Fullerton Securities

July 22, 2010

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

***Strong Buy** – Expected Returns > 20% p.a.*
***Buy** – Expected Returns from 10 to 20% p.a.*
***Hold** – Expected Returns from 0 % to 10% p.a.*
***Reduce** – Expected Returns from 0 % to 10% p.a. with possible downside risk*
***Sell** – Returns < 0 %*

JK TYRE & INDUSTRIES LTD — BUY

JK Tyre & Industries Ltd [JKT], a flagship company of the Hari Shankar Singhania group is the 3rd largest tyre manufacturer in India accounting for ~20% of the ~Rs250bn of the Indian tyre industry.

- The company plans to invest Rs 9.3bn to set up a Green field plant near Chennai. The plant will have production capacity of 29 lacs per annum out of which it expects to produce 2.5mn PCR (Passenger Car Radials) and 0.4mn T&B (Truck & Buses) every year.
- The company is planning to triple direct supply of T&B radial tyres to major companies like Tata Motors and Ashok Leyland in the coming two years.
- The company had acquired Tornel (a Mexico Major) in 2008 for a sum of Rs 2.7bn, which posted a significant turnaround in FY10 and contributed positively on consolidated basis.
- JK Tyre is currently expanding its off-road tyre (ultra large-size tyre) capacity by 3,000 tyres a year to 42,000 tyres per year, primarily for Bharat Earth Movers (BEML), at a cost of Rs1.2bn. The company has, in fact, delivered the first batch of its ultra large-size tyres to BEML ahead of schedule.
- The debt levels have gone down significantly on a standalone basis from Rs 11bn to Rs 8.6bn as on March 2010.

Based on a standalone P/E multiple of 4, the fair value per share for the company works out to Rs220.

Financial Snapshot

Projections (Rs Mn)	FY09*	FY10	FY11E	FY12E
Revenue	49,036	36,777	42,661	50,340
Y-o-Y Growth %		-25.0%	16.0%	18.0%
EBIDTA	3,131	4,203	4,597	5,073
Y-o-Y Growth %		34.2%	9.4%	10.4%
PAT	191	1,635	1,978	2,255
Y-o-Y Growth %		756.0%	21.0%	14.0%
EPS Rs	4.7	39.8	48.2	54.9
BVPS Rs	140.2	180.1	228.2	283.1
EBIDTA %	6.4%	11.4%	10.8%	10.1%
NPM %	0.4%	4.4%	4.6%	4.5%
ROE %	3.3%	22.1%	21.1%	19.4%
PER x	36.5	4.3	3.5	3.1
P/B Ratio	1.2	0.9	0.7	0.6

***** The company has changed its Y/E from Sept to Mar therefore FY09 fig are for 18 months*

STOCK DATA

BSE / NSE Code	530007/JKTYRE
Bloomberg Code	JKI IN Equity
No. of Shares (Mn)	41.1
Sensex / Nifty	17977 / 5399

PRICE DATA

CMP Rs (21st July'10)	169.70
Beta	0.82
Market Cap (Rs mn)	6,968
52 Week High-low	235.70 / 84.90
Average Daily Volume	56,469

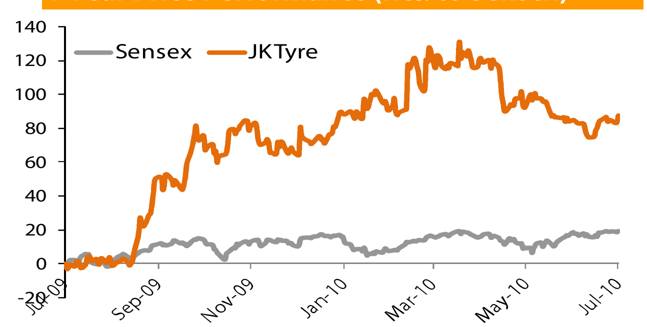
STOCK RETURN (%)

	30D	3M	6M	1Y
JK Tyre	1%	-15%	0%	88%
Sensex	1%	3%	5%	19%
Nifty	1%	3%	6%	21%

SHARE HOLDING PATTERN (%)

