JK Tyre and Industries Limited

June 12, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	3,208.44 (Enhanced from 3,183.44)	CARE AA-; Stable	Revised from CARE A+; Positive
Long-term/Short-term bank facilities	830.00 (Reduced from 855.00)	CARE AA-; Stable / CARE A1+	Revised from CARE A+; Positive / CARE A1+
Short-term bank facilities	1,170.00	CARE A1+	Reaffirmed
Long-term / Short-term instrument	140.00	CARE AA-; Stable / CARE A1+	Revised from CARE A+; Positive / CARE A1+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has upgraded the long-term rating for bank facilities and instrument of JK Tyre and Industries Limited (JKTI) from CARE A+ to CARE AA- and reaffirmed the short-term ratings of CARE A1+. The outlook has also been revised from Positive to Stable.

Revision in ratings considers the company's improved operational and financial performance in FY24 (refers to April 1 to March 31) as characterised by increasing scale of operations, significant improvement in profitability margins, better improved net leverage and coverage indicators, and better working capital management. The improvement in the company's credit risk profile is driven by increasing share of premium products in total sales mix and healthy capacity utilisation levels. In FY24, the consolidated revenue increased by compounded annual growth rate (CAGR) of over 15% from 2020 onwards. On the operating profitability front, on consolidated level, the company has registered a significant improvement in the profit before interest, lease rentals, depreciation and taxation (PBILDT) margin in FY24 to 14% from 9% by improved operational efficiencies and reduced RM cost, product premiumisation, and optimisation of product mix.

The upgrade in the ratings factors the improvement in the capital structure and net leverage which has triggered the positive rating sensitivity of net debt (including LC acceptances and dealer deposits)/PBILDT ratio less than 2.50x.

However, it is expected to be moderate marginally in the near term with increase in raw material costs but over a medium to long term shall remain comfortable, and range bound as JKTI is focussing on increasing the premium portfolio which shall contribute more to the profitability going forward. JKTI raised equity through qualified institutional placement (QIP) in December 2023 which has also positively impacted the capital structure. The debt levels are expected to peak in FY26 as the planned truck and bus radial (TBR), passenger car radial (PCR), and all steel light truck radial (ASLTR) capacity expansion is expected to be completed by FY26-end. Ratings also factor in JKTI's established position in the domestic tyre industry characterised by strong market position in the TBR segment and growing presence in the passenger tyre segment, with presence across all the user segments, and its wide marketing and distribution network.

However, ratings are constrained by volatility in raw material prices which may dent the operating margins in near term, exposure to foreign currency fluctuation risks, 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 significantly impacting the margins, and increase in its net leverage position could lead to deterioration in the credit metrics and they remain as key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Increasing its scale of operations and enhancing its market share and improvement in PBILDT margins over 15% on a sustained basis.
- Improving capital structure and net leverage such that net total debt (including acceptances and dealer deposits) to PBILDT is below 2x on a sustained basis.

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

Negative factors

- Declining profitability as marked by PBILDT margin below 10% on a sustained basis.
- Increasing debt (other than envisaged) due to capex or higher working capital requirement leading to deteriorating net total debt (including acceptances and dealer deposits) to PBILDT of over 3x on a sustained basis.

Analytical approach: Consolidated

Consolidated; owing to strong operational and strategic linkages with its subsidiaries (Cavendish Industries Limited and JK Tornel S. A. De. CV). These entities are in the same line of business, sell under common brands, and have common management and control. Consolidated entities considered are mentioned in Annexure-6.

Outlook: Stable

Stable outlook for JKTI reflects its likelihood to maintain its market position, healthy operating performance, and financial risk profile over the medium term.

Detailed description of the key rating drivers:

Key strengths

Robust volume growth and increased scale of operations likely to sustain in medium term

In FY24, the company witnessed robust demand for passenger vehicles and commercial vehicles. The sales volume for PCR witnessed highest growth among all segments at 19%, followed by non-truck bias at 15% and TBR achieving 4% growth. At consolidated level as well, PCR witnessed highest growth rate of 13% among all segments, followed by truck and bus segment at 2%.

