

JK Tyre

Performance Highlights

Y/E March (Rs cr)	1QFY11	1QFY10	% chg (yoy)	Angel Est.	% Diff
Net Sales	1,168	901	29.7	1,102	6.0
Operating Profit	73	107	(31.4)	60	21.4
OPM (%)	6.3	12	(558)bp	5.5	80bp
Reported PAT	20	41	(52.1)	16	22

Source: Company, Angel Research

JK Tyre reported better-than-expected top-line growth, following higher off-take in OE volumes. The EBITDA margin came slightly ahead of our expectations at 6.3%, registering a 558bp yoy decline due to a sharp increase in rubber prices. As a result, net profit fell 52.1%; however, it came in ahead of our expectations.

Owing to attractive valuations, we maintain a Buy on the stock.

Top line up 29.7%; OPM at 6.3%, ahead of expectations: JK Tyre reported a turnover of Rs1,168cr (Rs901cr) for 1QFY2011, an increase of 29.7% yoy. Top-line growth was aided by volume growth of ~15.7% in tonnage terms and ~13% growth in net sales realisation. The company posted a 31.4% yoy decline in operating profit to Rs73cr (Rs107cr) for 1QFY2011. Operating margin dipped on a yoy and qoq basis primarily due to a spurt in rubber prices leading to a substantial 780bp yoy increase in raw-material cost at 72.7% (64.9%) of sales in 1QFY2011. JK Tyre reported net profit of Rs19.5cr (Rs40.8cr) for the quarter, which was better than our expectation of Rs16cr.

Attractive valuations: We broadly maintain our earnings estimates for FY2011–12E. We estimate the company to post EPS of Rs39.6 in FY2011E and Rs47.6 in FY2012E. At current levels, the stock is available at attractive valuations of 4.1x and 3.4x FY2011E and FY2012E EPS, respectively. We maintain a Buy on the stock with a Target Price of Rs238, at which level the stock would trade at 5x, 3.3x and 0.8x FY2012E EPS, EV/EBITDA and P/BV, respectively.

Key Financials (Consolidated)

Y/E March (Rs cr)	FY2009*	FY2010	FY2011E	FY2012E
Net Sales (includes otr. op. inc.)	5,523	4,571	5,611	6,310
% chg	97.6	(17.2)	22.8	12.5
Net Profit	(108.0)	219.7	162.5	195.6
% chg	-	-	(26.1)	20.4
OPM (%)	3.0	11.0	8.9	9.5
EPS (Rs)	(26.3)	53.5	39.6	47.6
P/E (x)	(6.2)	3.1	4.1	3.4
P/BV (x)	1.0	0.8	0.7	0.6
RoE (%)	12.8	6.6	9.7	16.6
RoCE (%)	3.9	18.6	15.7	15.9
EV/Sales (x)	0.3	0.4	0.3	0.3
EV/EBITDA (x)	11.7	3.3	3.9	2.8

Source: Company, Angel Research; Note: *FY2009 numbers are for the 18-month period

BUY

CMP	Rs163
Target Price	Rs238

Investment Period	12 Months
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Stock Info	
Sector	Tyre
Market Cap (Rs cr)	661
Beta	0.9
52 Week High / Low	236/88
Avg. Daily Volume	160,339
Face Value (Rs)	10
BSE Sensex	18,051
Nifty	5,418
Reuters Code	JKIN.BO
Bloomberg Code	JKI@IN

Shareholding Pattern (%)	
Promoters	47.0
MF / Banks / Indian Fls	29.5
FII / NRIs / OCBs	9.4
Indian Public / Others	14.1

