

Accumulate

Upping the ante

The management in BIL's Annual Report for FY20 acknowledges a temporary disruption in demand and supply chain due to COVID-19 but does not foresee any long-term challenges. Demand has been encouraging across geographies, driven by Agri segment on the back of favorable weather conditions in Europe, resolution of trade war in US and robust Rabi crop with a good monsoon forecast in India. After a weak volume in the month of April, there is a sharp recovery was seen in demand for the months of May and June for agriculture tyres due to good crop season and re-opening of economies in key European markets of Germany, France, Italy and Latvia. With solid competitive positioning, multiple strategic initiatives currently underway and sufficient capacity (~65% utilization), BKT is well positioned to capture up-cycle, translating into strong FCF and return ratio potential. We roll forward our valuation from FY22E to FY23E and recommend Accumulate with a TP of Rs 1,412 (22x FY23E EPS).

Improving volume outlook

Despite near-term uncertainties, management is positive about the near to medium term volume outlook. Demand recovery is on the cards in the global (US and Europe) and domestic markets led by strong pick up in agricultural activities and BIL is best positioned to leverage the same given lower cost, brand and available capacity. BIL commands an 8% global market share in agri-tyres, and the company is also focusing on growing its strong franchise in the highly specialized large OTR segment with ~5% global market share. We believe the company can continue to gain market share in the OHT segment due to its low cost advantage (labor cost at 4-5% in India vs 20-25% globally).

Backward integration to aid margin improvement

The company has commissioned Phase 2 of Carbon Black plant on March 12, 2020 resulting in total annual capacity of 140,000 MT. The company's current requirement is 55,000MT of carbon black and is now self-reliant, with total capacity of 140,000 MT. The company sells balance carbon black in the open market to third party customers where the product has been accepted widely. This backward integration has helped the company not only save costs, but also benefitted with timely supply of material and help contribute towards margin expansion by 100-150bps.

Completion of capex to support FCF and profitability

For FY21, BIL has given a capex guidance of ~Rs 6bn for FY21, including maintenance capex of Rs 1.5bn. Residual capex for Waluj and Bhuj plants of Rs 5bn is likely to be completed by FY21 end with a maximum delay of one quarter. We expect FCF to improve significantly from FY21 onward as most of the planned capex has already been incurred. The earlier plan of setting up a Greenfield plant in USA has been kept in abeyance, citing challenging economic and business environment.

Financial snapshot

Revenues for FY20 declined by 8%YoY led by 5% YoY decline in volumes and 4% YoY decline in ASP. However, EBITDA margin expanded by 110 bps YoY on account of lower RM prices, backward integration and better forex realization. Margins are expected to improve owing to softening of natural rubber and crude prices and backward integration of the carbon black plant. The capital expenditure for the year stood at Rs 8.6bn attributed towards Carbon Black plant and capacity expansion Bhuj and Waluj. RoE and RoCE expanded by ~164bps/144bps YoY to 19.5%/15.9% respectively in FY20.

CMP	Rs 1,258
Target / Upside	Rs 1,412 / 12%
BSE Sensex	37,903
NSE Nifty	11,133

Scrip Details

Equity / FV	Rs 387mn / Rs 2
Market Cap	Rs 243bn
	US\$ 3bn
52-week High/Low	Rs 1,325/Rs 679
Avg. Volume (no)	7,89,503
NSE Symbol	BALKRISIND
Bloomberg Code	BIL IN

Shareholding Pattern Mar'20(%)

