1

The key macroeconomic factors that would have a bearing on the company are rising GDP (Gross domestic product), inflation rates, exchange rates, and government policies on environment.

**Economy Outlook**

In FY23, India’s GDP is expected to grow by 6.4%, and even though this is a reduction from FY22’s 8.7%, the rise in GDP is expected to raise disposable income, causing a surge in household spending. Which would benefit the tyre industry. Current rubber prices in India average around INR 13,800 per quintal, however, the rising inflation rate 6.70% in 2022 has resulted in raw material prices going up in the industry, which may result in a drop in demand for tyres as the prices are likely to increase with rising costs.

JK Tyres comply well with all environmental laws, and plan to cut down carbon emissions by 50% by the year 2030. Investments in R&D and efficient product development has resulted in the company attaining a leading position in environmental indicators, including energy usage, water management, and carbon emissions. JK Tyres imports raw materials from countries

such as China and exports primarily to Nepal, USA, Bangladesh, Thailand, and Spain.

**Industry Outlook**

The Indian tyre industry is projected to grow by 6-8% for the financial year for 2023-24, due to the rising demands in original equipment manufacturing(OEM) and replacement segments. Government investment in roads and highways is also expected to increase demand for automobiles and tyres**.** There has been steady growth in sale of passenger vehicles, medium and heavy commercial vehicles, electric vehicles, tractors. However, exports have slowed down. The tyre industry also faced challenges like high input prices and increasing freight charges in FY22 due to global geopolitical events, the sector has bounced back with an average increase of 29.5% in the revenue for FY23. There was a rapid increase in the market size to 189 million units being sold, and this number is expected to rise to 226 million units by 2028. Growth in volumes has helped maintain margins, along with hiked prices.

This surge benefits JK Tyres, which is among the top three manufacturers in India’s highly concentrated tyre market, where the top 10 firms own 80% of the market share. The main Indian players are MRF, JK Tyres, CEAT and Apollo Tyres while Michelin and Goodyear are important foreign players in the market.

The market segmentation of the tyre industry can be done in multiple ways. The key ones being segmentation by vehicle type, breakup by OEM and replacement segments, segmentation by tube and tubeless tyres, breakup by tyre size, breakup by price segment, and lastly, breakup by region. The most common methods of segmentation in India are vehicle type, and OEM vs replacement.

2

**JK Tyre(Lead Company)**

It is the first tyre company in India to produce radial tyres for every kind of vehicle, including trucks, buses, LCVs, passenger cars, MUVs and tractors.

JK Tyre has led the way in promoting innovation and quality in the tyre industry for the past 40 years by introducing cutting-edge products and technology that serve a variety of automotive industry business categories. Its major markets include India and Mexico.

**Distribution**: JK Tyres has a large network of distributors, while also tying up with oil marketing companies. It also operates its brand retail stores, which it plans to expand. Partnerships with fleet operators and its OEM portfolio are key to its sales. By acquisition of companies like Tornel, it has managed to create its presence in Mexico and other geographies. In an innovative move, JK Tyres has made its products available in e-commerce websites like Amazon and Flipkart.

Among its **product offerings** are the following: Tyres for motorcycles, farm tyres, commercial tyres, tyres off the road, tyres for three wheelers, and tyre Grips or retreads. Its portfolio feature-packed premium tyres for cars, 2-wheelers, tractors, and commercial vehicles.

Through its introduction of smart tyres, EV tyres and green tyres, JK Tyres has managed to differentiate its product portfolio. It is currently targeting product premiumization by introducing added features like self-repair, high mileage, low noise, etc. which has boosted its top line in recent years.

**Key tactics** used by JK Tyre to gain exposure in the global market include participation in a variety of racing events, trade show attendance, strategic alliances with celebrity brand ambassadors, commercial campaigns, and active online marketing efforts. JK Tyres has a very strong social media presence and continuously launches successful brand campaigns.

