

Healthy demand, margin outlook fuel optimism...

Balkrishna Industries (BIL) reported healthy Q1FY21 results under the circumstances. Decline in standalone revenues was limited to 22.2% YoY (₹ 929 crore), tracking 25.7% decline in total tonnage to 38,096 MT during the Covid impacted quarter. Encouragingly, the company expects to close FY21E with similar volume levels as FY20 (~2 lakh MT). EBITDA in Q1FY21 was at ₹ 230.6 crore, down 13.9% YoY, 38.1% QoQ. Margins fell 262 bps QoQ to 24.8%. QoQ decline in margin performance was on account of negative operating leverage although gross margins recorded a strong 511 bps expansion. Consequent PAT came in at ₹ 121.7 crore (down 30.8% YoY). BIL declared an interim dividend of ₹ 3/share.

Agri segment set to drive volume performance

BIL is predominantly an exports player although share of India in overall revenues has been inching upwards. Europe formed ~55% of Q1FY21 revenues, with India, North America at ~24%, ~12% respectively. It commands a lion's share of the niche off highway tyre i.e. OHT segment, with end application in agri & OTR industries (agri: OTR mix at 65:35, with replacement demand forming 70% of overall pie). Served industry export volumes have been on an upswing since Q4FY20, led particularly by healthy agri demand in Europe and North America. Outlook for agri offtake remains bright globally, with India also witnessing strong traction amid healthy rural cash flows. While OTR segment is expected to lag amid soft commodity prices and slowdown in global economic activity, the management is confident of matching FY20 volumes in FY21E despite ~26% decline in Q1FY21. We build 5.5% volume CAGR to 2.2 lakh MT by FY22E.

Backward integration, cost focus to reflect in margin uptick

The company recently commissioned Phase II of the carbon black plant (80,000 MT; total capacity 140,000 MT). With practical capacity at ~110,000-118,000 MT per annum and ~27% input-output ratio, the company would utilise bulk of output for captive consumption and sell the rest in the open market. BIL aims to command ~25% EBITDA margins on its carbon black sales, well ahead of incumbents. The backward integration move is expected to structurally improve margins, going ahead. BIL expects 28-30% margin levels over the medium term. We build 30% margins by FY22E building in benefits from costs initiatives and soft input prices.

Valuation & Outlook

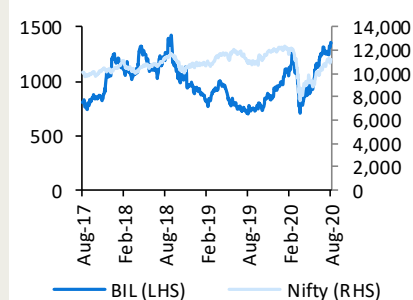
Sales, PAT are expected to clock 8.8%, 8.4% CAGR, respectively, in FY20-22E. Healthy demand traction along with expected elevation of margin trajectory, long term debt free B/S and healthy cash flow generation makes us maintain our **BUY** recommendation on the stock with a revised target price of ₹ 1,500 i.e. 26x FY22E EPS of ₹ 57.5.



Particulars

Particular	₹ crore
Market Capitalization	25,131
Total Debt (FY20)	862.2
Cash & Inv (FY20)	1,108.6
EV (₹ Crore)	24,884.8
52 week H/L (₹)	1400 / 678
Equity capital (₹ crore)	38.7
Face value (₹)	2.0

Price Chart



Key highlights

- Total sales declined 22% YoY in Q1FY21 tracking 25.7% drop in tonnage
- Margins at 24.8% were down 262 bps QoQ on the back of negative operating leverage.
- Healthy global, domestic demand for agri tyres provides decent volume and topline visibility. Margins to trend upwards on backward integration, cost actions
- Maintain BUY with revised target price of ₹ 1,500

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Key Financial Summary

Key Financials	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	4,464.5	5,244.5	4,782.5	4,899.9	5,659.3	8.8%
EBITDA	1,106.7	1,311.1	1,249.3	1,427.4	1,695.0	16.5%
EBITDA Margins (%)	24.8	25.0	26.1	29.1	30.0	
Net Profit	739.3	782.0	945.0	865.6	1,111.3	8.4%
EPS (₹)	38.2	40.5	48.9	44.8	57.5	
P/E	34.0	32.1	26.6	29.0	22.6	
RoNW (%)	18.1	16.7	18.8	15.7	18.1	
RoCE (%)	22.4	20.4	18.5	18.0	21.3	

