

Balkrishna Industries

Estimate change	↑
TP change	↑
Rating change	↔

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Bloomberg	BIL IN
Equity Shares (m)	193
M.Cap.(INRb)/(USDb)	473.5 / 6.4
52-Week Range (INR)	2558 / 1237
1, 6, 12 Rel. Per (%)	4/29/38
12M Avg Val (INR M)	1361

Financials & valuations (INR b)

Y/E March	FY21	FY22E	FY23E
Sales	58.7	75.0	87.2
EBITDA	19.0	22.7	27.6
Adj. PAT	12.9	15.4	18.3
EPS (Rs)	66.5	79.7	94.9
EPS Growth (%)	33.9	19.9	19.0
BV/Share (Rs)	310.4	368.7	438.5
Ratios			
RoE (%)	23.4	23.5	23.5
RoCE (%)	20.0	20.3	20.7
Payout (%)	25.6	25.5	26.4
Valuations			
P/E (x)	36.8	30.7	25.8
P/BV (x)	7.9	6.6	5.6
Div. yield (%)	0.7	0.8	1.0
FCF yield (%)	0.9	1.3	2.2

Shareholding pattern (%)

As On	Jun-21	Mar-21	Jun-20
Promoter	58.3	58.3	58.3
DII	14.1	14.6	30.8
FII	15.2	14.4	0.0
Others	12.4	12.7	10.9

FII Includes depository receipts

CMP: INR2,449 **TP: INR2,600 (+6%)** **Neutral**

Demand remains strong across geographies

Price increases to pass on cost inflation and logistics cost

- BIL's 1QFY22 performance was driven by strong demand tailwinds across geographies and segments, leading to its highest ever volumes. Strong economic activity, increased government spending on Infrastructure, and supporting underlying commodity prices augurs well for demand for both Agri and OTR tyres.
- We upgrade our FY22E/FY23E EPS by ~7%/6% to factor in strong demand. However, we maintain our **Neutral** rating due to the rich valuations.

Price hike dilutes impact of cost inflation on margin

- Revenue grew 4.5% QoQ to INR18.3b in 1QFY22. EBITDA/adjusted PAT declined by 3%/4% QoQ to INR5.3b/INR3.58b.
- Volumes grew 1% QoQ (+80% YoY) to 68.6kt – the highest ever quarterly sales volume. Realizations grew 3.5% QoQ (+8% YoY) to INR266.5k.
- Revenue grew 4.5% QoQ (94% YoY) to INR18.3b.
- Gross margin contracted by 160bp QoQ (387bp YoY) to 57.2%.
- EBIDTA margin contracted by 230bp QoQ (+300bp YoY) to 28.9% due to higher logistics cost (90bp impact). EBIDTA fell 3% QoQ (+117% YoY) to INR5.28b. Higher other income boosted adjusted PAT to INR3.58b (-4% QoQ).
- The company declared its first interim dividend of INR4/share for FY22.

Highlights from the management commentary

- **Outlook:** Volume guidance remains at 250-265kt for FY22, despite strong tailwinds due to the COVID-led uncertainty in the ecosystem.
- **Price hike:** It took a 2-3% price hike in Jul'21. It is taking a quarterly price hike and should maintain a 28-30% operating margin annually on a long term basis.
- **RM inflation** remains a challenge on a pricing perspective. It believes that RM cost is at its peak and should remain stable at these levels.
- **Logistic costs** have increased (impact of 90bp). It expects other expenses to remain at current levels for the remaining part of FY22.
- **Inventory:** Dealer level inventory has normalized to 35-40 days (v/s 20-25 days earlier and a normal of 40-45 days).
- **Capex** for FY22 to be at INR9-10b.

Valuation and view

- We expect BIL's outperformance to the industry to continue, driven by expansion of product portfolio and ramp-up in OTR segment, with scope to strengthen its competitive positioning.
- Current valuations fairly reflect its industry leading margin, FCF, and capital efficiencies. It currently trades at a P/E multiple of 30.7x/25.8x of FY22E/FY23E EPS. We value BIL at 25x Sep'23E EPS (at a 25%/80% premium to its five/10-year average P/E), with a TP of INR2,600. We maintain our **Neutral** rating.

