October 10, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	3,153.43 (Enhanced from 3,064.25)	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long-term / Short-term bank facilities	385.00 (Enhanced from 280.00)	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Reaffirmed
Short-term bank facilities	1,170.00	CARE A1 (A One)	Reaffirmed
Total bank facilities	**4,708.43 (₹ Four thousand seven hundred eight crore and forty-three lakh only)**		
Long-term / Short-term LT/ST instrument	140.00	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable/ A One)	Reaffirmed
Total long-term /short-term instruments	**140.00 (₹ One hundred forty crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The reaffirmation of the ratings for the bank facilities and instruments of JK Tyre and Industries Limited (JKTI) continues to derive strength from the long operational track record of the company, its strong position in the in the domestic tyre industry characterised by established market position in the truck and bus radial (TBR) segment and presence across all the user segments and its wide marketing and distribution network. The robust demand during the year, supported by an improved product mix and higher realisations, driven by the price hikes led to JKTI registering a growth of 31% on a year on year basis in FY22 (refers to period from April 01 to March 31); however the overall profitability remained subdued in FY22 due to unprecedented increase in both rubber and crude-led input prices. The decline in the profitability has led to moderation in solvency and coverage indicators in FY22 and is likely to remain so in H1FY23 (refers to the period from April 01 to September 30). However, with softening of the raw material prices, continuous price hikes by JKTI coupled with several cost-reduction and efficiency-improvement initiatives including the management's focus on sweating existing asset with robust demand outlook for the sector is likely to support the credit profile of JKTI from H2FY23. The impact of the reduced input prices over the last quarter should be visible Q3FY23 onwards.

The ratings are, however, constrained by the leveraged capital structure, exposure to foreign currency fluctuation risks, raw material prices volatility 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 and slower than expected de-leveraging could lead to higher-than-expected deterioration in the credit metrics which remains a key monitorable.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- The ability of the company to increase its scale of operations by more than 20% from its current levels with PBILDT margins of 12% or more.
- The ability to improve the capital structure marked by overall gearing of less than 2.00x on a sustained basis or total debt to EBITDA of less than 3.5x on sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in the profitability as marked by PBILDT margin below approximately 10% on a sustained basis beyond FY23.
- Any further increase in debt (other than envisaged) or slower than expected deleveraging leading to deterioration in the total debt to PBILDT of over 4x beyond FY23.

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

- Any outcome arising from the ED attachment of the bank account of JKTI or CCI penalty which has a negative impact on the credit profile of the company.

Detailed description of the key rating drivers

Key rating strengths

Improved revenue growth; momentum expected to continue: During FY22, the strong demand scenario has resulted in the total operating income (TOI) increasing by 31% on y-o-y basis. The company has witnessed strong growth in the Truck and Bus Radial Segment of 31% and Passenger Line Radial Tyres of 37%, while there has been a 14% growth in the volume of tyres sold. The improved performance comes on the back of strong export market and improved demand from the original equipment manufacturer (OEM) market. The growth momentum continued in FY23 with Q1FY23 sales increasing by 39% on a y-o-y basis and 10% on a sequential basis. The growth is driven by various management-led initiatives which includes thrust on export market, premiumisation of TBR and PCR along with entry into smart tyre segment.

Going forward, CARE Ratings Limited (CARE Ratings) expects JKTI's Consolidated revenue profile to further register a grow in the range of 20-22% driven by both volume growth and realisation increase. The passenger car radial (PCR) tyres are expected to register growth on account of gradual resolution of semi-conductor chips issues, higher disposable incomes and increased preference for personal mobility. Moreover, the export demand for PCR tyres is also encouraging. Furthermore, the emerging demand scenario is expected to be quite robust in commercial vehicle segment and is likely to grow at a steady pace owing to higher government infrastructure spending and increased vehicle penetration due to last mile connectivity emanating from improved economic outlook. The volume growth is likely to be supplemented by realisation increase, given the likely hikes in tyre prices due to the increasing raw material prices.

