

Company update

Automobiles

Target price: Rs2,378

Shareholding pattern

	Jun '22	Sep '22	Dec '22
Promoters	58.3	58.3	58.3
Institutional investors	25.5	31.2	32.7
MFs and other	11.0	11.1	11.7
FIs/Banks/Ins	0.2	7.1	8.4
FII	14.3	13.0	12.6
Others	16.2	10.5	9.0

Source: BSE

ESG disclosure score

Year	2021	2022	Chg
ESG score	38.7	38.8	0.2
Environment	15.5	16.0	0.5
Social	21.8	21.8	0.0
Governance	78.6	78.6	0.0

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

Balkrishna Industries

BUY
Maintained
Rs2,058

Post stocking up of off-highway tyre (OHT) inventory at distributor level in end-markets between Mar-Jul'22, India's OHT exports from Aug'22 were muted as a result of destocking amid improving container availability. OHT exports from the country bottomed out in Oct'22 at ~US\$130mn vs Mar-Jul'22 average of ~US\$170mn and recovered to a 5-month high of US\$152mn in Dec'22. For Balkrishna Industries (BIL), as against its long-term average share of India's OHT exports at ~50%, it expanded to ~59% in H1FY23, likely driven by excess stocking at the dealer level. Company's OHT exports then saw a sharp reversal in Q3FY23 with mean reversion in inventory levels taking the share down to ~40%. We believe Q3FY23 was an outlier quarter in terms of volume/share as BIL had to undergo aggressive destocking. Dec'22 OHT exports were up 6% MoM driven by improvement in agri OHT segment, though down 9% YoY. India's OHT exports in 9MFY23 were up ~8% with the ~15% decline in the EU getting balanced by growth in US and RoW. We are building-in 8%/10% volume growth for BIL in FY24E/FY25E with EBITDAM at 24.5%/26.5%, respectively. Maintain BUY with a DCF-based target price of Rs2,378, implying 23x FY25E EPS.

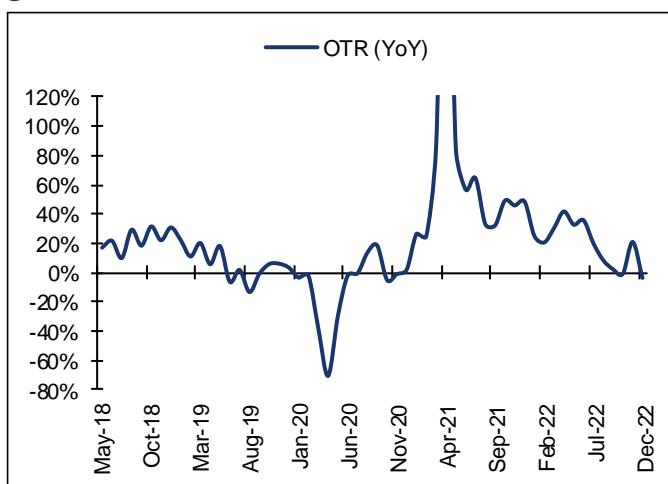
- **India's OHT exports gradually reviving from Oct'22 lows:** From the low of US\$130mn in Oct'22, India's OHT exports revived to US\$152mn in Dec'22, with bulk of the revival being driven by the agri segment tyres. Though December is a seasonally strong month for OHT exports, we believe the Dec'22 figure included a 7-8% deflationary impact of declining RMB and container rates. Though the destocking exercise is likely to persist for another quarter, we believe industry volumes bottomed out in Oct'22 itself and are set to gradually improve amid steady demand. We expect H1FY24 to be impacted by: 1) the elevated base of H1FY23, 2) the deflationary effect on realisation, and 2) recessionary fears in key markets (which would depress OTR demand).
- **BIL's share of India's OHT tyre exports falls to 40% in Q3FY23 due to aggressive destocking at dealer-end:** As against preceding 3-year average share of India OHT exports for BIL at 50%, in H1FY23 it moved up to ~60% led by ~10% higher-than-normal offtake by distributors to stock up amidst fears of container availability crisis getting prolonged. These fears existed in both the key markets (EU and US). With the container crisis easing off Aug-Sep'22 onwards and demand holding steady, BIL distributors (in order to reduce stocks by a third) started aggressive destocking. We believe, against a normative demand of ~74-75kt a quarter, BIL's sales volumes were inflated by ~15kt in Q4FY21-Q2FY23 period. This was followed by an ~8kt inventory cleansing in Q3FY23, resulting in brisk mean reversion in BIL's share of India's OHT exports to 40% from 60% within a quarter. We expect volumes at sub-70kt in Q4FY23E too, resulting in ~3% growth in BIL's FY23E volume. We expect BIL's revenue share within India OHT exports to return to ~50% levels in a couple of quarters, post full reversing of the inventory situation at distributor-end to steady-state.