Promoter	46.9
Institution	21.8
Non Institution	31.3
Total	100.0

1 Year Price Performance (Rel. to Sensex)



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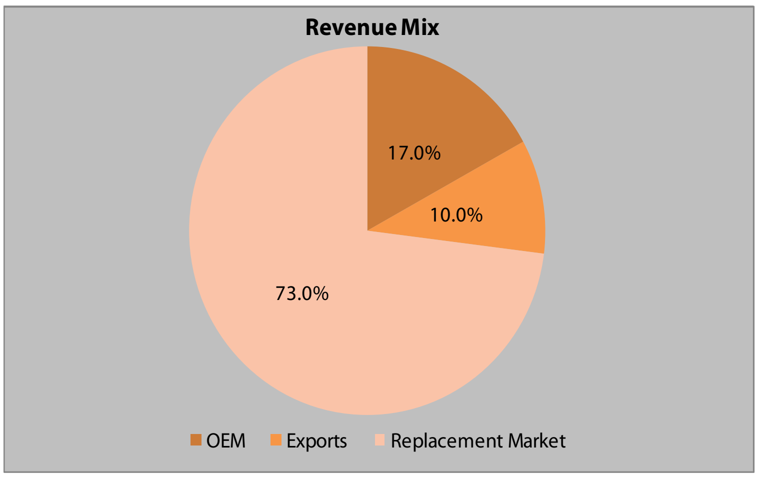
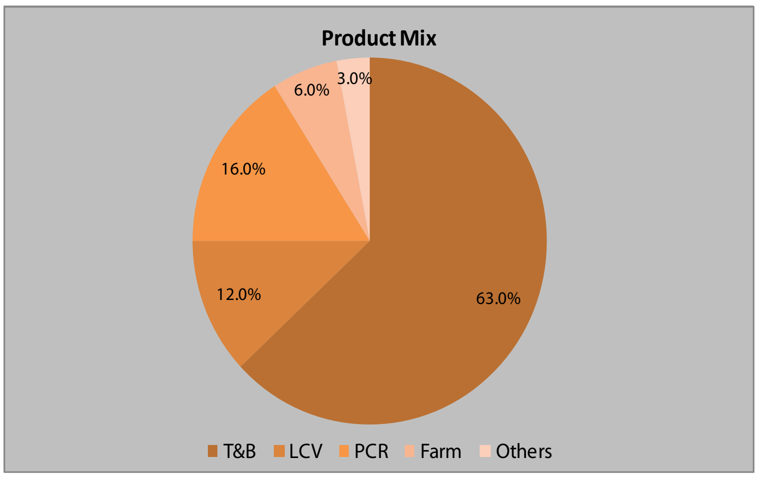
BUSINESS PROFILE

JK Tyre & Industries Ltd, a flagship company of the Hari Shankar Singhania group is the 3rd largest tyre manufacturer in India accounting for ~20% of the ~Rs250bn of the Indian tyre industry. The company has 4 plants in India with a capacity of 9.1mn tyres pa and a presence across categories of automotive tyres. The company has a network of 135 sales & service points and ~3500 dealerships across India and sells its tyres under the brands JK & Vikrant in the domestic & export markets. Besides India, JK Tyre has enhanced its global foot print with the acquisition of a Mexican tyre major – Tornel in 2008 to further strengthen JK Tyres resolve for increased presence in the NAFTA trade block and emerging economies of Central and South America, where it has been exporting tyres from India in large volumes for over twenty years. In addition to Mexico, to meet the increasing demand for tyres in the global tyre markets, it has entered into sourcing arrangements with tyre companies in China, Vietnam and Sri Lanka for various products including Truck Radial tyres and Bias Truck / Bus and LCV tyres.

The company has a capacity of 9.1mn tyres and plans capacity expansion of 12.6mn tyres by FY12





Significant Turnaround in Tornel…

JK Tyre acquired 100% of Tornel (Mexico) in May'08 for a consideration of Rs2.7bn. Tornel has a capacity of 290tpd and manufactures all types of tyres except T&B radials. This acquisition makes strategic sense as the company will get access to the NAFTA trade block as well as the emerging economies of Central & South America where the company already has marginal presence through exports. JKT changed 80% of the supplier base and restructured loans which have brought a sharp turnaround for the company. This resulted in the company reporting a profit of ~Rs640mn in FY10 against a loss of Rs399mn in FY09. Further, Tornel's capacity utilization has gone up from ~50% in FY09 to ~60% in FY10.

