



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

Balkrishna Industries

07 August 2021

Robust volumes, margin contracts QoQ

RESULT UPDATE

Sector: Auto Ancillary Rating: SELL

CMP: Rs 2,449 Target Price: Rs 1,850

Stock Info

Sensex/Nifty	54,290 / 16,242
Bloomberg	BIL IN
Equity shares (mn)	193
52-wk High/Low	Rs 2,558 / 1,237
Face value	Rs 2
M-Cap	Rs 477bn/ USD 6.4bn
3-m Avg volume	USD 7.1mn

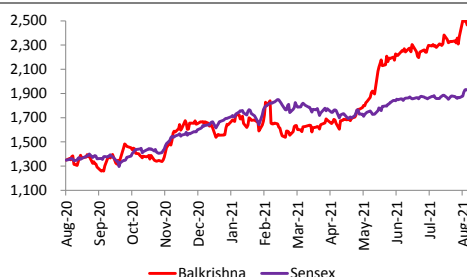
Financial Snapshot (Rs mn)

Y/E Mar	FY21	FY22E	FY23E
Volume growth (%)	13	14	6
Net Sales	57,400	70,636	76,140
EBIDTA	17,675	20,979	22,385
PAT	11,374	13,565	13,761
EPS (Rs)	58.8	70.2	71.2
PE (x)	41.6	34.9	34.4
EV/EBITDA (x)	26.5	22.1	20.7
RoE (%)	21	21	18
RoCE (%)	23	24	22
FCF yield (%)	0.3	1.3	0.5

Shareholding Pattern (%)

	Jun '21	Mar '21	Dec '20
Promoter	58.3	58.3	58.3
-Pledged	-	-	-
FII	15.2	14.4	15.5
DII	14.1	14.6	15.0
Others	12.4	12.7	11.2

Stock Performance (1-year)



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Balkrishna Industries (BIL) 1QFY22 operating performance was ahead of consensus and our estimates as gross margin contraction was offset by strong tonnage growth. The management indicated that volume momentum in the agriculture segment continues while it is also improving across the industrial segment. BIL has guided for FY22 volume growth of 250,000-265,000 tonnes (up 10-16% YoY). It took a price hike of 2-3% in Jul'21 to offset raw material inflation and freight costs. The next leg of capex of Rs 19bn over the next two years includes 1) Rs 8bn for Bhuj brownfield capacity expansion by 50,000 tonnes per annum, 2) Rs 6.5bn for enhancing its carbon black capacity and 3) Rs 4.5bn for modernisation and automation, which is on schedule. We increase our FY22/23E EBITDA by 5% each to factor in strong volumes. However, we downgrade BIL to SELL after a sharp up move in its share price over the last three months (34% appreciation vs. 11% for Sensex) as we see limited scope for earnings upgrades from the current levels. Our target price of Rs 1,850 is based on 13x FY23E EV/EBITDA. Flooding in various parts of Europe hurting agricultural tyres demand is a key risk.

Key earnings call takeaways

- Volume performance:** 1QFY22 sales volume at 68,608 tonnes was higher by 80% YoY/1% QoQ. Europe: USA: India: RoW accounted for 53: 16: 19: 12 of the 1QFY22 volumes vs. 50: 15: 23: 13 in FY21. Segmentally, the contribution from agriculture increased to 66% of 1Q sales vs. 64% of FY21 sales. Original Equipment Manufacturers (OEMs) contribution to BIL's sales remains stable at ~26%.
- Volume and margin outlook:** Demand remains strong across the agriculture and industrial segments. The management reiterated its volume guidance of 250,000-265,000 tonnes in FY22E (up 10-16% YoY) and sustainable EBITDA margin guidance of 28-30%.
- Cost headwinds and price hikes:** The management believes that raw material costs have reached a peak and should sustain at these elevated levels over the near term (rubber prices were at ~Rs 165/kg in 1Q vs. Rs 130/kg QoQ). Logistics costs have also increased significantly (other expenses up 90bps QoQ in 1Q mainly due to higher logistics costs) and can inch up further during the year. BIL took a price hike of 2-3% in July'21 to partially offset the impact of these cost increases.
- Domestic business:** India business contribution to BIL's sales was lower at ~19% in 1Q vs. 23% in FY21 (vs. single-digit contribution five years back) due to COVID-led regional lockdowns. Domestic demand remains robust and the management expects the India share of the business to pick up by the next quarter.
- Inventory levels:** After hitting a low of ~20 days due to supply chain constraints, inventory is currently at adequate levels of 35-40 days (peak level at ~45 days).
- New capex plan on schedule:** The management had announced a new capex cycle in 3QFY21 with a total outlay of Rs 19bn (effectively 2-3 years of FCF at peak operating margins) over two years, encompassing 1) Rs 8bn for debottlenecking and brownfield expansion of 50,000 tonnes p.a. at the Bhuj facility; expected to be completed by 2HFY23, 2) Rs 6.5bn for enhancing its achievable carbon black capacity to 200,000 MTPA (currently at 115,000 MTPA), including 30,000 MTPA of high-value carbon black and power plant of 20MW; expected to be completed by 1HFY23 and 3) Rs 4.5bn towards modernisation and automation at the existing plants in Rajasthan and Bhuj to improve efficiency; expected to be completed by 1HFY23. The new capex plan is progressing as per schedule. For FY22E, it has guided for a total capex of Rs 9-

10bn vs. Rs 8-8.5bn guided earlier (capex in 1Q was Rs 37bn of which, Rs 20bn was towards the new capex plan).

Valuation & outlook: We estimate BIL to report tonnage/revenue/EBITDA/PAT CAGRs of 10%/15%/13%/10% between FY21-23E. At the CMP, the stock trades at 34.4x PER and 20.7x EV/EBITDA on FY23E. **Key risk:** Flooding in various parts of Europe hurting agricultural tyres demand.

Exhibit 1: Reported numbers vs. expectations

Rs mn	Reported	Est	Var %	Consensus	Var %
Net Sales	18,281	16,205	13	16,968	8
EBITDA	5,277	4,861	9	5,104	3
EBITDA Margin (%)	28.9	30.0	(114)	30.1	(122)
Adj PAT	3,428	3,106	10	3,288	4
Adj EPS	17.7	16.1	10	17.0	4

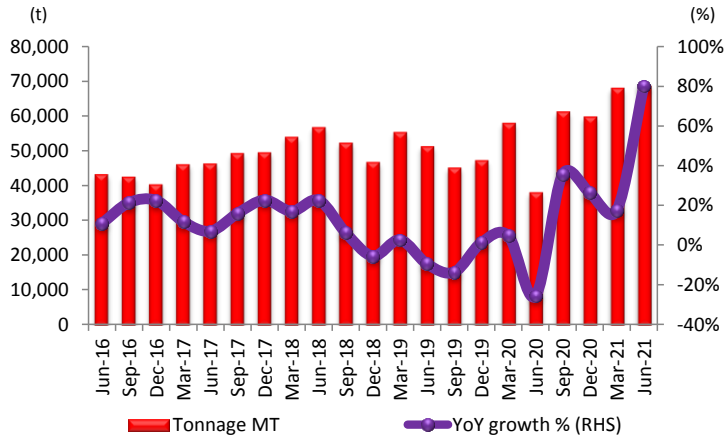
Source: Company, Systematix Institutional Research

Exhibit 2: Quarterly performance

Rs mn	1QFY21	2QFY21	3QFY21	4QFY21	1QFY22	YoY (%)	QoQ (%)
Tonnage (t)	38,096	61,224	59,810	68,002	68,608	80.1	0.9
Net sales	9,417	15,518	14,966	17,499	18,281	94.1	4.5
- Raw material	3,665	6,115	6,035	7,213	7,823	113.4	8.4
(% of net sales)	38.9	39.4	40.3	41.2	42.8	387	157
- Staff expenditure	701	844	831	883	944	34.7	7.0
(% of net sales)	7.4	5.4	5.6	5.0	5.2	(228)	12
- Other Expenditure	2,535	3,462	3,415	3,945	4,237	67.1	7.4
(% of net sales)	26.9	22.3	22.8	22.5	23.2	(374)	63
Total expenditure	6,901	10,421	10,282	12,041	13,004	88.4	8.0
EBITDA	2,516	5,097	4,684	5,458	5,277	109.7	(3.3)
EBITDA margin (%)	26.7	32.8	31.3	31.2	28.9	215	(233)
Depreciation	996	1,012	1,019	1,034	1,041	4.5	0.6
EBIT	1,520	4,085	3,665	4,424	4,236	178.7	(4.3)
Interest	24	34	17	23	21	(12.4)	(7.8)
Other income	413	354	359	354	802	94.3	126.5
PBT	1,909	4,405	4,006	4,755	5,017	162.8	5.5
Tax	401	1110	1022	1223	1535	283.2	25.5
Tax Rate (%)	21.0%	25.2%	25.5%	25.7%	30.6%	961	487
Adjusted PAT	1,436	3,320	3,041	3,579	3,428	138.7	(4.2)
Exceptional Item	290	-100	-235	-190	170	(41.4)	(189.5)
Reported PAT	1,218	3,395	3,219	3,722	3,312	171.9	(11.0)
Adj EPS (INR)	7.4	17.2	15.7	18.5	17.7	138.7	(4.2)
Net Realisation (INR)	247,197	253,456	250,217	257,329	266,451	7.8	3.5
EBITDA/ton (INR)	66,041	83,253	78,311	80,267	76,911	16.5	(4.2)

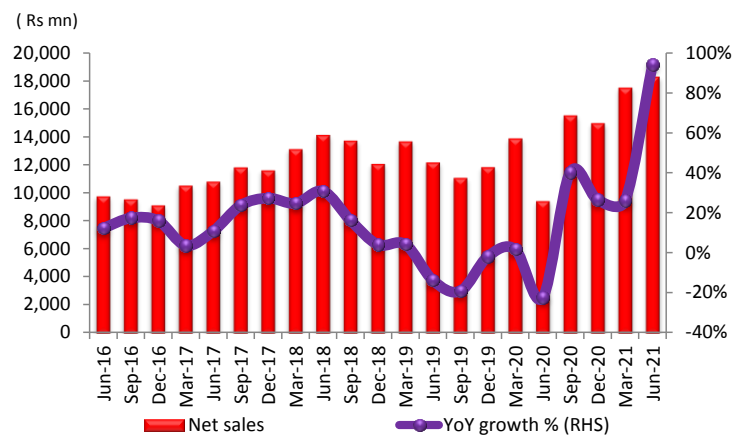
Source: Company, Systematix Institutional Research

Exhibit 3: Tonnage growth remains weak



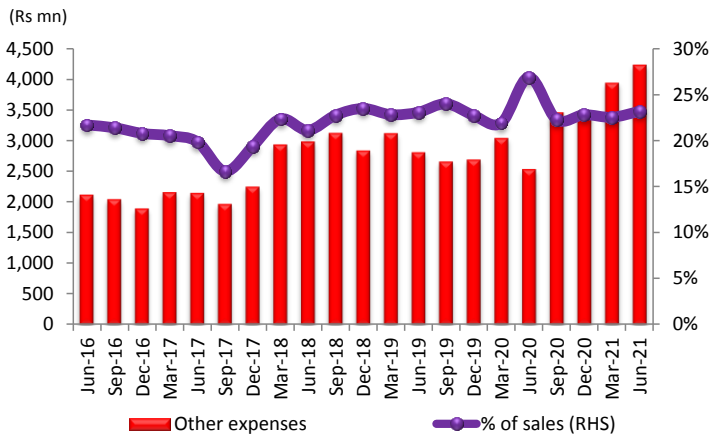
Source: Company, Systematix Institutional Research

Exhibit 4: Revenue growth trend



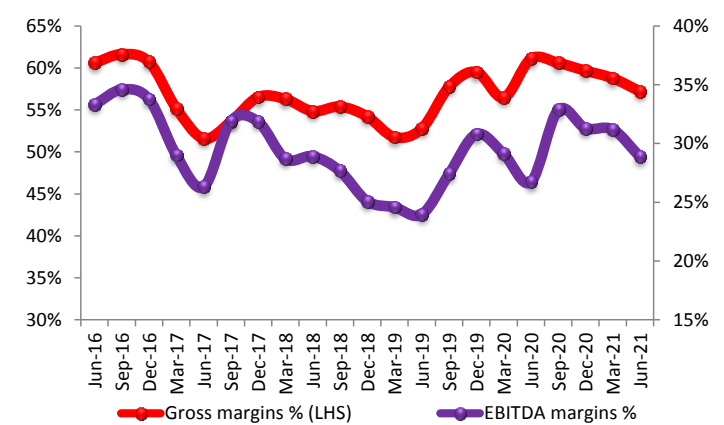
Source: Company, Systematix Institutional Research

Exhibit 5: Other expenses as a % of sales trend



Source: Company, Systematix Institutional Research

Exhibit 6: Gross margin & EBITDA margin trend



Source: Company, Systematix Institutional Research

Exhibit 7: Financial Summary

Per kg	FY19	FY20	FY21	FY22E	FY23E
Tonnage	211,261	201,760	227,131	259,233	274,787
ASP (excl carbon black)	255	243	240	257	260
RM	117	105	101	117	118
Employee	12	14	14	16	17
Others	57	56	59	59	61
EBITDA (includes carbon black)	69	68	78	81	81

Source: Company, Systematix Institutional Research

FINANCIALS

Profit & Loss Statement

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Net sales	53,945	48,980	57,400	70,636	76,140
Growth, %	15	(9)	17	23	8
RM expenses	-24,628	-21,268	-23,028	-30,374	-32,359
Employee expenses	-2,636	-2,858	-3,259	-4,097	-4,568
Other expenses	-12,069	-11,205	-13,437	-15,187	-16,827
EBITDA (Core)	14,612	13,649	17,675	20,979	22,385
Growth, %	8	(7)	30	19	7
Margin, %	27.1	27.9	30.8	29.7	29.4
Depreciation	-3,326	-3,680	-4,062	-4,722	-5,802
EBIT	11,286	9,969	13,614	16,257	16,583
Growth, %	8	(12)	37	19	2
Margin, %	20.9	20.4	23.7	23.0	21.8
Interest paid	-113	-73	-98	-62	-59
Other Income	929	1,288	1,615	1,773	1,702
Non-recurring Items	100	50	180	0	0
Pre-tax profit	12,103	11,184	15,130	17,967	18,226
Tax provided	-4,010	-1,779	-3,756	-4,402	-4,465
Profit after tax	8,093	9,405	11,374	13,565	13,761
Others (Minorities, Associates)	-	-	-	-	-
Net Profit	8,193	9,455	11,554	13,565	13,761
Growth, %	11	15	22	17	1
Net Profit (adjusted)	8,093	9,405	11,374	13,565	13,761

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Cash & bank	556	515	571	3,636	3,284
Marketable securities cost	10,830	10,731	14,182	14,182	14,182
Debtors	5,681	6,492	7,301	8,319	8,967
Inventory	7,130	5,804	9,093	8,706	9,384
Loans & advances	7,075	5,305	7,357	9,054	9,760
Other current assets	0	0	0	0	0
Total current assets	20,442	18,116	24,322	29,715	31,395
Investments	0	0	0	0	0
Gross fixed assets	49,225	57,815	62,447	80,652	95,152
Less: Depreciation	-21,364	-25,044	-29,105	-33,828	-39,629
Add: Capital WIP	5,854	5,856	8,555	350	350
Net fixed assets	27,861	32,771	33,342	46,825	55,523
Total assets	64,987	67,473	80,402	91,072	101,450
Current liabilities	6,201	6,359	9,062	11,152	12,021
Provisions	250	278	299	193	209
Total current liabilities	6,451	6,636	9,361	11,346	12,230
Non-current liabilities	3,255	1,783	2,035	2,035	2,035
Total liabilities	9,706	8,419	11,396	13,381	14,265
Paid-up capital	387	387	387	387	387
Reserves & surplus	46,400	49,894	59,686	69,771	79,665
Shareholders' equity	46,787	50,281	60,072	70,158	80,052
Total equity & liabilities	64,987	67,474	80,402	91,072	101,451

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E
Pre-tax profit	11,830	11,228	15,130	17,967	18,226
Depreciation	3,326	3,680	4,062	4,722	5,802
Chg in working capital	-2,118	-284	-3,425	-343	-1,148
Total tax paid	-4,010	-1,779	-3,756	-4,402	-4,465
CFO	8,127	11,631	10,494	16,234	16,771
Capital expenditure	-7,197	-7,611	-9,083	-10,000	-14,500
Chg in marketable securities	0	0	0	0	0
Chg in investments	877	856	-2,891	0	0
CFI	-6,213	-6,559	-11,585	-8,227	-12,798
Free cash flow	930	4,020	1,411	6,234	2,271
Debt raised/(repaid)	117	1	480	-1,400	-400
Dividend (incl. tax)	0	0	0	0	0
CFF	-1,729	-5,209	-1,942	-4,942	-4,326
Net chg in cash	185	(137)	(3,033)	3,065	(352)
Opening cash balance	246	556	515	571	3,636
Closing cash balance	556	515	571	3,636	3,284

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY19	FY20	FY21	FY22E	FY23E
EPS (INR)	42	49	59	70	71
PER (x)	58.5	50.3	41.6	34.9	34.4
Price/Book (x)	10.1	9.4	7.9	6.7	5.9
EV/EBITDA (x)	32.2	34.5	26.5	22.1	20.7
EV/Net sales (x)	8.7	9.6	8.1	6.6	6.1
RoE (%)	18	19	21	21	18
RoCE (%)	22	19	23	24	22
Fixed Asset turnover (x)	1.1	0.8	0.9	0.9	0.8
Dividend Yield (%)	0.3	0.8	0.0	0.0	0.0
Receivable (days)	38	48	46	43	43
Inventory (days)	66	60	84	64	64
Payable (days)	58	66	83	82	82
Revenue Growth (%)	15	(9)	17	23	8
EBITDA Growth (%)	8	(7)	30	19	7
EPS Growth, %	12	16	21	19	1
Net D/E ratio (x)	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)

Source: Company, Systematix Institutional Research

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Served as an officer, director or employee	No

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