Abs. (%)	3m	1yr	3yr
Sensex	6.2	17.1	25.7
JK Tyre	(8.6)	75.1	18.0

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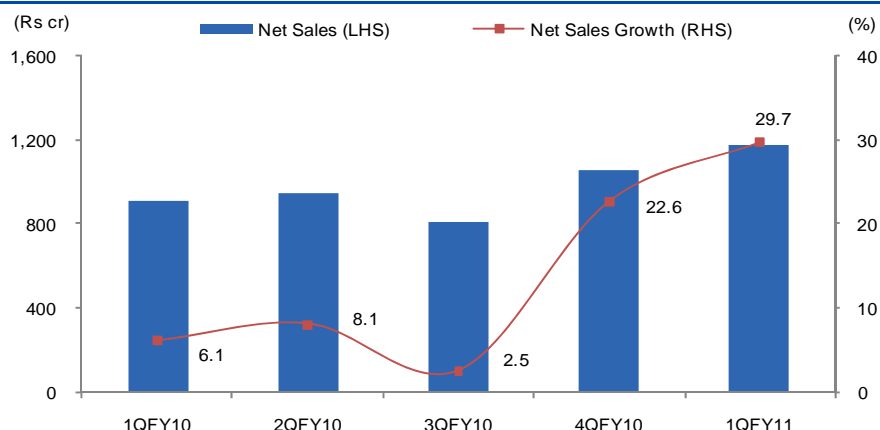
Exhibit 1: Quarterly performance (Standalone)

Y/E March (Rs cr)	1QFY11	1QFY10	% chg	FY10	FY09*	% chg
Net Sales (incl. otr. op. inc.)	1,168.0	900.7	29.7	3,692	4,922	(25.0)
Consumption of RM (% of Sales)	840.4 72.0	571.3 63.4	47.1	2,333 63.2	3,395 69.0	(31.3)
Staff Costs (% of Sales)	64.0 5.5	58.5 6.5	9.4	254.0 6.9	295.0 6.0	(13.9)
Purchase of TG (% of Sales)	8.3 0.7	13.3 1.5	(38.0)	36.8 1.0	71.9 1.5	(48.8)
Other Expenses (% of Sales)	182.3 15.6	151.0 16.8	20.7	648.4 17.6	848.2 17.2	(23.6)
Total Expenditure	1,095	794.1	37.9	3,272	4,610	(29.0)
Operating Profit	73.1	106.6	(31.4)	419.5	311.8	34.6
OPM (%)	6.3	11.8		11.4	6.3	
Interest	20.8	25.8	(19.4)	88.7	157.8	(43.8)
Depreciation	22.3	19.2	16.5	86.0	113.4	(24.2)
Other Income	0.2	0.5	(70.6)	0.8	1.3	(39.5)
PBT (excl. Extr. Items)	30.1	62.2	(51.5)	245.7	41.9	486.2
(% of Sales)	2.6	6.9		6.7	0.9	
Provision for Taxation (% of PBT)	10.6 35.2	21.4 34.4	(50.4)	82.2 33.5	22.9 54.5	259.6
PAT Reported	19.5	40.8	(52.1)	163.5	19.0	758.1
PATM (%)	1.7	4.5		4.4	0.4	
Equity capital (cr)	41.1	41.1		41.1	41.1	
EPS (Rs)	4.8	9.9	(52.1)	39.8	4.6	758.1

Source: Company, Angel Research; Note: *FY2009 numbers are for the 18-month period

Top line up 29.7%: JK Tyre reported 29.7% yoy growth in net sales to Rs1,168cr (Rs900.7cr) in 1QFY2011. In tonnage terms, the company registered ~15.7% yoy growth in volume, while net sales realisation grew ~13% during 1QFY2011. JK Tyre hiked the prices of its products by ~4% in 1QFY2011 to pass through the raw-material cost increases. On the utilisation front, JK Tyre operated at higher utilisation levels of ~95%.

