

14 August 2020

## Balkrishna Industries

*Demand outlook remains strong: upgrading to a Buy*

Rating: **Buy**

Target Price: ₹1,637

Share Price: ₹1,340

**Balkrishna's growth prospects remain strong, led by robust demand in the agricultural sector in both Europe and the US. Also, FY21 would have margin expansion on account of backward-integration benefits from the carbon black plant. Accordingly, we upgrade our rating to a Buy, at a target price of ₹1,637 (earlier ₹1,258).**

**Management positive on trends.** Management has expressed greater optimism about US and Europe demand from the agricultural sector, which would be key drivers for FY21. While it expects flat volumes for FY21, we expect 5% volume growth based on our channel checks, assuming no further lockdowns. Also, revenues from carbon black over and above that required for captive purposes would be the catalyst of overall growth. Accordingly, we expect 18% revenue growth in FY21 and 13% in FY22 to ₹63.5bn.

**Margin expansion.** Against the backdrop of volume growth and backward-integration benefits, we expect the margin to expand 150bps in FY21. Also, we expect it to improve in FY22 driven by volume leverage and revenue from carbon black.

**Q1 FY21 concall highlights.** 1) Geographic mix: USA 12%, Europe 55%, India 24%, RoW 9%. 2) Product-wise revenue mix: agri 65%, OTR 32%, others 3%. 3) Agri-tyres market share in Europe 12-15%; in the US 10-12%, in India 5%.

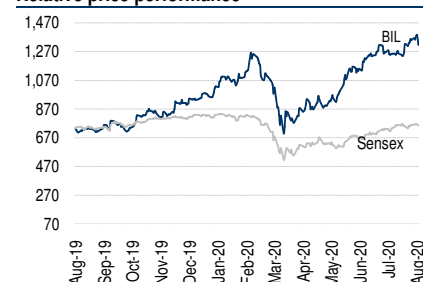
**Valuation.** We expect revenue to register a 15% CAGR over FY20-22 to ₹63.5bn and earnings to come at ₹13.1bn, leading to an EPS of ₹68.2. With this, we upgrade our rating to a Buy, at a revised target price of ₹1,637 (24x FY22e). **Risk:** Less-than-expected volume growth.

Key data	BIL IN / BLKI.BO
52-week high / low	₹1405 / 678
Sensex / Nifty	37877 / 11178
3-m average volume	\$13.8m
Market cap	₹254bn / \$3396.4m
Shares outstanding	193m

Shareholding pattern (%)	Jun'20	Mar'20	Dec'19
Promoters	58.3	58.3	58.3
- of which, Pledged	-	-	-
Free float	41.7	41.7	41.7
- Foreign institutions	13.0	11.9	11.7
- Domestic institutions	17.8	17.8	17.5
- Public	10.9	12.0	12.5

Estimates revision (%)	FY21	FY22
Revenue	7.2	8.2
EBITDA	7.2	8.2
PAT	8.1	8.4

### Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY18	FY19	FY20	FY21e	FY22e
Sales (₹ m)	44,473	52,445	47,825	56,426	63,541
Net profit (₹ m)	7,392	7,820	9,450	10,792	13,181
EPS (₹)	38.2	40.5	48.9	55.8	68.2
PE (x)	28.1	33.1	27.4	24.0	19.7
EV / EBITDA (x)	17.9	18.9	20.0	15.9	13.3
PBV (x)	5.1	5.5	5.2	4.4	3.7
RoE (%)	19.3	17.8	19.5	19.7	20.4
RoCE (%)	15.2	15.1	16.6	17.0	18.8
Dividend yield (%)	0.4	0.6	1.5	0.6	0.8
Net debt/equity (x)	-0.2	-0.2	-0.2	-0.2	-0.3