The Mexican subsidiary of JKTI, JK Tornel Sociedad Anonima De Capital Variable (JKTSA), has shown a substantial improvement in its overall operating and financial performance.

Diversified product portfolio and wide distribution network: The customer-wise revenue mix of JKTI for the Indian operations stood at OEM: replacement: export at 23%: 59%: 18% respectively in FY22 and as against 20%: 66%: 14% in FY21. While the overall demand in the replacement segment was robust in FY22 and supported the volumes, the growth in OEM and export segment was higher than replacement in FY22 as visible from the changing mix for JKTI in FY22. The customer wise revenue mix of JKTSA stood at replacement: export at 47%: 53% in FY22.

The segment-wise revenue mix of JKTI for the Indian operations for truck and bus bias /radial, passenger line radial, non-truck bias and 2W&3W stood at 62%, 21%, 12%, & 5% respectively in FY22. JKTI caters to the various user segments including Truck & Bus (both bias and radial tyres), LCV (bias & radial), PCR, farms, Off the road tyre (OTR) with highest revenue contribution from TBR segment in JKTI. The acquisition of CIL has also helped the JK group venture into the two/three-wheeler segment, from which CIL derived 16% of its revenues in FY22.

JKTI has a widespread distribution network across the country with more than 6000 dealers and 500 distributors. The company also has over 421 exclusive passenger car tyre retail outlets by the name of Steel Wheels & 205 Xpress Wheels for small town & 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).

Long-track record of operations and established market position: JKTI has been engaged in tyre manufacturing since 1975 and is among the leading tyre manufacturers in India. After pioneering passenger car radialisation in in 1977, the company accelerated the pace of radialisation in India. 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 segment. JKTI is a market leader in that segment with an estimated truck radials market share of around 28% in FY22 and is gaining market share in the T&B and PCR segment. The company has a strong domestic distribution network of more than 6000 dealers & 500 distributors and has longstanding relationships with OEMs.

As on March 31, 2022, the company had nine plants in India (including units under Cavendish Industries Limited) with overall capacity of 31.80 million tyres p.a. (14.4 million tyres p.a. in JKTI standalone) & three plants in Mexico with a capacity of 7.9 million tyres p.a.

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). Besides, the management team also comprises of experienced and well-qualified members, namely, Anshuman Singhania (Managing Director), Arun K. Bajoria (Director & President - International) and Anuj Kathuria (President - India) which brings 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 March 31, 2022.

Key rating weaknesses

Margins moderation amid raw material price volatility: During FY22, despite the volume and price increase the profitability margins (PBILDT) dipped in from 14% in FY21 to 9% in FY22 primarily due to the unprecedent increase in cost of raw materials. The raw materials, i.e., Natural rubber, crude and other derivatives had a combined effect of raw material cost increasing by more than 28%. The company undertook various price hike to pass on the increase in cost of raw materials in FY22. However, the same remains under recovered to the extent of 7%-8%, thus impacting the PBILDT margins. Nevertheless, the fall in the PBILDT margin was partly offset by the improved operating leverage, owing to an increase in the production (in terms of number of tyres) by 14% yoy in FY22 and the management's focus on sweating existing assets and continued cost-reduction and efficiency-improvement initiatives taken by the company since FY21.

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 movement in rubber and crude oil prices.

During FY22 and Q1FY23 the raw material prices witnessed an unprecedent increase. In March 2022 the prices saw a sharp jump on account of the geo-political uncertainties and the Russia-Ukraine war. The prices of natural rubber witnessed a sharp rise for last 15-18 months on account of withholding of exports by countries as well covid impact. However, the prices of natural rubber seems to have peaked in June 2022 as the spot for natural rubber (Thailand spot/RSS4 Kottayam) fell from its Q1FY23 average.

However, the margin decline was somewhat offset by JKTI's improved operating leverage. The margins further declined to 8% in Q1FY23 (Q1FY22: 11.06%, Q4FY22: 7.1%). Nonetheless, the company has undertaken price hikes in the replacement and export markets, which should help to improve the margins going forward. Also, the impact of the reduced input prices over the last quarter should also be visible Q3FY23 onwards. CARE Ratings expects the EBITDA margin to remain flat at 10% to 10.5% in FY23.