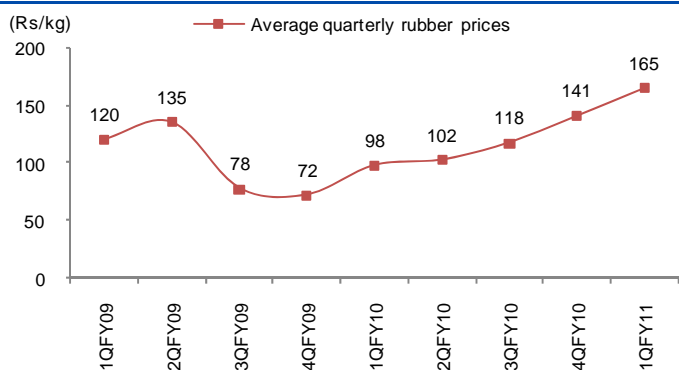
Exhibit 2: Net sales up on account of a revival in automobile volumes



Source: Company, Angel Research

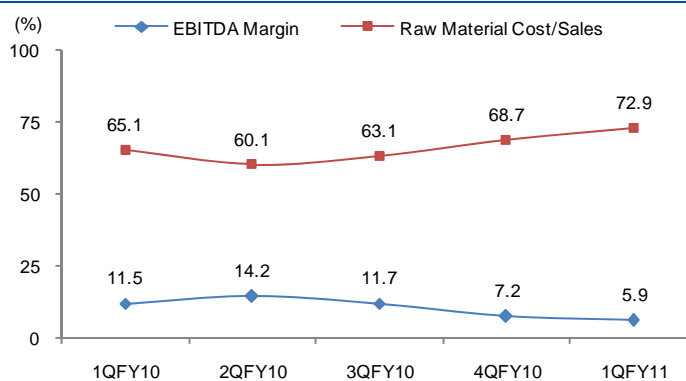
OPM contracts 558bp due to increased raw-material cost: The company's operating profit declined 31.4% yoy to Rs73.1cr (Rs106.6cr), which was ahead of our estimates. The margin declined by 558bp yoy and 170bp qoq primarily on account of the 780bp yoy jump in raw-material cost. Despite the increase in product prices, the company could not fully recover the increase in rubber costs. The average procurement price of rubber for the company in 1QFY2011 stood at Rs158/kg compared to Rs148/kg in 4QFY2011 and Rs100/kg in 1QFY2010. The company has hiked prices by ~11% in 4QFY2010 and 1QFY2011 and has guided subsequent price hikes in the event of increasing rubber prices.

Exhibit 3: Substantial increase in rubber prices...



Source: Company, Angel Research

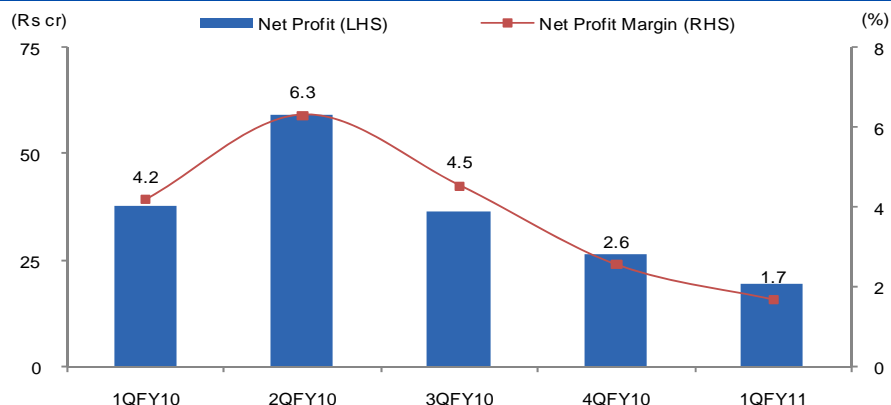
Exhibit 4: ... led to EBITDA margin contraction



Source: Company, Angel Research

Net profit at Rs19.5cr, down 52.1%: JK Tyre recorded a 52.1% yoy decrease in net profit to Rs19.5cr (Rs40.8cr) during the quarter, primarily on account of margin contraction. However, the bottom line came in ahead of our expectations. The drop in net profit growth was restricted due to a decline in interest expense, which was down 19.4% during the quarter.