Market Cap	Rs398bn/US\$4.9bn	Year to Mar (Std)	FY22	FY23E	FY24E	FY25E
Reuters/Bloomberg	BLKI.BO/BIL IN	Revenue (Rs mn)	82,667	98,595	1,03,847	1,13,296
Shares Outstanding (mn)	193.3	Rec. Net Income (Rs mn)	14,112	10,935	16,593	20,198
52-week Range (Rs)	2439/1825	Rec. EPS (Rs)	73.0	56.6	85.8	104.5
Free Float (%)	41.7	% Chg YoY	22.1	(22.5)	51.7	21.7
FII (%)	12.6	P/E (x)	28.1	36.3	23.9	19.7
Daily Volume (US\$/'000)	8,894	CEPS (Rs)	96.0	85.2	117.0	139.7
Absolute Return 3m (%)	(0.1)	EV/E (x)	21.0	22.6	16.3	13.7
Absolute Return 12m (%)	17.4	Dividend Yield (%)	0.1	0.1	0.1	0.1
Sensex Return 3m (%)	(3.7)	RoCE (%)	16.9	11.3	15.8	17.3
Sensex Return 12m (%)	12.3	RoE (%)	21.8	15.2	20.7	21.8

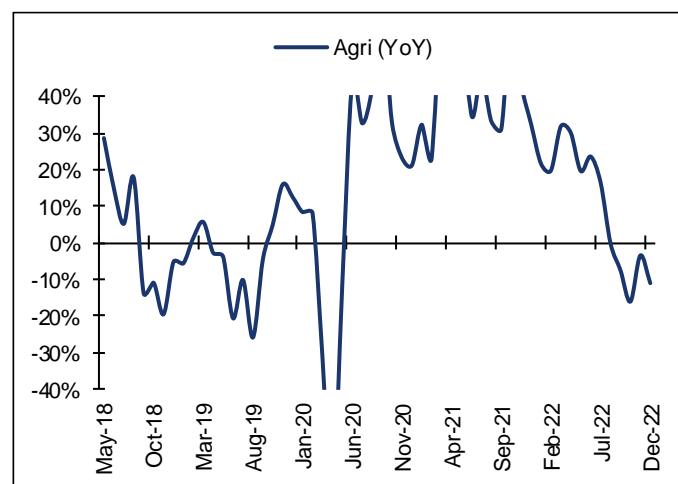
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Chart 1: India's off-the-road (OTR) tyre export growth trends

Source: Commerce ministry, I-Sec research

Chart 2: India's agri tyre export growth trends

Source: Commerce ministry, I-Sec research

Table 1: Tyre industry's total exports (agri + OTR); up from the Oct'22 lows

US\$ mn	Dec-21	Jan-22	Feb-22	Mar-22	Apr-22	May-22	Jun-22	Jul-22	Aug-22	Sep-22	Oct-22	Nov-22	Dec-22
Agri	110.8	99.1	95.7	116.6	107.0	106.8	116.9	113.4	92.4	92.8	83.9	89.7	98.4
OTR	56.1	48.4	45.8	58.0	53.8	53.6	59.6	57.7	48.8	50.2	46.2	54.1	53.8
Total	167.0	147.5	141.5	174.6	160.8	160.3	176.5	171.1	141.1	142.9	130.1	143.7	152.2

Source: Commerce ministry, I-Sec research

Table 2: Agri tyre exports

(US\$ mn)	Dec'21	Dec'22	% Growth	Q2FY23	Q3FY23	% Growth	FY22-TD	FY23-TD	% Growth
EU	60.6	50.9	-16%	141.0	121.9	-14%	507	426	-16%
Share of total (%)	54.7	51.7					59	47	
US	24.9	21.8	-12%	81.3	70.6	-13%	160	235	47%
Share of total (%)	22.4	22.1					19	26	
RoW	25.4	25.8	2%	76.2	79.4	4%	194	239	23%
Share of total (%)	22.9	26.2					23	27	
Total	110.8	98.4	-11%	298.5	272.0	-9%	861	901	5%

