

CMP: ₹ 1,890 Target: ₹ 2,475 (31%) Target Period: 12 months

BUY

May 14, 2022

Robust demand prospect, margin recovery lies ahead

About the stock: Balkrishna Industries (BIL) is the leader in the niche tyre segment used in heavy machinery for mining and agriculture purposes.

- Exports form a lion's share of its sales at ~80% of its revenues
- Channel mix: replacement account for ~69% while OEM share is pegged at ~28%. Agriculture accounts for ~66% of volumes with OTR share at ~31%
- It has consistently operated with high (>20%) margins & return ratios

Q4FY22 Results: BIL reported a mixed set of numbers for Q4FY22.

- Standalone net sales for the quarter were at ₹ 2,374 crore, up 16.9% QoQ
- EBITDA margins in Q4FY22 came in at 21%, down 80 bps QoQ
- PAT was at ₹ 373.3 crore, up 13.7% QoQ

What should investors do? BIL's share price has run up ~21% CAGR over the past five years, (~₹ 750 levels in May 2017), thereby vastly outperforming Nifty Auto index

- We retain **BUY** amid robust demand outlook, portfolio attributable to healthy financials (high return ratios, EBITDA margins & 20%+ dividend pay-outs)

Target Price and Valuation: We value BIL at revised target price of ₹ 2,475 i.e. 24x P/E on FY24E EPS of ₹ 103.2 (earlier target price ₹ 2,650).

Key triggers for future price performance:

- Ambition to double global market share to ~10% vs. ~5-6% currently
- Robust demand across user segments (agri, OTR) to propel volume growth
- With brownfield expansion and backward integration in place amid healthy demand prospects we expect sales, PAT to grow at a CAGR of 21.1%, 18.9%, respectively, over FY22-24E. Margins are seen at 25% in FY24E
- Strong cash flow generation amid calibrated capex spend to result in healthy FCF generation and consequent retaining net debt free b/s by FY24E

Alternate Stock Idea: In our auto ancillary coverage we like JK Tyre.

- Walking the talk on b/s deleveraging, sweating of assets & capital efficiency
- BUY with a target price of ₹ 170



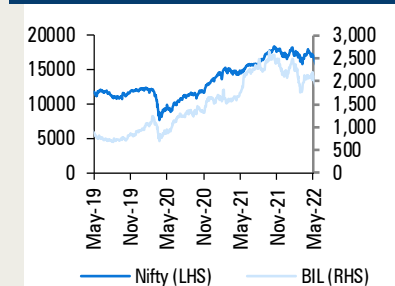
Particulars

Particular	₹ crore
Market Capitalization	36,537
Total Debt (FY22P)	2,443
Cash & Inv (FY22P)	1,933
EV (₹ Crore)	37,047
52 week H/L (₹)	2724/ 1682
Equity capital (₹ crore)	38.7
Face value (₹)	2.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	58.3	58.3	58.3	58.3
FII	15.2	15.4	15.1	14.1
DII	14.1	12.6	11.6	11.8
Other	12.4	13.7	15.1	15.9

Price Chart



Recent event & key risks

- Posted mixed set of numbers for Q4FY22
- Key Risk:** (i) Lower than anticipated sales volume, (ii) high freight costs resulting in delayed operating margin recovery

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22P	5 year CAGR (FY17-22P)	FY23E	FY24E	2 year CAGR (FY22P-24E)
Net Sales	5,244.5	4,782.5	5,757.9	8,266.7	16.9%	10,631.7	12,121.7	21.1%
EBITDA	1,311.1	1,249.3	1,785.5	1,975.5	11.8%	2,447.3	3,036.1	24.0%
EBITDA Margins (%)	25.0	26.1	31.0	23.9		23.0	25.0	
Net Profit	782.0	945.0	1,155.4	1,410.7	14.6%	1,573.8	1,994.2	18.9%
EPS (₹)	40.5	48.9	59.8	73.0		81.4	103.2	
P/E	46.7	38.7	31.6	25.9		23.2	18.3	
RoNW (%)	16.7	18.8	19.2	20.4		19.4	20.7	
RoCE (%)	16.7	14.4	19.3	15.9		18.0	21.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results:

