

ICICI Securities Limited
is the author and
distributor of this report

Company update

Automobiles

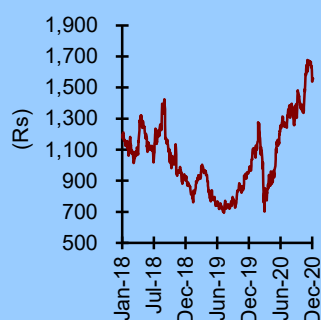
Target price: Rs1,969

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



Research Analysts:

Nishant Vass

nishant.vass@icicisecurities.com
+91 22 6637 7260

Pratit Vajani

pratit.vajani@icicisecurities.com
+91 22 6637 7161

INDIA

Balkrishna Industries

BUY

Maintained

Rs1,557

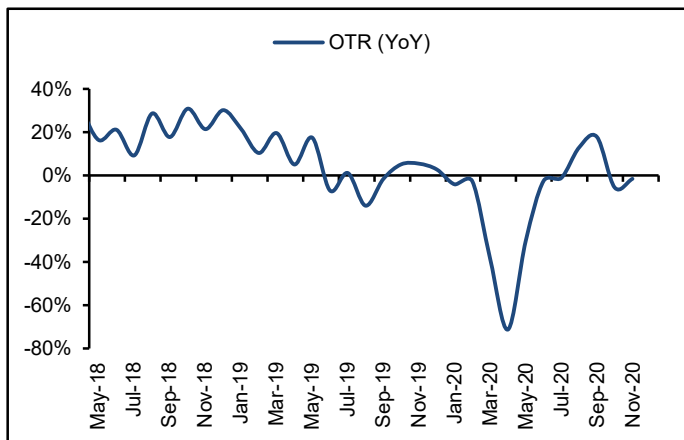
CY20 industry exports end on a strong note

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.

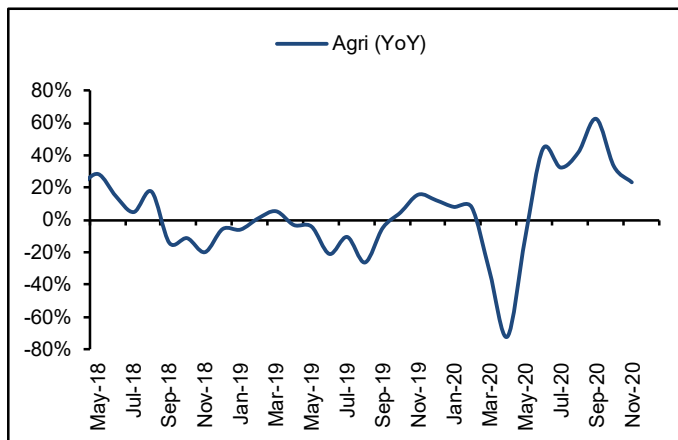
- **Overall export rebound continues as agri propels higher growth:** Agri and OTR segments combined grew at a healthy ~14% YoY in Nov'20. On an end-product basis, growth acceleration continued in Ag tyres (up ~23% YoY) and contributed ~68% of total exports (up 500bps). On OTR side, momentum remained 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

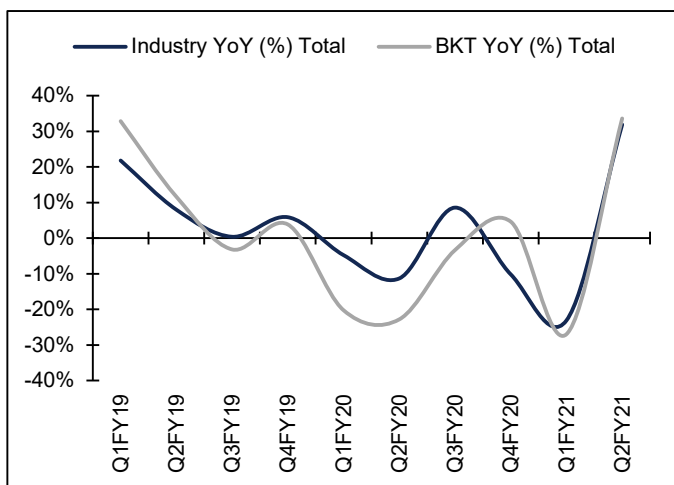
Please refer to important disclosures at the end of this report