Promoters	58.3
MF/Banks/FIs	17.8
FIIIs	12.3
Public / Others	11.6

BIL Relative to Sensex



Analyst: Abhishek Jain

Tel: +9122 40969739

E-mail: abhishekj@dolatcapital.com

Associate: Ketul Dalal

Tel: +91 22 4096 9770

E-mail: ketuld@dolatcapital.com

Annual Report Macro View

Key Management	No Change		
Changes in Board of Directors	Mr. Sanjay Asher, Mr. Ashok M. Saraf and Mr. Laxmidas Merchant - Ceased to be Independent Directors of the Company wef from 1st August, 2019, on completion of their term of five consecutive years		
Auditors	No change. N.G.Thakrar & Co., Chartered Accountants, continue to be the Auditors of the Company.		
Credit Ratings	Rating Agency	FY20	FY19
	CRISIL	AA/stable (long term), A1+ (short term)	AA/stable (long term), A1+ (short term)
Pledged Shares	No change.		
Macro-economic factors	<p>The outbreak of COVID-19 has severely impacted economic activities across the globe including India and the uncertainty makes it difficult to provide an outlook for the current financial year. The agriculture tyres sector is largely non-cyclical in nature while the other sub segments (industrial, construction and mining) is generally considered as cyclical and its performance is largely linked to overall economic outlook of the world. The demand scenario turned positive in Dec'20 with easing of trade tensions and favorable winter agricultural season in Europe. This pandemic has also triggered a fresh tussle between USA and China which may further impact the global business environment adversely. However, company believes that the disruption in demand is temporary in nature and does not foresee any long-term challenges on demand front due to COVID-19. It continues to ensure growth of its business which includes deeper penetration into its existing market within India and globally, including OEMs and continuous expansion of its product range.</p>		
Key Holders	Category of Shareholder (%)	FY20	FY19
	Promoters		
	i) Promoter Shareholding	58.30	58.30
	Bank, FIs, Insurance Companies & Mutual Funds		
	i) Mutual Funds	20.37	16.16
	ii) FIs & Banks	0.14	0.12
	iii) FII	11.93	11.46
	Non-Institutions	9.26	13.96
	Total	100.00	100.00

Source: DART, Company

Key Takeaways from the MD&A

- The first 8 months of FY20 were challenging due to various macro factors like trade wars, unfavorable climate conditions in Europe which impacted demand. The demand scenario turned positive in Dec'20 with easing of trade tensions and favorable winter agricultural season in Europe. However, the COVID-19 crisis gave rise to fresh trade tensions and halted all operations towards the end of March'20 up to end of April'20 when lockdown was partly lifted by the Government as the company was falling into essential services category.
- After resumption of manufacturing activities and dispatches, company gradually ramped up activities and have gained normalcy in operations to a good extent. However, the uncertainty due to COVID-19 issues makes it difficult to provide an outlook for FY21. However, company believes that the disruption in demand is temporary in nature and does not foresee any long-term challenges on demand front out of COVID-19.
- However, the company continues to ensure growth of its business which includes deeper penetration into its existing market within India and globally, including OEMs and continuous expansion of its product range. BIL has 2,700+ SKUs in its product portfolio in FY20.

- The company is setting up an all-steel OTR Radial tyre plant by way of a Greenfield plant at Bhuj. The company is continuously expanding its base into various sub-segments like agricultural, industrial, construction, mining, winter and solid tyres under both technologies – bias as well as radials.
- The price of Natural Rubber has remained benign due to the favorable demand supply situation and are expected to remain range bound.
- The prices of crude derivatives have been declining due to falling crude prices. Due to volatility of crude prices, company has adopted the policy to “Buy and Stock” large quantities during the lean period.
- The COVID-19 crisis has led to supply chain disruption across the globe which has caused higher delivery time coupled with increase in logistical cost. The company is continuously developing alternative sources of raw material as well as their supply chain to ensure timely delivery of goods at a minimal cost.

Projects and Expansions

- **Carbon Black:** The Second phase of the Carbon Black project was completed on 12th March, 2020 with a capacity of 80,000 MTPA, on schedule. The first phase of project of 60,000 MT commence commercial production in Q2FY20. The total capital outlay was Rs 4.25 bn. This backward integration of carbon black will help expand EBITDA margin by 150bps YoY in FY21 in the range of 26-28%. The company’s current requirement is 55,000MT of carbon black for an output of 200,000MT and is now self-reliant, with total capacity of 140,000 MT. The company sells balance carbon black in the open market to third party customers where the product has been accepted widely. This backward integration has helped the company not only save costs, but also benefitted with timely supply of material.
- **Waluj and Bhuj Plants:** Residual capex of Rs 5bn for the Greenfield tyre project in Waluj and the ultra large sized (51”-57”) all steel OTR Radial Tire Plant adding further capacity of 5,000MT at Bhuj plant is likely to be completed by FY21 end with a maximum delay of one quarter.
- **Greenfield Plant in US (suspended):** The earlier plan of setting up a Greenfield OHT plant in USA with a capacity of 20,000 MT with investment of US\$ 100mn through its wholly owned subsidiary company has been kept in abeyance, citing challenging economic and business environment.