- Balkrishna Industries (BIL) reported a mixed performance in Q4FY22
- Standalone revenues at ₹ 2,374 crore were up 16.9% QoQ. Tonnage for the quarter was up ~10% QoQ to 77,119 MT
- EBITDA in Q4FY22 was at ₹ 499.5 crore with corresponding EBITDA margins at 21%. Gross margin expansion was sharp at ~110 bps QoQ while other expenses (driven by higher freight costs) were up ~290 bps QoQ, resulting in overall decline in margin trajectory
- Consequent PAT for the quarter came in at ₹ 373.7 crore, up 13.7% QoQ. Net profitability was higher largely tracking lower effective tax rate
- The company announced a final dividend of ₹ 4/ share taking the total dividend outlay at ₹ 28/share for FY22 (which includes one-time special dividend of ₹ 12/share)

Q4FY22 Earnings Conference Call highlights

- Management commentary on demand remained strong despite strong inflationary scenario
- Total production capacity for FY23 is expected to be 3.6 lakh MTPA with sales guidance of 3.2- to 3.3 lakh MTPA for FY23
- Margin performance was muted largely on account of freight & fuel charges
- Total capex plan of ₹ 1,900 crore for expanding capacity was made of which ~₹ 1,000 crore had already been done with balance ₹ 900 crore to be done in FY23
- Waluj plant on which refurbishment plan has been put on hold to garner strong demand and quicker production schedule demanded by end customers
- Inventory at the company was at higher level as of FY22 due to higher shipping time and elevated raw material prices
- Price hike to the extent of 2-3% has been taken in February to counter rising input prices with further 3-4% planned in June, with full year price hikes in tandem with competition at ~15-16%. BIL tyres are cheaper than competition by ~12-15%. The management expects the same to continue, going forward. BIL's propensity to pass on the price hike is favourable given the higher cost of production at its competition
- Gross debt was at ₹ 2,443 crore of which ₹ 1,942 crore related to working capital with long term debt at ~₹ 500 crore
- Out of total carbon black production almost 80% would be for captive consumption rest 20% would be sold in external markets. Carbon black sales amounts to <3% of total sales in FY22

For Q4FY22, cost of natural rubber (per kg) was at ₹ 150 synthetic rubber was at ₹ 175/kg, carbon black was at ₹ 98/kg with natural rubber expected to be at same levels in Q1FY23

Bhuj power generation plant with additional 20 Mw capacity to be operational in the next two to three months with Bhuj plant sourcing 100% power from same plant

Peer comparison

Exhibit 1: Peer Comparison (tyres)

Company	CMP	TP	Rating	Mcap	EBITDA margin (%)			Debt to Equity (x)			RoCE (%)			EV/EBITDA (x)		
	₹	₹			₹ crore	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E
Apollo Tyres (APOTYR)	200	250	Buy	12,701	12.3	12.5	13.5	0.5	0.4	0.3	6.3	8.1	10.6	6.7	5.5	4.3
Balkrishna Inds (BALIND)	1,890	2,475	Buy	36,537	23.9	23.0	25.0	0.4	0.3	0.2	15.9	18.0	21.7	19.4	15.7	12.2
JK Tyre (JKTYRE)	119	170	Buy	2,926	9.7	11.2	11.6	1.7	1.4	1.1	11.8	9.3	12.9	5.7	6.6	4.9

Source: Company, ICICI Direct Research

We believe BIL deserves premium valuation (trades at >2x its peers) due to its far superior EBITDA margin profile (~20%+) as well as healthy return ratios with RoCE at ~20% vs. ~10-15% at its peers.

