

# Balkrishna Industries

Estimate change

TP change

Rating change



Bloomberg	BIL IN
Equity Shares (m)	193
M.Cap.(INRb)/(USDb)	365 / 4.7
52-Week Range (INR)	2708 / 1682
1, 6, 12 Rel. Per (%)	0/-7/-10
12M Avg Val (INR M)	874

## Financials & valuations (INR b)

Y/E March	FY22	FY23E	FY24E
Sales	84.5	102.7	115.7
EBITDA	21.6	24.3	29.2
Adj. PAT	14.8	15.9	18.3
EPS (Rs)	76.6	82.2	94.8
EPS Growth (%)	25.8	7.2	15.4
BV/Share (Rs)	358.7	415.9	480.7

## Ratios

RoE (%)	22.9	21.2	21.2
RoCE (%)	18.1	15.9	16.5
Payout (%)	37.7	30.4	31.6

## Valuations

P/E (x)	24.6	23.0	19.9
P/BV (x)	5.3	4.5	3.9
Div. yield (%)	1.5	1.3	1.6
FCF yield (%)	-1.9	2.5	2.5

## Shareholding pattern (%)

As On	Mar-22	Dec-21	Mar-21
Promoter	58.3	58.3	58.3
DII	11.8	11.6	14.6
FII	14.1	15.1	14.4
Others	15.9	15.1	12.7

FII Includes depository receipts

**CMP: INR1,888**
**TP: INR2,120 (+12%)**
**Neutral**

## Beat in operating performance, despite higher freight and power cost

### Balance Sheet turns net debt due to higher inventories

- BIL's 4QFY22 operating performance was better than expected, despite a greater freight cost, due to higher than estimated price hikes. Near term headwinds are many (higher input and freight cost and a weak EUR:INR), which will keep its performance under check.
- We upgrade our FY23E/FY24E EPS by 7.5%/4% to account for higher volumes and realizations. We maintain our **Neutral** rating with a TP of INR2,120 per share (~22x Jun'24E EPS).

### Higher freight cost hurts margin, forex loss restricts PAT

- Revenue/EBITDA/adjusted PAT grew 39%/2%/flat YoY to IN24.3b/INR5.6b/INR3.7b in 4QFY22. The same grew 47%/20%/26% YoY in FY22.
- Volumes grew 13% YoY to 77kMt (est. 73.6kMt). Realizations grew 23% YoY to INR315.3k/unit (est. INR297.8k), benefitting from price hikes taken at the end of 3Q and in 4QFY22.
- Gross margin contracted by 410bp YoY to 54.7% (est. 52.8%) due to RM cost inflation. The beat in gross margin was due to higher than estimated improvement in realizations.
- EBITDA margin fell 830bp YoY to 22.9% (est. 23.6%). The miss in EBITDA margin, despite a gross margin beat, was due to higher freight cost (by 7.9pp YoY). Unrealized forex loss of ~INR210m restricted adjusted PAT to INR3.7b (est. INR3.6b), flat YoY.
- The company declared a final dividend of INR4/share in FY22 (INR28/share in FY22, which included a special dividend of INR12/share).
- FCFF stood at a negative INR6.9b (v/s a positive INR4.15b in FY21) due to higher capex at INR15.9b (v/s INR9b in FY21) and lower CFO, which stood at INR9b (v/s INR13.4b in FY21) on account of higher working capital (swing of ~INR7b). As a result, it ended FY22 with a net debt of ~INR5.1b.

### Highlights from the management commentary

- **Outlook:** Demand remains strong in end-markets in the Agri and Mining segment. It expects FY23 volumes at 320-330kMt units (10-14% growth).
- **Impact of geopolitical issues** is visible on aggravated supply chain problems, which has impacted both price and availability of RM. Also, logistics and freight costs remain at elevated levels.
- It expects RM cost inflation of 3-4% QoQ in 1QFY23. It has raised prices by 2-3% in Feb-Mar'22 and plans another 3-4% hike in Jun'22.
- **EUR:INR hedge rate is adverse** for FY23 at 85 (v/s 87.3 in FY22).

