JK Tyre & Industries Ltd

July 05, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	3,658.98	**CARE A; Negative (Single A; Outlook: Negative)**	**Revised from CARE A+; Negative (Single A Plus; Outlook: Negative)**
Short-term Bank Facilities	1,100.00 (reduced from 1,506.02)	**CARE A1 (A One)**	**Revised from CARE A1+ (A One Plus)**
Long-term / Short-term Bank Facilities	350.00	**CARE A; Negative / CARE A1 (Single A; Outlook: Negative/ A One)**	**Revised from CARE A+; Negative / CARE A1+ (Single A Plus; Outlook: Negative/ A One Plus)**
Total facilities	**5,108.98 (Rupees Five thousand one hundred eight crore & ninety eight lakh only)**		
Short-term Bank Facilities-Commercial Paper issue*	300.00 (reduced from 900.00)	**CARE A1 (A One)**	**Revised from CARE A1+ (A One Plus)**
Long/ Short Term instruments-Fixed Deposit programme	140.00	**CARE A (FD); Negative/ CARE A1 (FD) (Single A [Fixed Deposit]; Outlook: Negative/ A One [Fixed Deposit])**	**Revised from CARE A+ (FD); Negative/ CARE A1+ (FD) (Single A Plus [Fixed Deposit]; Outlook: Negative/ A One Plus [Fixed Deposit])**

Details of instruments/facilities in Annexure-1
**carved out of the sanctioned fund-based working capital limits of the company.*

Detailed Rationale & Key Rating Drivers

CARE has taken a consolidated view of JK Tyre & Industries Limited (JKTI) in its analysis considering the enhanced debt in its subsidiaries and significant contribution from the same and also on account of strong operational linkages between JKTI & its subsidiaries.

The revision in the ratings for the bank facilities & instruments of JKTI takes into account lower than expected cash accruals leading to low coverage & return indicators and slower than expected deleveraging at a consolidated level which has led to weakening of the JKTI's overall financial & liquidity profile. The rating revision also factors in the working capital intensive nature of its operations and exposure to foreign currency fluctuation risks, raw material prices volatility and competitive nature of the industry. Further, the ratings also factor in the weak auto industry demand scenario & the rising raw material (natural rubber) prices.

The ratings however continue to draw strength from the experienced promoters & JKTI's long track record of operations, its established market position in the Truck and Bus Radial (TBR) segment coupled with its wide marketing and distribution network. CARE has also taken into account that the levy of additional CVD duty on new Chinese TBR for a period of five years in addition to the anti-dumping duty on the Chinese imports shall help JKTI to further consolidate its market position in the TBR segment. Going forward the ability of the company to scale-up its operations as envisaged while improving its overall profitability and also the capital structure shall be the key rating sensitivities.

Outlook: Negative

The continuation of the negative outlook is on account of CARE's belief that JKTI's consolidated financial profile may weaken further on account of volatility in the raw material prices and weak auto sector demand scenario. With its leveraged capital structure, high repayments in the years ahead and competitive nature of the industry, any increase in the raw material price & inability of JKTI to pass on the same may adversely impact its credit profile. The outlook may be revised back to Stable, in case JKTI as a group (including its subsidiaries), is able to enhance its overall operating

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

performance & scale of operations leading to higher than expected cash accruals & improvement in the consolidated credit risk profile of JKTI.

Detailed description of the key rating drivers
Key Rating Strengths
Experienced Promoters and management: JK Group is one of the leading conglomerates and has business interests across the globe, spanning over 105 countries. The promoters have 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. He is ably supported by a team of professionals in the day to day affairs.

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) in1977, 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. As on March 31, 2019, the company had 9 plants in India with overall capacity of 24.10 million tyres p.a. & 3 plants in Mexico with a consolidated capacity of 32 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 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 the TBR segment in JKTI & from PCR segment in JK Tornel. JKTI has a widespread distribution network across the country with about 4,500 dealers & 345 distributors. The company also has over 355 exclusive passenger car tyre retail outlets by the name of Steel Wheels and 114 Xpress Wheels for small town & semi urban markets which also caters to two-three wheelers. It also has 45 JK Tyre truck wheels (fully equipped tyre service centers offering total tyre solutions). Over the years, JKIL had taken several initiatives to improve the quality of service such as Fleet Management, 'JK Tyre Truck Wheels' service centers and 'JK Tyre Care' centers which offer one-stop solution for truck/bus tyre customers. JKTSA also has a distribution network of around 97 dealers & network of 144 third party distributors & 34 distributors for export, JKTSA has tied up with retail chains such as Walmart, Bodega and Tireco for selling its PCR through their outlets in Mexico as well as other parts of America.