Subsidiary Financials

- At the end of the year under review, the Company had following Domestic wholly owned subsidiary company namely BKT Tyres Limited and Overseas Subsidiary Companies namely BKT EUROPE S.R.L., BKT USA INC, BKT TIRES (CANADA) INC, BKT EXIM US INC and subsidiary of BKT EXIM US, INC - BKT TIRES INC.

Exhibit 1: Subsidiary Performance (FY20)

Name of Subsidiary	BKT TYRES LTD	BKT EXIM US	BKT Europe SRL	BKT USA	BKT Canada
Reporting Currency	INR	USD	EURO	USD	CAD
Exchange Rate	1.00	75.39	83.05	75.39	53.20
% of Shareholding	100	100	100	100	100
Net Sales (Rs mn)	-	1,120.0	2,109.2	404.0	116.4
PAT (Rs mn)	(0.1)	90.5	18.2	9.5	6.1

Source: DART, Company

Profit & Loss Analysis

- Revenues for FY20 declined by 8%YoY led by 5% YoY decline in volumes and 4% YoY decline in ASP.
- However, EBITDA margin expanded by 110 bps YoY to 26.1% on account of lower RM prices and backward integration. Margins are expected to improve owing to softening of natural rubber and crude prices and backward integration of the carbon black plant.
- Total employee expenses as a percentage of sales increased from 5.0% to 5.9%. Employee expenses increased from Rs 2.64bn in FY19 to Rs 2.86bn in FY20 on account of escalation in annual compensation and additions in the headcount to meet new capacity expansions (carbon black plant) during the year. Average percentage increase in the salaries of employees (other than the managerial personnel) was 12% whereas the managerial remuneration declined by 5% in FY20.
- Adjusted PAT in FY20 was Rs 9.45bn as compared to Rs 7.82bn in FY19, reporting a growth of 20.8% YoY, attributed to margin expansion and reduced tax rate.
- Gross margins improved 250bps to 55.5% in FY20 attributable to decline in key raw material prices, especially natural rubber and backward integration of carbon black plant.
- BIL spent Rs 375mn on Research and Development as compared to Rs 268mn in FY19.

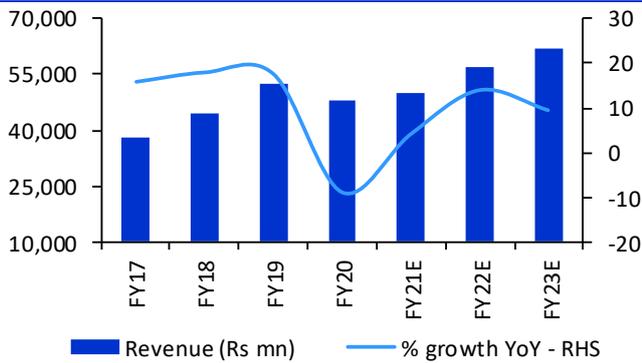
Balance Sheet Analysis

- The amount of total debt has increased from Rs 8.53bn in FY19 to Rs 8.96bn in FY20. The Gross Debt to Equity Ratio stands at 0.18x while net debt/Equity stands at 0.09x.
- The capital expenditure for the year stood at Rs 8.6bn attributed towards second phase of capacity expansion of Carbon Black facility and Large OTR radial tyre plant at Bhuj and Greenfield expansion at Waluj and maintenance capex.
- Despite FY20 being a challenging year, Amara Raja has efficiently managed its working capital cycle. Inventory days declined to 50 days from 44 days at due to efficient inventory management despite the COVID-19 crisis. Debtor days increased to 50 days versus 40 days in the previous year. Creditors' payable days increased to 28 days from 25 days in FY19.
- RoE and RoCE expanded by ~164bps/144bps YoY to 19.5%/15.9% respectively in FY20.

Cash Flow Analysis

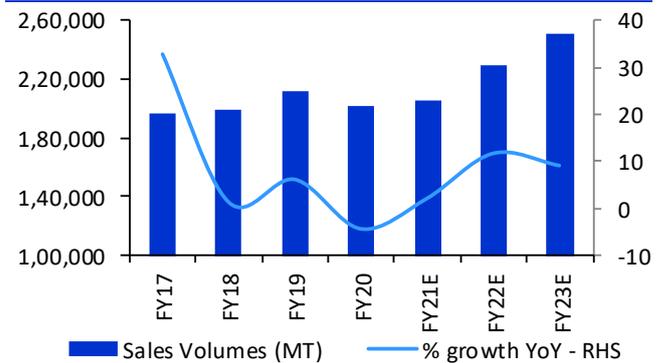
- The net Cash Flow from Operating Activities improved to Rs 11.6bn in FY20 from Rs 8.1bn in FY19 due to efficient working capital management and lower tax outflow.
- Despite significant capex to the tune of Rs 8.6bn, company has reported positive FCF of Rs 3.1bn for the year FY20 vs FCF of Rs 758mn in FY19.
- The total dividend (including interim dividend) for FY20 amounts to Rs 20 per equity share (versus Rs 8 per equity share in FY19). Total dividend outflow (including DDT) for FY20 was Rs 5.13bn.