Exhibit 2: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Total Operating Income	2,373.9	2,136.8	1,745.9	36.0	2,030.0	16.9	Topline came in ahead of our estimates tracking more than anticipated volume growth for the quarter as well as ASP's increase amid strong demand prospects
Raw Material Expenses	1,102.8	1,019.9	721.3	52.9	965.9	14.2	RM costs came in lower than anticipated at 46.5% of sales, down 110 bps QoQ
Employee Expenses	89.9	96.2	88.3	1.8	96.7	-7.1	
Other expenses	681.7	523.5	394.5	72.8	524.0	30.1	Other expenses came in substantially higher at 28.7% of sales, up 290 bps QoQ; tracking higher freight costs
EBITDA	499.5	497.2	541.8	-7.8	443.4	12.6	
EBITDA Margin (%)	21.0	23.3	31.0	-999 bps	21.8	-80 bps	EBITDA margins came in lower despite savings realised on the RM costs due to higher other expenses (freight costs)
Other Income	107.7	106.9	58.4	84.4	111.6	-3.5	
Depreciation	116.7	126.6	103.4	12.8	114.5	1.9	Depreciation came in a tad lower than our estimates
Interest	2.1	2.2	2.3	-7.0	1.8	19.6	
Tax	114.7	119.8	122.3	-6.2	110.1	4.1	
PAT	373.7	355.5	372.2	0.4	328.6	13.7	PAT came in ahead of estimates tracking beat on volumes
EPS	19.3	18.4	19.3	0.4	17.0	13.7	
Key Metrics							
Volume (MT)	77,119	72,762	68,002	13.4	70,320	9.7	Sales volume were up robust 9.7% QoQ at 77,119 tonne

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	9,022	10,632	17.8	10,284	12,122	17.9	Upgraded our topline estimates tracking management commentary on robust demand prospects. We expect sales at the company to grow at a CAGR of 21.1% over FY22-24E
EBITDA	2,185	2,447	12.0	2,650	3,036	14.6	
EBITDA Margin (%)	24.2	23.0	-120 bps	25.8	25.0	-72 bps	Lowered margin estimates tracking higher freight costs
PAT	1,435	1,574	9.7	1,770	1,994	12.7	
EPS (₹)	74	81	9.7	92	103	12.7	Our earnings estimates stage a smart upgrade tracking upgrade in sales estimates. We expect PAT at the company to grow at a CAGR of 18.9% over FY22-24E

Source: ICICI Direct Research

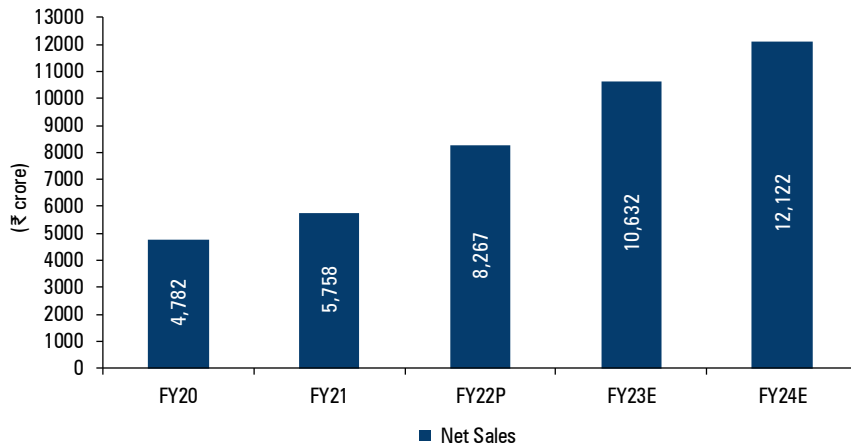
Exhibit 4: Assumptions

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	Comments
Capacity (MT)	3,00,000	3,00,000	3,00,000	2,80,000	2,85,000	3,60,000	3,60,000	On a higher base of FY22, volume are seen growing at a CAGR of 11.3% over FY22-24E to 3.6 lakh tonne in FY24E. We expect sales volume at 3.25 lakh tonne in FY23E amidst management guidance of 3.2-3.3 lakh
Sales volume (MT)	1,99,213	2,11,261	2,01,760	2,27,132	2,88,795	3,25,196	3,57,716	
Volume growth (% YoY)		6%	-4%	13%	27%	13%	10%	
Average realisation (₹/kg)	222	246	237	254	286	327	339	

