

Company update

Automobiles

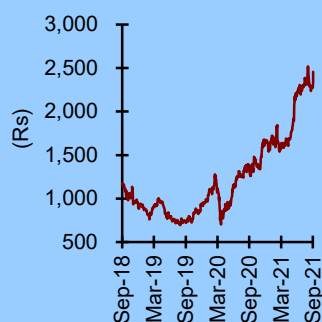
Target price: Rs2,572

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	58.3	58.3	58.3
Institutional investors	30.5	29.0	29.3
MFs and other	15.0	14.6	14.1
FIs/Banks/Ins	0.0	0.0	0.0
FII	15.5	14.4	15.2
Others	11.2	12.7	12.4

Source: BSE

Price chart



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INDIA

Balkrishna Industries

ADD

Maintained

Rs2,455

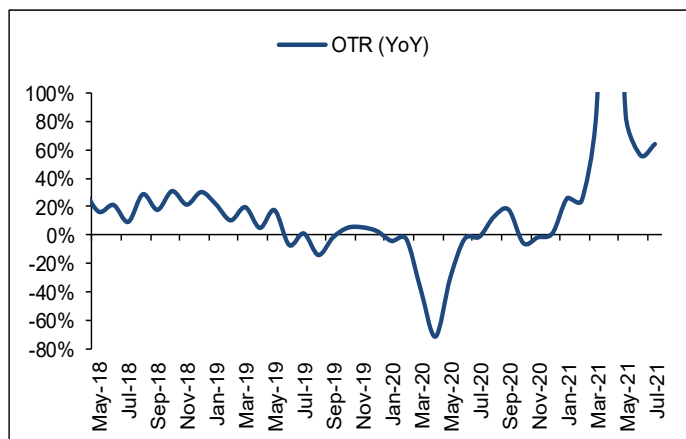
Industry export growth accelerates

Balkrishna Industries' (BIL) key export markets have reported strong demand trends (Jul'21 industry exports grew 51% YoY). The latest industry export data (Jul'21) indicates strong pickup in OTR segment (up 64% YoY) while agri (Ag) demand growth remained sturdy at ~46% YoY. The latest data continues to support the strong demand momentum driven by both Ag and OTR segments: FY21-YTD industry exports are up ~81% YoY on USD basis. On regional basis, growth in Jul'21 was led by the EU (up 59% YoY), followed by the US (44%) and RoW (43%). The QoQ acceleration in Q1FY22 is defying historical seasonality weakness across both Ag and OTR segments, which reflects the underlying demand pull. Exports acceleration in Jul'21 on MoM basis lends further strength to our revenue growth assumption (above consensus) of ~29% YoY for FY22 (~21% volume). We believe, consensus upgrades are likely if these trends sustain. **Maintain ADD.**

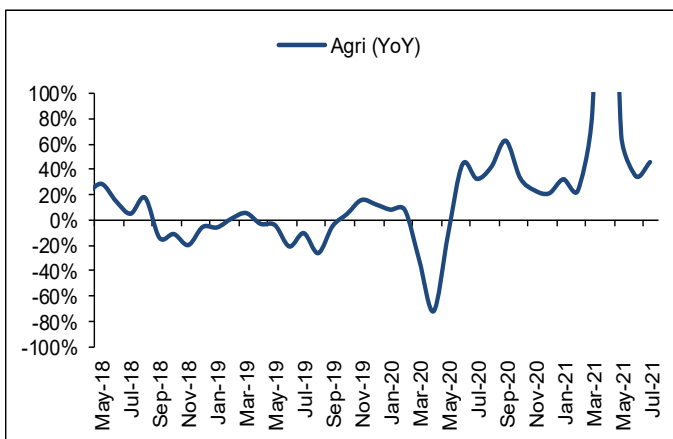
- **Overall export growth continues as OTR rebounds:** On an end-product basis, growth sustained in Ag tyres (up ~46% YoY) and contributed ~67% of total exports (down 259bps YoY). On the OTR side, momentum picked up with 64% growth YoY, which signals steady increase in mining and construction offtake. We believe the outlook for global Ag exports remains solid under the rising commodity price environment. OTR demand is also likely to be supported by infrastructure / mining investments across key regions (e.g. US, EU) as investments pick pace.
- **EU leads the growth momentum:** On regional basis, the EU delivered strong growth (in both Ag and OTR segments) at ~59% YoY while the US followed at ~44% YoY. The two regions together represent ~75% (up 149bps) of Jul'21 exports. On the flip side, RoW's growth momentum moderated to ~43% YoY (contribution down 149bps) impacted by high base and potential covid resurgence. Growth in RoW exports – driven by Australia (up ~1.2x), Brazil (~13x) and South Africa (2.6x) – reflects a more broad-based improvement across regions and segments (OTR/Agri). In the EU, Germany (up 36%), Italy (88%) and Ireland (93%) drove growth as the smaller economies of Portugal and Norway witnessed slump YoY. On a sub-segment basis, OTR growth was driven by the EU (up ~89% YoY) followed by the US (74%) and RoW (37%). However, on the Ag side, EU and RoW witnessed rapid growth at ~51% and 48%, respectively.
- **Maintain ADD:** As BIL reaches high utilisations in FY23E (assuming ~23% revenue CAGR over FY20-FY23E), we expect RoCEs to improve to >27%, and FCF generation to surpass Rs25bn (cumulatively over FY22-23E). The export incentive scheme (RoDTEP) also could provide additional boost to profitability. We maintain our target multiple at 26x FY23E EPS based on strong growth visibility and top-quartile return metrics. **Maintain ADD** with an unchanged target price of Rs2,572.

Market Cap	Rs474bn/US\$6.5bn	Year to Mar (Std)	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	BLKI.BO/BIL IN	Revenue (Rs mn)	48,984	57,395	74,169	87,047
Shares Outstanding (mn)	193.3	Rec. Net Income (Rs mn)	9,445	11,559	14,663	19,127
52-week Range (Rs)	2652/1237	Rec. EPS (Rs)	48.9	59.8	75.9	98.9
Free Float (%)	41.7	% Chg YoY	20.8	22.4	26.9	30.4
FII (%)	15.2	P/E (x)	50.3	41.1	32.4	24.8
Daily Volume (US\$/'000)	14,486	CEPS (Rs)	67.9	80.8	99.2	126.9
Absolute Return 3m (%)	10.9	EV/E (x)	34.8	26.5	21.0	16.4
Absolute Return 12m (%)	90.2	Dividend Yield (%)	0.8	0.7	0.9	1.0
Sensex Return 3m (%)	12.3	RoCE (%)	18.1	21.4	25.1	27.8
Sensex Return 12m (%)	53.5	RoE (%)	18.8	19.2	20.9	22.8

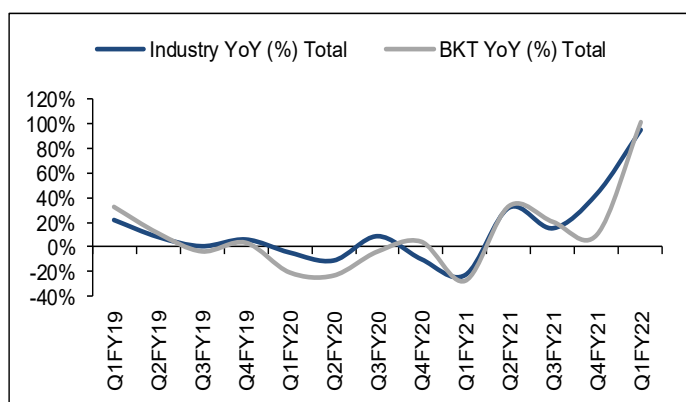
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Chart 1: India OTR tyre export growth trends