Exhibit 1: Revenue to grow 12% CAGR over FY21-23E



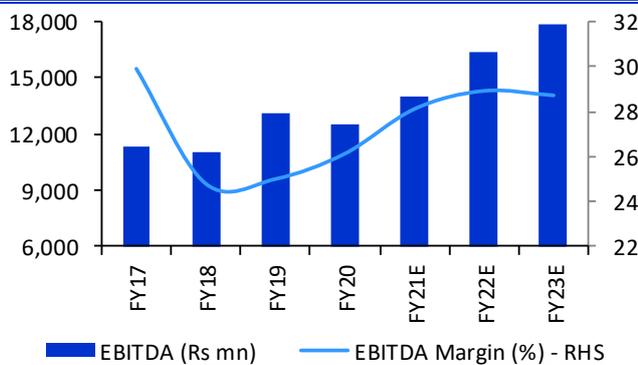
Source: Company, DART

Exhibit 2: Vol to grow 10% CAGR over FY21-23E



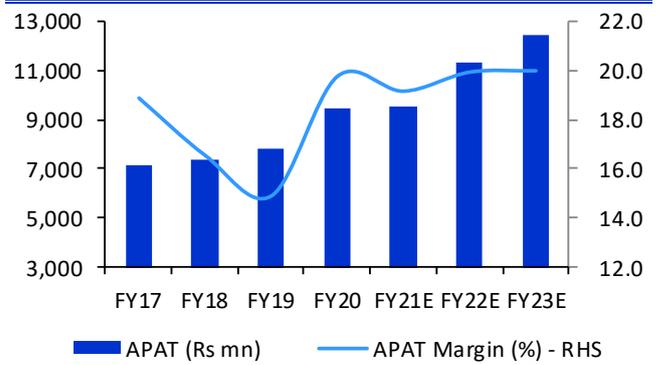
Source: Company, DART

Exhibit 3: EBITDA margin expansion



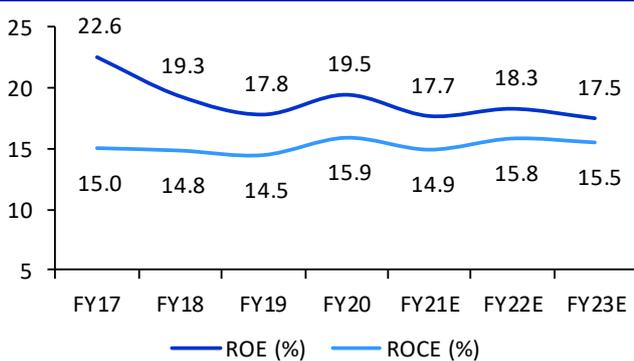
Source: Company, DART

Exhibit 4: APAT (Rs) vs APAT Margin (%)



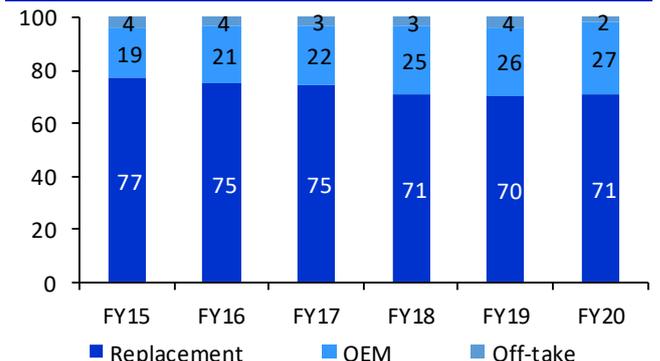
Source: Company, DART

Exhibit 5: RoE (%) vs RoCE (%)