Source: ICICI Direct Research

Financial story in charts

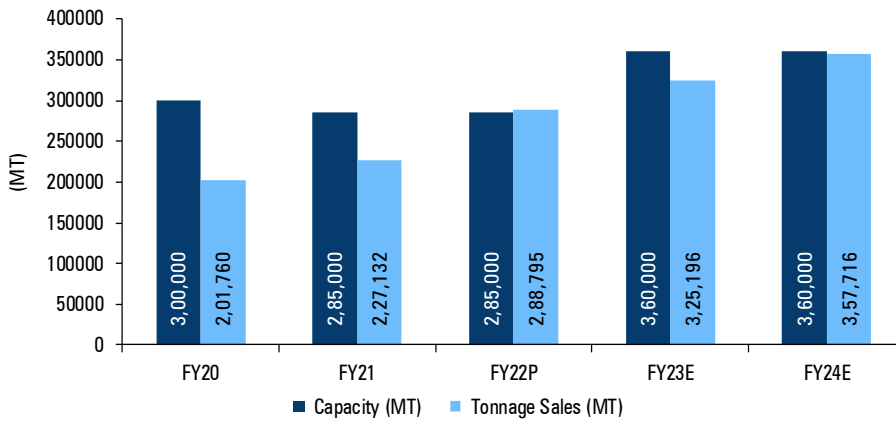
Exhibit 5: Topline trend



We expect sales to grow at a CAGR of 21.1% over FY22-24E to ₹ 12,122 crore in FY24E

Source: Company, ICICI Direct Research

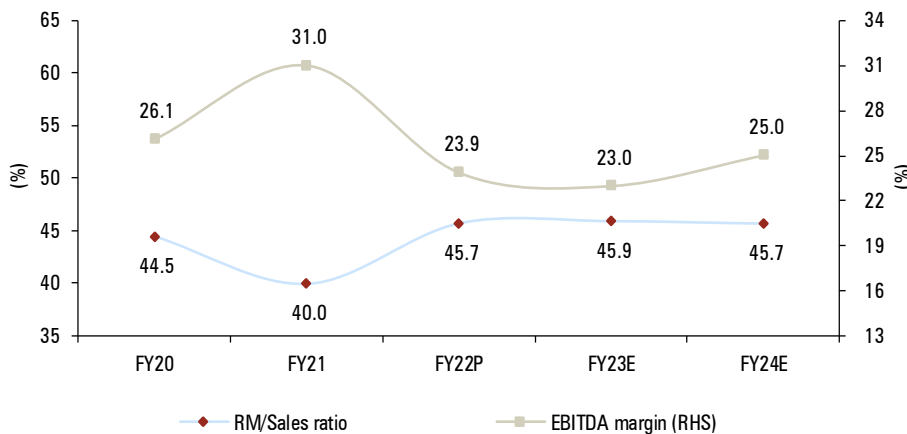
Exhibit 6: Capacity and volume trend



We expect tonnage volumes to grow at 11.3% CAGR over FY22-24E to 3.6 lakh MT in FY24E