Focus on high margin TBR segment with presence across market segments: 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 46% in FY14 to 61% in FY19 (refers to period from April 01 to March 31).

Key Rating Weaknesses

Moderate financial risk profile: JKTI's total operating income largely comprises from the domestic (India) operations which accounts for approximately ~88% of the total revenue, the balance being contributed by JKTSA (Mexican Operations). JKTI's operating income (consolidated) registered a 25% increase in FY19 over FY18 with higher volumes across categories especially TBR, Passenger Cars & light truck radials. The Sale volumes have picked up at a consolidated level from 185.58 lakh tyres in FY18 to 221.81 lakh tyres in FY19 registering a 20% volume uptick. The PBILDT margins though improved marginally to 10.98% as compared to 9.34% in FY18 however they continue to remain low as against the envisaged levels. The interest cost has further increased by 12% y-o-y to Rs 521 crore in FY19 on account of continuous high debt & also the working capital facilities remaining almost fully utilized throughout the year. JKTI has moderate Interest coverage at 2.19x as on March 31, 2019 (PY: 1.67x) & total debt to gross cash accruals continue to remain high at 10.08x as on March 31, 2019 (PY: 15.69x). In FY19, JKTI posted net extraordinary income of Rs 49 crore lifting its overall profitability & further an exceptional expense of ~Rs 89 crore on account of foreign exchange (fx) loss due to Rupee & Mexican pesos depreciating against USD in FY19 and voluntary retirement scheme (VRS) expense (fx: Rs 83.22 crore & VRS: Rs 5.73 crore). JKTIL has over the last two years rationalized its work force in JK Tornel and CIL significantly, which lowered employee costs.
The gearing level continues to remain at elevated levels on account of the continuous debt-funded capex in the past, acquisition debt in the books of CIL besides other routine capex and aligning CIL's production standards with that of JKTI, high working capital borrowings and dealer deposits (classified as long-term liability and included in debt). As on March 31, 2019 the overall gearing level (including LC backed creditors & dealer deposits) at consolidated level stood at 3.01x as compared to the overall gearing of 3.45x as on March 31, 2018.
JKTI further is planning a capex of Rs 675 crore which will be largely debt funded over the next 2-3 years to add truck and bus radial (TBR) capacities and improve operational efficiency. While this would moderate the reduction in debt levels as

against what was envisaged, timely capacity addition would however help the company to maintain its market share and strengthen its business risk profile.

Moderate Liquidity: Owing to the lower than envisaged profitability & cash accruals in FY19, the liquidity profile of JKTI has moderated. The average utilization at the maximum levels for the working capital facilities has also been 92% for 12 months ended March 2019, leaving little buffer in the cash credit lines. As on March 31, 2019, the total consolidated balance sheet debt stood at Rs 5758 crore (Mar 2018: Rs 5811 crore & Mar 2017: Rs 5655 crore). JKTI had a cash accrual of Rs 625 crore in FY19 & It has total debt repayment of Rs 536 crore in FY20. JKTI at a consolidated level also had a cash & bank balance of Rs 159.15 crore as on March 31, 2019. There was an equity infusion in JKTI by the promoters to the tune of Rs 200 crores in March 2019 which supported the gearing level marginally. These funds were infused by promoters via Bengal & Assam Co Ltd (holding entity for JKTI) by taking additional debt at the holding levels and the shares of JKTI to the extent of 16.24% of the total share capital of JK Tyre & Industries Ltd were pledged for the same.