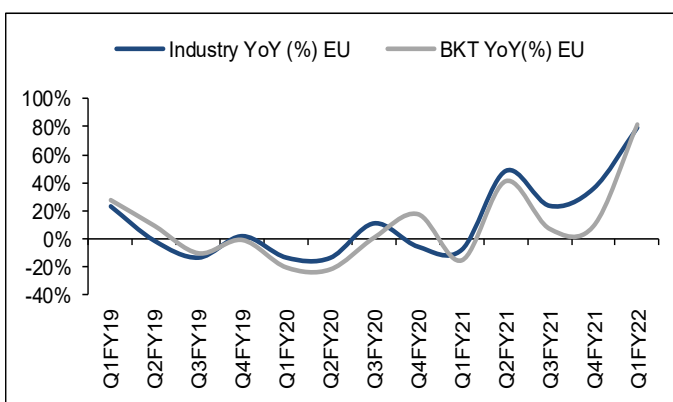
Source: Commerce ministry, I-Sec research

Chart 2: India agri tyre export growth trends

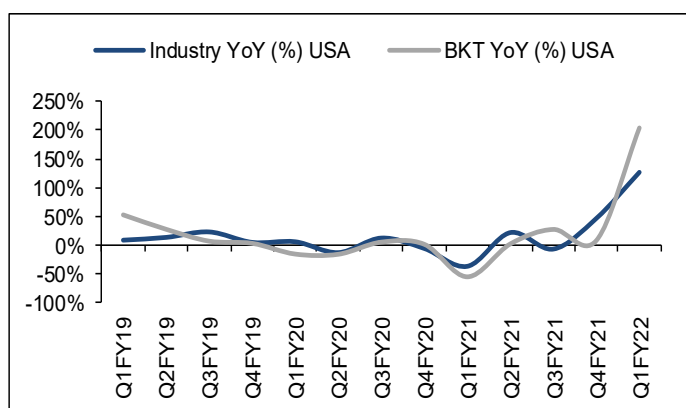
Source: Commerce ministry, I-Sec research

Chart 3: Industry vs BIL export trends – overall

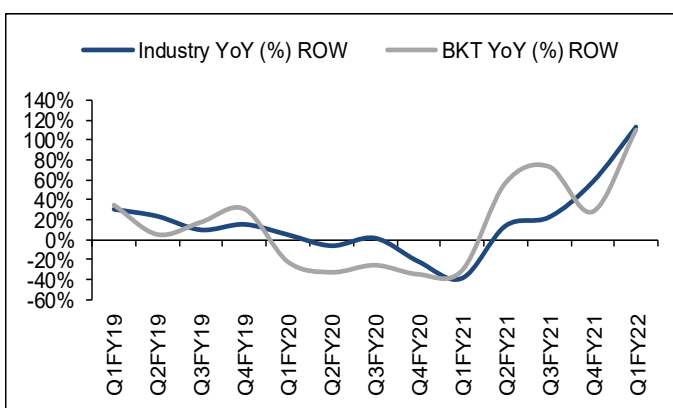
Source: Commerce ministry, Company, I-Sec research

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)

Region	Jul'20	Jul'21	% Growth	Q1FY21	Q1FY22	% Growth	YTD-FY21	YTD-FY22	% Growth
EU	50.5	80.1	59%	117.1	209.8	79%	160.7	276.8	72%
Share of total (%)	52.5	54.9					54.4	51.8	
US	20.2	29.1	44%	34.7	78.5	127%	54.8	107.6	96%
Share of total (%)	20.9	19.9					18.6	20.1	
RoW	25.6	36.6	43%	47.3	100.5	113%	79.9	150.2	88%
Share of total (%)	26.6	25.1					27.0	28.1	
Total	96.2	145.7	51%	199.1	388.9	95%	295.3	534.6	81%

Source: Commerce ministry, I-Sec research

Table 2: Agri tyre exports

(US\$ mn)

Region	Jul'20	Jul'21	% Growth	Q1FY21	Q1FY22	% Growth	YTD-FY21	YTD-FY22	% Growth
EU	40.1	60.4	51%	93.3	165.4	77%	127.9	214.9	68%
Share of total (%)	59.9	61.9					61.8	59.1	
US	13.2	16.9	28%	22.0	44.5	102%	35.2	61.4	75%
Share of total (%)	19.7	17.3					17.0	16.9	
RoW	13.7	20.2	48%	24.9	56.5	127%	44.0	87.6	99%
Share of total (%)	20.4	20.7					21.3	24.1	
Total	66.9	97.5	46%	140.2	266.4	90%	207.1	363.9	76%

Source: Commerce ministry, I-Sec research

Table 3: OTR tyre exports

(US\$ mn)

Region	Jul'20	Jul'21	% Growth	Q1FY21	Q1FY22	% Growth	YTD-FY21	YTD-FY22	% Growth
EU	10.4	19.7	89%	23.8	44.4	86%	32.7	61.9	89%
Share of total (%)	35.4	40.8					37.1	36.3	
US	7.0	12.1	74%	12.7	34.1	169%	19.7	46.2	135%
Share of total (%)	23.8	25.2					22.3	27.1	
RoW	12.0	16.4	37%	22.4	44.1	97%	35.8	62.6	75%
Share of total (%)	40.8	34.0					40.6	36.7	
Total	29.3	48.2	64%	58.9	122.5	108%	88.2	170.7	94%

Source: Commerce ministry, I-Sec research

Valuations

As BIL reaches high utilisations in FY23E (assuming ~23% revenue CAGR over FY20-FY23E), we expect RoCEs to improve to >27%, and FCF generation to surpass Rs25bn (cumulatively over FY22-23E). The export incentive scheme (RoDTEP) also could provide additional boost to profitability. We maintain our target multiple at 26x FY23E EPS based on strong growth visibility and top-quartile return metrics. Maintain **ADD** with an unchanged target price of Rs2,572.

Upside risk: Stronger pickup in demand in OTR and Ag segments.

Downside risks: Lack of price pass-through in end-markets in the wake of commodity price inflation.

Financial summary (standalone)

Table 4: Profit and Loss statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Tonnage (MT)	201,759	224,017	271,313	305,249
Total Op. Income (Sales)	48,984	57,395	74,169	87,047
Operating Expenses	35,168	39,308	51,561	58,694
EBITDA	13,816	18,088	22,607	28,353
% margins	28.2%	31.5%	30.5%	32.6%
Depreciation & Amortisation	3,680	4,066	4,510	5,397
EBIT	10,136	14,022	18,097	22,956
Other Income	1,180	1,379	1,766	2,338
Gross Interest	92	77	53	61
PBT	11,223	15,324	19,810	25,233
Less: Exceptionals	-	-	-	-
PBT after Exceptionals	11,223	15,324	19,810	25,233
Less: Taxes	1,779	3,765	5,146	6,106
Net Income (Reported)	9,445	11,559	14,663	19,127
Net Income (Adjusted)	9,445	11,559	14,663	19,127

Source: Company data, I-Sec research

Table 5: Balance sheet
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
ASSETS				
Current Assets	15,025	19,763	24,761	28,995
Cash & cash eqv.	232	341	2,437	5,288
Current Liabilities & Provisions	4,406	8,039	10,535	12,365
Net Current Assets	10,619	11,724	14,226	16,630
Investments	10,996	14,563	14,563	19,463
Total Fixed Assets	38,610	41,895	46,371	50,974
Capital Work-in-Progress	5,860	8,555	8,555	8,555
Other non-current asset	2,686	4,181	4,181	4,181
Total Assets	62,911	72,362	79,340	91,247
LIABILITIES				
Borrowings	10,262	9,682	6,682	4,682
long-term borrowings	22	14	14	14
short-term borrowings	10,240	9,668	6,668	4,668
Deferred Tax Liability Net	1,784	2,035	2,035	2,035
Other Non-current Liabilities	584	574	574	574
Equity Share Capital	387	387	387	387
Reserves & Surplus	49,894	59,686	69,663	83,570
Net Worth	50,281	60,072	70,050	83,957
Total Liabilities	62,911	72,362	79,340	91,247

