

Reduce

Standout quarter, Valuation leaves little room for upside

- BIL surprised with strong volume growth and margin expansion in Q2FY21. While revenue grew 47.4% YoY (led by 35.5% volume growth and 9% ASP) to Rs 15.78bn, EBITDA jumped 101% to Rs 5.37bn driven by 900bps expansion in reported margins at 34%.
- Management stated that retail sales are strong across regions led by strong demand for Agriculture tyres. Channel inventory is lower than normal. However, the company remains cautious for H2 volume growth due to the second wave of Covid in Europe and guided for marginal growth for FY21. The management will focus on existing geographies of Europe, USA and India, and other potential markets like Russia and Australia to drive growth over the next 2-3 years.
- We expect BKT to register 11% revenue growth over FY21-23E driven by higher market share in the replacement segment, increase in wallet share in OTR segment, expansion in new geographies and focus on improving OEM share. We expect margins would taper off in 2H owing to increase in natural rubber prices. The company has guided margin to be in the range of 28-30% in medium to long term.
- Management is considering brownfield capex to further increase capacity in a phased manner. BIL has given a capex guidance of Rs 7bn (excl brownfield expansion) for FY21 (of which Rs 3.5bn incurred in H1).
- We like BIL's 1) export oriented business model and 2) labor cost advantage vs global peers. We expect FCF to improve significantly from FY21 onwards with completion of capex for Waluj and Bhuj facility.
- We expect EPS to grow at 13% over FY20-23E driven by 9% volume growth. However, the premium valuation captures the strong FCF-generating capability and possible medium market share gains for BKT in the global OHT market. We change our rating from Accumulate to Reduce with a TP Rs 1,536 (22x FY23E EPS).

Strong growth across channels and regions

Despite washout in the month of April-20, the company has seen impressive recovery in business with 11% revenue growth in 1HFY21. Q2FY21 volumes jumped 36% YoY on account of 30/21/49% growth across Europe/US/India respectively. (Contd.)

Q2FY21 Result (Rs Mn)

Particulars	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)
Revenue	15,788	10,712	47.4	9,287	70.0
Total Expense	10,421	8,037	29.7	6,981	49.3
EBITDA	5,367	2,675	100.6	2,306	132.8
Depreciation	1,012	908	11.5	996	1.6
EBIT	4,355	1,767	146.4	1,310	232.5
Other Income	184	807	(77.2)	333	(44.8)
Interest	34	17	94.8	24	40.1
EBT	4,505	2,557	76.2	1,619	178.3
Tax	1,110	(353)	(414.4)	401	177.2
RPAT	3,395	2,911	16.6	1,218	178.7
APAT	3,395	2,911	16.6	1,218	178.7
			(bps)		(bps)
Gross Margin (%)	61.3	56.3	494	60.5	73
EBITDA Margin (%)	34.0	25.0	902	24.8	917
NPM (%)	21.5	27.2	(567)	13.1	839
Tax Rate (%)	24.6	(13.8)	3845	24.7	(10)
EBIT Margin (%)	27.6	16.5	1109	14.1	1348

CMP	Rs 1,453
Target / Upside	Rs 1,536 / 6%
NIFTY	12,264

Scrip Details

Equity / FV	Rs 387mn / Rs 2
Market Cap	Rs 281bn
	USD 4bn
52-week High/Low	Rs 1,515/ 679
Avg. Volume (no)	7,92,849
Bloom Code	BIL IN

Price Performance	1M	3M	12M
Absolute (%)	0	8	68
Rel to NIFTY (%)	(5)	(2)	65

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	58.3	58.3	58.3
MF/Banks/FIs	17.8	17.8	19.0
FIIIs	12.3	13.4	11.9
Public / Others	11.6	10.5	10.8

Valuation (x)

	FY21E	FY22E	FY23E
P/E	25.9	23.4	20.8
EV/EBITDA	17.4	15.6	13.9
ROE (%)	19.9	18.9	18.4
RoACE (%)	16.8	16.5	16.4

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	54,616	61,077	67,512
EBITDA	16,549	18,262	20,321
PAT	10,866	12,019	13,494
EPS (Rs.)	56.2	62.2	69.8

Analyst: Abhishek Jain
Tel: +9122 40969739
E-mail: abhishekj@dolatcapital.com

Associate: Ketul Dalal
Tel: +91 22 4096 9770
E-mail: ketuld@dolatcapital.com

In terms of end-user segments, BIL's Agri volumes rose 47% YoY, while OTR saw a 20% YoY growth. Replacement volumes were up by 33% YoY. In a bid to tap newer markets to maintain revenue growth, BKT is expanding its presence in high growth countries like South America, Australia, India, Russia, and CIS countries.