Source: Company, ICICI Direct Research

Q1FY21 earnings conference call highlights

Management outlook/guidance and demand

- **The company is confident of largely matching the FY20 volume performance this year. Positive outlook on demand front (especially on the agri side) is fuelling the optimism. Industrial, mining & construction demand is seen picking up sequentially. Among geographies, the company is hopeful of YoY growth in India in FY21E**
- Production volumes during Q1FY21 were at 41,576 MT, with ASPs at ~₹ 245/kg
- For Q1FY21,
 - Geographical mix - Europe - 55%, India - 24%, US - 12%
 - Application mix – agri - 65%, OTR - 32%
 - Channel mix – OEM - 27%, replacement - 70%
- India tractor market share is at ~7%. Total ~45% of India operations serves the agri space
- **In Europe, BIL's agri market share is at ~12-15% while the same in the Americas is at ~7-10%**
- **Present OTR market share is at ~3% globally. BIL wants to improve it to ~5-6% in coming years**

Revenues, costs and margins

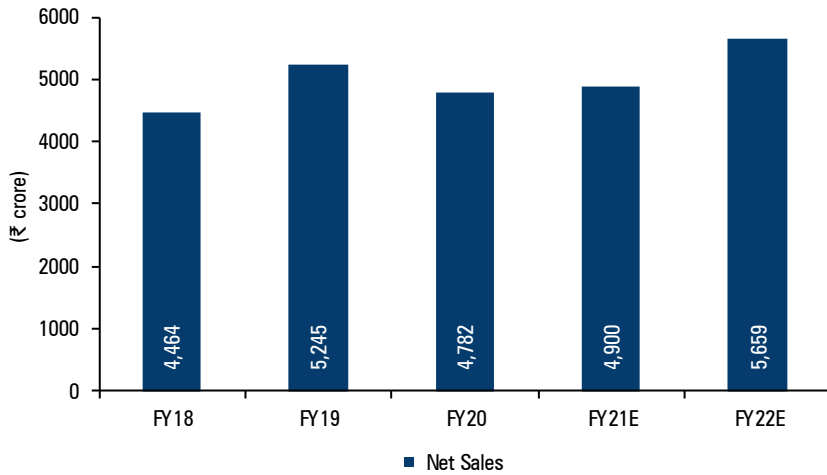
- **Q2FY21E margins are expected to improve QoQ over Q1FY21. Medium term margin visibility is 28-30%**
- Raw material costs are seen remaining flattish sequentially during Q2FY21E
- There has been no pricing action in this year thus far
- Advertising and promotion expenses are expected to continue to remain at ~2-3% of sales

Others

- **Carbon black plant practical capacity is at ~110,000 MT with input-output ratio at ~27%. The company currently sells ~15-18% output in the market and uses the rest for captive consumption**
- BIL is hopeful of completing all capex by the stated timeline of end FY21E
- Channel inventory in Europe and the US is at about three months currently vs. usual range of two to three months
- **Cash on books as of June 2020 was at ₹ 1,175 crore**

