

Company update

Automobiles

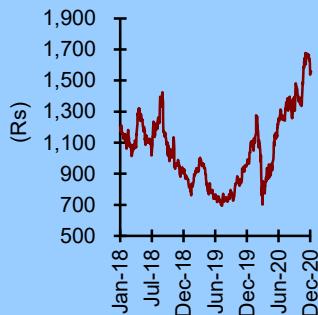
Target price: Rs1,969

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	58.3	58.3	58.3
Institutional investors	29.7	30.8	30.5
MFs and other	17.7	17.7	19.0
FIs/Banks/Ins	0.1	0.1	0.0
FII	11.9	13.0	11.5
Others	12.0	10.9	11.2

Source: BSE

Price chart



INDIA

Balkrishna Industries

BUY

Maintained

Rs1,557

CY20 industry exports end on a strong note

Balkrishna Industries' (BIL) key export markets continue to witness improving demand (Nov'20 industry exports grew 14% YoY). The latest industry export data (Nov'20) continues to be driven by agri (Ag) demand (up ~23% YoY) while OTR witnessed a flattish ~1% decline. Interesting to note, demand in the US region improved across segments (OTR+Ag was up ~34% MoM) as post-election political uncertainty fades away. The latest export data continues to support the V-shaped demand rebound: YTD exports are up 6% led by Ag (up 16%). On a regional basis, in Nov'20, growth was led by RoW (up 34%) followed by the EU region (up 14%). As BIL reaches peak utilisation in FY23E (assuming ~15% revenue CAGR over FY20-FY23E), we expect the best in class RoICs of >25%, justifying its superior valuation vis-à-vis peers. Maintain BUY.

- **Overall export rebound continues as agri propels higher growth:** Agri and OTR segments combined grew at a healthy ~14% YoY in Nov'20. On an end-product basis, growth acceleration continued in Ag tyres (up ~23% YoY) and contributed ~68% of total exports (up 500bps). On OTR side, momentum remained stable with 1% decline YoY in Nov'20.
- **EU growth surge continues:** On a regional basis, EU continues to deliver strong growth (Ag+OTR) at ~14% YoY while RoW outpaced at ~34% YoY. The two regions together represent ~76% of Nov'20 exports. On the flip side, the US region decline narrowed to ~6% YoY (Ag was flat while OTR declined ~15%). Growth in RoW exports driven by Australia (up 113%), Canada (up 105%) and South Africa (up 67%) reflects a more broad-based improvement across regions. In the EU, smaller nations of Austria, Poland drove growth even as the larger economies of France, Spain and Germany (flat YoY) were a drag due to Covid resurgence. On a sub-segment basis, OTR growth was driven by RoW (up ~21% YoY / ~44% contribution) while the US and EU declined ~13% (~31% contribution) and ~15% (25% contribution) respectively. However, on the Ag side, EU and RoW grew rapidly (up ~24% and 46% respectively).
- **Agri exports recover, OTR hit by Covid resurgence aftershock:** After the initial Covid-induced demand shock (~23% decline) in Q1FY21, exports had shown signs of recovery only to be hit by the second wave. This has led to the overall industry clocking ~10% decline YTD. We believe the outlook for global Ag exports remains strong under the rising commodity price environment. OTR demand is also likely to be supported by infrastructure/mining investments in FY22 and beyond as commodities outlook remains firm.
- **Maintain BUY:** We expect strong FCF generation of ~Rs28bn over FY22E/FY23E. We maintain our valuation multiple at 24x Dec'22E EPS of Rs82.1 and maintain our target price of Rs1,969. We maintain our **BUY** rating on the stock.