OTR segment - next leg of growth driver

Almost two-thirds of the global sales come from the Industrial, construction & mining (OTR) segment, while Agriculture contributes the rest. Interestingly, for BIL, the ratio is in reverse with Agriculture contributing ~64% of sales. In the Agriculture segment, BIL commands 12-15% market share in Europe and 7-10% share in the USA. In the mining segment, BIL has 2-3% market share and is aiming for 5-6% share over the years. With commodities bouncing back, BIL foresees strong growth from mining tyres, with sufficient capacity in place.

Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	DART Est	Var (%)	Comments
Revenue	15,788	13,583	16	Growth across geographies
EBIDTA	5,367	3,840	40	Low RM cost and cost control
EBIDTA Margin (%)	34.0	28.3	572bps	measures
APAT	3,395	2,634	29	Lower other income due to forex loss

Source: DART, Company

Exhibit 2: Change in Estimates

Rs mn	FY22E			FY23E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	61,077	58,144	5.0	67,512	64,654	4.4
EBITDA	18,262	16,978	7.6	20,321	19,008	6.9
EBITDA Margin (%)	29.9	29.2	70 bps	30.1	29.4	70 bps
PAT	12,019	11,794	1.9	13,494	13,450	0.3
EPS (Rs)	62.2	61.0	1.9	69.8	69.6	0.3

Source: DART, Company

Exhibit 3: Assumption Table

Key Assumptions	FY19	FY20	FY21E	FY22E	FY23E
Volumes (MT)					
Europe	1,07,743	1,02,898	1,09,071	1,15,616	1,20,240
% YoY	0.7	(4.5)	6.0	6.0	4.0
USA	35,914	34,299	30,183	33,805	36,510
% YoY	15.6	(4.5)	(12.0)	12.0	8.0
India	38,027	40,352	48,422	55,686	64,039
% YoY	14.2	6.1	20.0	15.0	15.0
RoW	29,577	24,211	29,053	34,864	41,837
% YoY	6.1	(18.1)	20.0	20.0	20.0
Total	2,11,261	2,01,760	2,16,731	2,39,971	2,62,626
% YoY	6.0	(4.5)	7.4	10.7	9.4
Blended ASP (Rs/kg)	248	237	252	255	257
% YoY	10.8	(4.5)	6.3	1.0	1.0

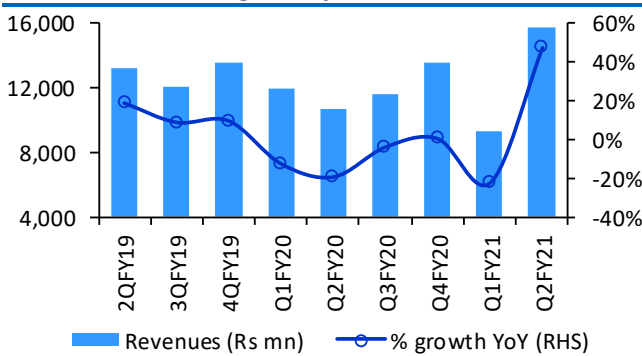
Source: DART, Company

Key Concall Takeaways

- Sales volume mix for Q2FY21:
 - OEM – 24%; Replacement – 72%; Others – 5%.
 - Agriculture – 65%; OTR – 32%; Others – 3%.
 - Europe – 48%; USA – 17%; India – 22%; RoW – 15%.
- Sales volume mix for H1FY21:
 - OEM – 25%; Replacement – 71%; Others – 4%.
 - Agriculture – 64%; OTR – 33%; Others – 3%.
 - Europe – 51%; USA – 14%; India – 23%; RoW – 13%.
- Production for Q2FY21: 61,223 MT vs (41,576 MT for Q1FY21).
- The demand continues to be strong in Agriculture segment across geographies while demand in the other segments continue to remain stable.
- OTR segment contribution has increased to 33% (from 20% over the years) with focus on developing 57 inch ultra large tyres for India, Australia and USA markets.
- Management expects to marginally cross FY20 sales volumes in FY21. Management is cautious for H2 volume growth due to the second wave of Covid in Europe. EBITDA margin sustainable in the present range of 28-30% with gross margin at ~58%.
- Significant change in product mix leading to redundancies in sizes (Agri customers are preferring larger sized tyres) and technology, bringing down the achievable capacity to 280,000 MTPA (earlier 305,000 MTPA), which is not likely to impact growth prospects for FY22 and FY23.
- Management is considering brownfield capex to further increase capacity in a phased manner. Clarity to be provided in the coming months.
- BIL has given a capex guidance of Rs 7bn for FY21 (of which Rs 3.5bn spent in H1FY21). Company to incur only maintenance capex of Rs 2bn in FY22.
- In Europe, the company has gained market share coupled with strong demand. Company needs to fill up channel inventory due to strong retail demand. Second wave of Covid in Europe has not impacted the order book from OEMs and channel partners.
- BIL has attained market leadership position in Australia gaining market share consistently and is making headwinds in South American markets but is slightly cautious due to the forex fluctuations and import regulations.
- For USA markets, BIL is working on strengthening its dealership network, strong branding exercises and providing customized products as per the market needs.
- Indian market demand trend is strong and company is gaining market share (currently share is 5-6%). Company is focusing on domestic markets and is aggressively spending on brand building exercises. Domestic volume grew 48% YoY (16,408 MT in Q2FY21 vs 9,034 MT in Q2FY20).
- Advertising and sponsorship spends are likely to remain at similar levels of Rs 1bn per year (2-3% of revenue).
- Company is in discussion with the channel partners to consider price hikes to pass on the increase in RM prices (in line with other global peers).
- BIL expects ASP to remain in a similar range of Rs 245-252/kg.