Y/E March	Quarterly Earning Model (Standalone)								(INR Million)	
	FY21				FY22				FY21	FY22E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Volumes (Ton)	38,096	61,224	59,810	68,002	68,608	69,183	63,997	69,767	2,27,131	2,71,555
YoY Change (%)	-25.7	35.5	26.4	17.3	80.1	13.0	7.0	2.6	12.6	19.6
Realizations (INR '000/ton)	247.2	253.5	250.2	257.3	266.5	270.4	273.2	292.3	252.7	275.7
YoY Change (%)	4.2	3.4	0.0	7.4	7.8	6.7	9.2	13.6	4.1	9.1
Net Revenues	9,417	15,518	14,966	17,499	18,281	18,710	17,481	20,391	57,399	74,863
YoY Change (%)	-22.7	40.2	26.5	26.0	94.1	20.6	16.8	16.5	17.2	30.4
Total Expenditure	6,981	10,421	10,282	12,041	13,004	13,350	12,429	13,447	39,724	52,230
EBITDA	2,436	5,097	4,684	5,458	5,277	5,361	5,052	6,944	17,675	22,633
Margins (%)	25.9	32.8	31.3	31.2	28.9	28.7	28.9	34.1	30.8	30.2
Depreciation	996	1,012	1,019	1,034	1,041	1,100	1,150	1,157	4,062	4,448
Interest	24	34	17	23	21	22	22	24	98	89
Other Income	203	454	594	544	632	500	500	526	1,795	2,158
PBT before EO expense	1,619	4,505	4,241	4,945	4,847	4,739	4,380	6,289	15,310	20,254
Rate (%)	24.7	24.6	24.1	24.7	26.2	24.2	24.2	22.7	24.5	24.2
Adj PAT	1,218	3,395	3,219	3,722	3,575	3,593	3,321	4,861	11,554	15,359
YoY Change (%)	-30.8	16.7	45.9	44.7	193.5	5.8	3.2	30.6	22.3	32.9
Margins (%)	12.9	21.9	21.5	21.3	19.6	19.2	19.0	23.8	20.1	20.5

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY21				FY22E				FY21	FY22E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE		
Volumes (Ton)	38,096	61,224	59,810	68,002	68,608	69,183	63,997	69,767	2,27,131	2,71,555
YoY Change (%)	-25.7	35.5	26.4	17.3	80.1	13.0	7.0	2.6	12.6	19.6
Realizations (INR '000/ton)	247.2	253.5	250.2	257.3	266.5	270.4	273.2	292.3	252.7	275.7
YoY Change (%)	4.2	3.4	0.0	7.4	7.8	6.7	9.2	13.6	4.1	9.1
Gross Margins (%)	61.1	60.6	59.7	58.8	57.2	56.8	57.5	60.5	59.9	58
EBITDA Margins (%)	25.9	32.8	31.3	31.2	28.9	28.7	28.9	34.1	30.8	30.2
Gross Profit (INR '000/ton)	151.0	153.6	149.3	151.3	152.4	153.5	157.1	176.8	151.3	160
EBITDA (INR '000/ton)	63.9	83.3	78.3	80.3	76.9	77.5	78.9	99.5	77.8	83



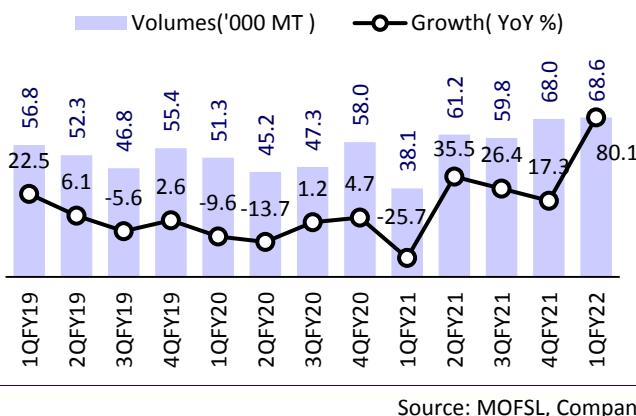
Highlights from the management commentary