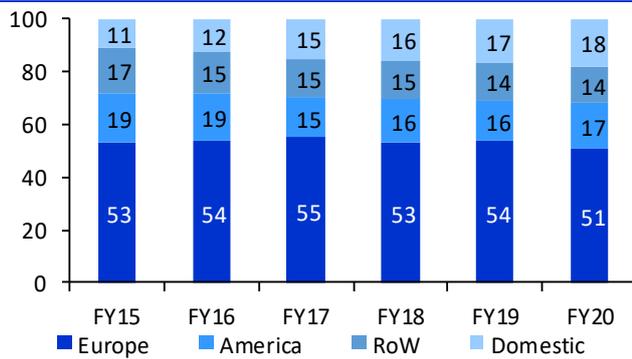


Source: Company, DART

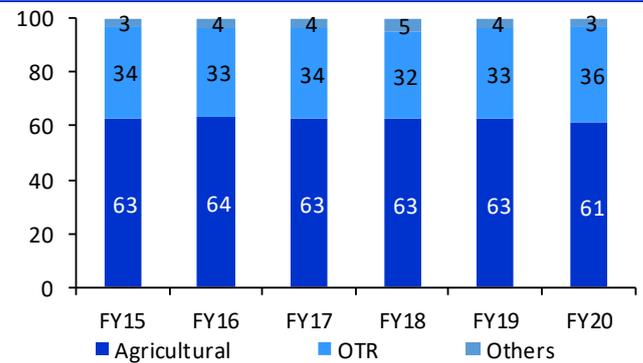
Exhibit 6: Segment wise Revenue (%)



Source: Company, DART

Exhibit 7: Geography wise revenue (%)


Source: Company, DART

Exhibit 8: Product wise revenue (%)


Source: Company, DART

Exhibit 9: Assumption Table

Key Assumptions	FY19	FY20	FY21E	FY22E	FY23E
Volumes (MT)					
Europe	1,07,743	1,02,898	1,03,927	1,16,398	1,28,038
% YoY	0.7	(4.5)	1.0	12.0	10.0
USA	35,914	34,299	34,642	38,106	41,155
% YoY	15.6	(4.5)	1.0	10.0	8.0
India	38,027	40,352	42,773	47,050	50,814
% YoY	14.2	6.1	6.0	10.0	8.0
RoW	29,577	24,211	24,453	28,121	30,371
% YoY	6.1	(18.1)	1.0	15.0	8.0
Total	2,11,261	2,01,760	2,05,795	2,29,676	2,50,378
% YoY	6.0	(4.5)	2.0	11.6	9.0
Blended ASP (RS/kg)	248	237	242	247	248
% YoY	10.8	(4.5)	2.1	2.1	0.4

Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	47,825	49,802	56,730	62,094
Total Expense	35,331	35,808	40,335	44,273
COGS	21,268	21,166	24,110	26,390
Employees Cost	2,858	2,988	3,461	3,601
Other expenses	11,205	11,654	12,764	14,282
EBIDTA	12,494	13,994	16,395	17,821
Depreciation	3,680	3,888	4,147	4,399
EBIT	8,813	10,106	12,248	13,422
Interest	73	87	82	77
Other Income	2,488	2,736	3,010	3,311
Exc. / E.O. items	0	0	0	0
EBT	11,228	12,756	15,176	16,656
Tax	1,779	3,214	3,870	4,247
RPAT	9,450	9,541	11,306	12,409
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	9,450	9,541	11,306	12,409

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	387	387	387	387
Minority Interest	0	0	0	0
Reserves & Surplus	49,894	57,116	65,639	75,264
Net Worth	50,281	57,503	66,026	75,651
Total Debt	8,964	8,464	7,964	7,464
Net Deferred Tax Liability	1,783	1,783	1,783	1,783
Total Capital Employed	61,029	67,750	75,773	84,898

Applications of Funds

Net Block	32,771	34,883	36,236	36,837
CWIP	5,856	5,500	4,500	4,500
Investments	7,120	6,720	6,720	6,720
Current Assets, Loans & Advances	21,566	27,079	35,465	43,803
Inventories	5,804	6,822	7,771	8,506
Receivables	6,492	6,140	6,994	7,145
Cash and Bank Balances	455	1,532	3,398	4,943
Loans and Advances	314	325	356	381
Other Current Assets	4,991	5,691	6,391	7,091
Less: Current Liabilities & Provisions	6,284	6,431	7,148	6,962
Payables	3,610	4,093	4,507	4,593
Other Current Liabilities	2,674	2,338	2,641	2,369
sub total				
Net Current Assets	15,283	20,648	28,317	36,841
Total Assets	61,029	67,750	75,773	84,898