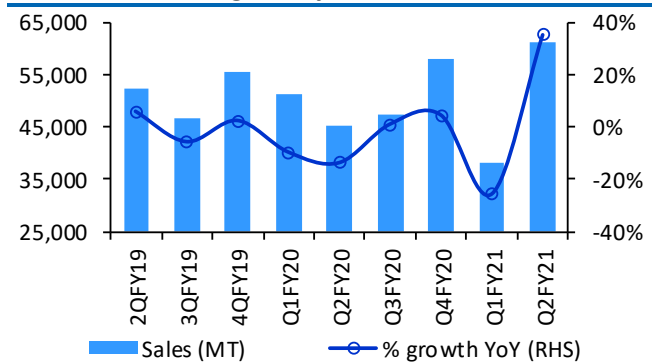
- Third party carbon black sales accounts for 2% of overall revenue (20% of capacity) for H1FY21. (Installed capacity is 140,000 MT of which 110,000 MT is achievable).
- Other income is lower on account net forex loss of Rs 40mn (realized loss of Rs 140mn for the quarter partially offset by un-realized gain of Rs 100mn).
- BIL is long term debt free with cash of Rs 12.99bn as on H1FY21 end (vs Rs 11.75bn as on Q1FY21 end).
- Current hedge rate for Q2FY21 is Rs 82.4/Euro (vs Rs 84/Euro for Q1FY21) and Rs 83.4 for 1HFY21. Hedge rate for 2HFY21 likely to be ~Rs 85/Euro.