Exhibit 5: Net profit ahead of estimates



Source: Company, Angel Research

Conference call – Key highlights

- During the quarter, JK Tyre benefitted from robust tyre demand, led by buoyant economic growth and increased off-take in OE volumes. As a result, utilisation levels for truck and nylon radial stood at ~100% and that for car radial stood between 90–92%. Overall, the company’s utilisation level came in the range of 95%–96% during 1QFY2011.
- During the quarter, of the total sales revenue, 65% was derived from the truck and bus radial (TBR) segment and 35% was derived from the car (radial and bias) segment. Within TBR, 18–20% revenue came in from OE and the rest from replacement, whereas in the car segment, 45–50% revenue came in from OEM and the rest from replacement. Volumes grew ~15.7% in tonnage terms and net sales realisation grew 13% during 1QFY2011. The company sold 21.5 lakh tyres during the quarter.
- The company increased its product prices by ~11% in the 4QFY2010 and 1QFY2011, with a ~4% increase during 1QFY2011. Average rubber prices for the company stood at Rs158/kg during 1QFY2011, compared to Rs148/kg in 4QFY2010 and Rs100/kg in 1QFY2010. Rubber prices are currently trading at Rs190/kg. Rubber, NTC fabric and carbon black prices have increased by 60%, 26% and 28% yoy, respectively. Management has indicated that rubber prices cannot sustain at these levels and expects prices to come down. The company was not able to pass on the entire rubber price hike; and if prices remain at the current level, the company would increase its product prices again going forward.
- The company is maintaining its raw-material inventory of 18–20 days. Debt levels as of June 2010 stood at Rs830cr (Rs860cr as of March 2010).
- Recovery in North America and South America is slower than that in domestic markets. Capacity utilisation levels stood at Tornel are around 75–80% and operating margins came in at ~4%.

- JK Tyre is setting up a green field facility in Chennai at a cost of Rs1,500cr. Phase I will entail a capex of Rs9,330cr and would be completed by end-2011. The remaining Rs600cr will be incurred in Phase II, which would be completed in 18 months from the completion of Phase I. The existing domestic capacity of 97 lakh tyres would be increased to 125.86 lakh tyres by the end of Phase I and further to 155 lakh tyres by the end of Phase II. Overall capacity will increase to 158 lakh tyres by the end of Phase I and to 193 lakh tyres by the end of Phase II.

Investment arguments

- **Margins to increase on account of high investment on radials:** Currently, manufacturing radial tyres is far more capital-intensive than manufacturing cross-ply tyres. Investment per TPD is 3.2x of cross-ply at Rs6.1cr per TPD. On the other hand, selling prices of radial tyres are about 20% higher than cross-ply tyres. Considering the difference in capital requirements and the consequent impact on asset turnover, interest cost and depreciation cost, to generate similar RoCE and RoE, tyre companies would need to earn EBITDA margin of around 21% compared to around 9% being earned on cross-ply tyres. Thus, higher capital requirements will help protect margins from upward bound input costs, as the business model evolves bearing in mind final RoEs rather than margins. We believe the expected structural shift and apparent pricing flexibility in the sector will result in improved RoCE and RoE of tyre manufacturers going forward.
- **Favourable product mix:** The commissioning of its new T&B radial capacity in October 2009 (up from 0.4mn to 0.8mn tyres), expansion of the PCR capacity by 10% to 5mn tyres for FY2011E and the planned increases in the OTR segment for FY2010E are working in favour of JK Tyre. Given the shortage of radial tyres in the T&B segment, the company is in a pole position to fully utilise its enhanced capacity at higher realisations (75% of India's total truck/bus radial tyre production).
- **Tornel's acquisition turns profitable:** The buyout of Tornel could act as an upside trigger for JK Tyre's stock. The acquisition has already turned profitable in FY2010, reporting net profit of Rs60cr in FY2010 from net loss of Rs39.9cr in FY2009, aided by the ongoing restructuring exercise implemented by the company.