JKT changed 80% of the supplier base and restructured loans which have brought a sharp turnaround for the company

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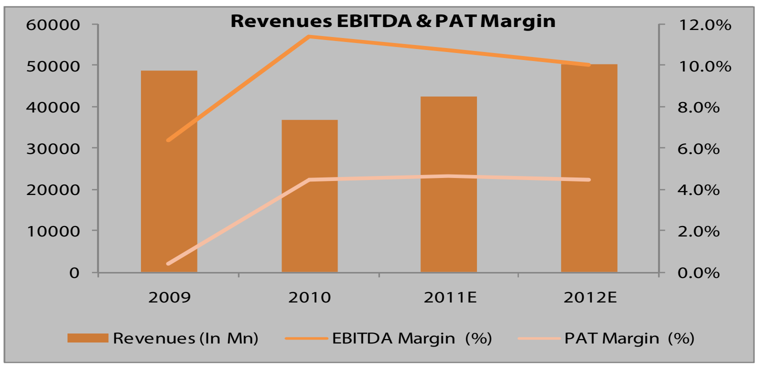
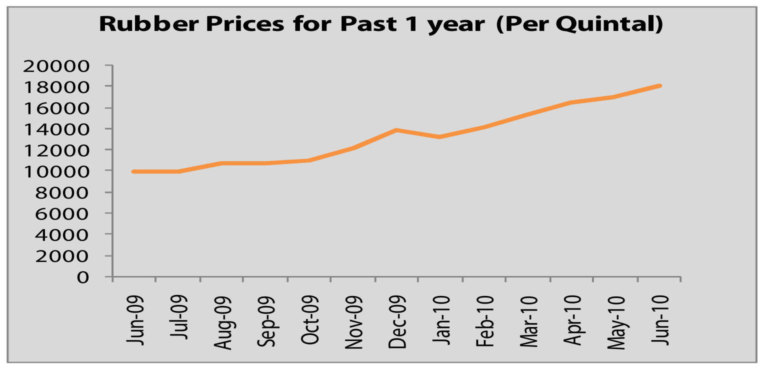
BUSINESS PERFORMANCE

Muted FY10 Performance

JK Tyre reported net sales of Rs 36.8bn on a standalone basis for FY2010 and Rs45.7bn on a consolidated basis. Net profit came in at Rs1.63bn on a standalone and at Rs 2.24bn on a consolidated basis. The numbers are not comparable with the previous fiscal as previous fiscal numbers are for eighteen months. The tonnage stood at 56,700MT for Q4 FY2010 and 2,40,000MT for FY2010. The company's EBITDA has drastically dropped from Rs 1.37bn in Q2 FY10 to Rs 0.8bn in Q4 FY10 owing to change in product mix and higher rubber prices. OPM growth was also partially arrested by the spike in other expenditure, which comprised discounts and other selling and distribution expenses.

The company margins have been hurt by rubber prices as they have doubled in the past one year





Peer Comparison

We believe that the company has first mover advantage in T&B radial as it was the company to bring radicalization in India and it is the only player with significant capacity in T&B radials. With economic recovery and rising disposable income and shortening replacement cycles we expect a good growth for the company going ahead. The Government's imposition of anti dumping duty on imports of T&B radials tyres will benefit the industry as it will compensate for the inverted duty structure (higher customs duty on raw material vs finished product i.e. 20% & 10% resp.) that the industry is suffering from.