Market Cap	Rs301bn/US\$4.1bn	Year to Mar (Std)	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	BLKI.BO/BIL IN	Revenue (Rs mn)	49,637	53,595	65,857	74,859
Shares Outstanding (mn)	193.3	Rec. Net Income (Rs mn)	10,092	10,295	14,002	16,485
52-week Range (Rs)	1677/701	Rec. EPS (Rs)	52.2	53.3	72.4	85.3
Free Float (%)	41.7	% Chg YoY	29.0	2.0	36.0	17.7
FII (%)	11.5	P/E (x)	29.8	29.2	21.5	18.3
Daily Volume (US\$'000)	18,888	CEPS (Rs)	71.2	75.4	98.0	113.2
Absolute Return 3m (%)	7.8	EV/E (x)	21.2	17.9	13.8	11.4
Absolute Return 12m (%)	60.7	Dividend Yield (%)	1.0	0.9	1.2	1.4
Sensex Return 3m (%)	24.9	RoCE (%)	19.1	19.3	23.5	25.0
Sensex Return 12m (%)	15.3	RoE (%)	20.1	17.4	20.4	20.6

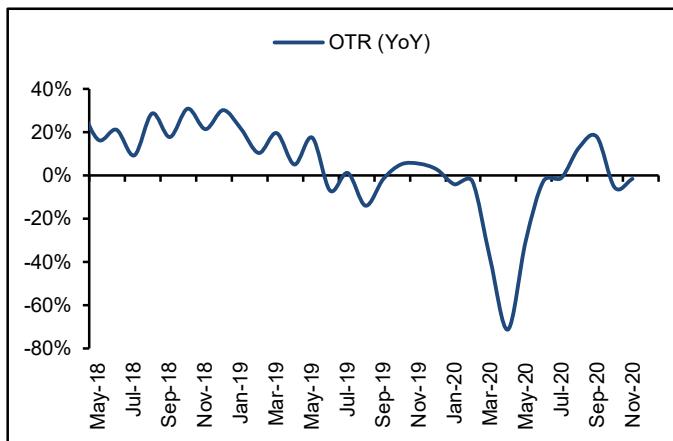
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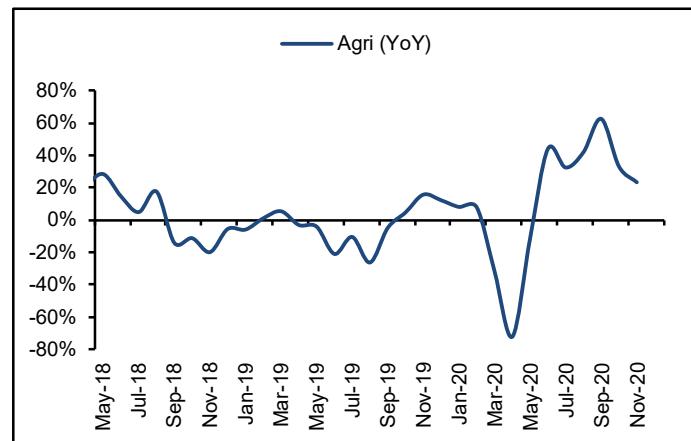
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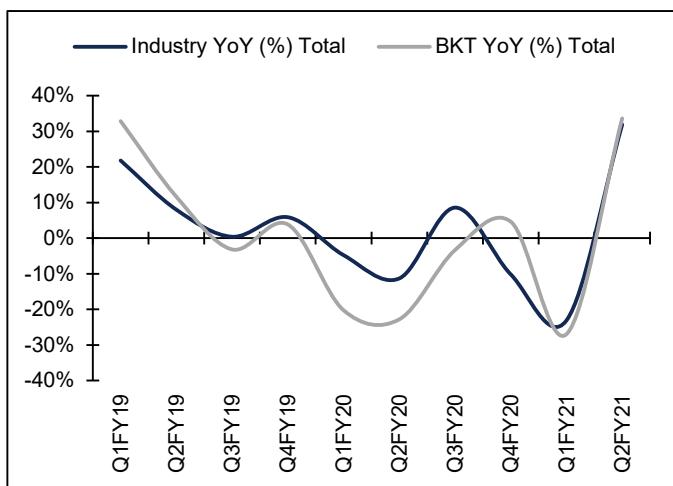
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Chart 1: India OTR tyre export growth trends

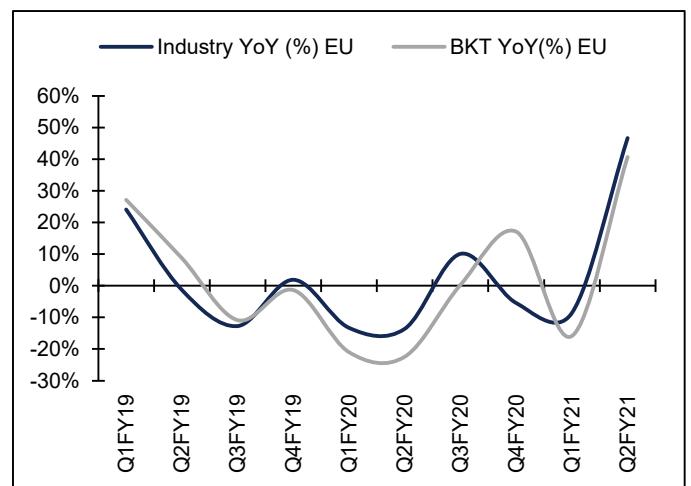
Source: Commerce ministry, I-Sec research

Chart 2: India agri tyre export growth trends

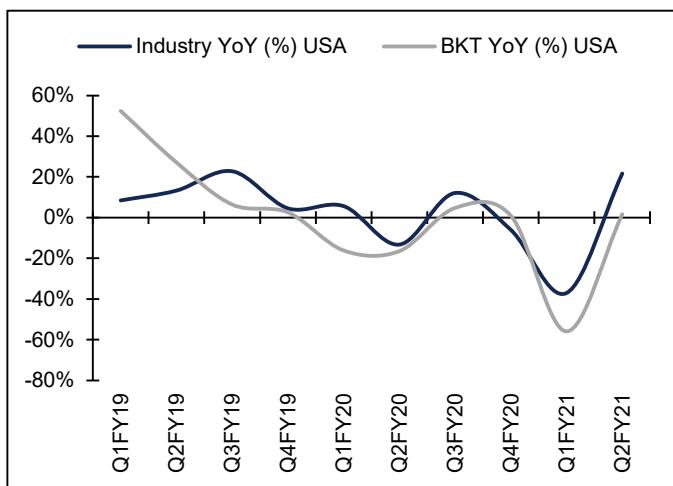
Source: Commerce ministry, I-Sec research

Chart 3: Industry vs BIL export trends – Overall

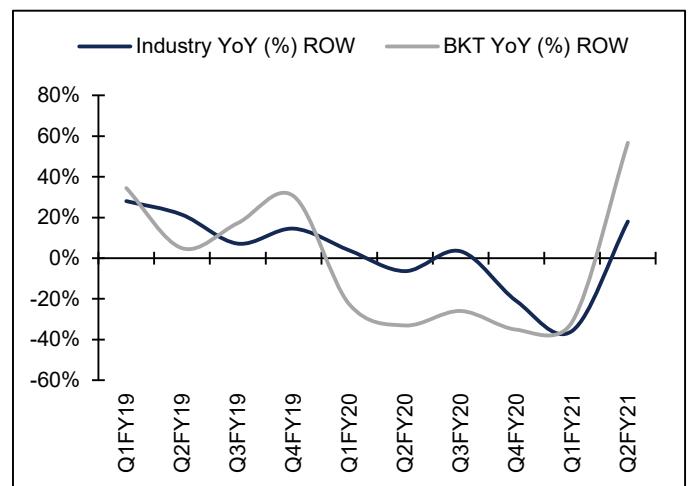
Source: Commerce ministry, Company, I-Sec research

