

Robust performance, firm growth prospects lie ahead

Balkrishna Industries (BIL) reported stellar Q2FY21 results. Standalone revenue was at ₹ 1,579 crore (up 47% YoY), amid ~36% rise in volumes to 61,224 MT. Margins rose 903 bps YoY to a near five-year high of 34% amid 494 bps gross margin expansion and savings in employee costs and other expenses. Consequent PAT came in at ₹ 340 crore (up 16.7% YoY). BIL declared second interim dividend of ₹ 4/share (record date: November 14).

Healthy demand, market share gains keep outlook constructive

BIL is the market leader in the niche export-oriented off-highway tyre (OHT) segment. As of H1FY21, agri, OTR demand formed 64%, 33%, respectively, of end user applications, while in term of geographies Europe (51%), India (23%), North America (14%) constituted its major markets. Replacement demand formed 71% of overall pie. Demand prospects for its products remain healthy, particularly on the Europe agri side, where it has gained market share in aftermarket amid overall positivity for the industry. The company continues to introduce new SKUs (average of ~100 every year) and engage in brand building (via ad spends) in order to gain incremental market share. Successful backward integration (own carbon black plant of 1.4 lakh MT per annum capacity) is expected to mitigate some of the upcoming pressure in input costs and thereby protect margins, keeping it around the guided 28-30% band. We build 6.7% volume CAGR in FY20-23E and estimate margins staying around the ~32% mark by that time.

Q2FY21 earnings conference call – key takeaways

BIL said (1) agri demand remains strong across geographies with OTR demand stable; BIL expected to post marginal YoY volume growth in FY21E amid resurgence of Covid in Europe, (2) achievable capacity has been reduced to 2.8 lakh MT per annum (down ~6-7%) amid some technological redundancies and product mix changes but this is not seen impacting FY22E & FY23E growth prospects. BIL is evaluating brownfield additions, (3) 28-30% remains sustainable long term margin range, with ASPs over next few quarters seen at ~₹ 245-252/kg, (4) BIL has gained some market share in Europe aftermarket and in India (now at 5-6%) and has leadership position in Australia agri sector, (5) ad spends are seen remaining at ₹ 100 crore per annum level, (6) third party sales of carbon black amount to ~20% of capacity, ~2% of sales revenues and (7) capex guidance for FY21E, FY22E is at ~₹ 700 crore, ~₹ 200 crore, respectively (ex-possible brownfield).

Valuation & Outlook

For BIL, sales, PAT are seen growing at 11%, 12% CAGR, respectively, in FY20-23E. BIL continues to broadly deliver on stated growth and margin guidance. BIL's net debt free B/S, double-digit return ratios and strong cash generation provides us margin of safety. As a result, we continue to hold a positive view on the stock and retain our **BUY** rating with a revised target price of ₹ 1,700; valuing it at 25x FY22E EPS of ₹ 68.

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	5,244.5	4,782.5	5,238.4	6,016.8	6,537.2	11.0%
EBITDA	1,311.1	1,249.3	1,572.6	1,865.7	2,088.6	18.7%
EBITDA Margins (%)	25.0	26.1	30.0	31.0	32.0	
Net Profit	782.0	945.0	929.7	1,133.5	1,315.5	11.7%
EPS (₹)	40.5	48.9	48.1	58.6	68.0	
P/E	35.8	29.7	30.2	24.7	21.3	
RoNW (%)	16.7	18.8	16.7	18.2	18.8	
RoCE (%)	16.7	14.4	17.6	19.7	20.4	

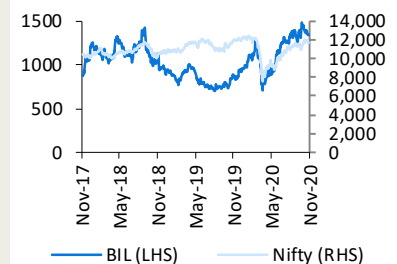
Source: Company, ICICI Direct Research



Particulars

Particular	₹ crore
Market Capitalization	28,031
Total Debt (FY 20)	861.2
Cash & Inv (FY 20)	1,108.6
EV (₹ Crore)	27,783.6
52 week H/L (₹)	1515 / 678
Equity capital (₹ crore)	38.7
Face value (₹)	2.0