Source: Commerce ministry, I-Sec research

Table 3: OTR tyre exports

(US\$ mn)	Dec'21	Dec'22	% Growth	Q2FY22	Q2FY23	% Growth	FY22-TD	FY23-TD	% Growth
EU	19.3	19.1	-1%	49.4	47.1	-5%	152.4	146.1	-4%
Share of total (%)	34.4	35.4					36.9	30.6	
US	16.4	14.0	-15%	49.4	44.5	-10%	110.9	152.9	38%
Share of total (%)	29.3	26.0					26.8	32.0	
RoW	20.4	20.8	2%	57.8	62.5	8%	149.7	178.7	19%
Share of total (%)	36.3	38.6					36.3	37.4	
Total	56.1	53.8	-4%	156.6	154.1	-2%	413.0	477.7	16%

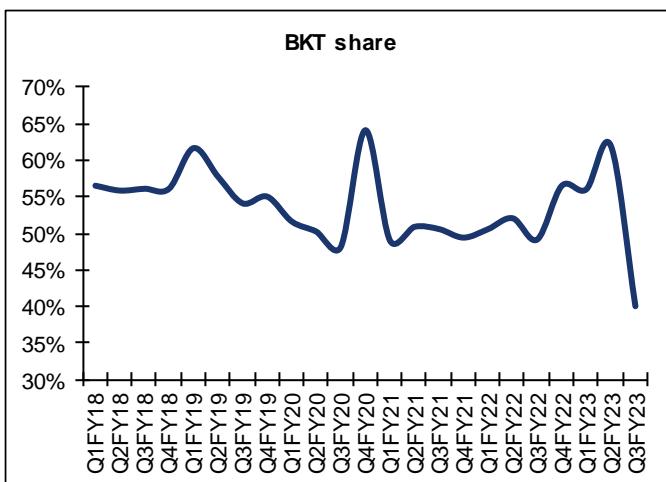
Source: Commerce ministry, I-Sec research

Table 4: BIL is the leader in OHT exports out of India; its Q3FY23 market share loss seems temporary and attributable to aggressive dealer destocking

US\$ mn	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
BIL Volume	59,810	68,002	68,608	72,748	70,320	77,119	83,153	78,872	66,480
YoY Growth (%)	26%	17%	80%	19%	18%	13%	21%	8%	-5%
BIL Revenue (ex-India)	157.6	184.1	197.1	226.0	222.6	262.5	279.3	282.6	152.5
QoQ Growth (%)	-2%	17%	7%	15%	-2%	18%	6%	1%	-46%
YoY Growth (%)	21%	10%	102%	41%	41%	43%	42%	25%	-32%
India OHT Tyre exports	310.9	371.7	388.9	433.2	451.8	463.7	497.6	455.1	426.1
QoQ Growth (%)	-1%	20%	5%	11%	4%	3%	7%	-9%	-6%
YoY Growth (%)	15%	43%	95%	38%	45%	25%	28%	5%	-6%

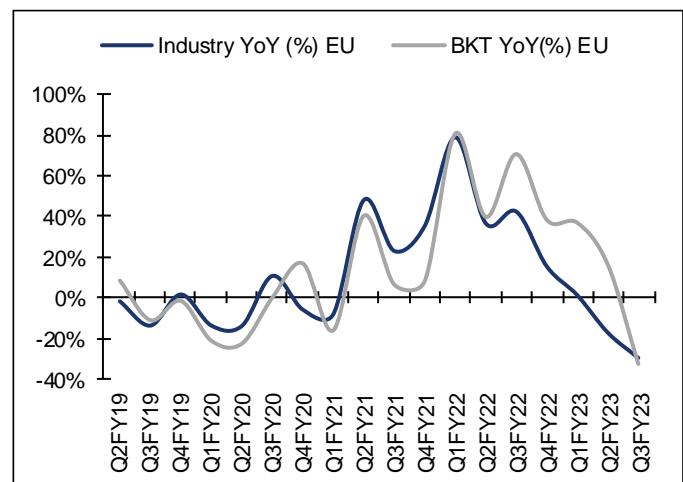
Source: Commerce ministry, Company, I-Sec research

