

BUY

Price	Rs96
Target Price	Rs133
Investment Period	12 Months

Stock Info

Sector	Tyre
Market Cap (Rs cr)	394
Beta	0.87
52 WK High / Low	195 /81
Avg Daily Volume	43142
Face Value (Rs)	10
BSE Sensex	14,275
Nifty	4,312
BSE Code	530007
NSE Code	JKTYRE
Reuters Code	JKIN.BO
Bloomberg Code	JKI IN

Shareholding Pattern (%)

Promoters	47.0
MF/Banks/Indian FIs	31.1
FII/ NRIs/ OCBs	2.3
Indian Public	19.6

Abs.	3m	1yr	3yr
Sensex (%)	(16.6)	(9.1)	90.2
JK Tyre (%)	(23.1)	(31.3)	(10.2)

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Performance Highlights

- Top-line growth at 17.7% in 3QFY2008:** JK Tyre & Industries' (JK) Top-line grew 17.7% yoy to Rs849.1cr (Rs721.7cr) in 3QFY2008. This increase was on the back of an 8.8% increase in tonnage and the rest of the growth came on account of higher realisations. We expect better performance in Top-line next quarter on account of the price hike taken by the company.
- EBITDA Margin falls by 84bp:** While the company reported good Top-line growth, Margins declined on account of high rubber prices, which constitutes 53% of the raw material cost. EBITDA Margins were down by 84bp. Margins also took a hit during the quarter because of the increase in Staff costs, which went up by 22%.
- Bottom-line remains flat:** The company's Bottom-line remained flat at Rs20.2cr (Rs20.2cr). This was on account of lower Margins and higher Tax rate of 40.2% (35.4%). The company is still well placed this quarter v/s its peers like MRF, which has reported a 25% decline in Profits and CEAT, which has reported a loss. Moreover, JK hiked its tyre prices in July by 5-7% in line with the other industry players. We believe this will act as a cushion against the surge in raw material prices and mitigate the Margin pressures to some extent.
- Acquires Mexican Tyre company:** Acquisition of the Mexican tyre firm, Tornel, at Rs270cr and which clocked Top-line of Rs800cr in CY2007, is expected to increase JK's size further. The company has also lined up expansion plans worth Rs480cr, which is expected to propel its future growth.

Key Financials

Y/E Sept (Rs cr)	FY2006	FY2007	FY2008E	FY2009E
Net Sales	2,589.8	2,795.1	3,258.3	3,609.0
% chg	24.6	7.9	16.6	10.8
Net Profit	17.0	66.7	78.5	68.2
% chg	(2.6)	293.0	17.7	(13.2)
OPM (%)	5.8	9.1	8.4	7.6
EPS (Rs)	3.9	21.7	19.1	16.6
P/E (x)	24.6	4.4	5.0	5.8
P/BV (x)	0.5	0.6	0.5	0.5
RoE (%)	2.9	12.5	10.7	8.6
RoCE (%)	5.2	11.5	10.6	9.6
EV/Sales (x)	0.5	0.5	0.4	0.4
EV/EBITDA (x)	9.0	5.3	4.9	4.9

Source: Company, Angel Research

Key Developments – FY2008

In June 2008, JK's Board of Directors approved a 1:3 Rights issue at Rs85 per share including premium of Rs75 per share. The Rights issue will result in 33% equity dilution of the company.

The company's subsidiary, Sunrise Hold Co. Mexico, S.A. DE C.V. has acquired 100% holding and management control of Mexican Tyre Company Empresas Tornel, S.A. DE C.V. along with its subsidiaries (Tornel Group) for a consideration of Rs270cr. The acquisition formalities were completed during this quarter. Not much data has been disclosed about this company except that it has a capacity of 230tpd and did an annual turnover of Rs800cr in CY2007, with a marginal loss.

Rubber prices account for around 60% of the cost of tyres and have been steadily rising in the past few months. JK Industries has also increased its product prices for the non-commercial vehicles in the third week of July 2008.

Outlook and Valuation

Operating Margins of the company are highly sensitive to the changes in raw material costs. Raw materials constituted approximately 66.3% of the company's Net Sales in FY2007. Petroleum-based raw materials and natural rubber constituted approximately 90% of the company's total raw material costs. In the past two years, these costs have been escalating rapidly and have been the single most important factor affecting JK's Operating Profits. Going ahead, any increase in the cost of the raw materials could impact the company's Margins if they are not passed on.

The Tyre industry is facing tough times on account of the increase in the cost of raw materials, particularly natural rubber and petroleum-based raw materials. Although the raw material prices have increased considerably, JK was not able to entirely pass on the increases to its customers during the quarter due to the highly competitive markets. This resulted in OPMs declining. The company however, hiked the tyre prices in July in line with the other players.

We expect the company to post a CAGR of 13.3% in Revenue and 4.2% in PAT over FY2007-09E. We expect Margins to contract by 130bp owing to increased prices of Rubber and Petroleum-based raw material. The stock is currently trading at FY2009E EV/Sales of 0.4x and EV/EBITDA of 4.9x. **We maintain a Buy on the stock, with a Target Price of Rs133.**

Exhibit 1: 3QFY2008 Performance						
Y/E Sept (Rs cr)	3QFY2008	3QFY2007	% chg	9MFY2008	9MFY2007	% chg
Net Sales	849.1	721.7	17.7	2,401.9	2,126.0	13.0
Consumption of RM	564.5	475.3	18.8	1,571.6	1,425.3	10.3
(% of Sales)	66.5	65.9		65.4	67.0	
Purchase of Finished Goods	13.9	-		36.8	12.9	184.4
(% of Sales)	1.6	-		1.5	0.6	
Staff Costs	51.8	42.4	22.1	147.7	125.0	18.1
(% of Sales)	6.1	5.9		6.1	5.9	
Other Expenses	144.0	134.3	7.2	419.0	383.8	9.2
(% of Sales)	17.0	18.6		17.4	18.1	
Total Expenditure	774.2	652.0	18.7	2,175.0	1,947.0	11.7
Operating Profit	74.9	69.7	7.5	226.9	179.0	26.8
OPM (%)	8.8	9.7		9.4	8.4	
Interest	25.8	22.4	14.8	73.1	64.3	13.8
Depreciation	18.1	18.9	(3.8)	56.8	56.7	0.2
Other Income	2.9	2.9	1.1	9.4	8.0	18.4
PBT (excl. Extr. Items)	33.9	31.2	8.4	106.4	66.0	61.3
Extr. Income/(Expense)	-	-		-	-	
PBT (incl. Extr. Items)	33.9	31.2	8.4	106.4	66.0	61.3
(% of Sales)	4.0	4.3		4.4	3.1	
Provision for Taxation	13.6	11.0	23.4	41.4	23.8	73.6
(% of PBT)	40.2	35.4		38.9	36.1	
Reported PAT	20.2	20.2	0.2	65.0	42.1	54.4
PATM (%)	2.4	2.8		2.7	2.0	
Equity shares (cr)	30.8	30.8		30.8	30.8	
EPS (Rs)	6.6	6.6		21.1	13.7	
Adj PAT	20.2	20.2	0.2	65.0	42.1	54.4

Source: Company, Angel Research



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