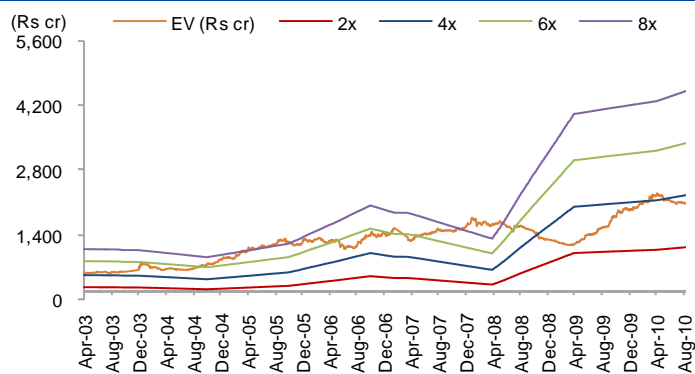
Outlook and valuation

Attractive valuations: We broadly maintain our earnings estimates for FY2011–12E. We estimate the company to post EPS of Rs39.6 in FY2011E and Rs47.6 in FY2012E. At current levels, the stock is available at attractive valuations of 4.1x and 3.4x FY2011E and FY2012E EPS, respectively. **We maintain a Buy on the stock with a Target Price of Rs238, at which level the stock would trade at 5x, 3.3x and 0.8x FY2012E EPS, EV/EBITDA and P/BV, respectively.**

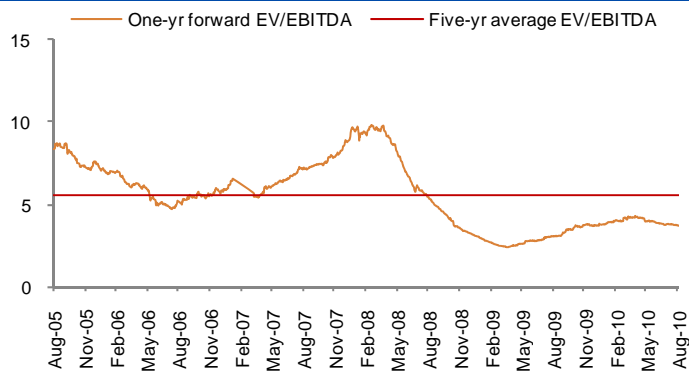
Exhibit 6: Angel v/s consensus forecast

	Angel estimates		Consensus		Variation (%)	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Net Sales (Rs cr)	5,611	6,310	5,178	5,655	8.4	11.6
EPS (Rs)	39.6	47.6	41.8	48.5	(5.1)	(1.8)

Source: Bloomberg, Angel Research

Exhibit 7: One-year forward EV/EBITDA band


Source: Company, Bloomberg, Angel Research

Exhibit 8: One-year forward EV/EBITDA chart


Source: Company, Bloomberg, Angel Research

Exhibit 9: Tyres - Recommendation summary

Company	Reco.	CMP (Rs)	Tgt. price (Rs)	Upside (%)	P/E (x)		EV/EBITDA (x)		RoE (%)		FY10-12E EPS
					FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	CAGR (%)
Apollo Tyres*	Buy	63	79	25.1	8.0	6.4	5.2	4.4	24.1	16.9	(12.9)
JK Tyre*	Buy	163	238	45.8	4.1	3.4	3.9	2.8	9.7	16.6	(5.6)
Ceat	Buy	134	164	22.4	5.3	3.3	5.1	3.7	18.7	15.0	(7.7)

Source: Company, Angel Research; Note: * FY2011E and FY2012E EPS on consolidated basis

Profit and Loss Statement (Consolidated)