**Key Leading Indicators**: 12 manufacturing facilities; 34 million tyres capacity; 6000+ dealers; capacity utilization of 87%; 450+ SKUs; 25+ OEM clients; 140 sales, service, and stocking points.

**CEAT (Peer Company 1)**

One of the top tyre brands in India, it is a multinational tyre manufacturer that is owned by the RPG Group.

Products include tyres for a variety of vehicles, including trucks, SUVs, motorbikes, scooters, and light and large commercial vehicles, as well as off-highway tyres.

**MRF (Peer Company 2)**

MRF is a multinational corporation based in India, the biggest tyre manufacturer in India. It produces rubber goods such as paints, toys, treads, tyres, tubes, and conveyor belts.

3

|  | **Маг-19** | **Mar-20** | **Mar-21** | **Mar-2** | **Mar-23** |
| --- | --- | --- | --- | --- | --- |
| **Promoter** | 56.23% | 56.20% | 56.20% | 56.30% | 56.30% |
| **FII** | 3.85% | 3.00% | 3.30% | 8.20% | 6.70% |
| **DII** | 2.49% | 3.10% | 2% | 1.20% | 1.40% |
| **Public** | 37.80% | 37.60% | 38.40% | 34.40% | 34.90% |
| **Others** | 0% | 0% | 0% | 0% | 0% |

**Shareholder Pattern**

The promoter's holding has remained stable over the period, suggesting a consistent level of control and interest from the company's founders or main stakeholders. The foreign institutional investors (FII) increased from 3.85% to 8.20% in and then decreased to 6.70% in March 2023. This could indicate varying degrees of interest from international investors.

Revenue Mix by Market (Q2FY24)

17%

23% 60%

Exports OEMS Replacement Basic EPS(INR)

Revenue Mix by Product (Q2FY24)

13%

4%

54%

29%

Trucks and Bus Passenger Line Radial 2/3 Wheelers Others

Net Income (INR Crores)

15 10 5

0

8

6

13

9

11

400 300 200 100 0

176.29 149.01

333.44

200.3

264.74

20000 15000 10000

5000 0

2019 2020 2021 2022 2023 Revenue

14681.46

10452.018753.29 9145.2712019.52

2019 2020 2021 2022 2023 Revenue

15.00% 10.00% 5.00% 0.00%

2019 2020 2021 2022 2023

ROE

13.33%

7.26% 8.48%

6.46%

2020 2021 2022 2023 ROE

**Market Capitalization of JK Tyres is 8,369 cr. INR.**

4

| **Ratios/Year** | **2019** | **2020** | **2021** | **2022** | **2023** | **Average** |
| --- | --- | --- | --- | --- | --- | --- |
| Return On Equity |  | 6.46% | 13.33% | 7.26% | 8.48% | 8.88% |
| Asset Turnover |  | 0.77 | 0.82 | 1.03 | 1.19 | 0.95 |
| Financial Leverage |  | 4.9 | 4.45 | 4.21 | 3.95 | 4.38 |
| Debt To Equity  Ratio |  | 1.4 | 1.2 | 0.96 | 0.77 | 1.085 |
| Net Profit Margin | 1.69% | 1.70% | 3.65% | 1.67% | 1.80% | 2.10% |

**JK Tyres Over Time**

For JK Tyres, the **return on equity** has been on the rise since 2020, with a sudden rise in 2021 which was driven by a jump in revenues. The increasing ROE is driven by a constant increase in the net income due to high domestic demand and strengthening of the OEM segment. The return on equity is a good measure for the company’s profitability and shareholder satisfaction. The increase in ROE is a good signal. JK Tyres has been constantly increasing its equity. The amount raised has been invested in business expansion while also fulfilling increased working capital needs due to increasing input costs.

This is also reflected in the **asset turnover ratio**, which improved due to operational efficiencies achieved by JK Tyres. While assets fell at first and stabilised in later years, the sales have grown strongly in the recent years. However, the marginal increase in assets has not been able to keep up with the increased equity over the past 5 years. This has resulted in lower **financial leverage**.

