JK TYRE & INDUSTRIES LTD.

JKTIL:SECTL:SE:2017 11th August 2017

BSE Ltd. Phiroze Jeejeebhoy Towers, Dalal Street, Fort, Mumbai-400 001. Through: BSE Listing Centre Scrip Code :530007	National Stock Exchange of India Ltd. Exchange Plaza, Bandra –Kurla Complex, Bandra(E), Mumbai –400 051. Through : NEAPS Scrip Code : JKTYRE

Dear Sir,

Re : **Intimation under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**
- Assignment of Credit Ratings

This is to inform that CARE Ratings Ltd. has assigned/re-affirmed the following ratings to various facilities of the Company:-

Facilities	Rating	Rating Action
Long-term Bank Facilities	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Revised from CARE AA-; negative (Double A Minus; Outlook: Negative)
Short-term Bank Facilities	**CARE A1+ (A One Plus)**	Reaffirmed
Long-term/ Short-term Bank Facilities	**CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)**	Revised from CARE AA-; Negative/ CARE A1+ (Double A Minus; Outlook: Negative/ A One Plus)
Short-term Bank Facilities-Commercial Paper issue	**CARE A1+ (A One Plus)**	Reaffirmed
Long/ Short Term instruments-Fixed Deposit programme	**CARE A+ (FD); Stable/ CARE A1+ (FD) (Single A Plus [Fixed Deposit]; Outlook: Stable/ A One Plus [Fixed Deposit])**	Revised from CARE AA- (FD); Negative/ CARE A1+ (FD) (Double A Minus [Fixed Deposit]; Outlook: Negative/ A One Plus [Fixed Deposit])

Press release issued today by CARE Ratings Ltd. is enclosed.

Thanking You,

Yours' faithfully,
For JK Tyre & Industries Ltd.

(PK Rustagi)
Vice President (Legal) & Company Secretary
FCS:3815

JK Tyre & Industries Limited

August 11, 2017

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	3,658.98	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	Revised from CARE AA-; negative (Double A Minus; Outlook: Negative)
Short-term Bank Facilities	1,506.02	**CARE A1+ (A One Plus)**	Reaffirmed
Long-term / Short-term Bank Facilities	350.00	**CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)**	Revised from CARE AA-; Negative/ CARE A1+ (Double A Minus; Outlook: Negative/ A One Plus)
Total facilities	**5,515.00 (Rupees Five thousand five hundred & fifteen crore only)**		
Short-term Bank Facilities-Commercial Paper issue	200	**CARE A1+ (A One Plus)**	Reaffirmed
Short-term Bank Facilities-Commercial Paper issue*	900	**CARE A1+ (A One Plus)**	Reaffirmed
Long/ Short Term instruments-Fixed Deposit programme	140	**CARE A+ (FD); Stable/ CARE A1+ (FD) (Single A Plus [Fixed Deposit]; Outlook: Stable/ A One Plus [Fixed Deposit])**	Revised from CARE AA- (FD); Negative/ CARE A1+ (FD) (Double A Minus [Fixed Deposit]; Outlook: Negative/ A One Plus [Fixed Deposit])

Details of instruments/facilities in Annexure-1
**carved out of the sanctioned fund-based working capital limits of the company.*

Detailed Rationale & Key Rating Drivers

CARE has taken a consolidated view of JK Tyre & Industries Limited (JKTI) in its analysis considering the enhanced debt in its subsidiaries and significant contribution from the same going forward.

The revision in the long term rating assigned to the facilities of JKTI takes into account the moderation in the financial risk profile characterized by JKTI's leveraged capital structure and lower debt coverage indicators on account of decline in profitability due to rise in raw material prices and increased interest expense on account of consolidation of CIL (Cavendish Industries Limited). The rating also factors in weakening of the consolidated credit risk profile of JKTI on account of a lower-than-expected ramp up of operations at CIL in FY17(refers to period from April 01 to March 31) and competitive nature of the industry. The rating revision also factors in the working capital intensive nature of operations and its exposure to foreign currency fluctuation risks and raw material prices volatility.

The ratings however continue to derive strength from the experience of the promoters & JKTI's long track record of operations, JKTI's established market position in the Truck and Bus Radial (TBR) segment coupled with its wide marketing and distribution network.

Going forward, the ability of the company to scale-up operations considering new capacities added (under a subsidiary in Mexico, CIL and in JKTI plant in Chennai) and JKTI's venture into two-wheeler segment through acquisition of CIL, while maintaining the profitability levels and improvement in capital structure would be the key rating sensitivities.