Source: Company, Anand Rathi Research

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Research Analyst

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (₹m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Net revenues	44,473	52,445	47,825	56,426	63,541
Growth (%)	19.3	17.9	-8.8	18.0	12.6
Raw material cost	21,499	24,628	21,268	24,263	27,322
Employee, other expenses	11,908	14,705	14,064	16,593	18,300
<b>EBITDA</b>	<b>11,066</b>	<b>13,111</b>	<b>12,494</b>	<b>15,570</b>	<b>17,918</b>
EBITDA margins (%)	24.9	25.0	26.1	27.6	28.2
- Depreciation	3,113	3,326	3,680	4,117	4,326
Other income	3,362	2,142	2,488	2,981	3,993
Interest expenses	131	98	73	45	11
Extraordinary items	-	-	-	-	-
PBT	11,185	11,830	11,228	14,389	17,575
Effective tax rate (%)	34	34	16	25	25
+ Associates/(Minorities)					
Net income	7,392	7,820	9,450	10,792	13,181
Adjusted income	7,392	7,820	9,450	10,792	13,181
WANS	193	193	193	193	193
FDEPS (₹/sh)	38.2	40.5	48.9	55.8	68.2

**Fig 3 – Cash-flow statement (₹m)**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
PBT	11,185	11,830	11,228	14,389	17,575
+ Non-cash items	3,113	3,326	3,680	4,117	4,326
Oper. prof. before WC	14,298	15,156	14,909	18,506	21,901
- Incr./ (decr.) in WC	2,209	1,592	-2,263	780	1,379
Others incl. taxes	3,690	3,916	1,779	3,597	4,394
Operating cash-flow	8,399	9,647	15,393	14,128	16,128
- Capex (tang. +intang.)	3,211	7,107	8,496	6,000	1,500
Free cash-flow	5,188	2,541	6,897	8,128	14,628
Acquisitions					
- Div. (incl. buyback & taxes)	1,222	1,748	5,127	1,948	2,380
+ Equity raised		-	-	-	-
+ Debt raised	-5,257	-59	316	-	-6,697
- Fin investments	-2,472	59	-114	4,695	4,695
- Misc. (CFI + CFF)	1,072	365	2,301	-	-0
Net cash-flow	109	310	-101	1,485	856

Source: Company, AnandRathi Research

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 2 – Balance sheet (₹ m)**

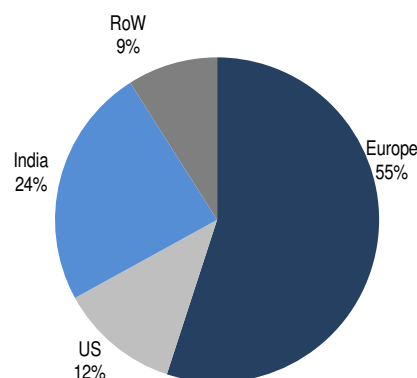
Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
Share capital	387	387	387	387	387
Net worth	40,953	46,787	50,281	59,124	69,926
Debt	8,355	8,296	8,612	8,612	1,915
Minority interest	-	-	-	-	-
DTL/(Assets)	3,289	3,255	1,783	1,783	1,783
<b>Capital employed</b>	<b>52,596</b>	<b>58,339</b>	<b>60,676</b>	<b>69,520</b>	<b>73,624</b>
Net tangible assets	27,945	27,067	31,891	37,630	34,804
Net intangible assets	34	23	13	13	13
Goodwill					
CWIP (tang. & intang.)	1,183	5,854	5,856	2,000	2,000
Investments (strategic)					
Investments (financial)	11,543	11,602	11,488	16,183	20,878
Current assets (ex cash)	17,496	19,196	17,700	18,692	20,585
Cash	246	556	455	1,940	2,797
Current liabilities	5,851	5,959	6,726	6,938	7,452
Working capital	11,644	13,237	10,974	11,754	13,133
<b>Capital deployed</b>	<b>52,596</b>	<b>58,339</b>	<b>60,676</b>	<b>69,520</b>	<b>73,624</b>