### Valuation and view

- We expect BIL's outperformance to the Specialty Tyre industry to continue, driven by expansion of its product portfolio and ramp-up in the OTR segment, with scope to strengthen its competitive positioning.
- Current valuations fairly reflect its industry-leading margin, FCF, and capital efficiencies. It currently trades at a FY23E P/E multiple of 23x and at 19.9x FY24E EPS. We maintain our **Neutral** rating.

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**Investors are advised to refer through important disclosures made at the last page of the Research Report.**

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**Standalone quarterly earnings**

(INR m)

Y/E March	FY21				FY22				FY21	FY22	FY22E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
<b>Volumes (t)</b>	<b>38,096</b>	<b>61,224</b>	<b>59,810</b>	<b>68,002</b>	<b>68,608</b>	<b>72,748</b>	<b>70,320</b>	<b>77,119</b>	<b>2,27,131</b>	<b>2,88,795</b>	<b>73,629</b>
YoY Change (%)	-25.7	35.5	26.4	17.3	80.1	18.8	17.6	13.4	12.6	27.1	8.3
<b>Realizations (INR'000/t)</b>	<b>247.2</b>	<b>253.5</b>	<b>250.2</b>	<b>257.3</b>	<b>266.5</b>	<b>285.9</b>	<b>295.6</b>	<b>315.3</b>	<b>252.7</b>	<b>291.5</b>	<b>297.8</b>
YoY Change (%)	4.2	3.4	0.0	7.4	7.8	12.8	18.2	22.5	4.1	15.4	15.7
<b>Net Revenue</b>	<b>9,417</b>	<b>15,518</b>	<b>14,966</b>	<b>17,499</b>	<b>18,281</b>	<b>20,798</b>	<b>20,790</b>	<b>24,319</b>	<b>57,399</b>	<b>84,187</b>	<b>21,929</b>
YoY Change (%)	-22.7	40.2	26.5	26.0	94.1	34.0	38.9	39.0	17.2	46.7	25.3
Total Expenditure	6,981	10,421	10,282	12,041	13,004	15,299	15,865	18,744	39,724	62,912	16,762
<b>EBITDA</b>	<b>2,436</b>	<b>5,097</b>	<b>4,684</b>	<b>5,458</b>	<b>5,277</b>	<b>5,499</b>	<b>4,924</b>	<b>5,575</b>	<b>17,675</b>	<b>21,275</b>	<b>5,166</b>
Margin (%)	25.9	32.8	31.3	31.2	28.9	26.4	23.7	22.9	30.8	25.3	23.6
Depreciation	996	1,012	1,019	1,034	1,041	1,085	1,145	1,167	4,062	4,438	1,199
Interest	24	34	17	23	21	18	18	21	98	79	17
Other Income	203	454	594	544	632	1,031	626	497	1,795	2,786	791
<b>PBT before EO expense</b>	<b>1,619</b>	<b>4,505</b>	<b>4,241</b>	<b>4,945</b>	<b>4,847</b>	<b>5,427</b>	<b>4,387</b>	<b>4,884</b>	<b>15,310</b>	<b>19,545</b>	<b>4,742</b>
Rate (%)	24.7	24.6	24.1	24.7	26.2	26.4	25.1	24.1	24.5	25.5	24.2
<b>Adj. PAT</b>	<b>1,218</b>	<b>3,395</b>	<b>3,219</b>	<b>3,722</b>	<b>3,575</b>	<b>4,044</b>	<b>3,286</b>	<b>3,707</b>	<b>11,554</b>	<b>14,566</b>	<b>3,595</b>
YoY Change (%)	-30.8	16.7	45.9	44.7	193.5	19.1	2.1	-0.4	22.3	26.1	-3.4
Margin (%)	12.9	21.9	21.5	21.3	19.6	19.4	15.8	15.2	20.1	17.3	16.4