- **Outlook:** The demand momentum continues to remain strong across geographies and the segment on the back of strong economic activity, increased government spending worldwide in Infra, and supportive commodity prices.
- **Volume guidance** remains at 250-265kt for FY22, despite strong tailwinds due to the COVID-led uncertainty in the ecosystem.
- **Capacity utilization:** Currently, it is operating near peak capacity utilization. It can produce a maximum quantity of 285kt/year from its current capacity. Additional growth would come from ongoing projects.
- **RM inflation** remains a challenge on a pricing perspective. It believes that RM cost is at its peak and should remain stable at these levels.
- **Logistic costs** have increased (impact of 90bp). It expects other expenses to remain at current levels for the remaining part of FY22.
- **Price hike:** It took a 2-3% price hike in Jul'21. It is taking a quarterly price hike and should maintain a 28-30% operating margin annually on a long term basis.
- **Inventory:** Dealer level inventory has normalized to 35-40 days (v/s 20-25 days earlier and a normal of 40-45 days).
- The growth rate in the global Specialty tyre market stands ~3-5% p.a. BIL's has a market share of 5-5.5%, and excluding China, it would be 7-7.5%.

- US sales contribution has risen marginally as it is the focus area. Also, OTR contribution has gone up due to the management's focus. India was relatively weak due to the lockdowns and seasonality, but should recover going forward.
- Capex for FY22 to be around INR10b.