JKTI ranks among the first four domestic tyre manufacturing companies based on the overall revenue share and has presence across majority of all tyre segments. CARE Ratings notes that JKTI is a market leader in the truck and bus tyre segment and is gaining market share in PCR tyre segment.

The company's performance improved over last few years including FY24, with the revenue witnessing a jump of 2% Y-o-Y, respectively. Overall capacity utilisation was at around 86% on a consolidated level, 88% for India operations, JK Tyre was standalone 93%, and Cavendish Industries Limited (CIL) was at 78%.

Owing to high utilisation levels of the current capacities, JKTI has announced capex over next 2-3 years in TBR and PCR side to be able to maintain their market share and scale up its operations. The capex on the PCR side is on the higher rim sizes which will be margin accretive as JKTI historically had a sales mix skewed towards a lower rim size in PCR and less premium products and used to have lower operating margins compared to peers in the industry. JKTI is now actively working to bridge the gap and move towards the premium portfolio offering.

Going forward, CARE Ratings expects the emerging demand scenario from original equipment manufacturers (OEMs) expected to be comfortable in the passenger vehicle segment and remain flat to low in the commercial vehicle segment. However, demand is expected to be healthy in the replacement market of passenger and commercial vehicles. Going forward, likely growth is from higher government infrastructure spending and increased vehicle penetration due to last mile connectivity emanating from improved economic outlook.

Improvement operating profitability in FY24; though some moderation expected in near term owing to higher input costs

In FY24, raw material prices started cooling off as compared to FY23. Natural rubber prices, which forms one-third of the total raw material cost decreased by 7% y-o-y as prices started to marginally increase from Q3FY24 onwards owing to lower global production levels. The PBILDT margin in FY24 improved to 14% from 9% in FY23 by improving operational efficiencies, product premiumisation, and optimisation of product mix.

In Q4FY24, the company has also created Extended Producers' Responsibility (EPR) provisions for waste tyres for ₹106 crore (₹33 crore for FY23 and ₹73 crore for FY24). PBILDT margin before EPR provisioning are around 14.6% for FY24. Going forward, the company has started passing it to customers directly, and hence, impact of EPR provision will be minimised. CARE Ratings expects operating profit margin for FY25 to moderate considering the current volatile input prices scenario; however, is expected to benefit from operating leverage and continuous efforts of the management towards portfolio premiumisation. CARE Ratings continues to monitor raw material price volatility and JKTI's ability to sustain/improve its operating margins amid rising raw material prices and its ability to pass them on as price hikes.

Improved leverage and coverage indicators

CARE Ratings notes that in FY24, the company's leverage and solvency indicators have improved owing to its improved profitability, reduction in term debt, and issuance of equity through QIP worth ₹500 crore in December 2023.

The consolidated gross debt (including LC acceptances and dealer deposits) of the company stood at ₹5,876 crore as on March 31, 2024 as compared to ₹5,567 crore as on March 31, 2023. The reduction is mainly due to reduction in long-term debt to the extent of ₹151 crore. Overall gearing (including LC acceptance and dealer deposits) improved from 1.81x as on March 31, 2023 to 1.28x as on March 31, 2024. Also, interest coverage has improved from 2.94x in FY23 to 4.75x in FY24 and is expected to remain around 4x even with slight moderation as expected in operating profitability going forward.
The net total debt (including LC acceptance and dealer deposits) to PBILDT ratio improved to 2.27x for FY24 as compared to 4.21x in FY23. CARE Ratings understands that the cash lying with the company is for the capex purpose and not for debt reduction and this shall be judiciously used over the next two years in the capex and shall lower the reliance on the company's cash accruals to that extent which will be available to manage the working capital needs of the company and may lower the reliance on its working capital utilisation and enhance its coverage indicators.
Given the additional capex of approximately ₹1,400 crore announced in Q32023 which is majorly scheduled to be completed in FY25-26, the debt levels are expected to increase in FY25 and FY26 on absolute level by ₹400 crore – ₹500 crore each year. With operating profitability expected to marginally moderate amid volatility in the raw material price scenario, CARE Ratings expects the leverage ratios to remain below 3x going forward as well.
Any delay in implementing the projects, higher-than-expected debt, substantial increase in raw material prices, and increased competition from imports or cost overruns shall adversely affect the company's leverage/credit profile and shall remain a key monitorable.

