

## RESULT UPDATE

### SMALL CAP

#### Share Data

Reuters code	JKIN.BO		
Bloomberg code	JKIIN		
Market cap. (US\$ mn)	130		
6M avg. daily turnover (US\$ mn)	0.5		
Issued shares (mn)	41		
Target price (Rs)	204		

Performance (%)	1M	3M	12M
Absolute	12	62	206
Relative	20	54	74

#### Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	38.1	32.3
+/- (%)	NA	(15.2)
PER (x)	3.9	4.6
PBV (x)	1.2	1.2
Dividend/Yield (%)	1.8	1.8
EV/Sales (x)	0.4	0.4
EV/EBITDA (x)	4.0	4.0

#### Major shareholders (%)

Promoters	47
FII's	1
MF's	2
BFSI's	6
Public & Others	44

#### Financial highlights

(Rs mn)	Sep-08	Sep-09	YoY (%)	1HFY09	1HFY10	YoY (%)	FY09*	FY10E**	YoY (%)	FY11E**	YoY (%)
Net Sales	8,708	9,377	7.7	17,198	18,384	6.9	55,227	45,982	(16.7)	50,644	10.1
EBITDA	(88)	1333	(1621.1)	661	2,399	262.8	2,525	4,858	42.4	4,759	(2.1)
EBITDA Margin (%)	-	14.2	-	3.8	13.0	-	4.6	10.6	-	9.4	-
Other Income	44	38	(12.3)	73	44	(40.1)	(673)	75	(111.1)	200	166.7
Interest	260	234	(10.2)	518	492	(5.0)	1,377	1,245	(9.6)	1,440	15.7
Depreciation	188	222	18.1	370	414	12.0	1,225	1,319	7.7	1,476	11.9
PBT	(492)	915	(286.0)	(153)	1,537	(1,101.7)	(750)	2,370	83.6	2,043	(13.8)
Tax	(168)	320	(290.1)	(32)	534	(1,763.6)	329	806	144.6	716	(11.2)
Adj. PAT	(324)	595	(283.8)	(121)	1,003	(926.5)	(1,080)	1,564	101.3	1,327	(15.2)
Adj. PAT margin (%)	-	6.3	-	-	5.5	-	(2.0)	3.4	-	2.6	-
EPS (Rs)	(7.9)	14.5	(283.8)	(3.0)	24.4	(926.5)	(17.5)	38.1	101.3	32.3	(15.2)
P/E (x)	-	-	-	-	-	-	NA	3.9	-	4.6	-

\*Accounting year changed to March from September and hence numbers are for 18 months. Tornel numbers are also included. \*\*Includes Tornel estimate

## JK Tyre and Industries

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Price: Rs 148

BSE Index: 15,896

31 October 2009

### 2QFY10 Result – Benefiting from radialisation

**JK Tyre & Industries reported strong standalone operating and earnings numbers for the quarter. Although the revenue growth was slightly lower than expected, there was a healthy growth in the operating margin due to the decline in raw material costs. The net sales were around 8% up YoY helped by steady recovery in the domestic truck and bus segment. The employee costs and other expenses increased on a sequential basis, but a decline of about 480 bps in the input costs helped in operating margin expansion of nearly 240 bps to 14.2%. During the same quarter last year, the company had suffered an operating loss. A decline in the interest costs and decent other income helped in posting 46% QoQ increase in the net earnings to Rs 595 mn. There was a net loss of Rs 324 mn last year.**

### Outlook and valuation

We expect JK to benefit from the demand recovery in the truck and bus bias segment as well as improvement in the truck and bus radial segment. The expanded TBR capacity at its Mysore plant is likely to reflect in the current quarter performance. We have built in a growth of about 10% in Tornel's revenue for FY10. However, we have not assumed any earnings growth as there is no clarity on its performance.

The consolidated debt on the books as at the end of FY09 was around Rs 14 bn. Although we have assumed some repayments during FY10 and FY11, the huge capex planned by the company may not permit any significant improvement in the debt/equity ratio. Currently the consolidated net debt to equity is around 1.9x.

We have upward revised our earnings estimate slightly to align it with the 1H performance. At the current price of Rs 148, the stock trades at 3.9x FY10E revised earnings of Rs 38.1 and 4.6x FY11E revised earnings of Rs 32.3. We maintain Buy rating on the stock with a target price of Rs 204.

**Income Statement (Consolidated)**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
<b>Net sales</b>	<b>28,162</b>	<b>55,227</b>	<b>45,982</b>	<b>50,644</b>
<i>Growth (%)</i>	7.9	30.7	24.9	10.1
Operating expenses	(25,614)	(52,702)	(41,124)	(45,885)
Operating profit	2,547	2,525	4,858	4,759
<b>EBITDA</b>	<b>2,547</b>	<b>2,525</b>	<b>4,858</b>	<b>4,759</b>
<i>Growth (%)</i>	68.5	(33.9)	173.5	(2.1)
Depreciation	(754)	(1,225)	(1,319)	(1,476)
Other income	105	(673)	75	200
<b>EBIT</b>	<b>1,898</b>	<b>627</b>	<b>3,615</b>	<b>3,483</b>
Interest paid	(890)	(1,377)	(1,245)	(1,440)
Pre-tax profit	1,008	(750)	2,370	2,043
(before non-recurring items)				
Pre-tax profit	1,008	(750)	2,370	2,043
(after non-recurring items)				
Tax (current + deferred)	(340)	(329)	(806)	(716)
Net Profit (before Minority Interest, Pref. Dividend, etc.)	667	(1,080)	1,564	1,327
Reported PAT	667	(1,080)	1,564	1,327
<b>Adjusted net profit</b>	<b>667</b>	<b>(1,080)</b>	<b>1,564</b>	<b>1,327</b>
<i>Growth (%)</i>	293.0	(207.9)	NA	(15.2)