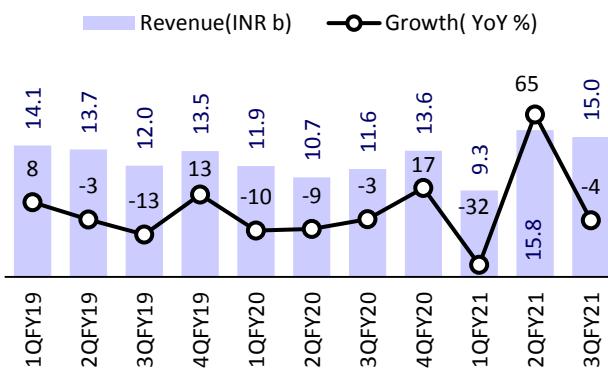
Key exhibits

Exhibit 1: Volume trend



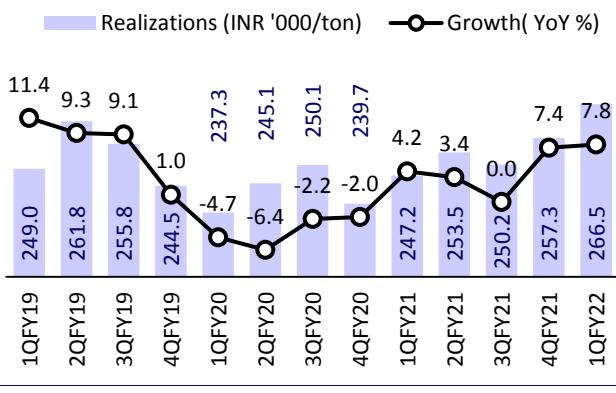
Source: MOFSL, Company

Exhibit 2: Trend in revenue



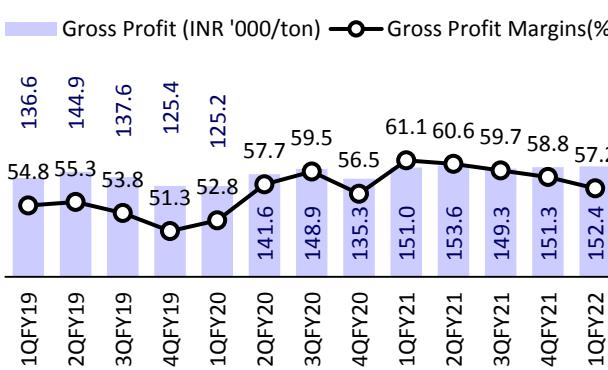
Source: MOFSL, Company

Exhibit 3: Net realization trend



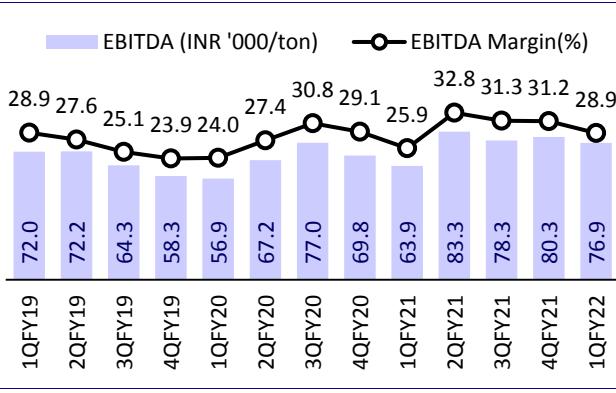
Source: MOFSL, Company

Exhibit 4: Gross profit margin trend



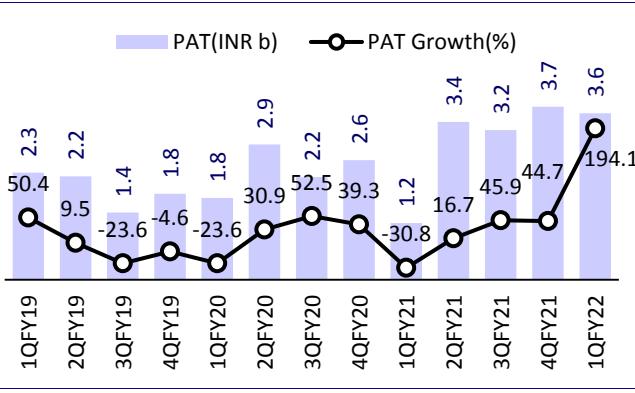
Source: MOFSL, Company

Exhibit 5: EBITDA margin trend



Source: MOFSL, Company

Exhibit 6: PAT and PAT growth trends



Source: MOFSL, Company

Exhibit 7: Geography-wise contribution

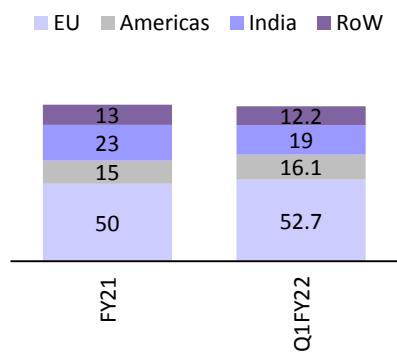


Exhibit 8: Channel-wise sales

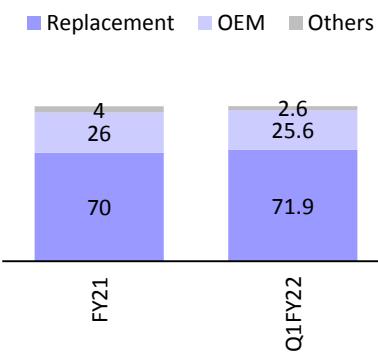
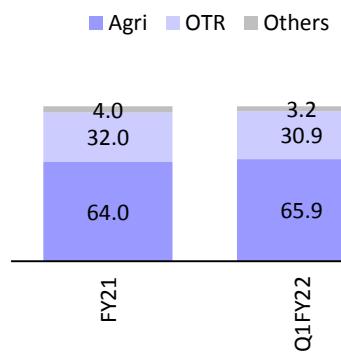