Outlook: Stable

The revision in the outlook assigned to the long term facilities of JKTI from Negative to Stable takes into account the expected improvement in the consolidated credit risk profile of JKTI supported by the gradual ramp up of operations at CIL in the current fiscal year & CIL entering into few OEM contracts recently for the off take of its production. The said revision in the outlook further factors in the stabilization in the raw material (natural rubber) prices & expected levy of

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

anti-dumping duty by the Directorate General of Anti-Dumping and Allied Duties (DGAD) on the truck & bus radial tyres import from China as per the notification No. 14/14/2015-DGAD.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced Promoters and management: JK Group is one of the leading conglomerates and has business interests across the globe, spanning over 105 countries. The promoters have experience of around four decades in the tyre business. From 1970s onwards, nearly for 40 years, Mr Hari Shankar Singhania was President of J.K. Organisation and Chairman of JKTI. Today, the company's operations are headed by Dr R P Singhania (the Chairman and Managing Director) who handles the day-to-day affairs.

Long-track record of operations: JKTI has been engaged in tyre manufacturing since 1975 and is among the leading tyre manufacturers in India. After pioneering Passenger Car Radialization (PCR) in1977, the company accelerated the pace of radialization in India and remains a market leader in the TBR segment. JKTI established its first tyre manufacturing facility in Kankroli, Rajasthan, in 1975 with an installed capacity of 5 lakh tyres per annum. As on June 30, 2017, the company had 9 plants in India with overall capacity of 26.70 million tyres p.a. & 3 plants in Mexico with a consolidated capacity of 35.02 million tyres p.a. Over the years, the company has received various accreditations and prestigious awards in respect of quality improvement and customer satisfaction.

Established brand with diversified product portfolio and wide distribution network: JKTI caters to the various user segments including Truck & Bus (both bias and radial tyres), LCV (bias & radial), PCR, farms, Off-the-road tyre (OTR) with highest revenue contribution from the TBR segment in JKTI & from PCR segment in JK Tornel. JKTI has a widespread distribution network across the country with about 4,000 dealers. The company also has over 230 exclusive passenger car tyre retail outlets by the name of Steel Wheels and 11 Xpress Wheels for small town & semi urban markets which also caters to two-three wheelers. Over the years, JKIL had taken several initiatives to improve the quality of service such as Fleet Management, 'JK Tyre Truck Wheels' service centers and 'JK Tyre Care' centers which offer one-stop solution for truck/bus tyre customers. JKTSA also has a distribution network of around 250 dealers/distributors; JKTSA has tied up with retail chains such as Walmart and Bodega for selling its PCR through their outlets in Mexico as well as other parts of America.

Focus on high margin TBR segment with presence across market segments: JKTI has been focusing on TBR segment and has witnessed steady pace of radialization in the past few years. TBR segment commands around 20% premium over bias tyres which has driven steady profitability despite fall in turnover in the past. There has been continued increase in revenue contribution from relatively higher margin radial tyres whose proportion in the overall revenue has increased from 46% in FY14 to 61% in FY17.

Positive Industry Outlook: The trend in tyre production and sales for OEM market has been in line with the automobile sales over the past few years. Moreover, domestic and export demand for tyres is likely to remain strong during 2017-18 on the back of steady growth prospects for Auto OEMs as well as the stable replacement market. Tyre demand is directly proportional to the automobiles demand. Therefore, demand swings in automobiles have an impact on the demand for tyres. India's annual automobiles production registered a growth of 5.84% y-o-y in FY17 to 2,53,14,460 units as compared to 2,40,16,068 units in FY16. This led to rise in demand for tyres as well during the year. Further, with the withdrawal of the anti-dumping duty by US International Trade Commission, US have turned a preferable destination for Chinese TBR exports recently as it is much more profitable than the Indian market. This has given some relief to the domestic tyre manufactures. Further, recently the Directorate General of Anti-Dumping and Allied Duties (DGAD) has recommended the imposition of anti-dumping duty on truck and bus radial (TBR) tyres imports in India from China, which is expected to help the domestic tyre manufacturers.