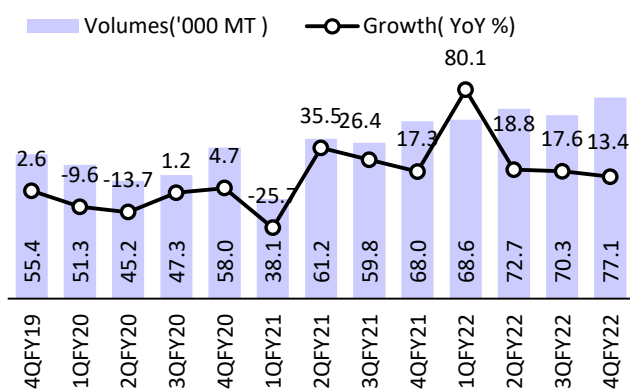
E: MOFSL estimates

**Key performance indicators**

Y/E March	FY21				FY22				FY21	FY22	FY22E
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			
<b>Volumes (t)</b>	<b>38,096</b>	<b>61,224</b>	<b>59,810</b>	<b>68,002</b>	<b>68,608</b>	<b>72,748</b>	<b>70,320</b>	<b>77,119</b>	<b>2,27,131</b>	<b>2,88,795</b>	<b>73,629.1</b>
YoY Change (%)	-25.7	35.5	26.4	17.3	80.1	18.8	17.6	13.4	12.6	27.1	8.3
<b>Realizations (INR'000/t)</b>	<b>247.2</b>	<b>253.5</b>	<b>250.2</b>	<b>257.3</b>	<b>266.5</b>	<b>285.9</b>	<b>295.6</b>	<b>315.3</b>	<b>252.7</b>	<b>291.5</b>	<b>297.8</b>
YoY Change (%)	4.2	3.4	0.0	7.4	7.8	12.8	18.2	22.5	4.1	15.4	15.7
Gross Margin (%)	<b>61.1</b>	<b>60.6</b>	<b>59.7</b>	<b>58.8</b>	<b>57.2</b>	<b>55.4</b>	<b>53.5</b>	<b>54.7</b>	59.9	<b>55</b>	52.8
EBITDA Margin (%)	<b>25.9</b>	<b>32.8</b>	<b>31.3</b>	<b>31.2</b>	<b>28.9</b>	<b>26.4</b>	<b>23.7</b>	<b>22.9</b>	30.8	25.3	23.6
Gross Profit (INR'000/t)	<b>151.0</b>	<b>153.6</b>	<b>149.3</b>	<b>151.3</b>	<b>152.4</b>	<b>158.4</b>	<b>158.3</b>	<b>172.3</b>	151.3	161	157.3
EBITDA (INR'000/t)	<b>63.9</b>	<b>83.3</b>	<b>78.3</b>	<b>80.3</b>	<b>76.9</b>	<b>75.6</b>	<b>70.0</b>	<b>72.3</b>	77.8	<b>74</b>	70.2