Exhibit 9: Segment-wise sales



Source: Company, MOFSL

Valuation and view

Huge opportunity size and strong competitive positioning

- **Profitable market share gains to continue:** We expect BIL's outperformance to the industry to continue, with scope to strengthen its competitive positioning. BIL has a well-established competitive advantage, which has enabled consistent market share gains. Its competitive advantage is driven by: a) competitive cost and pricing, b) consistent product portfolio expansion, and c) expanding reach. With a current market share of ~6% in the USD15b global Specialty Tyre segment, BIL aspires to increase this to 10% over the next 4-5 years by: a) ramping-up in the OTR segment, which is much larger than Agri Tyres, b) strengthening its presence in North America and RoW markets, and c) gaining share with OEMs. We estimate ~15%/~23% volume/revenue CAGR over FY21-23E.
- **Investing to further improve competitiveness:** BIL has chalked out a capex of ~INR19b over the next two years. It would allocate INR8b towards setting up new capacity, INR6.5b for carbon black capacity expansion, and INR4.5b for plant automation. Hence, incremental capacity would be ~17%. Despite the increase, capex intensity (as a percentage of sales) will reduce to 10-12% over the next two years from 15-16% in the last two years. This, in turn, will result in a sharp improvement in FCF generation over the next two years.
- **Earnings growth to pick-up:** We estimate revenue/EBITDA/PAT to grow at 23%/24%/25% over FY21-23E. We expect ~60bp improvement in EBITDA margin over FY21-23E, led by cost pass through and mix improvement. Despite a capex plan of INR19b, we expect FCF generation to improve to INR10.5b in FY23E and cash on the Balance Sheet to rise to ~INR11.6b. Even though the benefit of this capex is not expected to reflect materially till FY23E, we expect RoCE to improve by 240bp over FY21 to ~20.7% in FY23E.
- **Valuations factor in a focused business model:** BIL ranks the highest among domestic peers in terms of cost competitiveness and financial strength. In terms of valuation, it trades at a substantial premium to its mainstream peers. Premium valuations fairly reflect its industry leading margin, FCF, and capital efficiencies. It currently trades at a P/E multiple of 30.7x/25.8x of FY22E/FY23E EPS. We value BIL at 25x Sep'23E EPS (at a 25%/80% premium to its five/10-year average P/E), with a TP of INR2,600. We maintain our **Neutral** rating.

Exhibit 10: Revisions to our estimates

(INR m)	FY22E			FY23E		
	Revised	Old	Change (%)	Revised	Old	Change (%)
Net sales	74,966	71,375	5.0	87,235	83,181	4.9
EBITDA	22,733	22,413	1.4	27,642	26,691	3.6
EBITDA (%)	30.3	31.4	-110bp	31.7	32.1	-40bp
Adjusted PAT	15,406	14,396	7.0	18,336	17,373	5.5
EPS (INR)	79.7	74	7.0	94.9	90	5.5