Diversified product portfolio and wide distribution network

The customer-wise revenue mix of JKTI on a consolidated basis is OEM to replacement to export at 23%:61%:16%, respectively, in FY24 (PY- 23%:60%:17%). Due to geo-political conditions, exports were subdued in FY24 and expected to be moderate in H1FY25 as well. Demand from replacement markets is also expected to remain healthy in FY25, on the OM side while PV is expected to be stable, but demand from CV segment shall remain in low single digits due to moderation expected in first half. Segment-wise revenue mix for truck and bus bias /radial, passenger line radial, 2W&3W and others stood at 54%, 29%, 4%, and 13%, respectively, in FY24 (PY: 54%, 28%, 4%, and 14%). The company's focus on increasing share in the PCR tyre market and strong demand experienced in the PCR segment is also reflected in sales mix, with PCR segment experiencing significant increase in sales mix. The contribution of premium tyres increased from 12% in FY19 to 25% in FY24 and is expected to improve to 30-35% over next two years.
JKTI has a widespread distribution network across the country with more than 6000+ dealers and 750 brand shops. The company is targeting 6500+ dealers and 850+ brand shops in next two years from the present level. It has over 800 exclusive passenger car tyre retail outlets under 'Steel Wheels & Xpress Wheels' for small town and semi-urban markets, catering to two-three wheelers as well. It also has 64 JK Tyre truck wheels (fully equipped tyre service centres offering total tyre solutions).

Key weaknesses

Increased capex intensity over medium term

In Q3FY24, the company further announced the capex of approximately ₹1,400 crore in TBR, PCR, and ASLTR, which is expected to complete by FY25 and FY26. The targeted debt to equity ratio is 1:1 for which the company has raised equity through QIP of ₹500 crore. The proceeds will be utilised in phased manner. Considering the past trend, CARE Ratings draws comfort in the management's capacity to execute the planned projects without increasing the leverage above its targeted levels. Timely completion of the announced projects and JKTI's ability to draw benefits from the same as envisaged, any time & cost overruns, and robust demand to absorb the additional production shall remain key monitorable. Any demand-supply mismatch or increased imports from Chinese or otherwise in the country impacting JKTI's utilisation levels going forward which may have an impact on its return indicators shall remain a key monitorable.

High competition prevalent in the tyre market

The group faces competition from domestic players and Chinese tyre manufacturers. In past years, due to imposition of anti-dumping duty till December 2022 and further imposition of anti-subsidy duty in June 2019, competition from Chinese players is mitigated to an extent. In June 2020, the government-imposed curbs on imports of certain new pneumatic tyres used in motor cars, buses, lorries, and motorcycles, in a move to promote domestic manufacturing. Putting goods under restricted category means an importer would require a licence or permission from the directorate general of foreign trade (DGFT) for imports. Earlier, import of these tyres was allowed without restrictions.
However, on the domestic front, with removal of anti-dumping duty on Chinese tyres or removal of restrictions on imports, domestic players are expected to face increasing competition. The group continues to face competition from other Indian players. CARE Ratings observes that the group's long-standing relationships with OEMs helps mitigate competition to an extent.

Exposure to exchange rate movement and raw material price volatility

Raw materials constitute around 60%-65% of the total operating income (TOI). Rubber and crude oil are global commodities and prices vary across international markets. The tyre business is highly sensitive to movement in rubber and crude oil prices, and in the past, PBILDT margins have been fluctuating from 8% to 15% from FY15 to FY24.