Exhibit 4: Revenue grew by 47% YoY



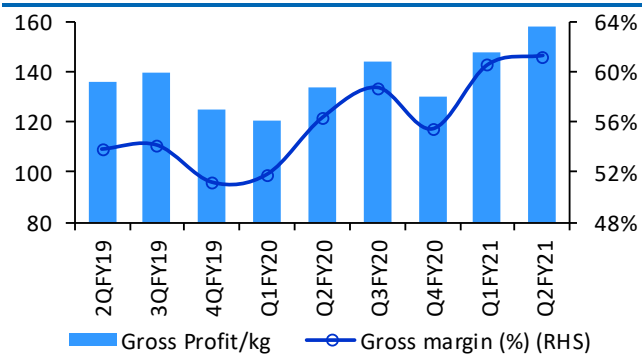
Source: Company, DART

Exhibit 5: Volume grew by 36% YoY



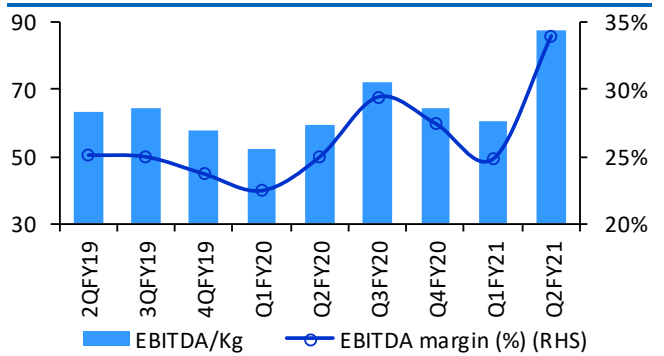
Source: Company, DART

Exhibit 6: Gross Margin improved on YoY/QoQ



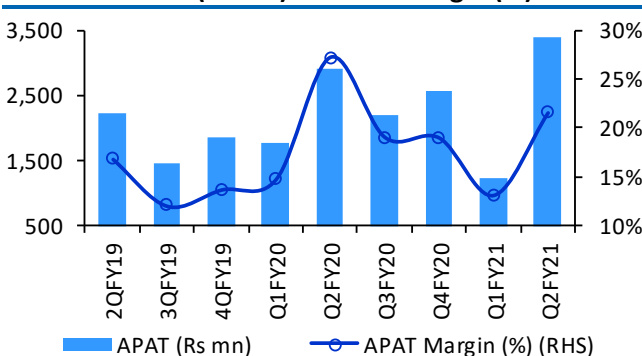
Source: Company, DART

Exhibit 7: Improvement in EBITDA margin QoQ/YoY



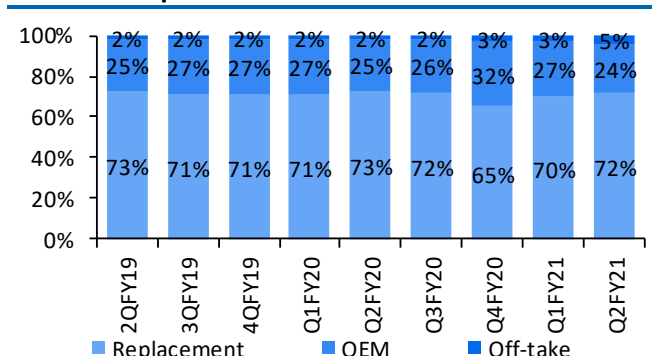
Source: Company, DART

Exhibit 8: APAT (Rs mn) vs APAT Margin (%)



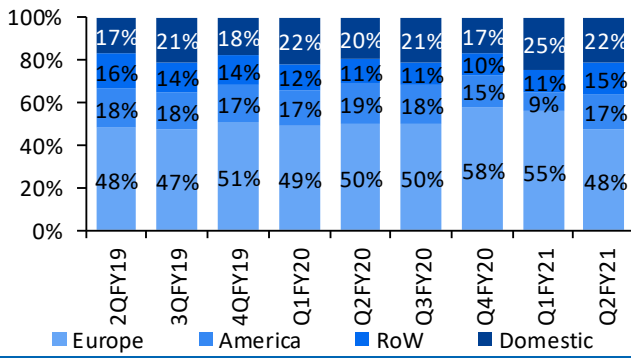
Source: Company, DART

Exhibit 9: Replacement VS OEMs Revenue



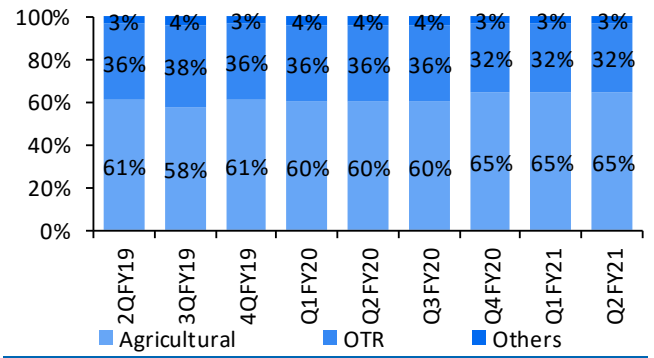
Source: Company, DART

Exhibit 10: Geography wise revenue



Source: Company, DART

Exhibit 11: Product wise revenue



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	47,825	54,616	61,077	67,512
Total Expense	35,331	38,067	42,815	47,191
COGS	21,268	22,120	25,530	28,220
Employees Cost	2,858	3,168	3,542	3,781
Other expenses	11,205	12,780	13,742	15,190
EBIDTA	12,494	16,549	18,262	20,321
Depreciation	3,680	3,926	4,237	4,539
EBIT	8,813	12,623	14,026	15,782
Interest	73	87	82	77
Other Income	2,488	1,990	2,189	2,408
Exc. / E.O. items	0	0	0	0
EBT	11,228	14,526	16,133	18,113
Tax	1,779	3,661	4,114	4,619
RPAT	9,450	10,866	12,019	13,494
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	9,450	10,866	12,019	13,494

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	58,440	67,676	78,386
Net Worth	50,281	58,827	68,062	78,773
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	69,074	77,810	88,020