**Fig 4 – Ratio analysis**

Year-end: Mar	FY18	FY19	FY20	FY21e	FY22e
P/E (x)	28.1	33.1	27.4	24.0	19.7
EV / EBITDA (x)	17.9	18.9	20.0	15.9	13.3
EV / Sales (x)	4.5	4.7	5.2	4.4	3.7
P/B (x)	5.1	5.5	5.2	4.4	3.7
RoE (%)	19.3	17.8	19.5	19.7	20.4
RoCE (%) - after tax	15.2	15.1	16.6	17.0	18.8
RoIC (%) - after tax	15.2	15.2	16.8	17.3	19.5
DPS (₹ / sh)	5.3	7.5	20.0	8.4	10.2
Dividend yield (%)	0.4	0.6	1.5	0.6	0.8
Dividend payout (%) - incl. DDT	0.2	0.2	0.5	0.2	0.2
Net debt / equity (x)	-0.2	-0.2	-0.2	-0.2	-0.3
Receivables (days)	41	40	50	46	47
Inventory (days)	101	106	100	93	94
Payables (days)	67	53	62	58	58
CFO : PAT %	113.6	123.4	162.9	130.9	122.4

Source: Company, AnandRathi Research

**Fig 6 – Q1 FY21 revenue break-up, by region**



Source: Company

## Result highlights

Fig 7 – Quarterly performance

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
<b>VOLUMES</b>												
Volume (MT)	49,331	49,554	54,002	56,754	52,339	46,780	55,388	51,304	45,169	47,321	57,966	38,096
Y/Y (%)	15.9	22.6	17.0	22.5	6.1	(5.6)	2.6	(9.6)	(13.7)	1.2	4.7	(25.7)
Q/Q (%)	6.5	0.5	9.0	5.1	(7.8)	(10.6)	18.4	(7.4)	(12.0)	4.8	22.5	(34.3)
Average Realization	2,25,913	2,23,253	2,28,095	2,40,052	2,53,249	2,57,715	2,43,923	2,32,629	2,37,152	2,45,240	2,34,158	2,43,784
Y/Y (%)	1.7	0.7	5.0	9.9	12.1	15.4	6.9	(3.1)	(6.4)	(4.8)	(4.0)	4.8
Q/Q (%)	3.5	(1.2)	2.2	5.2	5.5	1.8	(5.4)	(4.6)	1.9	3.4	(4.5)	4.1
Net sales	11,145	11,063	12,318	13,624	13,255	12,056	13,510.40	11,935	10,712	11,605	13,573	9,287
Y/Y (%)	17.9	23.4	22.8	34.7	18.9	9.0	9.7	(12.4)	(19.2)	(3.7)	0.5	(22.2)
Q/Q (%)	10.2	(0.7)	11.3	10.6	(2.7)	(9.0)	12.1	(11.7)	(10.2)	8.3	17.0	(31.6)
Other Operating income												
Total Operating Income	11,145	11,063	12,318	13,624	13,255	12,056	13,510	11,935	10,712	11,605	13,573	9,287
Y/Y (%)	17.9	23.4	17.4	26.8	18.9	9.0	9.7	(12.4)	(19.2)	(3.7)	0.5	(22.2)
Q/Q (%)	3.7	(0.7)	11.3	10.6	(2.7)	(9.0)	12.1	(11.7)	(10.2)	8.3	17.0	(31.6)
<b>EXPENDITURE</b>												
(Inc)/dec in stock-in-trade	21	(54)	(95)	(106)	(347)	(180)	248	234	(392)	(218)	864	(534)
Materials	5,461	5,102	5,832	6,488	6,468	5,709	6,347	5,516	5,070	5,008	5,186	4,199
% of sales	49.2	45.6	46.6	46.8	46.2	45.9	48.8	48.2	43.7	41.3	44.6	39.5