Source: Company data, I-Sec research

Table 6: 5-stage DuPont analysis
(year ending March 31)

All figures in %	FY20	FY21	FY22E	FY23E
Tax Burden	0.8	0.8	0.7	0.8
Interest Burden	1.1	1.1	1.1	1.1
EBIT Margin	0.2	0.2	0.2	0.3
Asset Turnover	0.8	0.8	0.9	1.0
Financial Leverage	1.3	1.2	1.1	1.1
ROE	18.8	19.2	20.9	22.8

Source: Company data, I-Sec research

Table 7: Cashflow statement
(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating cashflow before working capital changes	13,125	15,625	19,174	24,524
Net Working Capital Changes	785	(997)	(406)	447
Operating Cashflow	13,910	14,627	18,767	24,971
Capital Commitments	(8,598)	(7,351)	(9,000)	(10,000)
Free Cashflow	5,312	7,276	9,767	14,971
Cashflow from Investing Activities	(9,433)	(12,182)	(9,000)	(14,900)
Inc/(Dec) in Borrowings	1,335	(581)	(3,000)	(2,000)
Dividend paid	(4,661)	(3,286)	(4,446)	(5,220)
Interest paid	(92)	(77)	(53)	(61)
Others	(1,188)	1,608	(173)	61
Cashflow from Financing Activities	(4,606)	(2,336)	(7,672)	(7,220)
Net Cashflow	(13)	109	2,095	2,852
Opening Cash & Bank balance	362	1,512	101	2,437
Closing Cash & Bank balance	232	341	2,437	5,288
Increase / (Decrease) in Cash & cash equivalents	115	(1,411)	2,335	2,852

Source: Company data, I-Sec research

Table 8: Key ratios
(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs)				
EPS (Basic)	48.9	59.8	75.9	98.9
EPS (Adjusted)	48.9	59.8	75.9	98.9
Cash EPS	67.9	80.8	99.2	126.9
Dividend per share (DPS)	20.0	17.0	23.0	27.0
CDPS (Adjusted)	260.1	310.7	362.4	434.3
Growth Ratios (%)				
Total Op. Income (Sales)	-8.2	17.2	29.2	17.4
EBITDA	-3.4	30.9	25.0	25.4
Net Income (Adjusted)	20.8	22.4	26.9	30.4
EPS (Adjusted)	20.8	22.4	26.9	30.4
Cash EPS	17.8	19.0	22.7	27.9
CDPS (Adjusted)	7.5	19.5	16.6	19.9
Valuation Ratios (x)				
P/E (Adjusted)	50.3	41.1	32.4	24.8
P/CD (Adjusted)	9.4	7.9	6.8	5.7
EV/EBITDA	34.8	26.5	21.0	16.4
EV/Sales	9.8	8.4	6.4	5.3

Return/Profitability Ratios (%)

	FY20	FY21	FY22E	FY23E
EBITDA Margin	28.2	31.5	30.5	32.6
Net Income Margin (Adjusted)	19.3	20.1	19.8	22.0
RoCE	18.1	21.4	25.1	27.8
RoNW	18.8	19.2	20.9	22.8
Dividend Payout Ratio	40.9	28.4	30.3	27.3
Dividend Yield	0.8	0.7	0.9	1.0

Solvency/Wkg. Cap. Ratios (x)

	FY20	FY21	FY22E	FY23E
Net D/E	0.1	0.1	0.0	(0.1)
Gross Debt/EBITDA	0.5	0.3	0.0	(0.3)
EBIT/Interest	109.7	181.0	338.6	377.2
Current Ratio	4.0	3.0	2.7	2.4
Quick Ratio	2.5	1.6	1.4	1.3
Inventory (days)	43	58	51	46
Receivables (days)	49	49	44	40
Payables (days)	27	40	41	41

Source: Company data, I-Sec research

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