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), apart from having foreign currency loans (FCLs). While FCLs of CIL are fully hedged, JKTI's FCLs are not, which exposes it to foreign exchange fluctuation risk; however, natural hedge in its business enables to partially mitigate risk. The company's margins are highly susceptible to foreign exchange volatility. In FY24, the company earned foreign exchange profit of ₹10.11 crore as against loss from unfavourable foreign exchange fluctuation of ₹59.18 crore in FY23.

Liquidity: Adequate

On a consolidated basis, the company has cash and bank balance of ₹755 crore as on March 31, 2024, which has increased from ₹257 crore on March 2023-end primarily considering ₹500 crore of QIP issue done in December 2023. For FY24, the consolidated gross term debt repayment is approximately ₹500 crore and the total repayments due in FY25 and FY26 are approximately ₹400 crore in each year. Against this, the cash accruals are expected to remain in the range of ₹1,000 crore - ₹12,00 crore.

The maximum and average utilisation of working capital limits in JKTI (combined basis for domestic operations) was 60% and 51%, respectively, for the 12 months ended March 2024. On the other hand, the maximum and average utilisation for JKTI on a standalone basis stood at 55% and 46%, and for CIL, the same stood at 89% and 82%, respectively, for the 12-month period ended March 2023.

The consolidated working capital cycle increased to 71 days for FY24 (FY23: 61 days, FY22: 65 days, FY21: 82 days), however, improved from past few years 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 ₹823 crore as on March 31, 2024.

Environment, social, and governance (ESG) risks

The tyre manufacturing industry is energy and fuel-intensive, and the manufacturing process results in higher carbon emissions and other environmental risks. On the social front, the company is exposed to the health and safety effects of its operations on the society and its employees and changing preference of the end-user requiring investments in the form of support and contribution to the community affected in and due to the manufacturing process.

The below initiatives are undertaken by the company:

Environmental: JKTI has adopted the 6"R" strategy, 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. In FY24, JKTI achieved a total energy benchmark level of 8.70 GJ/Ton of production, ranking among the best companies in the sector worldwide. It has also reduced GHG Emission (Scope 1 & 2) y-o-y at 0.87 Eq. Co2/MT in FY24. JKTI is recognised as a global leader for the lowest water uses per kg of tyre manufactured as well.

Social: As a responsible corporate citizen, the company has been undertaking and participating in the socially important projects in the fields of health, education, adult literacy, livelihood enhancement, environment conservation, rural development, renewable energy, among others, ever since it commenced operations.

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 their ability to create sustained value for their stakeholders.

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
Auto Ancillary Companies
Manufacturing Companies

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Consumer discretionary	Automobile and auto components	Auto components	Tyres & rubber products

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 among the top 20 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, 2024, JKTI has a global presence in 100 countries with nine plants in India and three in Mexico, with total consolidated capacity of 34 million tyres per annum.

At consolidated level,

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)
Total operating income*	14,645	15,002
PBILDT*	1,334	2,122
PAT	263	806
Overall gearing (times)^	1.58	1.09
Interest coverage (times)	2.94	4.75

*Includes Government incentive of ₹81.18 crore in FY24 (PY: ₹59.46 crore)
^ Including creditors on LC and acceptances
A: Audited; Note: 'these are latest available financial results'

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument / facility: Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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
Fixed deposit-FD (Long-term)/ FD (Short-term)		-	-	-	140.00	CARE AA-; Stable / CARE A1+
Fund-based-Long term		-	-	-	1700.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	830.00	CARE AA-; Stable / CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	960.00	CARE A1+
Non-fund-based - ST-BG/LC		-	-	-	210.00	CARE A1+
Term Loan-Long term		-	-	31-03-2034	1508.44	CARE AA-; Stable

Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based-Long term	LT	1700.00	CARE AA-; Stable	-	1)CARE A+; Positive (14-Mar-24) 2)CARE A+; Stable (12-Sep-23)	1)CARE A; Stable (03-Jan-23) 2)CARE A; Stable (06-Oct-22)	1)CARE A; Stable (07-Jul-21) 2)CARE A; Stable (03-May-21)
2	Non-fund-based - ST-BG/LC	ST	960.00	CARE A1+	-	1)CARE A1+ (14-Mar-24) 2)CARE A1 (12-Sep-23)	1)CARE A1 (03-Jan-23) 2)CARE A1 (06-Oct-22)	1)CARE A1 (07-Jul-21) 2)CARE A1 (03-May-21)