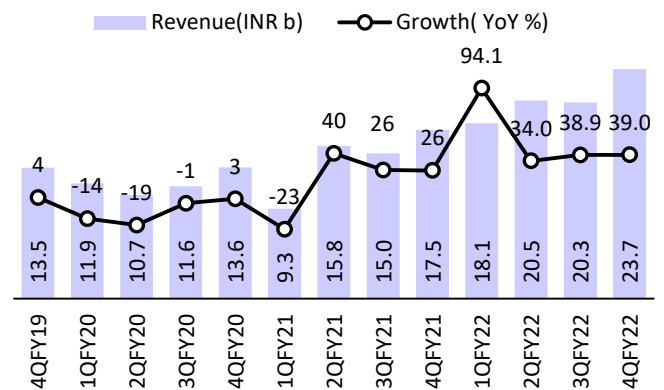
**Key exhibits**

**Exhibit 1: Volume trend**



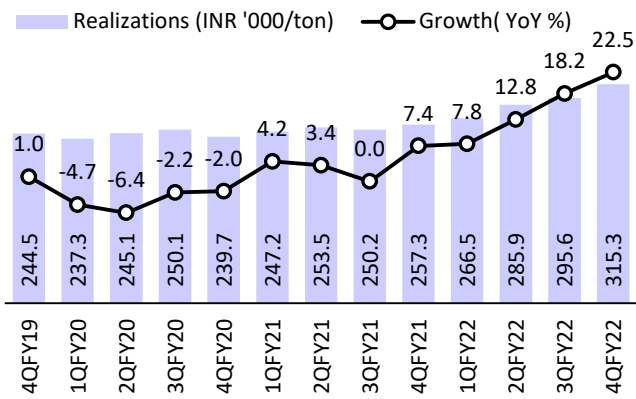
Source: MOFSL, Company

**Exhibit 2: Trend in revenue**



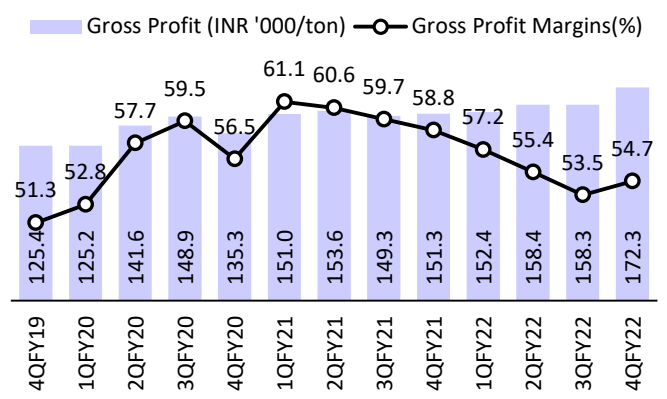
Source: MOFSL, Company

**Exhibit 3: Net realization trend**



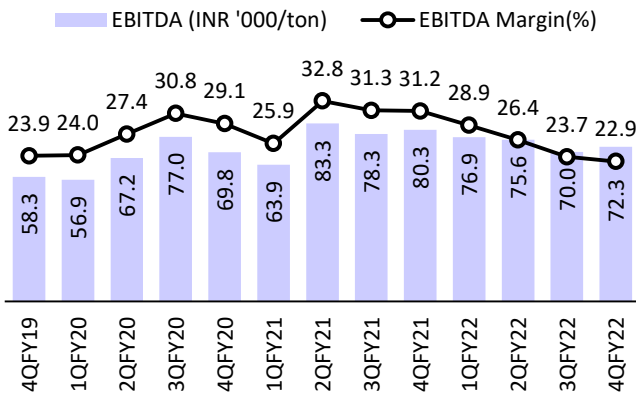
Source: MOFSL, Company

**Exhibit 4: Trend in gross profit margin**



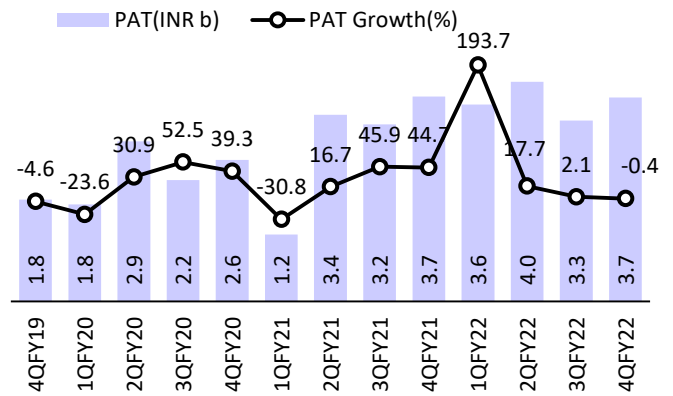
Source: MOFSL, Company

**Exhibit 5: EBITDA margin trend**



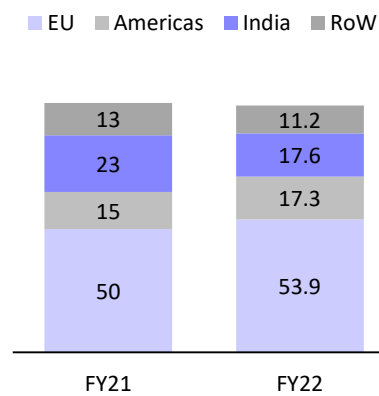
Source: MOFSL, Company

**Exhibit 6: PAT and PAT growth trends**

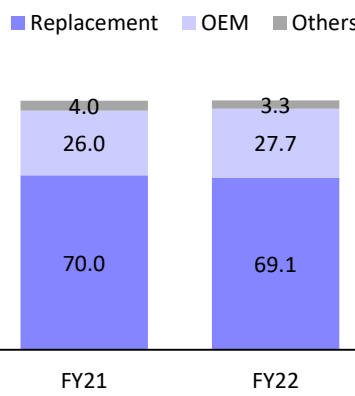


Source: MOFSL, Company

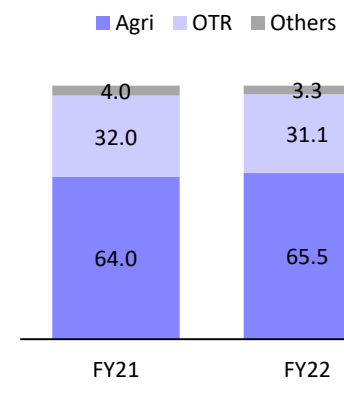
**Exhibit 7: Geography-wise contribution**