Exposure to volatility in the raw material prices and exchange rate movement: Raw materials constitute around 60% of the total operating costs. Natural rubber is the major raw material for manufacturing tyres, constituting 50% of the total raw material costs. Rubber & 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 in FY19 stood at Rs 127.26/kg in FY19 as against Rs 137.23/kg in FY18 and Rs 124.59/Kg in FY17.
Natural rubber prices witnesses a sharp surge in the recent months and has reached the Rs 150-mark (per kg) in June 2019 for the benchmark RSS-4 grade after hovering around Rs 124-136 per kg for the first five months in 2019. The rise is on account of domestic supply constraints and tracking uptrend in rubber markets abroad as well. The uptrend in demand from foreign funds and increase in spot prices in Thailand, the largest producer of natural rubber in the world, helped the rally in the international market. The adverse weather conditions and the decision of Thailand to increase domestic consumption helped prices to move up in that country. Last year, rubber production in Kerala, which accounts for over 80% of the domestic output**,** was affected as the excessive rains and floods in the state led to spread of disease across plantations. The disease led to abnormal fall of leaves and affected production.
The current shortage of supply of natural rubber and carbon black for the domestic tyre industry may put pressures on the margins of the tyre makers in the medium term. The risk of sudden spurts of raw material affecting the profitability of the manufacturer is inherent to the structure of tyre industry. Tyre makers may take a price hike in the near future to support their margins, however any impact of the increased cost & prices increase shall remain critical for the industry.
Further, JKTI has exports, though limited as compared to imports along with foreign currency loan/borrowings (FCL), which exposes it to exchange rate fluctuation risks. With the presence of natural hedge it is able to mitigate some risk, however it remains exposed to foreign exchange fluctuation risks. JKTI booked a foreign exchange loss of Rs 83.22 crore in FY19 at a consolidated level due to rupee depreciation in H1FY19 as against an income in FY18 for Rs 4.28 crore. JKTI has a practice of partially hedging its net foreign exposure from time to time. In light of the foregoing, the company remains exposed to volatility in forex rates and the management of forex risks remains crucial.

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. Further, the replacement segment is the largest demand segment of the industry. In the last few years, movement in tyre production and sales for the OEM market has been in line with the automobile sales for the period. FY19 turned out to be a mixed bag for the domestic automobile industry. While the commercial vehicle industry registered growth, passenger vehicle manufacturers struggled, especially in the second half of the year. Crude oil prices started rising from March onwards and went up by over 45 per cent year-on-year between April-October 2018 as compared to the same period last year. Further, change in regulations in insurance, new axle load norms, etc sales started declining. While PV showed growth in the first part of the year, the challenge arose in keeping the trend on account of a high base in FY18. The speed of growth slowed down towards the end of the calendar year across segment with the fuel price increase, NBFC issues and high interest rates. In preparation of the new regulations with the transition from BS IV to BS VI fuel by April 2020, manufacturers may also hold back some new product introductions. At the same time, there will be some advancement of purchases in the last few months of the current financial year. Tyre companies have been hit with a double whammy as demand for tyres is stagnant due to the slowdown in auto sales and raw material prices have also started rising recently.
The increase in natural rubber prices will come with a lag effect, and would impact the tyre makers next quarter onwards. As far as the slowdown in tyre demand is concerned, while there is reduced demand from the OEMs, the replacement market shall however make up for the same. Replacement segment accounts for 59 per cent in the total tyre production whereas OEM share was 27 per cent and balance share is from exports.

JKTI plans to leverage its processes & brand to capture a major share in the said market over a period of time. There is an intense competition in the tyre industry. However, the established position of group provides relative insulation against the same.

Analytical approach
Consolidated – CARE has taken a consolidated approach in analyzing the overall credit profile of JK Tyre & Industries Ltd owing to strong operational linkages with its subsidiaries which are present in the same line of business.

Companies consider under consideration	Subsidiary/Associate	% of share held
J.K. International Ltd	Subsidiary	100
J.K. Asia Pacific Ltd.	Subsidiary	100
J.K. Asia Pacific (S) Pte. Ltd.	Subsidiary	100
Lankros Holdings Ltd	Subsidiary	100
Sarvi Holdings Switzerland AG	Subsidiary	100
JK Tornel S.A. de C.V	Subsidiary	99.96
Comercializadora America Universal, S.A. de C.V.	Subsidiary	99.96
Compania Hulera Tacuba, S.A. de C.V.	Subsidiary	99.96
Compania Hulera Tornel, S.A. de C.V	Subsidiary	99.96
Compania Inmobiliaria Norida, S.A. de C.V.	Subsidiary	99.96
General de Inmuebles Industriales, S.A. de C.V.	Subsidiary	99.96
Gintor Administracion, S.A. de C.V	Subsidiary	99.96
Hules Y Procesos Tornel, S.A. de C.V	Subsidiary	99.96
Cavendish Industries Ltd.	Subsidiary	80
3DInnovations Private Ltd	Subsidiary	100
Dwarkesh Energy Ltd.	Associate	35
Hari Shankar Singhania Elastomer and Tyre Research Institute(HASETRI)	Associate	24
Valiant Pacific LLC	Associate	49
Western Tire Holdings, Inc	Associate	40