Price Chart



Price Chart

- Revenues rise 47% YoY in Q2FY21 tracking 36% volume increase, with EBITDA margins at 34%
- Demand visibility stays healthy especially on agri side. Backward integration to help BIL continue to post strong margin in ~30% range
- With B/S strength and healthy growth prospects we retain our BUY rating on the stock with revised target price of ₹ 1,700

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Exhibit 1: Variance Analysis

	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Total Operating Income	1,578.8	1,071.2	47.4	928.7	70.0	Quarterly topline came in highest ever tracking robust tyre sales volume for the quarter. Revenues in Q2FY21 up 47.4% YoY
Raw Material Expenses	611.5	467.8	30.7	366.5	66.8	RM to sales came in substantially lower with gross margin expanding to ~61%. Management said these gross margins will compress to ~58%, which looks more sustainable
Employee Expenses	84.4	70.1	20.5	70.1	20.4	
Other expenses	346.2	265.8	30.2	261.5	32.4	Other expenses were controlled tracking operating leverage benefits as well as cost savings initiatives at BKT. Other expenses as percentage of sales came in at ~22% of sales
EBITDA	536.7	267.5	100.7	230.6	132.8	
EBITDA Margin (%)	34.0	25.0	903 bps	24.8	917 bps	EBITDA margins came in at nearly a five year high of 34%
Other Income	18.4	80.7	-77.2	33.3	-44.8	Other income lower due to forex loss (realised & unrealised)
Depreciation	101.2	90.8	11.5	99.6	1.6	
Interest	3.4	1.7	94.8	2.4	40.1	
Tax	111.0	-35.3	-414.4	40.1	177.2	Tax rate for quarter at 24.6% of PBT
PAT	339.5	291.0	16.7	121.8	178.7	
EPS	17.6	15.1	16.7	6.3	178.7	PAT came in at ~₹ 340 crore, up 16.7% YoY. PAT growth lags the topline and EBITDA growth due to lower other income and negative tax incidence in the base quarter
Key Metrics						
Volume (MT)	61,224	45,169	35.5	38,096	60.7	Sales volume for quarter came in robust at ~61,000 tonne

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E	Comments
	Old	New	% Change	Old	New	% Change	Introduced	
Revenue	4,900	5,238	6.9	5,659	6,017	6.3	6,537	Robust Q2FY21 leads us to upgrade sales volume as well as revenue estimates for FY21-22E. Introduce FY23E estimates. We expect topline to grow at CAGR of 11% in FY20-23E
EBITDA	1,427	1,573	10.2	1,695	1,866	10.1	2,089	
EBITDA Margin (%)	29.1	30.0	89 bps	30.0	31.0	106 bps	32.0	Upgrade our margin estimates tracking robust performance in Q2FY21. Introduce FY23E margin estimates at 32%
PAT	866	930	7.4	1,111	1,133	2.1	1,315	
EPS (₹)	44.8	48.1	7.4	57.5	58.6	2.1	68.0	Upgrade in sales and margin estimates leads to marginal upgrade in earning estimates for FY21-22E, which are likely to get impacted by lower other income due to stable forex movement vs. depreciating rupee in the past. On PAT front, we expect earnings to grow at CAGR of 11.7% in FY20-23E