Key Rating Weaknesses

Moderation in the financial risk profile: JKTI's total operating income largely comprises from the domestic (India) operations which accounts for approximately ~83% of the total revenue, the balance being contributed by JKTSA (Mexican Operations). JKTI's operating income (consolidated) registered a 10% increase in FY17 over FY16. This increase is on account of CIL being consolidated in the overall results of JKIL & increase in scale of operations of JKTSA due to expansion in the PCR segment. On standalone basis the operating Income of JKTI registered a 3% growth. Growth in the sales volume was recorded for truck bus radial & passenger cars. The PBILDT margin registered a sharp fall from 17.08% in FY16 to 13.58% in FY17 (for the purpose of calculation of PBILDT margin in FY17 Rs 150 crore operational compensation received by JKTI's subsidiary CIL from its erstwhile holding company has been excluded) due to cost increase particularly natural rubber & other raw materials which are essentially petro based impacting cost of production & hence the margin.

Further demonetisation has also impacted the sales in two-three wheeler segments and the uncertainty in GST had impacted the sales in commercial vehicle segment. The decline in the PAT margin y-o-y in FY17 by 195bps was however on account of increased interest cost due to CIL (Rs 146.42 crore). JKIL has undertaken a price rise of 3%-6% in the last quarter of FY17 to support their margins going forward. However, the impact of the same is yet to be seen in the near term.
The gearing level continues to remain at elevated levels on account of the continuous debt-funded capex in the past, acquisition debt in the books of CIL besides other routine capex and aligning CIL's production standards with that of JKTI, high working capital borrowings and dealer deposits (classified as long-term liability and included in debt). As on March 31, 2017, the long-term debt-equity & overall gearing level at consolidated level has increased further to 2.31x & 3.16x as compared to the long-term debt-equity & overall gearing of 1.60x & 2.23x as on March 31, 2016.

Exposure to volatility in the raw material prices and exchange rate movement: Raw materials constitute around 60% of the total operating cost. Natural rubber is the major raw material for manufacturing tyres, constituting 50% of the total raw material costs. The prices of natural rubber have been on a declining trend during the past few years, thereby improving the profitability margins of JKTI. However, the domestic price of the natural rubber surged about 76% from last year's (FY16) low of Rs 91/kg to Rs 160/kg in Jan 2017. The surge in the prices of natural rubber was a main reason for tyre manufacturers to witness moderation in the PBILDT margins in FY17. The risk of sudden spurts of raw material affecting the profitability of the manufacturer is inherent to the structure of tyre industry. Further, all the major tyre players undertook a price hike of 6-9% in the past six months, which is likely to support their margins. However, with the high cost inventory in hand, the tyre companies are expected to report subdued profitability in the short term.
JKTI has a practice of partially hedging its net foreign exposure from time to time. In light of the foregoing, the company remains exposed to volatility in forex rates and the management of forex risks remains crucial.

Stabilization and off-take risk: The acquisition of CIL has been completed in April 2016 and commenced commercial production in June 2016. The stabilization & ramp up of operations in the current year for CIL is lower than envisaged and aligning systems and processes in compliance with JK standards is expected to further take some time. CIL so far has been concentrating on the replacement market; however it has recently entered into OEM contracts with Bajaj Auto. Going ahead, JKTI's new foray into the 2/3 wheeler segment, capturing market share and optimum capacity utilization will be crucial.

Analytical approach:
CARE has taken a consolidated approach in analyzing the overall credit profile of JK Tyre & Industries Ltd owing to strong operational linkages with its subsidiaries which are present in the same line of business.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Financial ratios – Non-Financial Sector
Rating Methodology for manufacturing companies

About the Company
JKTI, the flagship company of the JK group, is headed by Dr R P Singhania as its chairman and managing director. It is a one of the leading tyre manufacturers in India and amongst the top 25 manufacturers in the world with a wide range of products catering to diverse business segments that includes Truck/Bus, LCV (Light commercial vehicles), Passenger Cars, MUV (Multi utility vehicles) and Tractors. JKTI has a global presence in 105 countries with nine plants in India and three in Mexico, with total consolidated capacity of 35.02 million tyres per annum.