Applicable Criteria
[CARE's Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[CARE's methodology for Short-term Instruments](#)
[CARE's Methodology for manufacturing companies](#)
[CARE's Methodology for factoring linkages in ratings](#)
[Financial ratios – Non-Financial Sector](#)

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 100 countries with nine plants in India and three in Mexico, with total consolidated capacity of 32 million tyres per annum.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income (2)	8,311.06	10,397.45
PBILDT	776.02	1141.60
PAT	63.32	170.57
Overall gearing (times)^	3.45	3.01
Interest coverage (times)	1.67	2.19

A: Audited

(2) Does not include one-time income of Rs 102 Crores in FY18 & Rs 48 crore in FY19.
^Including Dealer Deposits

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; Negative
Non-fund-based - ST-BG/LC	-	-	-	1000.00	CARE A1
Non-fund-based - LT/ ST-BG/LC	-	-	-	350.00	CARE A; Negative / CARE A1
Term Loan-Long Term	-	-	March 2033	1958.98	CARE A; Negative
Fund-based - ST-Term loan	-	-	-	100.00	CARE A1
Fixed Deposit-FD (Long-term)/ FD (Short-term)	-	-	-	140.00	CARE A; Negative / CARE A1

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based-Long Term	LT	1700.00	CARE A; Negative	-	1)CARE A+; Negative (05-Oct-18)	1)CARE A+; Stable (11-Aug-17) 2)CARE AA-; Negative (05-Apr-17)	1)CARE AA-; Stable (01-Dec-16) 2)CARE AA- (22-Sep-16)
2.	Non-fund-based - ST-BG/LC	ST	1000.00	CARE A1	-	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (11-Aug-17) 2)CARE A1+ (05-Apr-17)	1)CARE A1+ (01-Dec-16) 2)CARE A1+ (22-Sep-16)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	350.00	CARE A; Negative / CARE A1	-	1)CARE A+; Negative / CARE A1+ (05-Oct-18)	1)CARE A+; Stable / CARE A1+ (11-Aug-17) 2)CARE AA-; Negative / CARE A1+ (05-Apr-17)	1)CARE AA-; Stable / CARE A1+ (01-Dec-16) 2)CARE AA- / CARE A1+ (22-Sep-16)
4.	Term Loan-Long Term	LT	1958.98	CARE A;	-	1)CARE A+;	1)CARE A+;	1)CARE AA-;

				Negative		Negative (05-Oct-18)	Stable (11-Aug-17) 2)CARE AA-; Negative (05-Apr-17)	Stable (01-Dec-16) 2)CARE AA- (22-Sep-16) 3)CARE AA- (14-Jun-16)
5.	Fund-based - ST-Term loan	ST	100.00	CARE A1	-	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (11-Aug-17) 2)CARE A1+ (05-Apr-17)	1)CARE A1+ (01-Dec-16) 2)CARE A1+ (22-Sep-16)
6.	Commercial Paper-Commercial Paper (Carved out)	ST	300.00	-	1)CARE A1 (28-June-19)	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (11-Aug-17) 2)CARE A1+ (05-Apr-17)	1)CARE A1+ (16-Feb-17) 2)CARE A1+ (21-Dec-16) 3)CARE A1+ (01-Dec-16) 4)CARE A1+ (22-Sep-16)
7.	Commercial Paper	ST	-	-	1)Withdrawn (09-Apr-19)	1)CARE A1+ (05-Oct-18)	1)CARE A1+ (11-Aug-17) 2)CARE A1+ (05-Apr-17)	1)CARE A1+ (01-Dec-16) 2)CARE A1+ (22-Sep-16) 3)CARE A1+ (04-May-16)
8.	Fixed Deposit-FD (Long-term)/ FD (Short-term)	LT/ST	140.00	CARE A; Negative / CARE A1	-	1)CARE A+; Negative / CARE A1+ (05-Oct-18)	1)CARE A+ (FD); Stable / CARE A1+ (FD) (11-Aug-17) 2)CARE AA- (FD); Negative / CARE A1+ (FD) (05-Apr-17)	1)CARE AA- (FD); Stable / CARE A1+ (FD) (01-Dec-16) 2)CARE AA- (FD) / CARE A1+ (FD) (22-Sep-16) 3)CARE AA- (FD) / CARE A1+ (FD) (04-May-16)

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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