Chart 3: Data trend shows sudden decline in BIL share to 6-year lows in Q3FY23



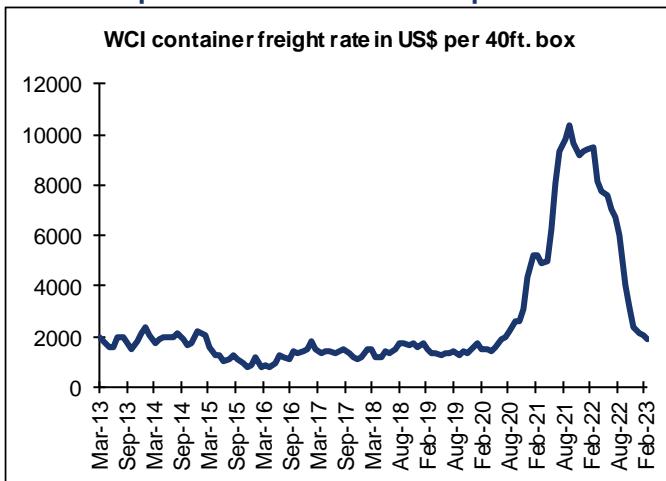
Source: Commerce ministry, Company, I-Sec research

Chart 4: Industry vs BIL export trends – EU



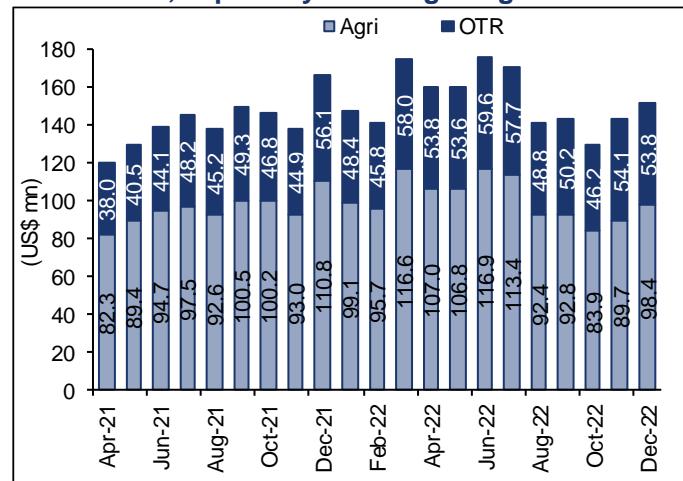
Source: Commerce ministry, Company, I-Sec research

Chart 5: WCI container freight rates have fallen 80% from peak and almost back to pre-covid levels



Source: Bloomberg, I-Sec research

Chart 6: Industry exports recovering from the Oct'22 lows, especially in the agri segment

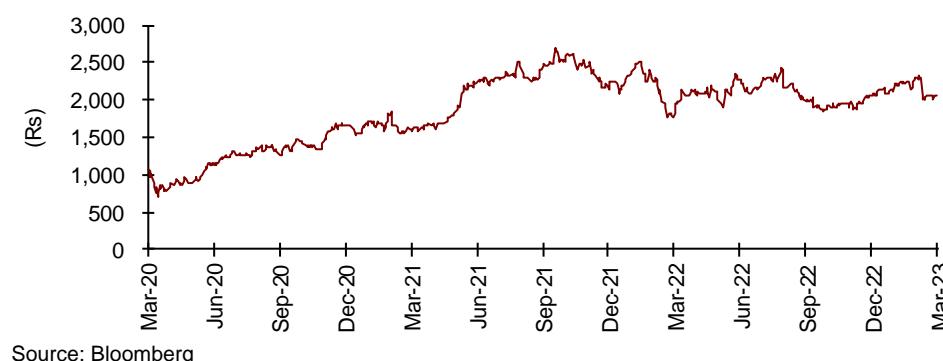


Source: Commerce ministry, I-Sec research

Upside risks: Pickup in demand, further fall in RMB cost.

Downside risks: Retail demand declining ahead, rise in RMB costing, plans of capex for manufacturing facilities in US/EU, competitive pressure from new players in India.

Price chart



Source: Bloomberg

Financial summary (standalone)

Table 5: Profit and Loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Net Sales	82,667	98,595	1,03,847	1,13,296
Raw material expenditure	37,786	47,177	46,633	48,711
Staff cost	4,000	5,719	6,023	6,798
Other expenses	21,122	27,346	25,720	27,505
Operating expenditure	62,907	80,241	78,376	83,015
EBITDA	19,760	18,354	25,471	30,281
EBITDA Margin (%)	23.9%	18.6%	24.5%	26.7%
Depreciation	4,438	5,527	6,027	6,798
EBIT	15,322	12,826	19,444	23,484
Interest expenditure	79	250	70	70
Non-operating income	4,306	2,200	2,750	3,163
Adjusted PBT	19,550	14,776	22,124	26,576
Tax	5,438	3,842	5,531	6,378
Adjusted PAT	14,112	10,935	16,593	20,198
Exceptionals	-	-	-	-
Reported PAT	14,112	10,935	16,593	20,198