**Exhibit 8: Channel-wise sales**



**Exhibit 9: Segment-wise sales**



Source: Company, MOFSL

## Valuation and view

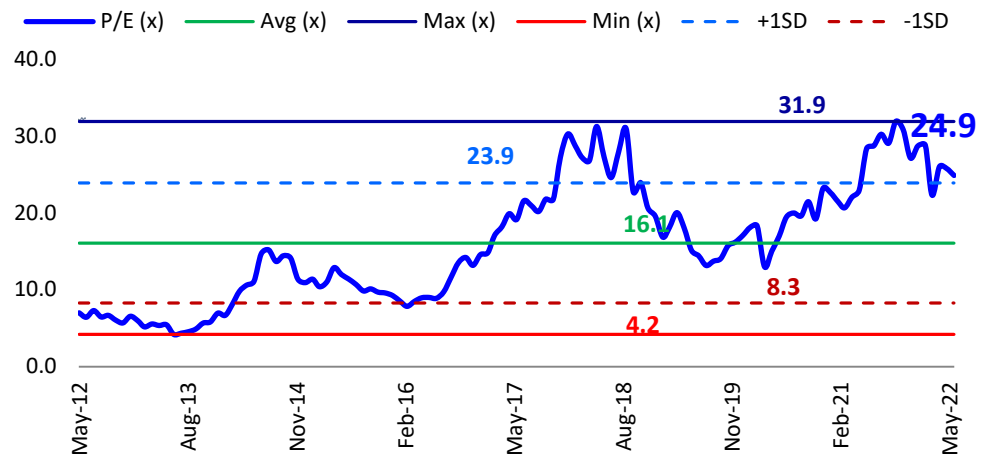
### Huge opportunity size, strong competitive positioning

- Profitable market share gains to continue:** We expect BIL's outperformance to the industry to continue, with scope to strengthen its competitive positioning. BIL has a well-established competitive advantage, which has enabled consistent market share gains. Its competitive advantage is driven by: a) competitive cost and pricing, b) consistent product portfolio expansion, and c) expanding reach. With a current market share of ~6% in the USD15b global Specialty Tyre segment, BIL aspires to increase this to 10% over the next four-to-five years by: a) ramping-up in the OTR segment, which is much larger than Agri tyres, b) strengthening its presence in North America and RoW markets, and c) gaining share with OEMs. We expect ~11%/~17% volume/revenue CAGR over FY22-24.
- Investing to improve its competitiveness:** The management has chalked out a capex of ~INR22.5b over the next two years. It will allocate INR8b towards setting up new capacity in Bhuj, INR6.5b for carbon black capacity expansion, INR4.5b for plant automation, and INR3.5b for capex at the old Waluj plant. On completion of the ongoing capex, capacity will increase to 360kt (from the current 285kt) by 2HFY23. As a percentage of sales, capex intensity will be higher at 15-17% till FY23. FCF generation is expected to improve from 2HFY23 onwards.
- Earnings growth to pick-up:** We expect revenue/EBITDA/PAT to grow at 17%/16%/11% over FY22-24. We expect a slight decline in EBITDA margin to ~25.2% over FY22-24, led by cost pressures. Despite a capex plan of INR22.5b, we expect FCF generation to improve (to INR9.2b in FY24).
- Valuations factor in a focused business model:** We upgrade our FY23/FY24 EPS estimate by 7.5%/4% to account for higher volumes and realizations. BIL ranks highest among domestic peers in terms of cost competitiveness and financial strength. In terms of valuation, it trades at a substantial premium to its mainstream peers. Premium valuations fairly reflect its industry-leading margin, FCF, and capital efficiencies. It currently trades at a FY23E P/E multiple of 23x and at 19.9x FY24E EPS. