

Company update

Automobiles

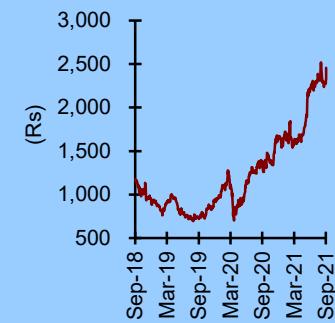
Target price: Rs2,572

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



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

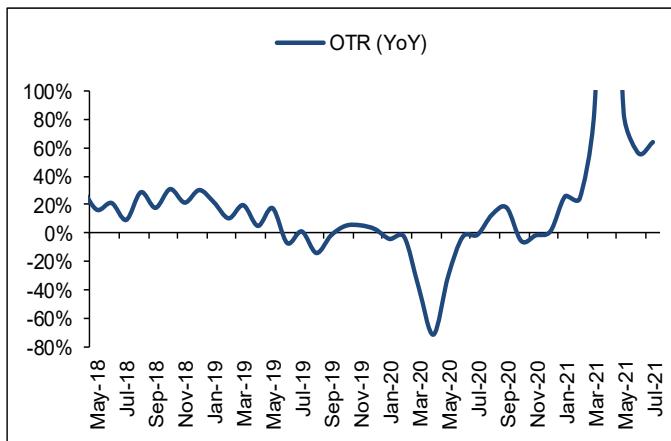
ADD
Maintained
Rs2,455

Industry export growth accelerates

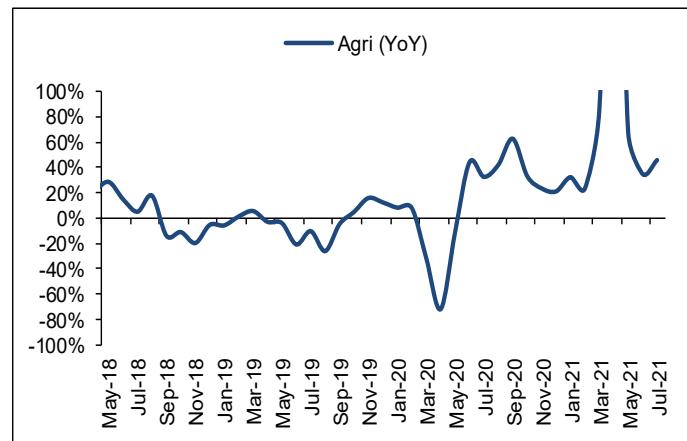
Balkrishna Industries' (BIL) key export markets have reported strong demand trends (Jul'21 industry exports grew 51% YoY). The latest industry export data (Jul'21) indicates strong pickup in OTR segment (up 64% YoY) while agri (Ag) demand growth remained sturdy at ~46% YoY. The latest data continues 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.

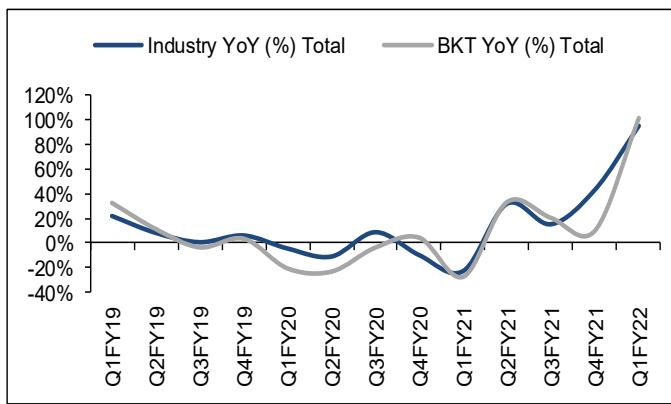
Market Cap	Rs474bn/US\$6.5bn	Year to Mar (Std)	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	BLKI.BO/BIL IN	Revenue (Rs mn)	48,984	57,395	74,169	87,047
Shares Outstanding (mn)	193.3	Rec. Net Income (Rs mn)	9,445	11,559	14,663	19,127
52-week Range (Rs)	2652/1237	Rec. EPS (Rs)	48.9	59.8	75.9	98.9
Free Float (%)	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

Chart 1: India OTR tyre export growth trends

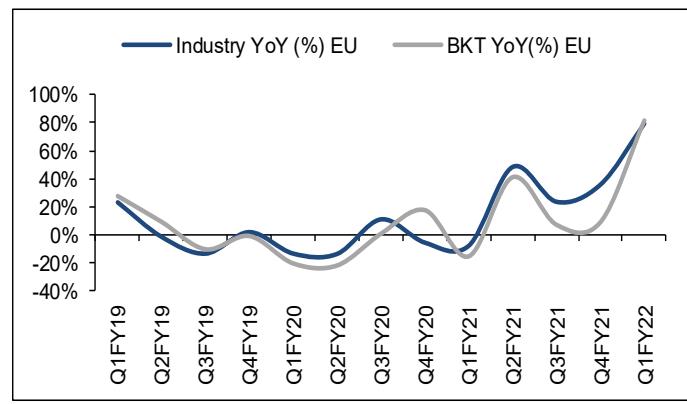
Source: Commerce ministry, I-Sec research

Chart 2: India agri tyre export growth trends

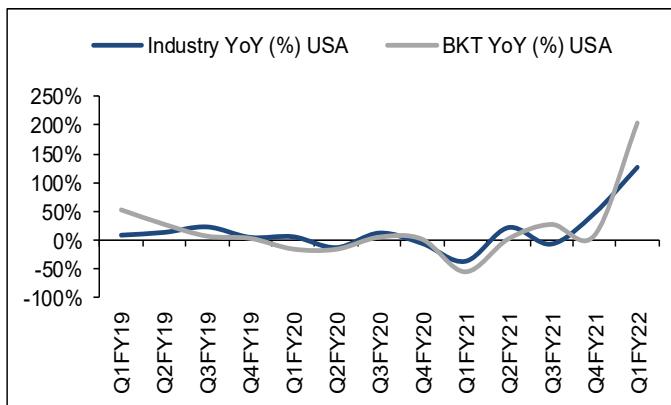
Source: Commerce ministry, I-Sec research

Chart 3: Industry vs BIL export trends – overall

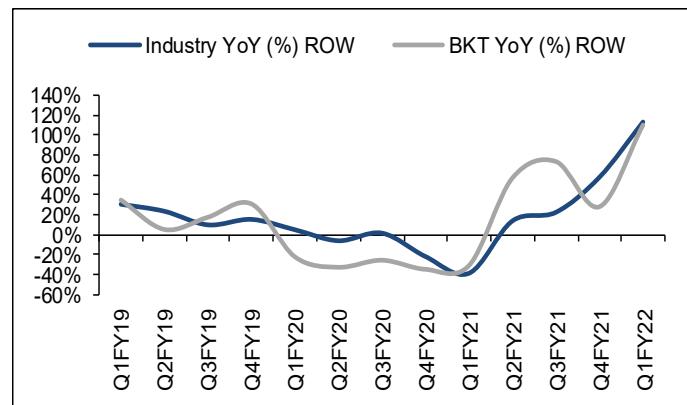
Source: Commerce ministry, Company, I-Sec research

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)	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)	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)	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
<i>Capital Work-in-Progress</i>	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 (%)				
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)				
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

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 is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst 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 and its analysts, persons reporting to analysts and their relatives are generally prohibited 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 icidirect.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, and 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 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 and ICICI Securities as an entity 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.