Source: ICICI Direct Research

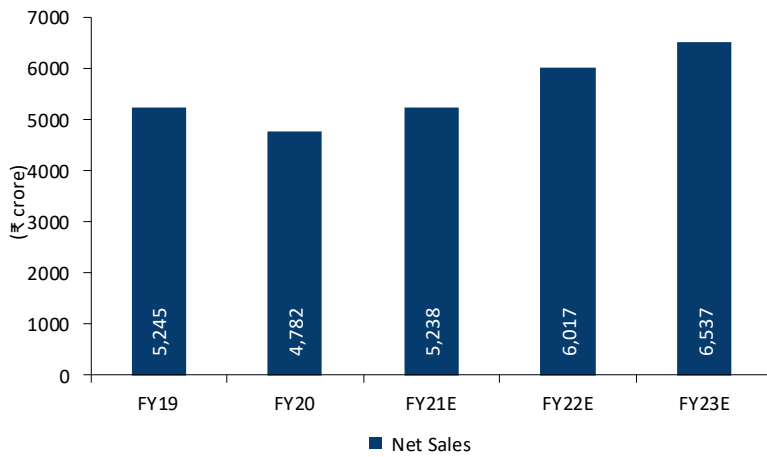
Exhibit 3: Assumptions

	FY18	FY19	FY20	FY21E	FY22E	FY23E	Comments
Capacity (MT)	300,000	300,000	300,000	280,000	280,000	280,000	Management opined that certain capacities are redundant now with introduction of new SKU's as well as technologies. Effective available capacity now stands at ~2.8 lakh tonne vs ~ 3 lakh tonne in the past
Sales volume (MT)	199,213	211,261	201,760	206,973	227,612	245,821	With guidance of marginal positive growth in volumes for FY21E, we expect volumes to grow 10% thereafter in FY22E and 8% the following year i.e. FY23E. On CAGR basis, we expect tyre sales volume to grow at a CAGR of 6.7% over FY20-23E
Volume growth (% YoY)		6%	-4%	3%	10%	8%	