Exhibit 11: One-year forward P/E

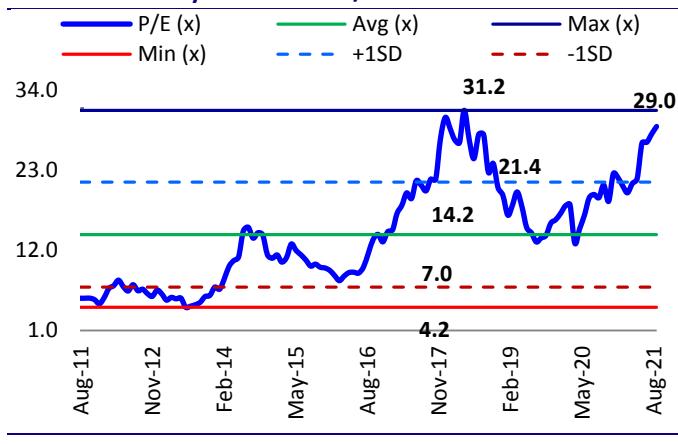
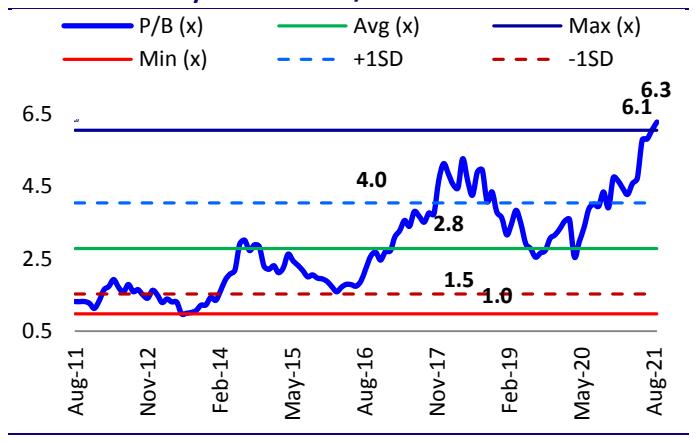
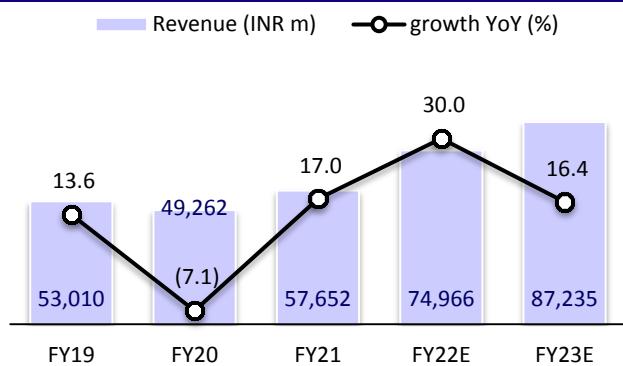