Source: Company, ICICI Direct Research

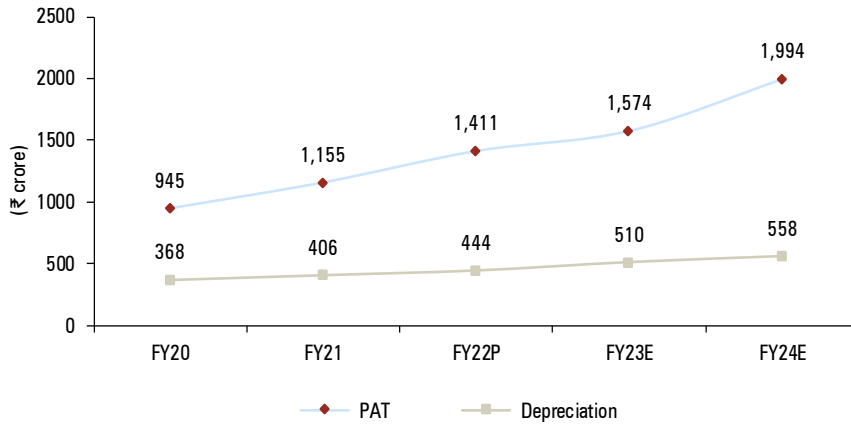
Exhibit 7: Trend in EBITDA margins



Margins are seen improving to 25 % by FY24E vs. ~23.9% in FY22E amid backward integration benefits and better operating leverage

Source: Company, ICICI Direct Research

Exhibit 8: Trend in profitability



PAT seen growing at 18.9% CAGR in FY22-24E

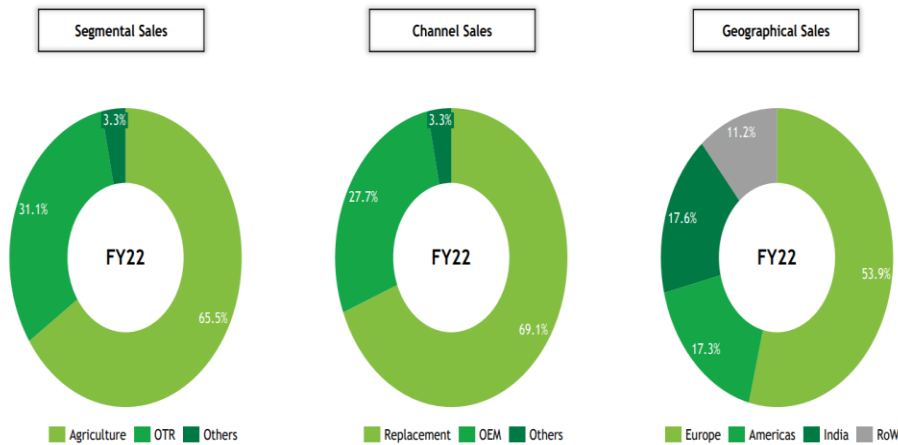
Source: Company, ICICI Direct Research

Exhibit 9: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	4,464	17.8	38.2	3.4	49.4	33.1	18.1	15.7
FY19	5,245	17.5	40.5	5.8	46.7	27.9	16.7	16.7
FY20	4,782	-8.8	48.9	20.8	38.7	29.6	18.8	14.4
FY21	5,758	20.4	59.8	22.3	31.6	20.7	19.2	19.3
FY22P	8,267	43.6	73.0	22.1	25.9	19.4	20.4	15.9
FY23E	10,632	28.6	81.4	11.6	23.2	15.7	19.4	18.0
FY24E	12,122	14.0	103.2	26.7	18.3	12.2	20.7	21.7

Source: Company, ICICI Direct Research

Exhibit 10: Sales volume mix (end segments, channel, geography)