Y/Y (%)	49.6	40.9	21.6	22.0	11.7	9.5	15.0	(9.9)	(23.6)	(13.4)	(8.3)	(36.3)
Q/Q (%)	4.8	(7.9)	13.6	11.3	(4.1)	(9.7)	19.3	(12.8)	(18.6)	2.4	26.3	(39.4)
Gross margin (%)	50.8	54.4	53.4	53.2	53.8	54.1	51.2	51.8	56.3	58.7	55.4	60.5
Staff cost	596	615	689	681	681	680	594	696	701	708	754	701
% of sales	5.4	5.6	5.6	5.0	5.1	5.6	4.4	5.8	6.5	6.1	5.6	7.6
YoY (%)	10.4	9.4	15.8	15.9	14.3	10.6	(13.8)	2.2	2.8	4.1	27.0	0.8
QoQ (%)	1.5	3.1	12.1	(1.2)	0.1	(0.2)	(12.6)	17.0	0.7	1.0	6.6	(7.0)
Other expenditure	2,017	2,500	2,936	2,985	3,126	2,838	3,121	2,811	2,658	2,692	3,044	2,615
% of sales	18.1	22.6	23.8	21.9	23.6	23.5	23.1	23.6	24.8	23.2	22.4	28.2
Y/Y (%)	(7.3)	22.6	34.1	39.8	54.9	13.5	6.3	(5.8)	(14.9)	(5.2)	(2.5)	(7.0)
Q/Q (%)	(5.5)	23.9	17.4	1.7	4.7	(9.2)	10.0	(9.9)	(5.4)	1.3	13.1	(14.1)
Total expenses	8,096	8,163	9,362	10,048	9,929	9,047	10,310	9,256	8,037	8,190	9,848	6,981
EBITDA	3,049	2,900	2,956	3,576	3,326	3,009	3,200	2,678	2,675	3,415	3,726	2,306
Y/Y (%)	(0.8)	4.3	(1.0)	28.1	9.1	3.8	8.3	(25.1)	(19.6)	13.5	16.4	(13.9)
Q/Q (%)	9.2	(4.9)	1.9	21.0	(7.0)	(9.5)	6.4	(16.3)	(0.1)	27.7	9.1	(38.1)
OPM (%)	27.4	26.2	24.0	26.2	25.1	25.0	23.7	22.4	25.0	29.4	27.4	24.8
Other income	825	777	837	822	909	10	402	716	807	301	664	333
Interest	26	19	34	33	25	20	20	18	17	19	19	24
Depreciation	777	799	783	841	828	834	823	841	908	949	983	996
Profit before tax	3,071	2,859	2,976	3,524	3,382	2,165	2,759	2,536	2,557	2,748	3,388	1,619
Provision for taxation	1,042	964	1,040	1,222	1,159	718	911	776	(353)	542	815	401
Tax rate (%)	33.9	33.7	34.9	34.7	34.3	33.2	33.0	30.6	(13.8)	19.7	24.0	24.7
Adj PAT	2,030	1,895	1,936	2,303	2,223	1,447	1,847	1,760	2,910	2,207	2,573	1,218
Y/Y (%)	(16.4)	2.1	40.4	50.4	9.5	(23.6)	(4.6)	(23.6)	30.9	52.5	39.3	(30.8)
Q/Q (%)	32.5	(6.6)	2.2	18.9	(3.4)	(34.9)	27.7	(4.7)	65.3	(24.2)	(62.6)	(52.7)
EPS (₹)	21.0	9.8	10.0	11.9	11.5	7.5	9.6	9.1	15.1	11.4	13.3	6.3

Source: Company

## Valuations

We expect revenue to register a 15% CAGR over FY20-22 to ₹63.5bn and earnings to come at ₹13.1bn, leading to an EPS of ₹68.2. With this, we upgrade our rating to a Buy, at a revised target price of ₹1,637 (24x FY22e).