The company is a major beneficiary from the government anti – dumping duty on imports of T&B radials

Peer Group Comparison

Companies	Revenues (Rs Mn)	EBIDTA Margin (%)	PAT Margin (%)	ROE %	P/E (x)	P/B (x)	CMP (Rs.)	FV (Rs.)
JK Tyres	36777	11%	4.4%	22.1%	4.3	0.9	169.7	10.0
Apollo Tyres	50366	16%	8.2%	27.0%	7.8	1.9	63.6	1.0
MRF	56638	13%	4.5%	20.4%	7.5	2.4	7705.0	10.0

VALUATION

We are very positive about the overall growth in the automobile sector and company has planned capacity expansion according to the growing demand. We expect the sales to grow at a CAGR of 17% for the period FY10-FY12E and PAT to grow at a CAGR of 17.43% for FY10-FY12E

Based on a standalone FY12 P/E multiple of 4, the fair value for the company works out to Rs 220.

Based on P/E multiple of 4, the fair value per share for the company works out to Rs220.

We recommend a '**BUY**' rating on the stock.

Financial Analysis and Projections

Particulars (Rs Mn)	FY09*	FY10	FY11E	FY12E
Net Revenue	49,036	36,777	42,661	50,340
Other Income	13	8	10	10
Other Op. Income	185	139	150	180
Total Income	49,234	36,924	42,821	50,530
Operating Expenditure	46,103	32,721	38,225	45,457
Depreciation	1,134	860	905	950
EBIT	1,998	3,344	3,692	4,123
EBIT Margin (%)	4.1%	9.1%	8.7%	8.2%
Interest	1,578	887	740	758
Profit Before Tax	420	2,457	2,952	3,365
Less: Tax	229	822	974	1,110
Profit After Tax	191	1,635	1,978	2,255
PAT Margin (%)	0.4%	4.4%	4.6%	4.5%
ROE (%)	3.3%	22.1%	21.1%	19.4%
EPS (Rs)	4.7	39.8	48.2	54.9
BVPS (Rs)	140.2	180.1	228.2	283.1

Valuation Ratios (x)	FY11E	FY12E
P/E	3.5	3.1
P/B	0.7	0.6

***The company has changed its Y/E from Sept to Mar therefore FY09 fig are for 18 months**

Board Of Directors		
Director Name	**Current Position**	**Description**
Raghupati Singhania	Managing Director	Mr. Raghupati Singhania is Vice Chairman & Managing Director of J K Industries Limited, an Industrial group founded over 100 years ago, which today ranks among the large industrial groups in India. He is also Chairman of Fenner (India) Ltd. and Director of J K Corp Limited. He is associated with various organizations and serving various Chambers of Commerce and Industry. He is member of National Council of CII and former President of PHD Chamber of Commerce & Industry. He has been the Deputy President & Member of Managing Committee, Associated Chamber of Commerce & Industry of India (ASSOCHAM) Chairman, Indian Wire Rope Manufacturers Association (IWRMA); Chairman, Automotive Tyre Manufacturers Association (ATMA); Chairman, Auto Tyres & Tubes Panel of Chemical & Allied Products Export Promotion Council (CAPEXIL) Member, Board of Governors of Rubber Board; Member, Board of Governors of Xavier Institute of Management (XIM); Bhubaneshwar, Member, Board of Governors, IIT, Chennai; and Chairman of various bilateral joint business councils and represented these as leader of various delegations to number of countries.
Hari Shankar Singhania	Non Executive Chairman	Mr. Hari Shankar Singhania, the President of JK Organization and Chairman of JK Tyre & Industries Ltd is a renowned business leader in India. He has been bestowed the prestigious national award "Padma Bhushan" by the President of India. He has been the President of International Chamber of Commerce (ICC), Paris, being the 2nd Indian and 3rd Asian in the last 80 years and has made significant contributions in national and international business arenas
N.C Muniyappa	Additional Director	Shri. N.C. Muniyappa, IAS, Managing Director of Karnataka State Industrial Investment & Development Corporation Limited, was appointed as an Additional Director of JK Tyre & Industries Limited w.e.f. 16th July 2009, representing KSIIDC.
Vikrampati Singhania	Deputy Managing Director	Vikrampati Singhania is the Deputy Managing Director, Director JK Tyre & Industries Ltd.
Bakul Jain	Independent Director	Mr. Bakul Jain is an Independent Director of JK Tyre and Industries Ltd