Y/E March (Rs cr)	FY07	FY09*	FY10	FY11E	FY12E
Gross sales	3,196	6,109	4,849	6,139	6,934
Less: Excise duty	400.6	586.7	278.6	528.0	624.1
Net Sales	2,795	5,523	4,571	5,611	6,310
Total operating income	2,795	5,523	4,571	5,611	6,310
% chg	7.9	97.6	(17.2)	22.8	12.5
Total Expenditure	2,540	5,358	4,069	5,112	5,710
Net Raw Materials	1,854	3,926	2,841	3,759	4,228
Other Mfg costs	234.5	449.9	351.7	426.5	473.2
Personnel	176.7	382.0	432.1	448.9	473.2
Other	275.4	600.4	444.0	477.0	536.3
EBITDA	254.7	164.9	502.0	499.4	599.4
% chg	25.7	-	-	(0.5)	20.0
(% of Net Sales)	9.1	3.0	11.0	8.9	9.5
Depreciation & Amortisation	75.4	122.5	99.6	123.4	166.9
EBIT	179.2	42.4	402.4	375.9	432.5
% chg	36.1	-	-	(6.6)	15.0
(% of Net Sales)	6.4	0.8	8.8	6.7	6.9
Interest & other Charges	91.1	171.2	119.4	158.4	166.0
Other Income	12.6	53.8	30.1	32.5	34.4
(% of PBT)	12.5	(71.5)	9.6	13.0	11.4
Recurring PBT	100.7	(75.0)	313.0	250.0	301.0
% chg	37.7	-	-	(20.1)	20.4
Extraordinary Items	(0.2)	0.2	(0.1)	-	-
PBT	100.9	(75.2)	313.1	250.0	301.0
Tax	34.0	32.9	93.3	87.5	105.3
(% of PBT)	33.7	(43.8)	29.8	35.0	35.0
PAT (reported)	66.9	(108.2)	219.8	162.5	195.6
Adj. PAT	66.7	(108.0)	219.7	162.5	195.6
% chg	-	-	-	(26.1)	20.4
(% of Net Sales)	2.4	(2.0)	4.8	2.9	3.1
Basic EPS (Rs)	22.6	(26.3)	53.5	39.6	47.6
Fully Diluted EPS (Rs)	16.2	(26.3)	53.5	39.6	47.6
% chg	-	-	-	(26.1)	20.4

Note: * JK Tyre has changed its accounting year from September to March end. Accordingly, FY2009 for the company was of 18-months (6 quarters) ending March 2009.

Balance Sheet (Consolidated)

Y/E March (Rs cr)	FY07	FY09*	FY10	FY11E	FY12E
SOURCES OF FUNDS					
Equity Share Capital	30.8	41.1	41.1	41.1	41.1
Preference Capital	-	-	-	-	-
Reserves & Surplus	513	651	809	952	1,126
Shareholders' Funds	544	692	850	993	1,167
Minority Interest					
Total Loans	915	1,382	1,159	1,509	1,509
Deferred Tax Liability	105.3	112.0	139.1	139.1	139.1
Total Liabilities	1,564	2,186	2,148	2,641	2,815
APPLICATION OF FUNDS					
Gross Block	2,156	2,840	3,133	3,741	4,071
Less: Acc. Depreciation	957	1,228	1,369	1,492	1,659
Net Block	1,199	1,612	1,764	2,249	2,412
Capital Work-in-Progress	20.3	290.5	188.2	187.0	203.5
Goodwill	-	-	-	-	-
Investments	71.4	75.9	80.5	79.2	84.5
Current Assets	1,106	1,334	1,520	1,853	2,037
Cash	30.0	51.3	91.0	141.5	112.8
Loans & Advances	137.2	249.6	245.9	308.6	347.0
Other	938	1,033	1,183	1,403	1,577
Current liabilities	840	1,131	1,405	1,727	1,922
Net Current Assets	266	202	115	126	115
Mis. Exp. not written off	8.2	5.2	-	-	-
Total Assets	1,564	2,186	2,148	2,641	2,815

Note: * JK Tyre has changed its accounting year from September to March end. Accordingly, FY2009 for the company was of 18-months (6 quarters) ending March 2009.