Source: ICICI Direct Research

Financial story in charts

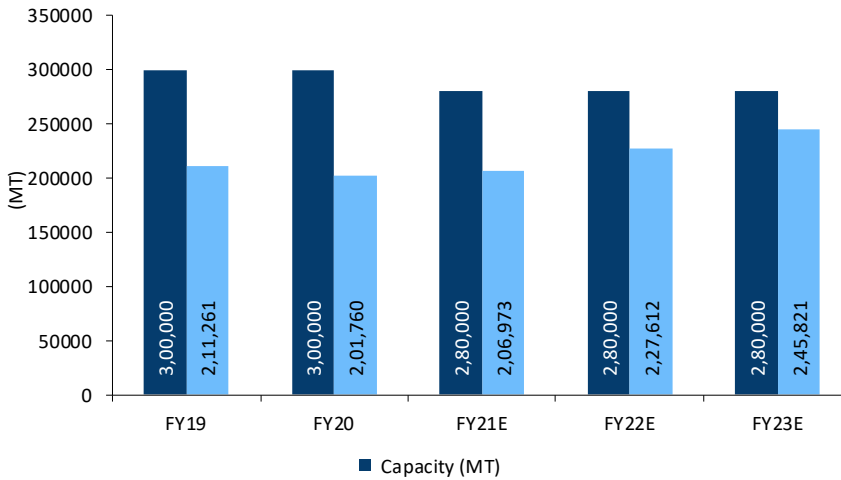
Exhibit 4: Topline trend



We expect sales to grow at a CAGR of 11% over FY20-23E

Source: Company, ICICI Direct Research

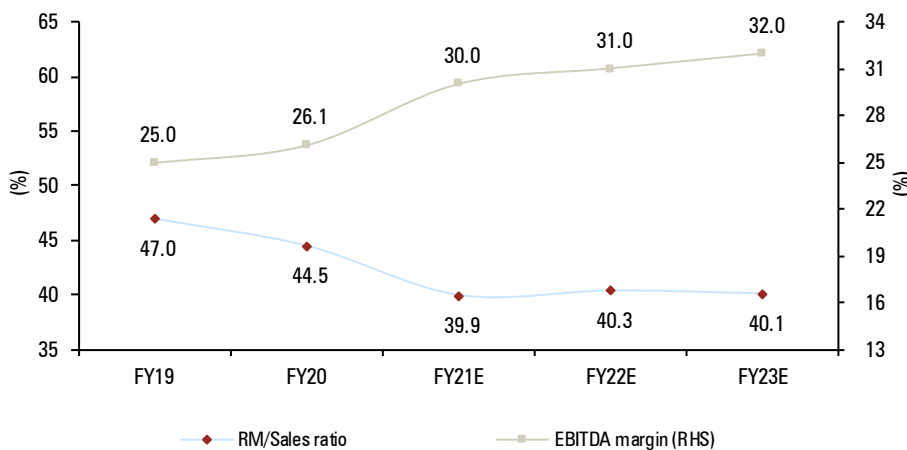
Exhibit 5: Capacity and volume trend



We expect tonnage volumes to grow at 6.7% CAGR over FY20-23E to 2.45 lakh MT

Source: Company, ICICI Direct Research

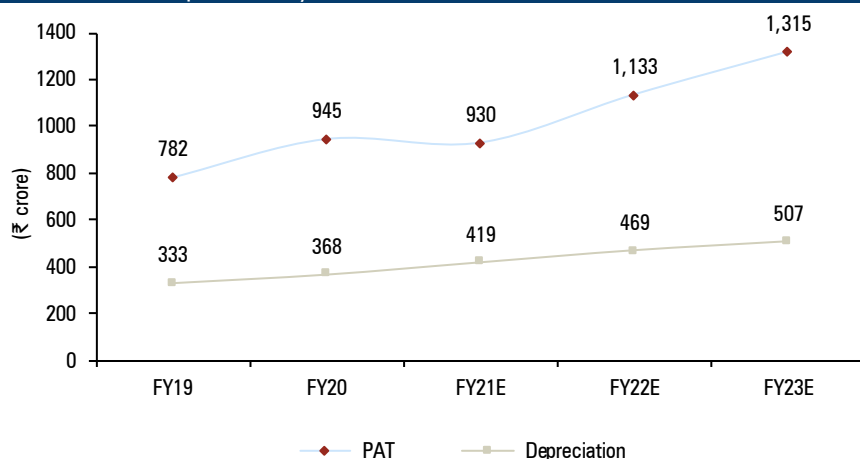
Exhibit 6: Trend in EBITDA margins



Margins seen improving to 32% by FY23E amid backward integration benefits and better operating leverage

Source: Company, ICICI Direct Research

Exhibit 7: Trend in profitability



PAT seen growing at 11.7% CAGR in FY20-23E to ₹ 1,315

Source: Company, ICICI Direct Research

Exhibit 8: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	4,464	17.8	38.2	3.4	37.9	25.4	18.1	15.7
FY19	5,245	17.5	40.5	5.8	35.8	21.4	16.7	16.7
FY20	4,782	-8.8	48.9	20.8	29.7	22.8	18.8	14.4
FY21E	5,238	9.5	48.1	(1.6)	30.2	18.0	16.7	17.6
FY22E	6,017	14.9	58.6	21.9	24.7	14.9	18.2	19.7
FY23E	6,537	8.6	68.0	16.1	21.3	12.9	18.8	20.4

Source: Bloomberg, ICICI Direct Research

Exhibit 9: Shareholding pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	58.3	58.3	58.3	58.3	58.3
F II	11.2	11.7	11.9	13.0	11.5
D II	15.9	17.5	17.8	17.8	19.0
O thers	14.6	12.5	12.0	10.9	11.2