The company is following a deleveraging strategy aimed at reducing their long-term debt which has reflected in improving their **solvency ratios**. Coupled with higher profitability, this promises to improve cashflows for the company.

Increase in revenue which exceeds increase in expenses has created a general trend of increase **net profit margins**. A sudden increase was achieved in 2021 due to a post-COVID surge in revenues, however the increased input costs reduced profit margins in 2022. The net profit margin is expected to increase due to softening of input cost pressures.

**JK Tyres vs Competitors**

Compared to its competitors, JK Tyres performs well in terms of ratios. The increased cost pressures in the last couple of years has significantly reduced the profitability of MRF Tyres and CEAT Tyres. The Return on Equity has thus seen a major dip for these. Due to a huge amount of assets, equity and liabilities which do not translate into sales and profits, CEAT performs poorly on most ratios. Due to operational efficiencies and low equity, JK Tyres outperforms MRF in terms of Asset Turnover Ratio and Financial Leverage as well. JK Tyre, however, struggles in solvency due to high amounts of long-term borrowings. The deleveraging strategy will prove to be beneficial in this context. Overall, MRF outperforms JK Tyres in net profit margins, but JK Tyres has managed the recent surge in input costs better. While MRF has seen sudden drops in net profit margins, JK Tyres has been able to keep its profit margins constant.

Thus, the **competitive advantage** of JK Tyres lies in its operational efficiency and its ability to manage costs during times of high input costs. With surging demand, softening cost pressures and its deleveraging strategy kicking in, JK Tyres is expected to improve its profitability and solvency in the coming years.

5

In the **first quarter of FY23-24**, JK Tyres has shown significant YoY growth. The revenue has grown by 2.06% while the profit margin has jumped from 0.96% to 4.26%. This has been driven by an increase in revenues and stabilizing input costs. There have also been improvements in revenue and profit compared to the previous quarter. The performance has improved due to improving operational efficiencies for JK Tyres, along with an increase in top line due to surging domestic demand in the replacement and OEM segments. The factors contributing include the product mix and product premiumisation of the company. The sales volumes went up by 3% and the company managed to deplete its previously held inventory. The **tyre industry** over the last 5 years has good stock performance. All 6 companies in the figure have seen their stock prices rise while JK Tyres(blue) has shown the strongest growth, especially in the past year. Among the 2 peer companies, the stock price of CEAT has been more volatile while MRF has shown more steady growth. Overall, both the peer companies have shown growth comparable to the industry average.

**Analyst Commentary**

Various analysts analysed the company’s performance this quarter and said that the reason why the company has better profitability is because they’ve premiumized their products and managed their input costs well. Demand in replacement and OEM segments across its product categories, and its ability to pass through costs has resulted in largely stable earnings despite the raw material price volatility. Overall, the domestic tyre industry’s structure has improved due to the 80% drop in imports of truck and bus radial tyres, which has resulted in increased profit margin of all tyre companies in the market.

After thorough analysis, a consensus to buy the JK tyre stock has been reached. JK Tyres has been undertaking significant capex to expand its operational capacity, while also reducing its debt. This will further improve the numbers for JK Tyres. Progress in the personal vehicles segment, the high value EV segment, and increased demand in export markets has also interested shareholders. The share price has thus seen growth and has breached the INR 290 mark after much resistance.

**Overall Assessment**

JK Tyres has shown promising financial performance both pre and post-Covid, especially in the past two years. While the tyre industry on a whole is booming, JK Tyre has surpassed all its competitors through its product portfolio and cost management. 2023 has seen JK Tyres boost its revenues and profits, and the company promises to expand its capacity and reach in various tyre segments. The main drawback of the company is the significant amount of liabilities on its balance sheet, which it has reduced through its successful deleveraging strategy. The P/E ratio has increased to around 14 indicating investor confidence. However, we believe the stock is still undervalued with a P/E ratio of 14, compared to its peer companies. Thus, our call on the stock is a clear **BUY**.