Applications of Funds

Net Block	32,771	35,845	37,609	39,070
CWIP	5,856	5,500	4,500	4,500
Investments	10,631	13,820	17,966	23,356
Current Assets, Loans & Advances	18,055	21,387	25,913	29,380
Inventories	5,804	7,182	7,697	8,508
Receivables	6,492	6,733	7,530	7,768
Cash and Bank Balances	455	1,437	3,922	5,611
Loans and Advances	314	344	373	402
Other Current Assets	4,991	5,691	6,391	7,091
Less: Current Liabilities & Provisions	6,284	7,478	8,178	8,285
Payables	3,610	4,489	4,853	4,994
Other Current Liabilities	2,674	2,989	3,325	3,291
	<i>sub total</i>			
Net Current Assets	11,771	13,909	17,735	21,095
Total Assets	61,029	69,074	77,810	88,020

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	55.5	59.5	58.2	58.2
EBIDTA Margin	26.1	30.3	29.9	30.1
EBIT Margin	18.4	23.1	23.0	23.4
Tax rate	15.8	25.2	25.5	25.5
Net Profit Margin	19.8	19.9	19.7	20.0
(B) As Percentage of Net Sales (%)				
COGS	44.5	40.5	41.8	41.8
Employee	6.0	5.8	5.8	5.6
Other	23.4	23.4	22.5	22.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.1	0.1	0.1
Interest Coverage	121.2	144.9	170.7	204.6
Inventory days	44	48	46	46
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	90	93	106	114
FA T/O	1.5	1.5	1.6	1.7
(D) Measures of Investment				
AEPS (Rs)	48.9	56.2	62.2	69.8
CEPS (Rs)	67.9	76.5	84.1	93.3
DPS (Rs)	20.0	10.0	12.0	12.0
Dividend Payout (%)	40.9	17.8	19.3	17.2
BVPS (Rs)	260.1	304.3	352.1	407.5
RoANW (%)	19.5	19.9	18.9	18.4
RoACE (%)	15.9	16.8	16.5	16.4
RoAIC (%)	14.9	19.7	19.8	20.2
(E) Valuation Ratios				
CMP (Rs)	1453	1453	1453	1453
P/E	29.7	25.9	23.4	20.8
Mcap (Rs Mn)	2,80,890	2,80,890	2,80,890	2,80,890
MCap/ Sales	5.9	5.1	4.6	4.2
EV	2,89,399	2,87,918	2,84,932	2,82,743
EV/Sales	6.1	5.3	4.7	4.2
EV/EBITDA	23.2	17.4	15.6	13.9
P/BV	5.6	4.8	4.1	3.6
Dividend Yield (%)	1.4	0.7	0.8	0.8
(F) Growth Rate (%)				
Revenue	(8.8)	14.2	11.8	10.5
EBITDA	(4.7)	32.5	10.4	11.3
EBIT	(9.9)	43.2	11.1	12.5
PBT	(5.1)	29.4	11.1	12.3
APAT	20.8	15.0	10.6	12.3
EPS	20.8	15.0	10.6	12.3
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	15,321	13,714	14,989	16,430
CFI	(9,828)	(9,826)	(9,138)	(11,381)
CFF	(5,595)	(2,907)	(3,366)	(3,361)
FCFF	6,730	7,070	9,989	10,430
Opening Cash	556	455	1,437	3,922
Closing Cash	455	1,437	3,922	5,611

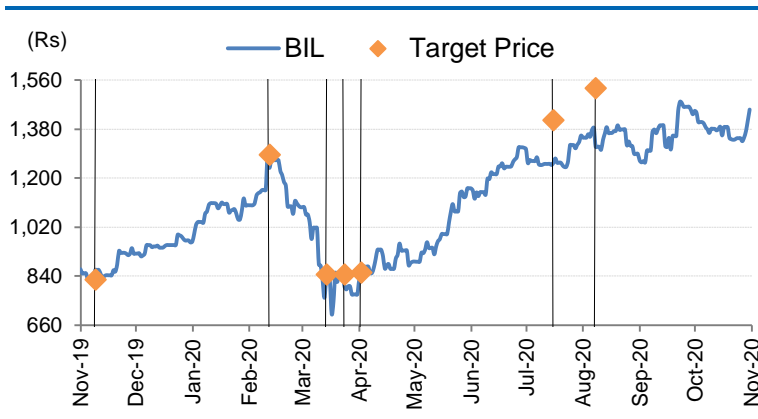
E – Estimates

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.)
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
Jul-20	Accumulate	1,412	1,258
Aug-20	Accumulate	1,531	1,316

*Price as on recommendation date

DART Team

Purvag Shah **Managing Director** **purvag@dolatcapital.com** **+9122 4096 9747**

Amit Khurana, CFA **Head of Equities** **amit@dolatcapital.com** **+9122 4096 9745**

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
Equity Trading	Designation	E-mail	
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

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. 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 Dolat Capital Market Private Limited. and/or its affiliated company(ies) 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 a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.



Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

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