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	4,782.5	5,238.4	6,016.8	6,537.2
Growth (%)	-8.8	9.5	14.9	8.6
Raw Material Expenses	2,126.8	2,091.7	2,427.1	2,619.7
Employee Expenses	285.8	311.1	346.1	371.1
Other Expenses	1,120.5	1,263.1	1,377.9	1,457.8
Total Operating Expenditure	3,533.2	3,665.8	4,151.1	4,448.5
EBITDA	1249.3	1572.6	1865.7	2088.6
Growth (%)	-4.7	25.9	18.6	11.9
Depreciation	368.0	419.1	469.3	506.6
Interest	7.3	9.4	8.9	8.5
Other Income	248.8	94.4	127.8	185.1
PBT	1122.8	1238.6	1515.4	1758.7
Total Tax	177.9	308.9	381.9	443.2
Reported PAT	945.0	929.7	1133.5	1315.5
Growth (%)	20.8	-1.6	21.9	16.1
EPS (₹)	48.9	48.1	58.6	68.0

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	945.0	929.7	1,133.5	1,315.5
Add: Depreciation	368.0	419.1	469.3	506.6
(Inc)/dec in Current Assets	135.9	-53.0	-227.9	-152.3
Inc/(dec) in CL and Provisions	42.2	20.6	92.9	62.1
CF from operating activities	1491.1	1316.4	1467.9	1731.9
(Inc)/dec in Investments	412.4	-50.0	-475.0	-715.0
(Inc)/dec in Fixed Assets	-848.8	-700.0	-300.0	-300.0
Others	-501.6	-68.1	-80.8	-70.6
CF from investing activities	-937.9	-818.1	-855.8	-1085.6
Inc/(dec) in loan funds	31.6	-100.0	-100.0	-100.0
Dividend paid & dividend tax	-465.5	-386.6	-483.3	-541.3
Others	-130.1	0.0	0.0	0.0
CF from financing activities	-564.0	-486.6	-583.3	-641.3
Net Cash flow	-10.9	11.7	28.8	5.0
Opening Cash	56.4	45.5	57.2	86.0
Closing Cash	45.5	57.2	86.0	91.0

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	38.7	38.7	38.7	38.7
Reserve and Surplus	4,989.4	5,532.5	6,182.7	6,956.9
Total Shareholders funds	5028.1	5571.1	6221.3	6995.5
Total Debt	861.2	761.2	661.2	561.2
Deferred Tax Liability	178.3	178.3	178.3	178.3
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	6126.3	6569.4	7119.6	7793.8
Assets				
Gross Block	4,788.5	5,974.0	6,274.0	6,574.0
Less: Acc Depreciation	1,599.4	2,018.4	2,487.7	2,994.4
Net Block	3189.1	3955.6	3786.3	3579.7
Capital WIP	585.6	100.0	100.0	100.0
Total Fixed Assets	3,774.7	4,055.6	3,886.3	3,679.7
Investments	1,151.0	1,251.0	1,776.0	2,541.0
Inventory	580.4	645.8	741.8	806.0
Debtors	649.2	717.6	824.2	895.5
Loans and Advances	18.5	20.2	23.2	25.3
Cash	45.5	57.2	86.0	91.0
Other current assets	232.3	149.7	172.0	186.8
Total Current Assets	1,525.9	1,590.6	1,847.2	2,004.5
Creditors	361.0	358.8	412.1	447.8
Provisions	4.2	4.2	4.8	5.2
Other current liabilities	239.6	262.5	301.5	327.6
Total Current Liabilities	604.9	625.5	718.4	780.5
Net Current Assets	921.1	965.1	1128.8	1224.0
Others	279.1	297.2	328.0	348.7
Application of Funds	6126.3	6569.4	7119.6	7793.8