Chart 4: Industry vs BIL export trends – EU

Source: Commerce ministry, Company, I-Sec research

Chart 5: Industry vs BIL export trends – US

Source: Commerce ministry, Company, I-Sec research

Chart 6: Industry vs BIL export trends – RoW

Source: Commerce ministry, Company, I-Sec research

Table 1: Tyre industry's total exports (agri and OTR combined)

(US\$ mn)	Nov'19	Nov'20	%Growth	YTD FY20	YTDFY21	%Growth
EU	36.4	41.6	14%	304.2	360.3	18%
Share of total (%)	43.3	43.3		46.0	51.3	
US	24.0	22.7	-6%	153.2	139.4	-9%
Share of total (%)	28.6	23.6		23.2	19.8	
RoW	23.7	31.8	34%	203.7	203.2	0%
Share of total (%)	28.1	33.1		30.8	28.9	
Total	84.1	96.0	14%	661.1	702.9	6%

Source: Commerce ministry, I-Sec research

Table 2: Agri tyre exports

(US\$ mn)	Nov'19	Nov'20	%Growth	YTD FY20	YTDFY21	%Growth
EU	27.2	33.8	24%	226.0	284.2	26%
Share of total (%)	51.6	51.9		54.6	59.1	
US	13.2	13.2	0%	85.7	84.2	-2%
Share of total (%)	24.9	20.3		20.7	17.5	
RoW	12.4	18.1	46%	102.5	112.5	10%
Share of total (%)	23.5	27.8		24.8	23.4	
Total	52.8	65.1	23%	414.2	480.9	16%

Source: Commerce ministry, I-Sec research

Table 3: OTR tyre exports

(US\$ mn)	Nov'19	Nov'20	%Growth	YTD FY20	YTDFY21	%Growth
EU	9.1	7.7	-15%	78.3	76.1	-3%
Share of total (%)	29.2	25.1		31.7	34.3	
US	10.9	9.5	-13%	67.6	55.2	-18%
Share of total (%)	34.8	30.7		27.4	24.9	
RoW	11.3	13.7	21%	101.1	90.7	-10%
Share of total (%)	36.1	44.2		41.0	40.8	
Total	31.3	30.9	-1%	247.0	222.0	-10%

Source: Commerce ministry, I-Sec research

Financial summary (standalone)

Table 4: Profit and Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Tonnage (MT)	201,759	211,363	245,663	267,133
Total Op. Income (Sales)	49,637	53,595	65,857	74,859
Operating Expenses	35,168	36,729	44,364	50,009
EBITDA	14,469	16,866	21,493	24,850
% margins	29.1%	31.5%	32.6%	33.2%
Depreciation & Amortisation	3,680	4,288	4,939	5,390
EBIT	10,789	12,578	16,553	19,460
Other Income	1,174	1,234	1,807	2,355
Gross Interest	92	82	58	68
PBT	11,870	13,730	18,303	21,747
Less: Exceptionals	-	-	-	-
PBT after Exceptionals	11,870	13,730	18,303	21,747
Less: Taxes	1,779	3,436	4,301	5,263
Net Income (Reported)	10,092	10,295	14,002	16,485
Net Income (Adjusted)	10,092	10,295	14,002	16,485

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
ASSETS				
Current Assets	15,025	15,835	19,265	20,755
Cash & cash equiv.	230	140	537	568
Current Liabilities & Provisions	4,406	4,676	6,111	6,947
Net Current Assets	10,619	11,159	13,153	13,808
Investments	10,996	16,996	18,496	29,496
Total Fixed Assets	38,610	40,822	43,883	41,493
Capital Work-in-Progress	5,860	5,860	5,860	5,860
Other non-current asset	2,686	2,686	2,686	2,686
Total Assets	62,911	71,663	78,218	87,483
LIABILITIES				
Borrowings	10,262	10,262	7,262	5,262
long-term borrowings	22	22	22	22
short-term borrowings	10,240	10,240	7,240	5,240
Deferred Tax Liability Net	1,784	1,784	1,784	1,784
Other Non-current Liabilities	584	584	584	584
Equity Share Capital	387	387	387	387
Reserves & Surplus	49,894	58,646	68,201	79,466
Net Worth	50,281	59,033	68,588	79,853
Total Liabilities	62,911	71,663	78,218	87,483

