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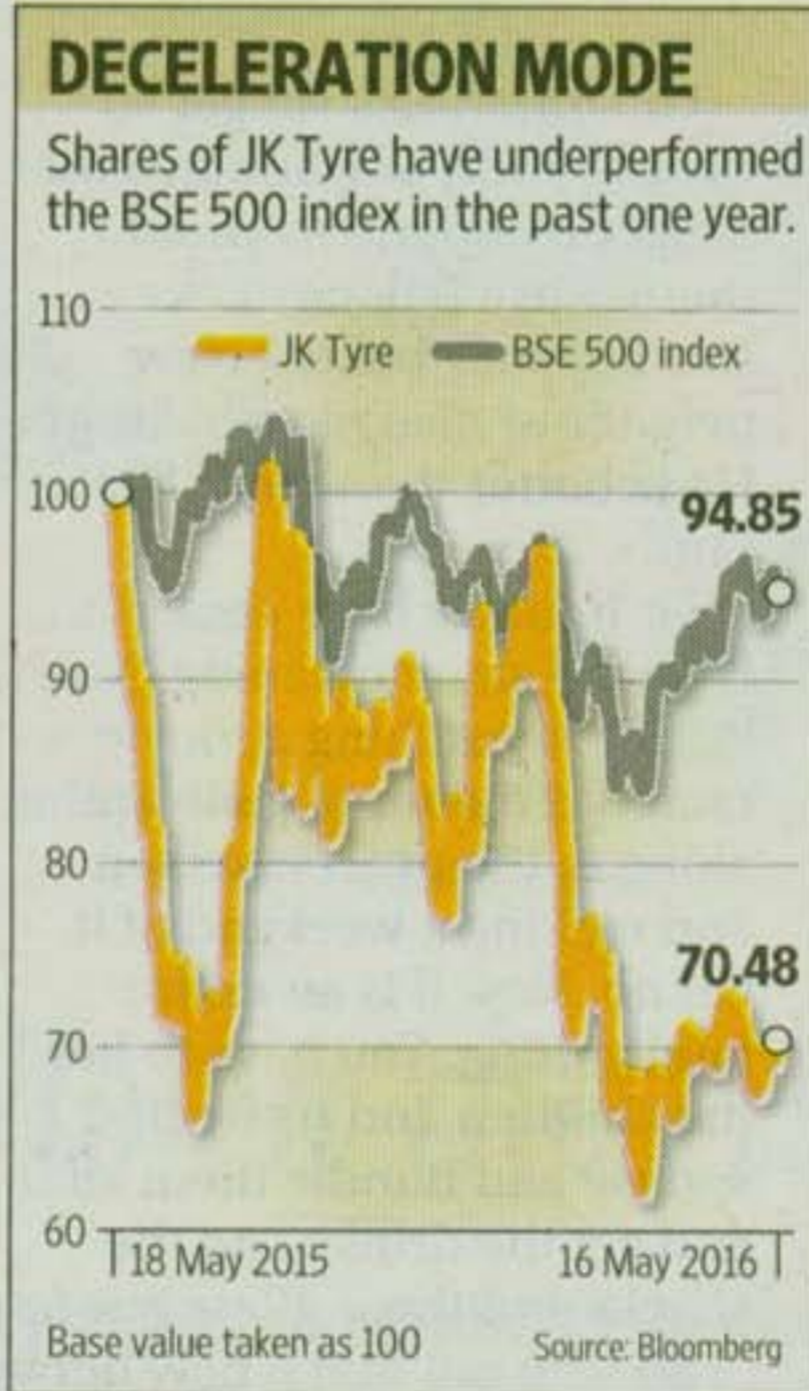
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JK Tyre: decent show amid rubber price rise

Faced with the challenge of a sudden 12-13% jump in the price of rubber and other inputs, JK Tyre and Industries Ltd's operating margin for the March quarter narrowed by about 90 basis points from the preceding December quarter. A basis point is 0.01%.

But then it was 140 basis points higher than a year back and also met *Bloomberg's* estimates of four analysts. This is commendable given that the firm has the highest share in the truck and bus radial (TBR) tyres' market, where Chinese competition is fierce and there's pressure on prices in the replacement market. Two-thirds of JK Tyre's revenue too comes from the TBR segment.

Besides, the firm's performance for the quarter was a shade lower than what the Street expected on most counts. Net revenue was mar-



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ginally up from a year earlier at ₹1,791 crore. Operating profit was higher by about 7% although it did not meet esti-

mates. Consolidated financial results were also hurt by lower revenue traction at its Mexican operations.

Importantly, investors and analysts would be cautious in the quarters ahead, watching out for a further increase in raw material prices that could impact profit margins like it would for other tyre firms.

In any case, JK Tyre's share price has been highly erratic in the last couple of quarters and has underperformed the S&P BSE 500 index. The stock surged by nearly 35% over a few weeks, as the company announced its strategic deal to buy a 64% stake in Kesoram's tyre unit in September. The deal was completed in April. But then the stock fell steadily soon after as news of rising rubber prices dampened investor sentiment.

While the long-term outlook for JK Tyre is favourable, given its enhanced capacity at a time when the auto market is turning into the upward cycle, integration of the new unit is critical. The new unit from Kesoram was not profitable at the time when rubber prices were at their lowest. However, going by the significant improvement in capacity utilization at its acquired plant in Mexico, the clouds over its recent acquisition should clear up soon.