Exhibit 12: One-year forward P/B band



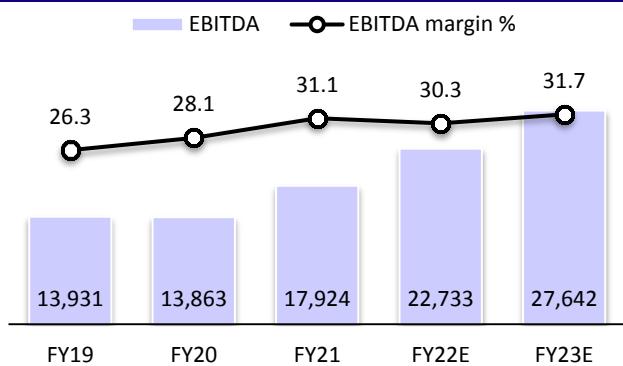
Story in charts

Exhibit 13: Expect revenue to grow by ~23% CAGR over FY21-23E



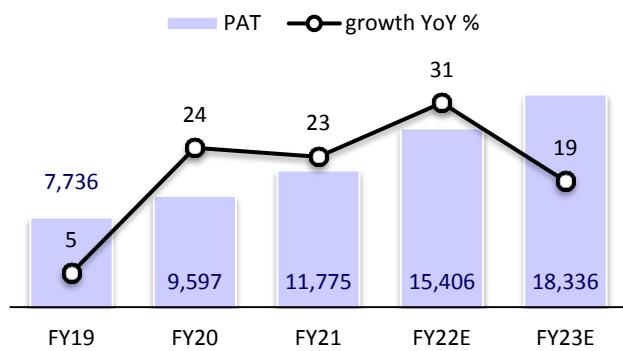
Source: Company, MOFSL

Exhibit 14: Expect EBITDA margin to expand by 60bp over FY21-23E



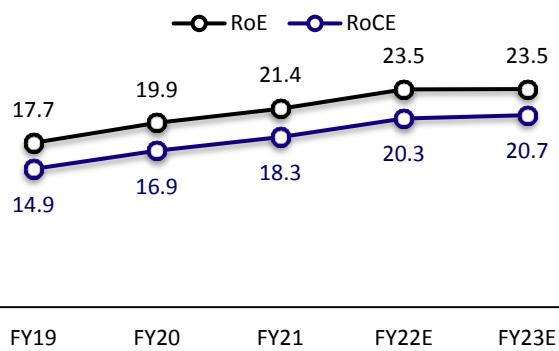
Source: Company, MOFSL

Exhibit 15: Expect PAT to grow by ~25% CAGR over FY21-23E



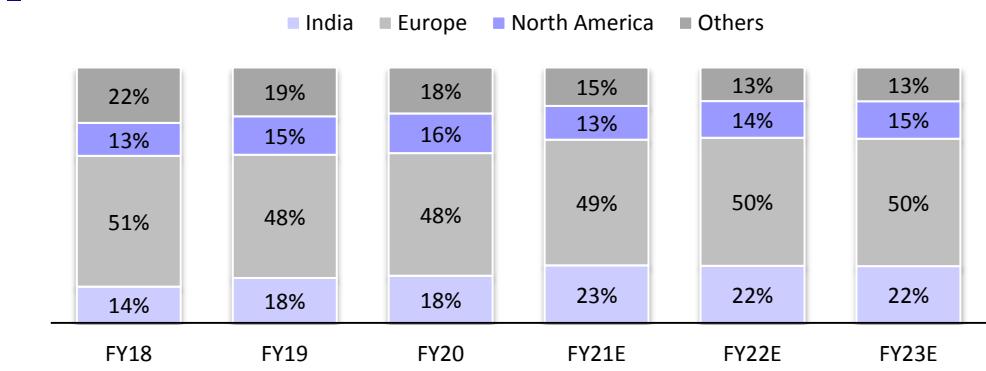
Source: Company, MOFSL

Exhibit 16: Expect RoE to expand despite ongoing capex



Source: Company, MOFSL

Exhibit 17: Market mix can potentially improve towards India and the US



Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement						
	(INR m)					
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Adj. Net Revenue	46,648	53,010	49,262	57,652	74,966	87,235
Change (%)	23.0	13.6	-7.1	17.0	30.0	16.4
EBITDA	13,226	13,931	13,863	17,924	22,733	27,642
EBITDA Margin (%)	28.4	26.3	28.1	31.1	30.3	31.7
Depreciation	3,114	3,326	3,736	4,163	4,550	5,168
EBIT	10,112	10,605	10,126	13,761	18,183	22,474
EBIT Margin (%)	21.7	20.0	20.6	23.9	24.3	25.8
Int. and Finance Charges	139	111	89	114	105	110
Other Income	1,188	1,272	1,358	1,902	2,265	1,850
PBT bef. EO Exp.	11,160	11,766	11,395	15,549	20,343	24,213
EO Items	0	0	0	0	-357	0
PBT after EO Exp.	11,160	11,766	11,395	15,549	19,986	24,213
Eff. Tax Rate (%)	34.1	34.2	15.8	24.3	24.3	24.3
Reported PAT	7,358	7,736	9,597	11,775	15,135	18,336
Adjusted PAT	7,358	7,736	9,597	11,775	15,406	18,336
Change (%)	2.6	5.1	24.0	22.7	30.8	19.0

Consolidated Balance Sheet						
	(INR m)					
Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Equity Share Capital	387	387	387	387	387	387
Total Reserves	40,447	46,150	49,696	59,612	70,881	84,385
Net Worth	40,834	46,537	50,083	59,998	71,268	84,772
Total Loans	8,675	8,796	9,316	10,006	11,006	11,006
Deferred Tax Liabilities	3,289	3,255	1,783	2,035	2,035	2,035
Capital Employed	52,797	58,588	61,182	72,039	84,308	97,812
Gross Block	36,950	39,355	48,210	52,954	58,009	74,509
Less: Accum. Deprn.	8,966	12,264	15,992	20,115	24,664	29,833
Net Fixed Assets	27,985	27,091	32,218	32,839	33,345	44,677
Capital WIP	1,183	6,004	5,866	8,555	12,000	5,500
Investment property	511	772	857	864	864	864
Total Investments	11,027	10,826	10,625	14,177	14,177	14,177
Curr. Assets, Loans and Adv.	18,077	20,099	18,498	25,230	34,616	45,039
Inventory	6,189	7,587	6,156	9,397	11,296	11,950
Account Receivables	4,796	5,171	5,899	7,536	9,242	10,755
Cash and Bank Balance	334	656	691	780	4,835	11,579
Loans and Advances	6,758	6,684	5,752	7,517	9,242	10,755
Curr. Liability and Prov.	5,985	6,202	6,882	9,626	10,693	12,443
Account Payables	4,093	3,861	3,837	6,550	7,189	8,365
Other Current Liabilities	1,688	2,073	2,746	2,750	3,081	3,585
Provisions	204	267	299	326	424	493
Net Current Assets	12,093	13,897	11,616	15,604	23,923	32,595
Appl. of Funds	52,797	58,589	61,182	72,039	84,308	97,812