Chart 1: India OTR tyre export growth trends

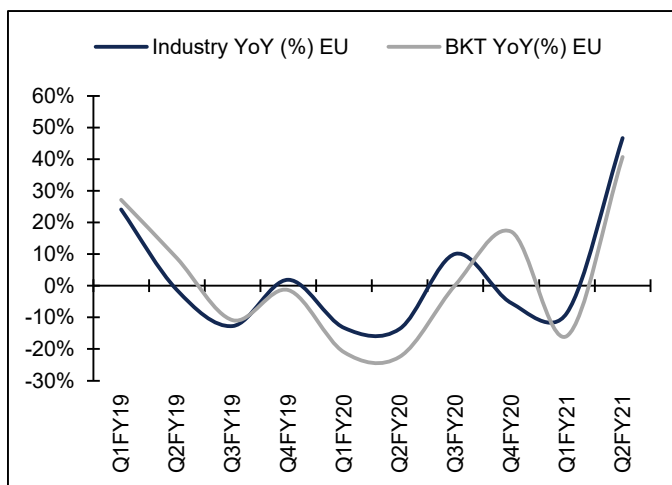
Source: Commerce ministry, I-Sec research

Chart 2: India agri tyre export growth trends

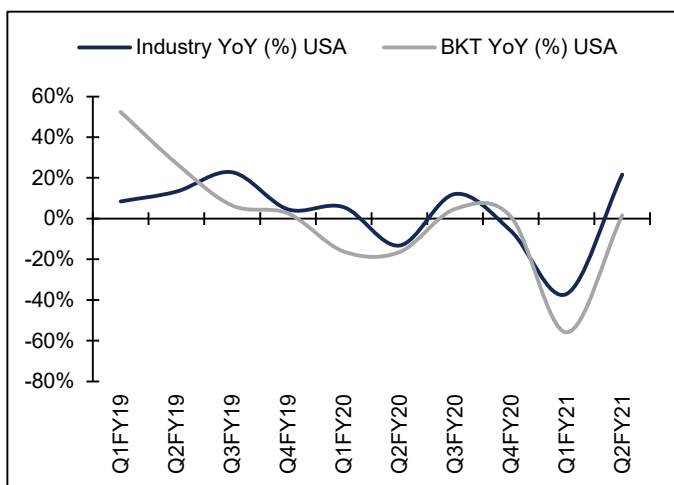
Source: Commerce ministry, I-Sec research

Chart 3: Industry vs BIL export trends – Overall

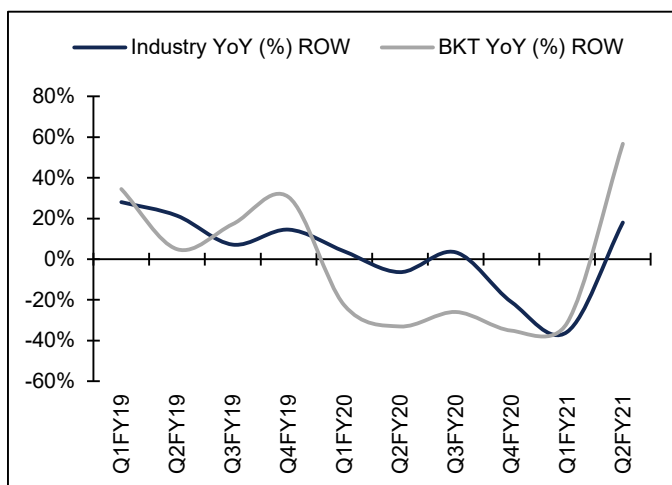
Source: Commerce ministry, Company, I-Sec research

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)

Region	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)

Region	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)

Region	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 eqv.	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

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

ANALYST CERTIFICATION

I/We, Nishant Vass, MBA (Finance); Pratit Vajani, MBA (Finance); authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.