3	Non-fund-based - LT/ ST-BG/LC	LT/ST	830.00	CARE AA-; Stable / CARE A1+	-	1)CARE A+; Positive / CARE A1+ (14-Mar-24) 2)CARE A+; Stable / CARE A1 (12-Sep-23)	1)CARE A; Stable / CARE A1 (03-Jan-23) 2)CARE A; Stable / CARE A1 (06-Oct-22)	1)CARE A; Stable / CARE A1 (07-Jul-21) 2)CARE A; Stable / CARE A1 (03-May-21)
4	Term loan-Long term	LT	1508.44	CARE AA-; Stable	-	1)CARE A+; Positive (14-Mar-24) 2)CARE A+; Stable (12-Sep-23)	1)CARE A; Stable (03-Jan-23) 2)CARE A; Stable (06-Oct-22)	1)CARE A; Stable (07-Jul-21) 2)CARE A; Stable (03-May-21)
5	Non-fund-based - ST-BG/LC	ST	210.00	CARE A1+	-	1)CARE A1+ (14-Mar-24) 2)CARE A1 (12-Sep-23)	1)CARE A1 (03-Jan-23) 2)CARE A1 (06-Oct-22)	1)CARE A1 (07-Jul-21) 2)CARE A1 (03-May-21)
6	Fixed deposit-FD (Long-term)/ FD (Short-term)	LT/ST	140.00	CARE AA-; Stable / CARE A1+	-	1)CARE A+; Positive / CARE A1+ (14-Mar-24) 2)CARE A+; Stable / CARE A1 (12-Sep-23)	1)CARE A; Stable / CARE A1 (03-Jan-23) 2)CARE A; Stable / CARE A1 (06-Oct-22) 3)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)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Not applicable

Annexure-4: Complexity level of various instruments rated

Sr. No.	Name of the 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: Lender details

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

Annexure-6: List of all entities consolidated

Name of the entity	Extent of Consolidation	Rationale for Consolidation	% Holding
J.K. International Ltd	Full	Subsidiary	100.00
J.K. Asia Pacific Ltd.	Full	Subsidiary	100.00
J.K. Asia Pacific (S) Pte. Ltd.	Full	Subsidiary	100.00
Lankros Holdings Ltd	Full	Subsidiary	100.00
Sarvi Holdings Switzerland AG	Full	Subsidiary	100.00
3DInnovations Private Ltd	Full	Subsidiary	100.00
JK Tornel S.A. de C.V	Full	Subsidiary	99.98
Comercializadora America Universal, S.A. de C.V.	Full	Subsidiary	99.98
Compania Hulera Tacuba, S.A. de C.V.	Full	Subsidiary	99.98
Compania Hulera Tornel, S.A. de C.V	Full	Subsidiary	99.98
Compania Inmobiliaria Norida, S.A. de C.V.	Full	Subsidiary	99.98
General de Inmuebles Industriales, S.A. de C.V.	Full	Subsidiary	99.98
Gintor Administracion, S.A. de C.V	Full	Subsidiary	99.98
Hules Y Procesos Tornel, S.A. de C.V	Full	Subsidiary	99.98
Cavendish Industries Ltd.	Full	Subsidiary	87.48
Valiant Pacific LLC	Proportionate	Associate	49.00
Western Tire Holdings, Inc	Proportionate	Associate	40.00
Western Tires, Inc.	Proportionate	Associate	40.00
Treel Mobility Solutions Pvt. Ltd.	Proportionate	Associate	26.00
Hari Shankar Singhania Elastomer and Tyre Research Institute (HASETRI)	Proportionate	Associate	24.00
Dwarkesh Energy Ltd.	Proportionate	Associate	35.00

Note on complexity levels of 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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