

BUY

Price	Rs90
Target Price	Rs121
Investment Period	12 Months

Stock Info

Sector	Tyre
Market Cap (Rs cr)	369
Beta	0.7
52 WK High / Low	105 / 29
Avg. Daily Volume	20654
Face Value (Rs)	10
BSE Sensex	14,745
Nifty	4,375

BSE Code	530007
NSE Code	JKTYRE
Reuters Code	JKIN.BO
Bloomberg Code	JKI@IN

Shareholding Pattern (%)

Promoters	47.0
MF/Banks/Indian FIs	32.0
FII/ NRIs/ OCBs	1.2
Indian Public/others	19.8

Abs.	3m	1yr	3yr
Sensex (%)	33.8	12.5	43.2
JK Ind (%)	93.2	1.5	16.2

Girish Solanki

Tel: 022 – 4040 3800 Ext: 319
 e-mail: girish.solanki@angeltrade.com

V. Srinivasan

Tel: 022 – 4040 3800 Ext: 330
 e-mail: v.srinivasan@angeltrade.com

Performance Highlights

P.S. JK Tyre has changed its accounting year from September to March end. Accordingly, the last financial year for the company was of 18-months (6 quarters) ending March 2009.

■ **1QFY2010 Top-line growth at 5.7%:** JK Tyre & Industries' (JK Tyre) Top-line grew 5.7% yoy to Rs897.7cr (Rs849.1cr) in 1QFY2010. Sales Volume for the quarter stood at 2.14mn units as against 1.97mn units in 3QFY2009, an increase of 8.4%. During the quarter, the company concentrated more on the Replacement market than the OEM Segment. Further, the company also achieved better product mix by increasing the share of premium products in total sales. The reduction in Excise Duty on tyres from 14% to 8% also aided demand. However, on tonnage terms, there was a decline of 2.9% yoy to 60,040MT (61,854MT).

■ **OPM at 11.5%:** On the Operating front, the company earned Profit of Rs103.6cr (Rs74.9cr). OPM for the quarter stood at 11.5%, up 270bp yoy. The company's average Selling price increased 3.7% yoy during the quarter, while raw material price de-grew 3.4%. The company attributed the substantial expansion in OPM to its cost reduction measures, better operating efficiencies and richer product mix.

■ **Net Profit spurts 101.3%:** During the quarter, JK Tyre recorded a phenomenal 101.3% increase in Net Profit to Rs40.8cr (Rs20.2cr), primarily on account of a robust operational performance. Also, going ahead, the company expects to record similar performance on the back of the more-than-doubling of its Truck and Bus Radial (TBR) tyre capacity.

■ **Radial Capacity Expansion:** JK Tyre recently completed its TBR expansion at a cost of Rs315cr. Post this commissioning the company's total capacity now enhanced at 8 lakh TBR tyres per annum from the earlier 3.67 lakh. The company expects to derive complete benefits of the expansion 3QFY2010 onwards. JK Tyre, which expects its Truck radial capacity to be one of its key growth drivers, plans to increase its Radial capacity by another 4 lakh tyres over the next three years.

Key Financials (Standalone)

Y/E March (Rs cr)	FY2007	FY2009	FY2010E	FY2011E
Net Sales	2,795	4,904	3,558	3,807
% chg	7.9	75.4	(27.4)	7.0
Net Profit	66.7	18.9	115.8	123.8
% chg	293.0	(71.7)	513.1	6.9
OPM (%)	9.1	6.0	9.9	9.8
EPS (Rs)	21.7	4.6	28.2	30.1
P/E (x)	4.1	19.5	3.2	3.0
P/BV (x)	0.5	0.5	0.5	0.4
RoE (%)	12.5	2.7	14.6	13.7
RoCE (%)	11.5	9.4	13.0	12.9
EV/Sales (x)	0.4	0.3	0.4	0.2
EV/EBITDA (x)	4.3	4.8	4.0	2.3

Source: Company, Angel Research

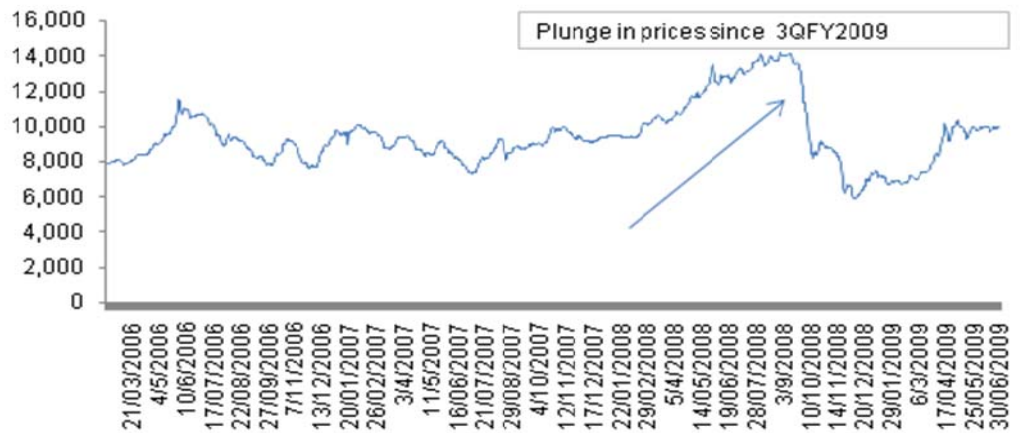
Operational Performance

During the quarter, the company’s production volumes stood at 1.97mn units (1.88mn units), up 4.9% yoy. On tonnage terms, the company’s production stood at 53,618MT (53,421MT), up 0.4% yoy.