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Shareholders' equity	387	387	387	387
Reserves & surpluses	68,859	74,381	85,175	98,998
Total networth	69,246	74,768	85,562	99,384
Debt	24,426	23,426	22,426	21,426
Deferred tax liability	2,509	2,509	2,509	2,509
Total liabilities	96,180	1,00,703	1,10,497	1,23,319
Gross block	73,457	84,457	95,457	1,07,457
Net block	39,861	45,334	50,307	55,509
CWIP	12,584	12,584	12,584	12,584
Investments (non-current)	18,973	18,973	18,973	18,973
Cash & equivalents	353	1,601	5,256	10,977
Debtors	10,977	12,426	13,088	14,278
Inventory	16,394	14,046	14,795	16,141
Loans & advances	9,430	9,901	10,396	10,916
Total current assets	37,153	37,974	43,535	52,312
Current liabilities	8,075	9,631	10,144	11,067
Provisions	4,315	4,531	4,758	4,995
Total current liabilities	12,391	14,162	14,902	16,063
Net current assets	24,763	23,812	28,633	36,250
Total assets	96,180	1,00,703	1,10,497	1,23,319

Source: Company data, I-Sec research

Table 7: 5-stage DuPont analysis

(year ending March 31)

All figures in %	FY22	FY23E	FY24E	FY25E
Tax Burden	72.2	74.0	75.0	76.0
Interest Burden	127.6	115.2	113.8	113.2
EBIT Margin	18.5	13.0	18.7	20.7
Asset Turnover	86.0	97.9	94.0	91.9
Financial Leverage	138.9	134.7	129.1	124.1
RoE	21.8	15.2	20.7	21.8

Source: Company data, I-Sec research

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Operating cashflow before WC changes	18,549	16,462	22,620	26,996
(Incr) / decr in net working capital	(10,020)	2,199	(1,166)	(1,896)
Cashflow from operations	8,529	18,661	21,454	25,100
Capex (net)	(14,986)	(11,000)	(11,000)	(12,000)
(Incr) / decrease in investments	(4,790)	-	-	-
Cashflow from investments	(19,776)	(11,000)	(11,000)	(12,000)
Dividend paid	(5,412)	(5,412)	(5,799)	(6,379)
Net borrowings	15,492	(1,000)	(1,000)	(1,000)
Issue of Equity	-	-	-	-
Other items	953	-	-	-
Cashflow from financing	11,033	(6,412)	(6,799)	(7,379)
Net change in cash	(214)	1,248	3,655	5,721
Free cashflow	(6,456)	7,661	10,454	13,100

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending March 31)

	FY22	FY23E	FY24E	FY25E
Per Share Data (in Rs)				
Base EPS	73.0	56.6	85.8	104.5
Diluted EPS	73.0	56.6	85.8	104.5
Cash EPS	96.0	85.2	117.0	139.7
Dividend per share (Rs)	1.2	1.2	1.2	1.1
Book value per share (Rs)	358.2	386.8	442.6	514.1
Growth Ratios (%)				
Total Op. Income (Sales)	43.6	19.3	5.3	9.1
EBITDA	10.7	-7.1	38.8	18.9
Net Income (Adjusted)	22.1	-22.5	51.7	21.7
EPS (Adjusted)	22.1	-22.5	51.7	21.7
Cash EPS	18.8	-11.3	37.4	19.3
Valuation Ratios (x)				
P/E (x)	28.1	36.3	23.9	19.7
P/BV (x)	5.7	5.3	4.6	4.0
EV/EBITDA (x)	21.0	22.6	16.3	13.7
EV/Sales (x)	5.0	4.2	4.0	3.7
Return/Profitability Ratios (%)				
EBITDA margin	23.9	18.6	24.5	26.7
Net profit margin	17.1	11.1	16.0	17.8
RoCE (post-tax)	16.9	11.3	15.8	17.3
RoE	21.8	15.2	20.7	21.8
Dividend Payout Ratio	1.7	2.2	1.3	1.1
Dividend Yield	0.1	0.1	0.1	0.1
Solvency/Wkg. Cap. Ratios (x)				
Net D/E (x)	0.3	0.3	0.2	0.1
Gross Debt/EBITDA	1.2	1.3	0.9	0.7
Fixed Asset Turnover (x)	1.2	1.2	1.2	1.1
Asset Turnover (x)	0.9	0.9	0.9	0.9
Working Capital days	108	82	82	81
Inventory (days)	72	52	52	52
Receivables (days)	48	46	46	46
Payables (days)	36	36	36	36

Source: Company data, I-Sec research

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