Leveraged capital structure: In FY22**,** while the Long-Term debt has reduced from ₹3,761 crore in FY20 to ₹3,176 crore in FY22, the working capital borrowings have increased substantially from ₹1,156 crore in FY21 to ₹2,044 crore in FY22. The increased working capital borrowings is on account of the unprecedent increase in the raw material prices and also on account of increase in the topline supported by overall volume growth. The total debt of JKTI on a consolidated level stood at ₹6,096 crore (including LC backed creditors and acceptances of ₹981 crore) as on March 31, 2022. Due to the increase working capital borrowings and reduced profitability, the total debt to PBILDT (including LC backed creditors and acceptances) has increased from 4.49x in FY21 to 5.78x in FY22.

The company has targeted a capex of around ₹1,000 crore in FY23 and FY24 which would be funded through debt to the extent of ₹495 crore. The capex shall augment the TBR and PCR capacity of the company as the present overall capacity utilisation stands at around 90%: JKTI 90%, CIL 80%, India Operations (JKTI and CIL combined) 85-90% and JK Tornel 90%.

The prices of raw materials have softened August 2022 onwards and are expected to reduce further in H2FY23. However, the demand is expected to remain robust in FY23 resulting in the projected working capital borrowings remaining at similar levels of FY22. The long-term debt in line with the trend of past few years is expected to reduce further in FY23 and FY24. Accordingly, the total debt to PBILDT ratio is expected to reduce in FY23 and FY24. 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 and slower-than-expected de-leveraging could lead to higher-than-expected deterioration in the credit metrics which remains a key monitorable.

Exposure to exchange rate movement: JKTI is exposed to 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.

High competition prevalent in tyre market: The group faces competition not only from the domestic players but also from Chinese tyre manufacturers. However due to imposition of anti-dumping duty in September 2017 for a period of 5 years (extended till December 2022) and further imposition of anti-subsidy duty in June 2019, the competition from Chinese players is mitigated to an extent. Further in June 2020, the government-imposed curbs on 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. Nevertheless, the group continues to face competition from other Indian players. Having long standing relationships with OEMs, however, helps mitigate competition to an extent.

ESG profile: The tyre sector has an impact on the environment owing to emissions, generation of waste and consumption of water. Tyre manufacturing process is dependent on natural resources, such as natural rubber, as key raw materials. Due to the nature of operations affecting local community and health hazards involved in the manufacturing process, the sector also has a social impact. JKTI has continuously focused on mitigating its environmental and social risks. CARE Ratings believes JKTI's commitment to ESG will support its credit profile.

ESG Practices and policies of JKTI:
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. As an outcome of these efforts the carbon emission intensity has reduced by 57 % in the last 8 years. The company is one of the lowest three, in the world on energy consumption in the tyre industry. The GHG emissions of the company has reduced from 0. 97 CO_2e/MT in FY20 to 0. 78 CO_2e/MT in FY22.
Social: Despite the turbulence during of the year, the company stood steadfast to its commitments towards its people and the larger community especially the marginalised, as it continued to provide support through its well structured and multifaceted Corporate Social Responsibility programmes.
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 our ability to create sustained value for our stakeholders.

Liquidity: Adequate: The company on a consolidated basis has cash & bank balance of ₹185 crore as on June 30, 2022 (including DSRA of ₹62 crore in CIL). Total repayments due in FY23 is ₹539 crore (JKTI- ₹281 crore, CIL ₹215 crore and JKTSA ₹42 crore) and ₹401 crore in FY24 (JKTI - ₹195 crore and CIL - ₹206 crore).
The repayment of JKTI was met out of its cash accrual and partly from cash flow from operations, while for CIL it was funded through equity from JKTI. CIL is undertaking a capex project of TBR of ₹260 crore which is to be funded with debt of ₹177 crore and balance through equity and internal accruals. JKTI gave its equity component in Q4FY22 to support CIL as it also has shortfall undertaking for all CIL loans. The same was funded through cash flow which was released from the working capital.
Further the maximum & average utilization of working capital limits in JKTI was 71% and 61% respectively for the 12-month ended August 2022. Whereas for CIL the same stood at 93% and 85% respectively for the 12-month ended August 2022. The high utilization is on account of higher capacity utilization on the back of increased volumes and also carrying of higher prices inventory (due to rise in natural rubber and crude prices).
The consolidated working capital cycle remained moderate and stood at 66 days at FY22 (FY21: 76 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 ₹636 crore as on March 31, 2022.