Cash Flow Statement (Consolidated)

Y/E March (Rs cr)	FY07	FY09*	FY10	FY11E	FY12E
Profit before tax	100.9	(75.2)	313.1	250.0	301.0
Depreciation	75.4	122.5	99.6	123.4	166.9
Change in Working Capital	60.8	(171.6)	(65.8)	(151.7)	(12.0)
Less: Other income	15.4	(545.3)	107.2	(514.1)	(119.4)
Direct taxes paid	34.0	32.9	93.3	87.5	105.3
Cash Flow from Operations	187.8	388.0	146.5	648.3	469.9
(Inc.)/Dec. in Fixed Assets	(69.7)	(954.6)	(189.7)	(607.1)	(346.6)
(Inc.)/Dec. in Investments	(3.8)	(4.5)	(4.6)	1.2	(5.2)
(Inc.)/Dec. in loans and advances	7.1	(91.1)	48.4	(166.7)	38.4
Other income	12.6	53.8	30.1	32.5	34.4
Cash Flow from Investing	(53.8)	(996.4)	(115.8)	(740.1)	(279.0)
Issue of Equity	(13.1)	71.0	(5.4)	-	-
Inc./(Dec.) in loans	(28.9)	467.5	(223.5)	350.0	-
Dividend Paid (Incl. Tax)	9.7	13.0	16.8	16.8	19.2
Others	(111.8)	78.3	221.1	(224.4)	(238.8)
Cash Flow from Financing	(144.2)	629.7	9.0	142.3	(219.6)
Inc./(Dec.) in Cash	(10.2)	21.3	39.6	50.5	(28.7)
Opening Cash balances	40.2	30.0	51.3	91.0	141.5
Closing Cash balances	30.0	51.3	91.0	141.5	112.8

Note: * JK Tyre has changed its accounting year from September to March end. Accordingly, FY2009 for the company was of 18-months (6 quarters) ending March 2009.

Key Ratios

Y/E March	FY07	FY09*	FY10	FY11E	FY12E
Valuation Ratio (x)					
P/E (on FDEPS)	7.2	-	3.1	4.1	3.4
P/CEPS	3.5	46.2	2.1	2.3	1.8
P/BV	0.9	1.0	0.8	0.7	0.6
Dividend yield (%)	1.7	1.7	2.1	2.5	2.8
EV/Sales	0.5	0.3	0.4	0.3	0.3
EV/EBITDA	5.2	11.7	3.3	3.9	2.8
EV / Total Assets	0.3	0.3	0.3	0.3	0.2
Per Share Data (Rs)					
EPS (Basic)	22.6	(26.3)	53.5	39.6	47.6
EPS (fully diluted)	16.2	(26.3)	53.5	39.6	47.6
Cash EPS	46.2	3.5	77.8	69.6	88.3
DPS	2.7	2.7	3.5	4.0	4.5
Book Value	176.7	168.4	207.0	241.9	284.3
DuPont Analysis					
EBIT margin	6.4	0.8	8.8	6.7	6.9
Tax retention ratio	0.7	1.4	0.7	0.7	0.7
Asset turnover (x)	1.8	2.7	2.5	3.1	4.2
RoC (Post-tax)	7.8	3.0	15.4	13.3	18.5
Cost of Debt (Post Tax)	6.5	17.8	6.6	7.7	7.2
Leverage (x)	1.4	3.6	1.5	1.2	1.2
Operating RoE	9.7	(50.6)	28.2	20.2	32.2
Returns (%)					
RoCE (Pre-tax)	11.5	3.9	18.6	15.7	15.9
Angel RoC (Pre-tax)	11.7	2.0	19.6	15.0	16.0
RoE	7.1	12.8	6.6	9.7	16.6
Turnover ratios (x)					
Asset Turnover (Gross Block)	1.3	2.2	1.8	1.6	1.6
Inventory / Sales (days)	57	49	42	46	46
Receivables (days)	60	49	47	46	46
Payables (days)	103	91	90	94	101
WC cycle (ex-cash) (days)	27	5	7	-	-
Solvency ratios (x)					
Net debt to equity	1.5	1.8	1.2	1.3	1.1
Net debt to EBITDA	3.2	7.6	2.0	2.6	2.2
Interest Coverage	2.0	0.2	3.4	2.4	2.6

Note: * JK Tyre has changed its accounting year from September to March end. Accordingly, FY2009 for the company was of 18-months (6 quarters) ending March 2009

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Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.

Disclosure of Interest Statement

JK Tyre

1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below Rs 1 lakh for Angel, its Group companies and Directors.

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