Brief Financials (Rs. crore)	**FY16 (A)**	**FY17 (A)**
Total operating income	6930.76	7718.29*
PBILDT	1184.12	1178.43
PAT	469.61	365.22
Overall gearing (times)^	2.23	3.16
Interest coverage (times)	4.69	2.68

A: Audited
**Includes Rs 150 crores operational compensation received by CIL from its erstwhile holding company*
^Including Dealer Deposits

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based-Long Term	-	-	-	1550.00	CARE A+; Stable
Non-fund-based - ST-BG/LC	-	-	-	1406.02	CARE A1+
Non-fund-based - LT/ ST-BG/LC	-	-	-	350.00	CARE A+; Stable / CARE A1+
Term Loan-Long Term	-	-	March 2021	2108.98	CARE A+; Stable
Fund-based - ST-Term loan	-	-	-	100.00	CARE A1+
Fixed Deposit-FD (Long-term)/ FD (Short-term)	-	-	1 to 3 years	140.00	CARE A+ (FD); Stable / CARE A1+ (FD)
Commercial Paper-	-	-	7 to 364 days	900.00	CARE A1+

Commercial Paper (Carved out)					
Commercial Paper	-	-	7 to 364 days	200.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based-Long Term	LT	1550.00	CARE A+; Stable	1)CARE AA-; Negative (05-Apr-17)	1)CARE AA-; Stable (01-Dec-16) 2)CARE AA- (22-Sep-16)	1)CARE AA- (11-Aug-15)	1)CARE A+ (06-Feb-15) 2)CARE A (06-Aug-14) 3)CARE A- (27-May-14) 4)CARE A- (02-Apr-14)
2.	Non-fund-based - ST-BG/LC	ST	1406.02	CARE A1+	1)CARE A1+ (05-Apr-17)	1)CARE A1+ (01-Dec-16) 2)CARE A1+ (22-Sep-16)	1)CARE A1+ (11-Aug-15)	1)CARE A1+ (06-Feb-15) 2)CARE A1 (06-Aug-14) 3)CARE A1 (27-May-14) 4)CARE A2+ (02-Apr-14)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	350.00	CARE A+; Stable / CARE A1+	1)CARE AA-; Negative / CARE A1+ (05-Apr-17)	1)CARE AA-; Stable / CARE A1+ (01-Dec-16) 2)CARE AA- / CARE A1+ (22-Sep-16)	1)CARE AA- / CARE A1+ (11-Aug-15)	1)CARE A+ / CARE A1+ (06-Feb-15) 2)CARE A / CARE A1 (06-Aug-14) 3)CARE A- / CARE A1 (27-May-14) 4)CARE A- / CARE A2+ (02-Apr-14)
4.	Term Loan-Long Term	LT	2108.98	CARE A+; Stable	1)CARE AA-; Negative (05-Apr-17)	1)CARE AA-; Stable (01-Dec-16) 2)CARE AA- (22-Sep-16) 3)CARE AA- (14-Jun-16)	1)CARE AA- (11-Aug-15)	1)CARE A+ (06-Feb-15) 2)CARE A (06-Aug-14) 3)CARE A- (27-May-14) 4)CARE A- (02-Apr-14)
5.	Fund-based - ST-Term loan	ST	100.00	CARE A1+	1)CARE A1+ (05-Apr-17)	1)CARE A1+ (01-Dec-16) 2)CARE A1+ (22-Sep-16)	1)CARE A1+ (11-Aug-15)	1)CARE A1+ (06-Feb-15) 2)CARE A1 (06-Aug-14) 3)CARE A1 (27-May-14) 4)CARE A2+

								(02-Apr-14)
6.	Commercial Paper-Commercial Paper (Carved out)	ST	900.00	CARE A1+	1)CARE A1+ (05-Apr-17)	1)CARE A1+ (16-Feb-17) 2)CARE A1+ (21-Dec-16) 3)CARE A1+ (01-Dec-16) 4)CARE A1+ (22-Sep-16)	1)CARE A1+ (11-Aug-15)	1)CARE A1+ (18-Feb-15)
7.	Commercial Paper	ST	200.00	CARE A1+	1)CARE A1+ (05-Apr-17)	1)CARE A1+ (01-Dec-16) 2)CARE A1+ (22-Sep-16) 3)CARE A1+ (04-May-16)	-	-
8.	Fixed Deposit-FD (Long-term)/ FD (Short-term)	LT/ST	140.00	CARE A+ (FD); Stable / CARE A1+ (FD)	1)CARE AA- (FD); Negative / CARE A1+ (FD) (05-Apr-17)	1)CARE AA- (FD); Stable / CARE A1+ (FD) (01-Dec-16) 2)CARE AA- (FD) / CARE A1+ (FD) (22-Sep-16) 3)CARE AA- (FD) / CARE A1+ (FD) (04-May-16)	-	-