Financial story in charts

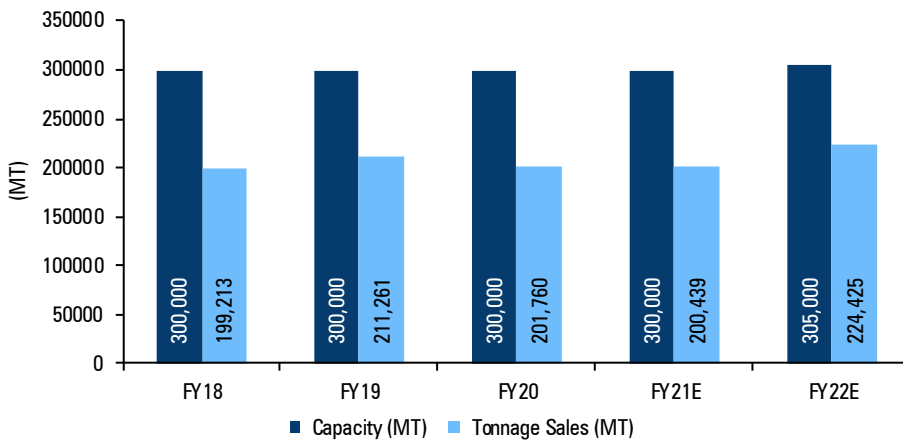
Exhibit 1: Topline trend



We expect sales to grow at a CAGR of 8.8% over FY20-22E

Source: Company, ICICI Direct Research

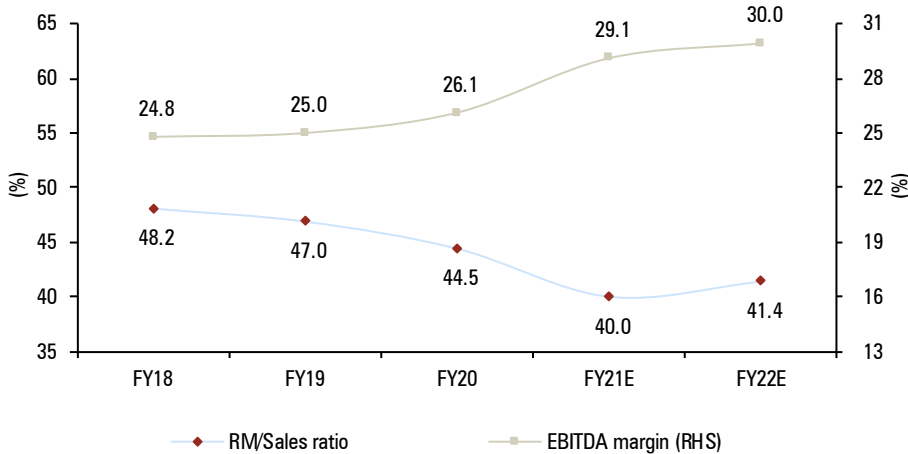
Exhibit 2: Capacity and volume trend



We expect tonnage volumes to grow at 5.5% CAGR over FY20P-22E to 2.2 lakh MT

Source: Company, ICICI Direct Research

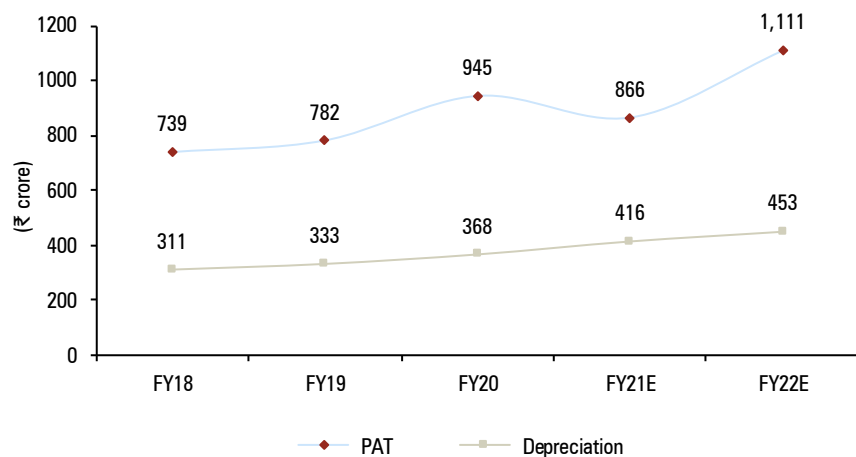
Exhibit 3: Trend in EBITDA margins



Margins are seen improving to 29.1% by FY21E and thereafter to 30% in FY22E amid backward integration benefits, soft commodity prices and better operating leverage

Source: Company, ICICI Direct Research

Exhibit 4: Trend in profitability



PAT seen growing at 8.4% CAGR over FY20-22E

Source: Company, ICICI Direct Research

Exhibit 5: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	4,464	17.8	38.2	3.4	34.0	22.8	18.1	22.4
FY19	5,245	17.5	40.5	5.8	32.1	19.2	16.7	20.4
FY20	4,782	-8.8	48.9	20.8	26.6	20.5	18.8	18.5
FY21E	4,900	2.5	44.8	(8.4)	29.0	17.8	15.7	18.0
FY22E	5,659	15.5	57.5	28.4	22.6	14.6	18.1	21.3

Source: Bloomberg, ICICI Direct Research

Exhibit 6: Shareholding pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	58.3	58.3	58.3	58.3	58.3
FII	10.6	11.2	11.7	11.9	13.0
DII	16.0	15.9	17.5	17.8	17.8
Others	15.1	14.6	12.5	12.0	10.9