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	48.9	48.1	58.6	68.0
Cash EPS	67.9	69.8	82.9	94.3
BV	260.1	288.2	321.8	361.9
DPS	20.0	20.0	25.0	28.0
Cash Per Share	20.5	23.7	49.8	87.0
Operating Ratios (%)				
EBITDA Margin	26.1	30.0	31.0	32.0
PBT / Net sales	18.4	22.0	23.2	24.2
PAT Margin	19.8	17.7	18.8	19.9
Inventory days	44.3	45.0	45.0	45.0
Debtor days	49.6	50.0	50.0	50.0
Creditor days	27.6	25.0	25.0	25.0
Return Ratios (%)				
RoE	18.8	16.7	18.2	18.8
RoCE	14.4	17.6	19.7	20.4
RoIC	17.2	19.3	23.1	26.4
Valuation Ratios (x)				
P/E	29.7	30.2	24.7	21.3
EV / EBITDA	22.8	18.0	14.9	12.9
EV / Net Sales	6.0	5.4	4.6	4.1
Market Cap / Sales	5.9	5.4	4.7	4.3
Price to Book Value	5.6	5.0	4.5	4.0
Solvency Ratios				
Debt/EBITDA	0.7	0.5	0.4	0.3
Debt / Equity	0.2	0.1	0.1	0.1
Current Ratio	4.1	4.2	4.2	4.2
Quick Ratio	2.5	2.4	2.4	2.4

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (auto and auto ancillary)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Apollo Tyre (APOTYR)	154	175	Buy	8,809	8.3	6.4	11.6	18.5	24.0	13.2	7.7	6.0	5.3	4.5	5.0	7.0	4.8	3.3	6.3
Ashok Leyland (ASHLEY)	85	90	Buy	24,880	0.8	0.3	2.5	104.2	320.1	34.3	22.9	28.4	14.7	4.5	2.3	9.2	4.7	1.1	9.4
Bajaj Auto (BAAUTO)	2,980	3,570	Buy	86,232	176.2	142.5	180.2	16.9	20.9	16.5	13.5	15.0	10.9	23.9	24.1	27.3	25.6	18.5	20.7
Balkrishna Ind. (BALIND)	1,450	1,700	Buy	28,031	48.9	48.1	58.6	29.7	30.2	24.7	22.8	18.0	14.9	14.4	17.6	19.7	18.8	16.7	18.2
Bharat Forge (BHAFOR)	475	415	Hold	22,115	7.5	3.5	13.7	63.3	136.3	34.7	22.2	30.0	16.6	5.8	2.2	7.9	7.8	3.0	11.1
Eicher Motors (EICMOT)	2,140	2,470	Buy	58,336	67.0	46.6	71.3	31.9	46.0	30.0	23.7	29.7	20.3	17.3	11.5	15.4	18.3	11.6	15.4
Escorts (ESCORT)	1,285	1,460	Buy	15,752	39.6	59.5	71.0	32.4	21.6	18.1	21.9	14.2	11.9	16.2	15.3	15.3	14.2	14.0	14.5
Exide Industries (EXIIND)	165	180	Buy	14,025	9.7	6.3	8.9	11.8	18.0	12.9	10.1	12.5	9.7	15.7	10.3	13.5	13.4	8.2	10.7
Hero Moto (HERHON)	2,945	3,450	Buy	58,812	181.9	123.6	161.8	16.2	23.8	18.2	13.2	15.2	11.4	21.3	16.6	20.6	22.7	16.0	19.0
M&M (MAHMAH)	615	760	Buy	76,457	11.2	29.1	40.0	55.1	21.1	15.4	12.6	13.0	9.8	12.9	10.8	13.8	6.4	9.2	11.6
Maruti Suzuki (MARUTI)	6,900	6,335	Reduce	2,08,435	187.1	132.1	191.8	36.9	52.3	36.0	23.7	33.8	21.9	7.4	3.6	7.6	11.7	7.8	10.6
Minda Industries (MININD)	327	370	Hold	8,574	5.9	2.8	10.0	55.4	116.2	32.6	15.4	17.9	11.5	10.2	6.3	12.7	10.3	4.0	13.0
Tata Motors (TATMOT)	140	165	Buy	50,368	-33.3	-16.6	6.1	NM	NM	22.9	5.2	4.8	3.5	1.3	2.8	6.4	-18.7	-10.6	3.7

Source: ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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