Analytical approach: 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.

Change in approach:
CARE ratings had earlier taken combined view of JKTI and CIL while JK Tornel was not being considered due to it being a foreign subsidiary. However, though the overall contribution is less in the total pie and it is located outside India, JKTI continues to extend support and have operational linkages with JKTSA and therefore the approach has been changed to Consolidated.

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

Policy on default recognition

Consolidation

Auto Ancillary Companies

Manufacturing Companies

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 including, truck/bus, light commercial vehicles (LCV), passenger cars, multi-utility vehicles (MUV) and tractors. As on March 31, 2022, 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.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	June 30, 2022 (UA)
Total operating income	9,073	11,983*	3,650
PBILDT	1,278	1073*	291
PAT	331	201	34
Overall gearing (times)^	2.07	2.12	NA
Interest coverage (times)	2.74	2.56	2.94

A: Audited, UA: Un-Audited, NA: Not 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 the last three years: Please refer Annexure-2

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

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

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
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		-	-	-	385.00	CARE A; Stable / CARE A1

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
Term Loan-Long term		-	-	March-2034	1453.43	CARE A; Stable
Non-fund-based - ST-BG/LC		-	-	-	210.00	CARE A1
Fixed Deposit-FD (Long-term)/ FD (Short-term)		-	-	-	140.00	CARE A; Stable / CARE A1

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based-Long term	LT	1700.00	CARE A; Stable	-	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)	1)CARE A; Negative (05-Jul-19)
2	Non-fund-based - ST-BG/LC	ST	960.00	CARE A1	-	1)CARE A1 (07-Jul-21) 2)CARE A1 (03-May-21)	1)CARE A2+ (09-Mar-21) 2)CARE A2+ (25-Aug-20)	1)CARE A1 (05-Jul-19)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	385.00	CARE A; Stable / CARE A1	-	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)	1)CARE A; Negative / CARE A1 (05-Jul-19)
4	Term Loan-Long term	LT	1453.43	CARE A; Stable	-	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)	1)CARE A; Negative (05-Jul-19)
5	Non-fund-based - ST-BG/LC	ST	210.00	CARE A1	-	1)CARE A1 (07-Jul-21) 2)CARE A1 (03-May-21)	1)CARE A2+ (09-Mar-21) 2)CARE A2+ (25-Aug-20)	1)CARE A1 (05-Jul-19)
6	Commercial paper-Commercial paper	ST	-	-	-	-	1)Withdrawn (19-Aug-20)	1)CARE A1 (05-Jul-19)

	(Carved out)							
7	Commercial paper	ST	-	-	-	-	-	1)Withdrawn (09-Apr-19)
8	Fixed Deposit-FD (Long-term)/ FD (Short-term)	LT/ST*	140.00	CARE A; Stable / CARE A1	1)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)	1)CARE A; Negative / CARE A1 (05-Jul-19)

*Long term/Short term.

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

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

Sr. No.	Name of 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: Bank lender details for this company

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

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
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

Companies	Holding/Subsidiary/Associate	% Holding
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	87.46
3DInnovations Private Ltd	Subsidiary	100.00
Dwarkesh Energy Ltd.	Associate	35.00
Hari Shankar Singhania Elastomer and Tyre Research Institute(HASETRI)	Associate	24.00
Valiant Pacific LLC	Associate	49.00
Western Tire Holdings, Inc	Associate	40.00
Treel Mobility Solutions Pvt. Ltd.	Associate	26.00

Note on 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.

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About us:
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