Source: Bloomberg, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Total operating Income	5,244.5	4,782.5	4,899.9	5,659.3	
Growth (%)	17.5	-8.8	2.5	15.5	
Raw Material Expenses	2,462.8	2,126.8	1,961.6	2,344.1	
Employee Expenses	263.6	285.8	296.4	312.9	
Other Expenses	1,206.9	1,120.5	1,214.6	1,307.3	
Total Operating Expenditure	3,933.4	3,533.2	3,472.6	3,964.3	
EBITDA	1311.1	1249.3	1427.4	1695.0	
Growth (%)	18.5	-4.7	14.2	18.8	
Depreciation	332.6	368.0	416.5	452.7	
Interest	9.8	7.3	7.6	7.2	
Other Income	214.2	248.8	153.0	250.6	
PBT	1183.0	1122.8	1156.3	1485.7	
Total Tax	401.0	177.9	290.6	374.4	
Reported PAT	782.0	945.0	865.6	1111.3	
Growth (%)	5.8	20.8	-8.4	28.4	
EPS (₹)	40.5	48.9	44.8	57.5	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Profit after Tax	782.0	945.0	865.6	1,111.3	
Add: Depreciation	332.6	368.0	416.5	452.7	
(Inc)/dec in Current Assets	-141.3	135.9	-27.4	-205.4	
(Inc)/dec in CL and Provisions	-217.8	42.2	-19.8	90.7	
CF from operating activities	755.5	1491.1	1234.9	1449.3	
(Inc)/dec in Investments	-280.5	412.4	-80.0	-575.0	
(Inc)/dec in Fixed Assets	-714.0	-848.8	-600.0	-200.0	
Others	256.4	-502.6	-54.7	-80.1	
CF from investing activities	-738.1	-939.0	-734.7	-855.1	
(Inc)/dec in loan funds	211.1	32.6	-100.0	-100.0	
Dividend paid & dividend tax	-186.2	-465.5	-386.6	-483.3	
Others	-12.4	-130.1	0.0	0.0	
CF from financing activities	12.5	-563.0	-486.6	-583.3	
Net Cash flow	30.0	-10.9	13.6	10.9	
Opening Cash	26.4	56.4	45.5	59.1	
Closing Cash	56.4	45.5	59.1	70.1	

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet		₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E	
Liabilities					
Equity Capital	38.7	38.7	38.7	38.7	
Reserve and Surplus	4,640.0	4,989.4	5,468.4	6,096.4	
Total Shareholders funds	4678.7	5028.1	5507.1	6135.0	
Total Debt	829.6	862.2	762.2	662.2	
Deferred Tax Liability	325.5	178.3	178.3	178.3	
Minority Interest / Others	0.0	0.0	0.0	0.0	
Total Liabilities	5867.5	6126.3	6505.3	7033.3	
Assets					
Gross Block	3,939.8	4,788.5	5,874.0	6,074.0	
Less: Acc Depreciation	1,231.3	1,599.4	2,015.8	2,468.6	
Net Block	2708.5	3189.1	3858.2	3605.4	
Capital WIP	585.4	585.6	100.0	100.0	
Total Fixed Assets	3,293.9	3,774.7	3,958.2	3,705.4	
Investments	1,160.3	1,151.0	1,281.0	1,906.0	
Inventory	713.0	580.4	604.1	697.7	
Debtors	568.1	649.2	671.2	775.3	
Loans and Advances	61.9	18.5	18.9	21.9	
Cash	56.4	45.5	59.1	70.1	
Other current assets	273.3	232.3	213.5	218.3	
Total Current Assets	1,672.7	1,525.9	1,566.9	1,783.3	
Creditors	356.6	361.0	335.6	387.6	
Provisions	7.4	4.2	3.9	4.5	
Other current liabilities	198.6	239.6	245.5	283.6	
Total Current Liabilities	562.6	604.9	585.1	675.7	
Net Current Assets	1110.0	921.1	981.9	1107.5	
Others	302.9	279.1	283.8	313.9	
Application of Funds	5867.5	6126.3	6505.3	7033.3	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios					
(Year-end March)	FY19	FY20	FY21E	FY22E	
Per share data (₹)					
EPS	40.5	48.9	44.8	57.5	
Cash EPS	57.7	67.9	66.3	80.9	
BV	242.0	260.1	284.9	317.4	
DPS	8.0	20.0	20.0	25.0	
Cash Per Share	2.9	2.4	3.1	3.6	
Operating Ratios (%)					
EBITDA Margin	25.0	26.1	29.1	30.0	
PBT / Net sales	18.7	18.4	20.6	22.0	
PAT Margin	14.9	19.8	17.7	19.6	
Inventory days	49.6	44.3	45.0	45.0	
Debtor days	39.5	49.6	50.0	50.0	
Creditor days	24.8	27.6	25.0	25.0	
Return Ratios (%)					
RoE	16.7	18.8	15.7	18.1	
RoCE	20.4	18.5	18.0	21.3	
RoIC	22.9	17.6	17.5	21.6	
Valuation Ratios (x)					
P/E	32.1	26.6	29.0	22.6	
EV / EBITDA	19.2	20.5	17.8	14.6	
EV / Net Sales	4.8	5.4	5.2	4.4	
Market Cap / Sales	4.8	5.3	5.1	4.4	
Price to Book Value	5.4	5.0	4.6	4.1	
Solvency Ratios					
Debt/EBITDA	0.6	0.7	0.5	0.4	
Debt / Equity	0.2	0.2	0.1	0.1	
Current Ratio	4.4	4.1	4.4	4.4	
Quick Ratio	2.5	2.5	2.7	2.6	

Source: Company, ICICI Direct Research

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Sell: <-15%



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