Key Developments

The price of Natural rubber, which dropped phenomenally over the past few quarters showed signs of stabilising in 1QFY2010 and was trading between Rs90-95kg for most of the quarter. The prices of crude related raw materials, which declined substantially till March 2009, are now in an upward trend, but still well below the historic highs witnessed in June 2008.

Exhibit 1: Natural Rubber Prices Trend (Rs/100kg)



Source: C-line, Angel research

The company is currently expanding its OTR capacity primarily for Bharat Earth Movers (BEML) at a cost of Rs120cr. The project is progressing well and is expected to be commissioned in 4QFY2010. The company has in fact delivered the first batch of ultra large sized tyres to BEML ahead of schedule.

Update on Tornel Operations

JK Tyre had acquired Tornel, Mexico in June 2008 for a consideration of around Rs270cr. Tornel was acquired by JK through a 100% special purpose vehicle. JK Tyre is yet to declare its consolidated financial statements post the Tornel acquisition. However, during the post result conference call, the company threw some light on Tornel’s operations. Tornel, which has a total capacity of 6.6mn tonnes per annum, will report a total turnover in excess of \$250mn in CY2009. The company further added that Tornel’s operations are profitable and it currently has zero debt on its book.

Outlook and Valuation

The Tyre industry, which reeled under high input costs during the first three quarters of FY2009, is on recovery path due to the major decline in raw material prices. The turnaround in the fortunes of the industry during the past two quarters has largely been on account of the substantial decline in the rubber prices and other crude-based raw materials. However, demand-side pressures continue to exist with the Auto industry continuing to reel under effects of the economic slow-down. On a positive note, there are signs of mild revival in the domestic auto industry, which is expected to augur well for players of the Tyre industry.

JK Tyre has delivered an impressive 1QFY2010 performance, which is well ahead of our estimates. The company has managed to deliver good set of numbers despite the downturn which has severely affected all the sectors of the economy. Going ahead, the company's growth is expected to be primarily driven by its expansion both in India and abroad. In all, the company has planned total capex of Rs550cr over the next 2-3 years. We expect JK Tyre is in for good times going ahead, on account of the turn-around being witnessed in the Auto industry and due to the stabilising commodity prices. We are upgrading our FY2010E Profit estimates to Rs115cr (earlier Rs56.2cr) on the back of superior first quarter performance. The stock is currently trading at 3.2x FY2010E and 3.0x FY2011E Earnings. **We recommend a Buy on the stock with a Target Price of Rs121, implying an upside of 34% from current levels.**

Exhibit 2: 1QFY2010 Performance

Y/E March (Rs cr)	Qtr ended June'09	Qtr ended June'08	% chg
Net Sales	897.7	849.1	5.7
Consumption of RM	571.3	564.5	1.2
(% of Sales)	63.6	66.5	
Purchase of Finished Goods	13.3	13.9	(3.9)
(% of Sales)	1.5	1.6	
Staff Costs	58.5	51.8	12.9
(% of Sales)	6.5	6.1	
Other Expenses	151.0	144.0	4.9
(% of Sales)	16.8	17.0	
Total Expenditure	794.1	774.2	2.6
Operating Profit	103.6	74.9	38.4
OPM (%)	11.5	8.8	
Interest	25.8	25.8	0.2
Depreciation	19.2	18.1	5.6
Other Income	3.5	2.9	22.9
PBT (excl. Extr. Items)	62.2	33.9	83.6
Extr. Income/(Expense)	-	-	
PBT (incl. Extr. Items)	62.2	33.9	83.6
(% of Sales)	6.9	4.0	
Provision for Taxation	21.4	13.6	57.2
(% of PBT)	34.4	40.2	
Reported PAT	40.8	20.2	101.3
PATM (%)	4.5	2.4	
Equity shares (cr)	41.1	30.8	
EPS (Rs)	9.9	6.6	

Source: Company, Angel Research



Research Team: Tel: 4040 3800

E-mail: research@angeltrade.com

Website: www.angeltrade.com

DISCLAIMER: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Persons into whose possession this document may come are required to observe these restrictions.

Opinion expressed is our current opinion as of the date appearing on this material only. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true and are for general guidance only. While every effort is made to ensure the accuracy and completeness of information contained, the company takes no guarantee and assumes no liability for any errors or omissions of the information. No one can use the information as the basis for any claim, demand or cause of action.

Recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions - futures, options and other derivatives as well as non-investment grade securities - involve substantial risks and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Angel Broking, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Angel Broking and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

Angel Broking Limited and affiliates, including the analyst who has issued this report, may, on the date of this report, and from time to time, have long or short positions in, and buy or sell the securities of the companies mentioned herein or engage in any other transaction involving such securities and earn brokerage or compensation or act as advisor or have other potential conflict of interest with respect to company/ies mentioned herein or inconsistent with any recommendation and related information and opinions.

Angel Broking Limited and affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Sebi Registration No : INB 010996539

Ratings (Returns) :	Buy (Upside > 15%)	Accumulate (Upside upto 15%)	Neutral (5 to -5%)
	Reduce (Downside upto 15%)	Sell (Downside > 15%)	