**Balance Sheet (Consolidated)**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & Marketable Securities	291	513	468	293
Other current assets	10,750	12,822	12,738	14,110
Investments	626	759	473	473
Net fixed assets	12,191	19,026	19,210	19,019
Other non-current assets	(1,053)	(1,120)	0	0
<b>Total assets</b>	<b>22,805</b>	<b>32,000</b>	<b>32,760</b>	<b>33,683</b>
Current liabilities	8,399	11,312	11,774	13,045
Total Debt	9,150	13,824	13,003	12,965
<b>Total liabilities</b>	<b>17,549</b>	<b>25,136</b>	<b>24,777</b>	<b>26,010</b>
Share capital	308	411	411	411
Reserves & surplus	5,030	6,506	7,523	7,334
Less: Misc. expenditure	(82)	(52)	(52)	(52)
<b>Shareholders' funds</b>	<b>5,256</b>	<b>6,864</b>	<b>7,881</b>	<b>7,692</b>
<b>Total equity &amp; liabilities</b>	<b>22,805</b>	<b>32,000</b>	<b>32,760</b>	<b>33,683</b>
<b>Capital employed</b>	<b>14,406</b>	<b>20,689</b>	<b>20,884</b>	<b>20,658</b>

**Cash Flow Statement (Consolidated)**

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	1,008	(750)	2,370	2,043
Depreciation	972	2,712	1,569	1,726
Chg in working capital	(580)	807	547	(101)
Total tax paid	729	(263)	(1,926)	(716)
<b>Cash flow from oper. (a)</b>	<b>2,129</b>	<b>2,506</b>	<b>2,560</b>	<b>2,952</b>
Capital expenditure	(697)	(9,546)	(1,753)	(1,535)
Chg in investments	50	(133)	286	0
<b>Cash flow from inv. (b)</b>	<b>(647)</b>	<b>(9,679)</b>	<b>(1,467)</b>	<b>(1,535)</b>
<b>Free cash flow (a+b)</b>	<b>1,482</b>	<b>(7,173)</b>	<b>1,093</b>	<b>1,417</b>
Equity raised/(repaid)	(122)	740	0	0
Debt raised/(repaid)	(289)	4,675	(821)	(38)
Dividend (incl. tax)	(88)	(97)	(130)	(38)
Other financing activities	(1,094)	2,078	(250)	(1,245)
<b>Cash flow from fin. (c)</b>	<b>(1,593)</b>	<b>7,395</b>	<b>(1,201)</b>	<b>(1,413)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(111)</b>	<b>222</b>	<b>(46)</b>	<b>(175)</b>

**Key Ratios (Consolidated)**

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
EPS (Rs)	21.7	(17.5)	38.1	32.3
EPS growth	293.0	(180.9)	NA	(15.2)
Book NAV/share (Rs)	116.8	81.4	112.2	111.9
Dividend/share (Rs)	2.7	1.8	2.7	2.7
Dividend Payout ratio	14.6	(12.0)	8.3	9.8
Tax rate	33.8	(43.9)	34.0	35.0
EBITDA margin	9.0	4.6	10.6	9.4
EBIT margin	6.7	1.1	7.9	6.9
RoCE	12.8	2.4	17.0	15.7
Net debt/Equity	168.5	193.9	159.1	164.7

**Valuations (Consolidated)**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	6.8	NA	3.9	4.6
PCE	3.2	58.6	2.1	2.2
Price/Book	1.3	1.7	1.2	1.2
Yield (%)	1.8	1.2	1.8	1.8
EV/Net sales	0.5	0.5	0.4	0.4
EV/EBITDA	5.9	11.3	4.0	4.0

**Du Pont Analysis – ROE (Consolidated)**

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	2.4	(2.0)	3.4	2.6
Asset turnover	1.2	1.3	1.4	1.5
Leverage factor	4.1	3.0	4.4	4.3
Return on equity (%)	12.0	(7.9)	18.9	15.2

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**Analyst Declaration:** We, Shweta Mungre & Anurag Randev, hereby certify that the views expressed in this report accurately reflect our personal views about the subject securities and issuers. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendation or view expressed in this report.

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**B&K Investment Ratings:**

1. **BUY:** Potential upside of > +25% (absolute returns)
  2. **OUTPERFORMER:** 0 to +25%
  3. **UNDERPERFORMER:** 0 to -25%
  4. **SELL:** Potential downside of < -25% (absolute returns)
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