JK TYRE
& INDUSTRIES LTD.

JKTIL:SECTL:SE:2015

28 JUL 2015

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

Dear Sir,

Re : **Intimation under Clause 36 of the Listing Agreement**
- Upgradation of Credit Ratings

This is to inform that India Ratings & Research (A Fitch Group Company) has assigned improved Long Term Debt Rating for the Company from 'IND A+' to 'IND AA-'.

A copy of the press release issued by the said Rating Agency is enclosed and the same is self-explanatory.

Thanking You,

Yours' faithfully,
For JK Tyre & Industries Ltd.

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

India Ratings Upgrades JK Tyre to 'IND AA-'/Stable

Ind-Ra-New Delhi-22 July 2015: India Ratings and Research (Ind-Ra) has upgraded JK Tyre & Industries Limited's (JKTIL) Long-Term Issuer Rating to 'IND AA-' from 'IND A+'. The Outlook is Stable. A full list of rating actions is at the end of this commentary.

The upgrade reflects JKTIL's strong growth in the truck & bus radial segment (TBR) in FY15 and the likelihood of the growth being sustained over FY16-FY17. This is based on the back of the company's capacity additions in Chennai, which would augment its position in the domestic TBR and passenger car radial (PCR) segments. JKTIL's profitability and credit profile in FY15 were better than Ind-Ra's expectations and the trend is likely to continue over FY16.

KEY RATING DRIVERS

Faster Radialisation in Truck & Bus Segment: The ratings reflect the 27.3% yoy increase in JKTIL's volumes in the domestic TBR market in FY15 (FY14: 17.7%). The company has benefitted from the increasing trend of radialisation in the segment (FYE15: 33%) due to its leadership position and long track record in the TBR segment. According to the company, the radialisation in the segment is expected to increase to 40% by FYE16. Radial tyres contributed around 51% to revenue in FY15 (FY14: 46%).

Capex to Augment Market Position: The contribution of TBR and PCR segments to the total revenue increased to 30.9% (FY14: 27.3%; FY13: 22.4%) and 12.5% (11.4%, 9.1%), respectively, backed by higher capacity utilisation at its new facility in Chennai (FY15: 92.4%; FY14: 72.4%). The phased addition of capacities in the segments at the plant in Chennai would further increase the segments' revenue over FY16-FY17 and augment JKTIL's market position in the TBR and PCR segments. Increased contribution from the radial segment could also result in higher EBITDA margins in the medium to long term for JKTIL, as TBR tyres are priced 20%-25% higher than bias tyres.

Revival in CV Demand: Ind-Ra expects the medium & heavy commercial vehicle industry to see volume growth of 13%-17% yoy in FY16 (FY15: 16%; FY14 negative 25.3%) on an uptick in industrial and mining activities, government spend-driven infrastructure activities and pent up replacement demand in 2HFY16. JKTIL derives around 70% of revenue from the MHCV segment and thus a revival in demand is likely to benefit the company. Ind-Ra expects the replacement demand in the segment to also improve significantly FY16 onwards.

Higher-than-expected EBITDA Margin in FY15: JKTIL's consolidated EBITDA margins increased 120bp yoy to around 12.6% in FY15. This was above Ind-Ra's expectations. The agency expects the company to sustain the margins over FY16-FY17 due to a continued favourable raw material price environment, increased contribution from radial tyres and efficiency gains from the new unit in Chennai.

Capex over FY16-FY17: JKTIL is incurring capex of INR14.3bn over FY15-FY17 to augment its radial tyre capacity in India, which will be debt funded to the extent of INR10.3bn. This exposes the company to project execution risk which is mitigated by the brownfield nature of the capex. JKTIL already incurred INR7.3bn of the capex by 1QFY16. It also incurred the capex of INR1.36bn in FY15 to increase its passenger radial capacity in Mexico.

Marginal Deterioration in Credit Profile: JKTIL's consolidated net leverage (net adjusted debt/EBITDA) slightly increased in FY15 to 3.0x (FY14: 2.8x; FY13: 4.1x) because of the debt raised for the capex in FY15, while gross interest coverage marginally improved to 3.6x (3.2x, 2.7x). Ind-Ra expects the debt raised for the capex over FY15-FY17 to affect the credit profile in FY16. However, the net leverage is expected to improve beyond FY16 and should fall below 2.75x in the absence of any capex for expansion.

Comfortable Liquidity: Improving profitability has aided cash flows with cash flow from operations increasing by 22.7% in FY15. Free cash flow was negative in FY15 due to the capex on expansion in Chennai. However, cash accruals of the company will improve with a further improvement in the profitability, which should aid liquidity. Moreover, the company's working capital use was comfortable at around 72% over June 2014-May 2015. The project loan for the current expansion has a three-year moratorium period from the commissioning date of 1 April 2016 with a 10-year repayment period. Debt repayment is likely to peak at around INR2.2bn (in India) and debt service coverage ratio should remain around 2x in the medium term.

Competitive Pressures: The tyre industry in India is likely to witness a higher level of competition than in the past due to the increasing focus of international players on establishing their presence in the country and expansion by domestic players. Several tyre manufacturers have announced large capex plans keeping in mind the long-term growth prospects of the Indian market. The industry is already facing a decline in revenue in the T&B bias segment due to increasing radialisation, and capacity utilisation has fallen across major players. The domestic industry also saw a minor decline in prices in the range of 1%-4% in FY15 in various segments, but it has not affected the profitability of tyre companies due to a simultaneous decline in raw material costs. Higher competition among players leading to increased pricing pressures could affect JKTIL's profitability and credit profile.

RATING SENSITIVITIES

Negative: A negative rating action could result from the net leverage being sustained above 2.75x beyond FY16 due to weaker-than-expected profitability if benefits from the upcoming projects are delayed and/or due to higher input costs and/or because of pricing pressure due to a weaker demand environment.

Positive: Net leverage being sustained below 1.75x because of higher-than-expected benefits from the expansion and/or a significant improvement in the demand environment resulting in higher revenue and operating profits could lead to a positive rating action.

COMPANY PROFILE

JKTIL has six plants in India, with an installed capacity of 14.1 million tyres annually. The company acquired Tornel Tyres in Mexico (installed capacity: 6.7 million tyres) for INR2.7bn in FY09. JKTIL reported consolidated revenue of INR73.8bn in FY15 (FY14: INR76.5bn) with net income of INR3.3bn (INR2.6bn).

JKTIL's ratings:
- Long-Term Issuer Rating: upgraded to 'IND AA-' from 'IND A+'; Outlook Stable
-INR26.81bn fund- and non-fund-based limits: upgraded to 'IND AA-'/Stable from 'IND A+' and affirmed at 'IND A1+'
- INR11.54bn long-term loans: upgraded to 'IND AA-'/Stable from 'IND A+'
- INR10.3bn long-term bank facilities: upgraded to 'IND AA-'/Stable from 'IND A+'
- INR400m term deposit programme: upgraded to 'IND tAA'/Stable from 'IND tAA-'

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Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Applicable criteria, 'Corporate Rating Methodology', dated 12 September 2012, are available at www.indiaratings.co.in.

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India Ratings & Research (India Ratings) has six rating offices located at Mumbai, Delhi, Chennai, Kolkata, Bangalore and Hyderabad. India Ratings is recognised by Reserve Bank of India, Securities Exchange Board of India (SEBI) and National Housing Bank.

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