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Total operating Income	5,757.9	8,266.7	10,631.7	12,121.7
Growth (%)	20.4	43.6	28.6	14.0
Raw Material Expenses	2,302.8	3,778.6	4,881.1	5,495.4
Employee Expenses	325.9	380.4	437.5	484.9
Other Expenses	1,343.7	2,132.2	2,865.8	3,105.4
Total Operating Expenditure	3,972.4	6,291.2	8,184.4	9,085.6
EBITDA	1785.5	1975.5	2447.3	3036.1
Growth (%)	42.9	10.6	23.9	24.1
Depreciation	406.2	443.8	510.3	557.6
Interest	9.8	7.9	15.7	13.4
Other Income	161.5	430.6	182.8	200.9
PBT	1531.0	1954.5	2104.0	2666.0
Total Tax	375.6	543.8	530.2	671.8
Reported PAT	1155.4	1410.7	1573.8	1994.2
Growth (%)	22.3	22.1	11.6	26.7
EPS (₹)	59.8	73.0	81.4	103.2

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Profit after Tax	1,155.4	1,410.7	1,573.8	1,994.2
Add: Depreciation	406.2	443.8	510.3	557.6
(Inc)/dec in Current Assets	-461.9	-1,140.9	-804.1	-544.8
Inc/(dec) in CL and Provisions	273.7	305.3	266.3	203.2
CF from operating activities	1373.3	1018.9	1546.4	2210.2
(Inc)/dec in Investments	-40.9	-292.5	250.0	-500.0
(Inc)/dec in Fixed Assets	-734.0	-1,506.1	-1,100.0	-250.0
Others	-442.7	-298.1	-193.5	-131.2
CF from investing activities	-1217.6	-2096.7	-1043.5	-881.2
Inc/(dec) in loan funds	32.1	1,549.2	-100.0	-800.0
Dividend paid & dividend tax	-328.6	-541.3	-386.6	-483.3
Others	152.5	47.9	0.0	0.0
CF from financing activities	-144.0	1055.9	-486.6	-1283.3
Net Cash flow	11.7	-21.9	16.2	45.8
Opening Cash	45.5	57.2	35.3	51.5
Closing Cash	57.2	35.3	51.5	97.3

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Liabilities				
Equity Capital	38.7	38.7	38.7	38.7
Reserve and Surplus	5,968.6	6,885.9	8,073.1	9,584.0
Total Shareholders funds	6007.2	6924.6	8111.7	9622.6
Total Debt	893.4	2,442.6	2,342.6	1,542.6
Deferred Tax Liability	203.5	250.9	250.9	250.9
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	7161.6	9673.3	10760.5	11471.4
Assets				
Gross Block	5,252.5	6,355.7	8,464.1	8,864.1
Less: Acc Depreciation	2,005.5	2,449.3	2,959.6	3,517.2
Net Block	3247.0	3906.4	5504.5	5346.9
Capital WIP	855.5	1,258.4	250.0	100.0
Total Fixed Assets	4,102.5	5,164.8	5,754.5	5,446.9
Investments	1,505.4	1,977.0	1,752.0	2,277.0
Inventory	909.3	1,639.4	2,039.0	2,324.7
Debtors	730.1	1,097.7	1,456.4	1,660.5
Loans and Advances	38.8	68.5	88.1	100.5
Cash	57.2	35.3	51.5	97.3
Other current assets	264.0	277.5	303.7	346.3
Total Current Assets	1,999.5	3,118.4	3,938.7	4,529.3
Creditors	633.5	807.5	1,019.5	1,162.4
Provisions	5.1	4.5	5.6	6.4
Other current liabilities	240.0	371.8	425.0	484.6
Total Current Liabilities	878.5	1,183.8	1,450.2	1,653.4
Net Current Assets	1120.9	1934.6	2488.6	2875.9
Others	432.4	596.5	765.0	871.1
Application of Funds	7161.6	9673.3	10760.5	11471.4

