JK Tyre and Industries Limited

July 07, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	3,064.25	CARE A; Stable (Single A; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	280.00	CARE A; Stable / CARE A1 (Single A ; Outlook: Stable / A One)	Reaffirmed
Long Term / Short Term LT/ST Instrument	140.00	CARE A (FD); Stable / CARE A1 (FD)	Reaffirmed
Short Term Bank Facilities	1,170.00	CARE A1 (A One)	Reaffirmed
Total Facilities	4,654.25 (Rs. Four Thousand Six Hundred Fifty-Four Crore and Twenty-Five Lakhs Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings reaffirmation for the bank facilities of JK Tyre and Industries Limited (JKTI) continue to derive strength from the improved operating & financial performance in FY21 (refers to period from April 01 to March 31)as characterized by its enhanced profitability and 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 further 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.

The ratings are, however, constrained by its leveraged capital structure albeit reflecting improvement over the past few quarters and exposure to foreign currency fluctuation risks, raw material prices volatility and competitive nature of the industry.

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 impacting its credit profile.
- 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 financial and operating performance in FY21: 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. 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

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

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. The combined TOI and PBILDT of the group has grown by around 8% and 39% as compared to FY20. Combined PBILDT margins also improved to 15.52% in FY21 as against 12.06% in FY20 primarily on account of various cost optimization measures taken by the company and also on account of improved operational performance in JKTI and CIL. Continued replacement market demand, a leaner cost structure and operating efficiencies are likely to lead to healthy revenue and profitability for the company going ahead.

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 62% in FY21 (refers to period from April 01 to March 31). 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 FY21.

Debt reduction in FY21 albeit leveraged capital structure: Total combined (JKTI+CIL) debt decreased y-o-y and stood at Rs. 4454 crore as on March 31, 2021 (Rs 907 crore of working capital borrowings and balance is long term debt) as against Rs. 5260 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 had availed COVID funding from the banks for ~Rs 155 crore & out of the same ~Rs. 115 crores was 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 improved to 2.06x as on March 31, 2021. 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 brings 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 March 31, 2021.

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 6000 dealers and 500 distributors. During FY21, company has added around 1400 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 200 Xpress Wheels for small town and semi-urban markets which also caters to two-three wheelers. It also has 58 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

The group has an adequate liquidity profile. The average utilization for working capital borrowings at maximum level for JKTI was around 59% during the 12-month period ending April 2021 and for CIL, around 86% during the 12-month period ending March 2021, which provides some buffer with the group to fund its working capital requirements. The utilization has primarily decreased due to free cash flow being generated 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. 123 crores as on March 31, 2021. Going forward JKTI & CIL on a combined basis have debt repayments of Rs.557 crore in FY22, which are expected to be funded through internal accruals. JKTI had 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) had 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 70% 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 FY21 stood at Rs. 131.49/kg (Rs 124.50/kg in FY20). 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 FCLs of CIL are fully hedged, JKTI's FCLs are not hedged which exposes it to 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 and volatility in input costs.

Industry Outlook: The production and demand of the auto component industry is directly proportional to that of the automobiles industry. The automotive sector has shown a quick recovery in the recent months. FY20 presented fresh challenges in the form of outbreak of covid-19 and the resultant supply side disruptions, loss in production of automobiles, rise in input costs, trade disruptions, etc. Alongside, the industry also witnessed business growth opportunities for the long term. The announcement of an incentive-based vehicle scrappage policy, though voluntary, is expected to lead to a rise in automobile sales in the country, which has a direct benefit for the auto components industry.

Tyre prices have been rising in the recent months. The prices of the replacement tyre market across categories have increased in March-April 2021 which is the third increment in prices post lockdown in 2020. Major domestic tyre manufacturers have already announced around 3%-8% price hike, depending on segments.

While the automobile industry sales volumes in Q1FY22 are expected to be lower than Q1FY20 levels while being higher than Q1FY21 due to base effect. Tractors are expected to be better off as compared to other segments, as it remains least impacted due to lockdowns and expectation of a normal monsoon in 2021. However, a significantly high base of FY21, leads to an expectation of comparatively lower sales volume in FY22 for tractors. The worst affected segments are expected to be MHCVs and three wheelers which are expected to de-grow by 33% and 55% in Q1FY22, compared with Q1FY20.

Going forward in FY22, the demand outlook for the industry remains stable while the major headwinds include slower-than-expected demand growth, sharp increase in RM cost and prolonged COVID 19 impact. During Q1FY22, demand in tyre industry has been impacted due to travel restrictions due to second wave of COVID 19, slowdown in production at OEMs and extended WFH trend. However, surge in exports during Q1FY22 is expected to partially mitigate the impact. While revenues in Q2FY22 would be driven by pent-up demand, H2FY22 sales would be on account of stronger demand from rebound in economic activities post monsoon.

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, same brands and common management and control. Further, ratings of JKTI also takes into account the support that it needs to extend to its subsidiary JK TORNEL S.A DE C.V. and other group companies (HASETRI).

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

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)	FY20 (A)	FY21 (A)
Total operating income	7679	8256
PBILDT	937	1282
PAT	171	342
Overall gearing (times)	2.95	2.06
Interest coverage (times)	1.79	2.92

A: Audited

JKTI Financials

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	6120	6167
PBILDT	678	884
PAT	229	256
Overall gearing (times)	2.16	1.41
Interest coverage (times)	1.98	3.32

A: Audited

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 for this company: Annexure 4

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 (03-May-21)	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 A1 (03-May-21)	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 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)	1)CARE A+; Negative / CARE A1+ (05-Oct-18)
4.	Term Loan-Long Term	LT	1364.25	CARE A; Stable	1)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)	1)CARE A+; Negative (05-Oct-18)

5.	Fund-based - ST-Term loan	ST	210.00	CARE A1	1)CARE A1 (03-May-21)	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 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)	1)CARE A+; Negative / CARE A1+ (05-Oct-18)

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

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. 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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