We have assigned 24x against 20x for the following reasons

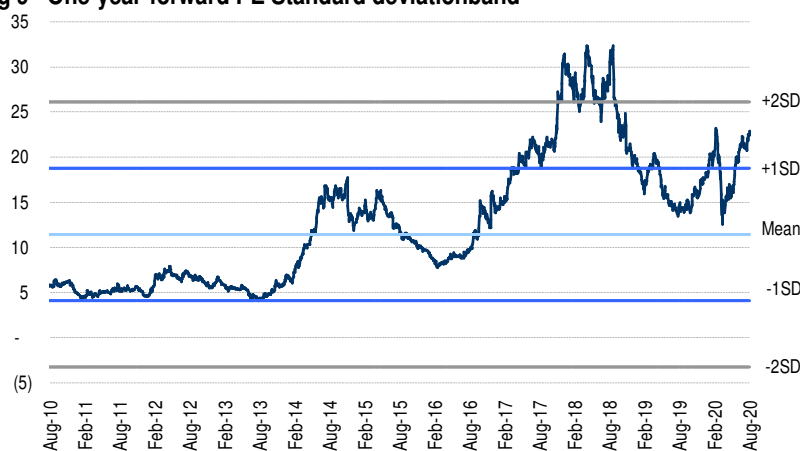
- 1) The company is in strong position in agriculture and is gaining market share
- 2) It is not heavily dependent on OEMs
- 3) It has a large number of SKUs and thus is preferred by distributors
- 4) Quality products at competitive pricing continues

**Fig 8 – Change in estimates**

₹m)	Old estimates		Revised Estimates		Change %	
	FY21	FY22	FY21	FY22	FY21	FY22
Revenue	52,631	58,707	56,426	63,541	7.2%	8.2%
EBITDA	14,523	16,555	15,570	17,918	7.2%	8.2%
Adj. PAT	9,985	12,159	10,792	13,181	8.1%	8.4%
EPS (₹)	52	63	56	68	8.1%	8.4%

Source: Anand Rathi Research

**Fig 9 – One-year-forward PE Standard deviation band**



Source: Bloomberg, Anand Rathi Research

### Risk

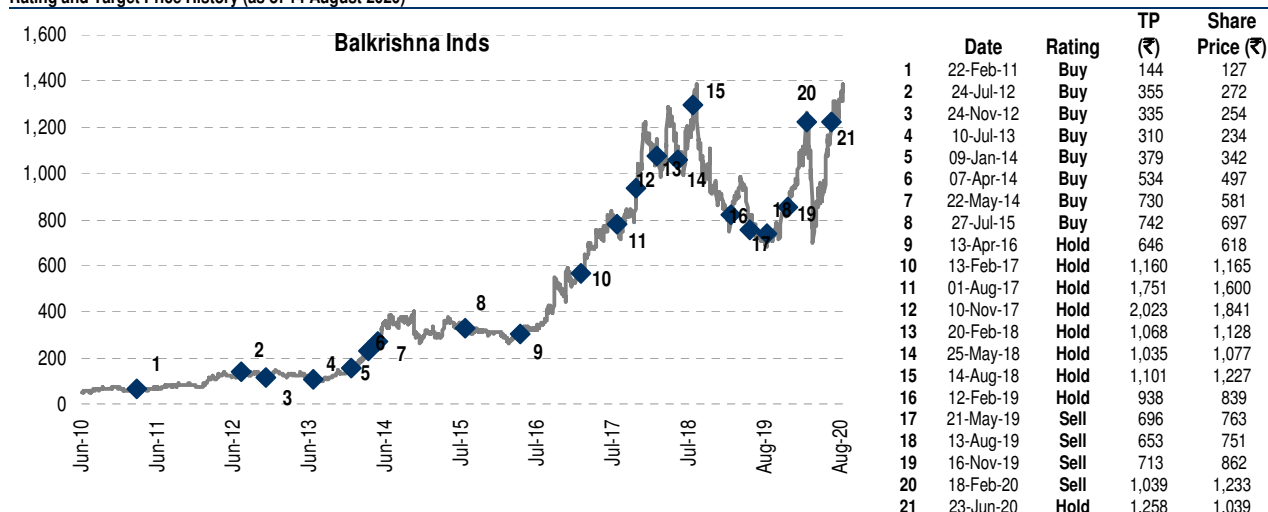
- Less-than-expected volume growth.

## Appendix

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#### Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

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