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY21	FY22P	FY23E	FY24E
Per share data (₹)				
EPS	59.8	73.0	81.4	103.2
Cash EPS	80.8	95.9	107.8	132.0
BV	310.7	358.2	419.6	497.8
DPS	17.0	28.0	20.0	25.0
Cash Per Share	23.2	37.2	25.1	53.4
Operating Ratios (%)				
EBITDA Margin	31.0	23.9	23.0	25.0
PBT / Net sales	24.0	18.5	18.2	20.4
PAT Margin	20.1	17.1	13.3	13.8
Inventory days	57.6	72.4	70.0	70.0
Debtor days	46.3	48.5	50.0	50.0
Creditor days	40.2	35.7	35.0	35.0
Return Ratios (%)				
RoE	19.2	20.4	19.4	20.7
RoCE	19.3	15.9	18.0	21.7
RoIC	23.7	20.0	19.4	24.0
Valuation Ratios (x)				
P/E	31.6	25.9	23.2	18.3
EV / EBITDA	20.7	19.4	15.7	12.2
EV / Net Sales	6.4	4.6	3.6	3.1
Market Cap / Sales	6.3	4.4	3.4	3.0
Price to Book Value	6.1	5.3	4.5	3.8
Solvency Ratios				
Debt/EBITDA	0.5	1.2	1.0	0.5
Debt / Equity	0.1	0.4	0.3	0.2
Current Ratio	3.0	3.8	3.8	3.8
Quick Ratio	1.6	1.8	1.8	1.8

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP		TP	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)				FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Apollo Tyre (APOTYR)	200	250	Buy	12,701	10.1	14.7	20.8	19.9	13.6	9.6	6.7	5.5	4.3	6.3	8.1	10.6	5.5	7.5	9.9	
Ashok Leyland (ASHLEY)	123	140	Buy	35,901	-0.8	1.3	3.7	-148.2	95.6	33.4	63.7	25.7	15.7	-1.1	6.5	14.4	-4.2	5.6	15.2	
Bajaj Auto (BAAUTO)	3,641	3,950	Hold	1,05,357	173.4	183.4	204.1	21.0	19.9	17.8	15.6	13.9	12.3	18.4	19.9	21.6	17.6	19.1	20.5	
Balkrishna Ind. (BALIND)	1,890	2,475	Buy	36,537	73.0	81.4	103.2	25.9	23.2	18.3	19.4	15.7	12.2	15.9	18.0	21.7	20.4	19.4	20.7	
Bharat Forge (BHAFOR)	629	910	Buy	29,291	23.3	24.4	29.3	27.0	25.8	21.5	16.2	13.8	11.6	10.2	11.8	13.5	15.8	15.8	16.6	
Eicher Motors (EICMOT)	2,436	2,535	Hold	66,576	57.9	83.5	100.5	42.0	29.2	24.2	28.0	19.9	16.4	12.6	16.3	17.2	12.7	16.3	17.3	
Escorts (ESCORT)	1,549	2,050	Hold	20,438	53.8	66.1	78.1	28.8	23.4	19.8	16.7	14.7	12.0	10.0	10.0	10.6	9.0	10.1	10.9	
Hero Moto (HERHON)	2,449	2,495	Hold	48,901	123.8	156.1	176.3	19.8	15.7	13.9	12.1	9.5	8.3	16.3	20.7	22.2	15.7	18.7	19.9	
M&M (MAHMAH)	889	1,045	Buy	1,10,514	40.5	46.7	56.5	21.9	19.0	15.7	15.2	12.5	10.4	9.8	11.5	13.1	13.4	13.2	14.3	
Maruti Suzuki (MARUTI)	7,102	8,545	Hold	2,14,531	124.7	206.4	284.8	57.0	34.4	24.9	30.5	19.3	14.1	5.1	9.5	12.8	7.0	10.7	13.5	
Minda Industries (MININD)	833	1,115	Hold	23,788	10.7	17.1	24.2	77.5	48.7	34.4	28.7	21.9	16.7	9.9	13.5	17.8	9.5	13.3	16.0	
Tata Motors (TATMOT)	404	500	Buy	1,54,826	-29.9	1.7	21.1	-13.5	241.6	19.2	6.8	5.5	4.1	4.8	8.1	13.7	-23.4	1.3	14.0	

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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