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
Basic (INR)						
EPS	38.1	40.0	49.6	60.9	79.7	94.9
BV/Share	211.2	240.7	259.1	310.4	368.7	438.5
DPS	5.3	7.5	22.0	17.0	20.0	25.0
Payout (%)	16.6	22.6	53.4	27.9	25.5	26.4
Valuation (x)						
P/E	64.3	61.2	49.3	40.2	30.7	25.8
P/BV	11.6	10.2	9.5	7.9	6.6	5.6
EV/Sales	10.3	9.1	9.8	8.4	6.4	5.4
EV/EBITDA	36.4	34.6	34.8	26.9	21.1	17.1
Dividend Yield (%)	0.2	0.3	0.9	0.7	0.8	1.0
FCF per share	17.5	4.4	20.2	21.5	30.6	54.4
Return Ratios (%)						
RoE	19.3	17.7	19.9	21.4	23.5	23.5
RoCE	15.1	14.9	16.9	18.3	20.3	20.7
RoIC	17.0	17.1	20.0	22.5	27.0	28.4
Working Capital Ratios						
Fixed Asset Turnover (x)	1.3	1.3	1.0	1.1	1.3	1.2
Asset Turnover (x)	0.9	0.9	0.8	0.8	0.9	0.9
Inventory (Days)	48	52	46	59	55	50
Debtor (Days)	38	36	44	48	45	45
Creditor (Days)	32	27	28	41	35	35
Leverage Ratio (x)						
Net Debt/Equity	-0.1	-0.1	0.0	-0.1	-0.1	-0.2

Consolidated Cash Flow Statement

Y/E March	FY18	FY19	FY20	FY21	FY22E	FY23E
(INR m)						
OP/(Loss) before Tax	11,160	11,766	11,395	15,549	19,986	24,213
Depreciation	3,114	3,326	3,736	4,163	4,550	5,168
Interest and Finance Charges	68	49	-135	-289	-1,013	-1,060
Direct Taxes Paid	-3,873	-4,076	-2,884	-3,510	-4,851	-5,877
(Inc.)/Dec. in WC	-2,154	-1,934	544	-1,273	-4,263	-1,929
Others	-816	-927	-924	-1,250	0	0
CF from Operations incl. EO	7,499	8,204	11,731	13,390	14,409	20,516
(Inc.)/Dec. in FA	-4,113	-7,344	-7,830	-9,232	-8,500	-10,000
Free Cash Flow	3,386	860	3,901	4,159	5,909	10,516
(Pur.)/Sale of Investments	3,094	877	863	-2,891	0	0
Others	96	108	190	388	1,118	1,170
CF from Investments	-923	-6,360	-6,778	-11,734	-7,382	-8,830
Issue of Shares	0	0	0	0	0	0
Inc./(Dec.) in Debt	-5,185	213	279	857	1,000	0
Interest Paid	-140	-115	-88	-114	-105	-110
Dividend Paid	-1,212	-1,745	-5,126	-2,316	-3,866	-4,833
Others	0	0	-13	-3	0	0
CF from Fin. Activity	-6,538	-1,647	-4,947	-1,575	-2,971	-4,943
Inc./Dec. in Cash	39	198	7	81	4,056	6,743
Opening Balance	226	265	462	468	549	4,605
Closing Balance	265	462	468	549	4,605	11,348

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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