Source: Company data, I-Sec research

Table 6: 5-stage DuPont analysis

(year ending March 31)

All figures in %	FY20	FY21E	FY22E	FY23E
Tax Burden	0.9	0.7	0.8	0.8
Interest Burden	1.1	1.1	1.1	1.1
EBIT Margin	0.2	0.2	0.3	0.3
Asset Turnover	0.8	0.7	0.8	0.9
Financial Leverage	1.3	1.2	1.1	1.1
ROE	20.1	17.4	20.4	20.6

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating cashflow before working capital changes	13,772	14,582	18,941	21,874
Net Working Capital Changes	782	(630)	(1,597)	(624)
Operating Cashflow	14,554	13,953	17,343	21,250
Capital Commitments	(8,598)	(6,500)	(8,000)	(3,000)
Free Cashflow	5,956	7,453	9,343	18,250
Cashflow from Investing Activities	(9,433)	(12,500)	(9,500)	(14,000)
Inc/(Dec) in Borrowings	-	-	-	-
Dividend paid	(4,661)	(3,480)	(4,446)	(5,220)
Interest paid	(92)	(82)	(58)	(68)
Others	92	93	58	68
Cashflow from Financing Activities	(3,326)	(3,469)	(7,446)	(7,220)
Net Cashflow	179	(2,016)	397	31
Opening Cash & Bank balance	362	2,156	140	537
Closing Cash & Bank balance	541	140	537	568
Increase / (Decrease) in Cash & cash equivalents	179	(2,016)	397	31

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (in Rs.)				
EPS (Basic)	52.2	53.3	72.4	85.3
EPS (Adjusted)	52.2	53.3	72.4	85.3
Cash EPS	71.2	75.4	98.0	113.2
Dividend per share (DPS)	20.0	18.0	23.0	27.0
CDPS (Adjusted)	260.1	305.4	354.8	413.1
Growth Ratios (%)				
Total Op. Income (Sales)	-7.0	8.0	22.9	13.7
EBITDA	1.1	16.6	27.4	15.6
Net Income (Adjusted)	29.0	2.0	36.0	17.7
EPS (Adjusted)	29.0	2.0	36.0	17.7
Cash EPS	23.6	5.9	29.9	15.5
CDPS (Adjusted)	7.5	17.4	16.2	16.4
Valuation Ratios (x)				
P/E (Adjusted)	29.8	29.2	21.5	18.3
P/CD (Adjusted)	6.0	5.1	4.4	3.8
EV/EBITDA	21.2	17.9	13.8	11.4
EV/Sales	6.2	5.6	4.5	3.8
Return/Profitability Ratio (%)				
EBITDA Margin	29.1	31.5	32.6	33.2
Net Income Margin (Adjusted)	20.3	19.2	21.3	22.0
RoCE	19.1	19.3	23.5	25.0
RoNW	20.1	17.4	20.4	20.6
Dividend Payout Ratio	38.3	33.8	31.8	31.7
Dividend Yield	1.0	0.9	1.2	1.4
Solvency/Wkg. Cap. Ratios (x)				
Net D/E	0.1	0.0	(0.1)	(0.2)
Gross Debt/EBITDA	0.4	0.0	(0.2)	(0.7)
EBIT/Interest	116.8	153.2	284.9	284.5
Current Ratio	4.1	4.1	3.7	3.5
Quick Ratio	2.5	2.4	2.2	2.0
Inventory (days)	43	43	42	42
Receivables (days)	49	48	47	42
Payables (days)	27	26	28	28

Source: Company data, I-Sec research

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