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	55.5	57.5	57.5	57.5
EBIDTA Margin	26.1	28.1	28.9	28.7
EBIT Margin	18.4	20.3	21.6	21.6
Tax rate	15.8	25.2	25.5	25.5
Net Profit Margin	19.8	19.2	19.9	20.0
(B) As Percentage of Net Sales (%)				
COGS	44.5	42.5	42.5	42.5
Employee	6.0	6.0	6.1	5.8
Other	23.4	23.4	22.5	23.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.1	0.1	0.1
Interest Coverage	121.2	116.0	149.1	174.0
Inventory days	44	50	50	50
Debtors days	50	45	45	42
Average Cost of Debt	0.8	1.0	1.0	1.0
Payable days	28	30	29	27
Working Capital days	87	93	93	96
FA T/O	1.5	1.4	1.6	1.7
(D) Measures of Investment				
AEPS (Rs)	48.9	49.4	58.5	64.2
CEPS (Rs)	67.9	69.5	79.9	86.9
DPS (Rs)	20.0	10.0	12.0	12.0
Dividend Payout (%)	40.9	20.3	20.5	18.7
BVPS (Rs)	260.1	297.5	341.5	391.3
RoANW (%)	19.5	17.7	18.3	17.5
RoACE (%)	15.9	15.0	15.9	15.5
RoAIC (%)	14.9	15.9	17.7	17.6
(E) Valuation Ratios				
CMP (Rs)	1258	1258	1258	1258
P/E	25.7	25.5	21.5	19.6
Mcap (Rs Mn)	2,43,096	2,43,096	2,43,096	2,43,096
MCap/ Sales	5.1	4.9	4.3	3.9
EV	2,48,094	2,43,460	2,37,107	2,29,880
EV/Sales	5.2	4.9	4.2	3.7
EV/EBITDA	19.9	17.4	14.5	12.9
P/BV	4.8	4.2	3.7	3.2
Dividend Yield (%)	1.6	0.8	1.0	1.0
(F) Growth Rate (%)				
Revenue	(8.8)	4.1	13.9	9.5
EBITDA	(4.7)	12.0	17.2	8.7
EBIT	(9.9)	14.7	21.2	9.6
PBT	(5.1)	13.6	19.0	9.7
APAT	20.8	1.0	18.5	9.7
EPS	20.8	1.0	18.5	9.7
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	11,639	12,278	13,710	15,079
CFI	(6,558)	(8,294)	(8,478)	(10,174)
CFF	(5,183)	(2,907)	(3,366)	(3,361)
FCFF	3,048	6,633	9,210	10,079
Opening Cash	556	455	1,532	3,398
Closing Cash	455	1,532	3,398	4,943

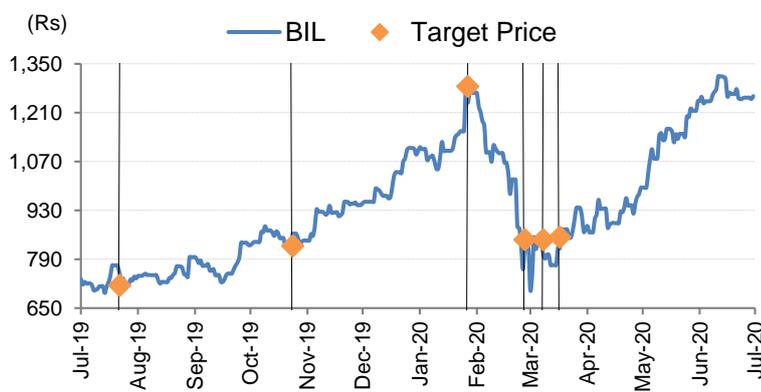
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Aug-19	Sell	715	749
Nov-19	Sell	828	863
Feb-20	Accumulate	1,285	1,238
Mar-20	Accumulate	846	823
Mar-20	Accumulate	846	802
Apr-20	Reduce	853	821

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	jubbins@dolatcapital.com	+9122 4096 9779
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Pooja Soni	Manager – Institutional Sales	poojas@dolatcapital.com	+9122 4096 9700

Equity Trading	Designation	E-mail	Direct Lines
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

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Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
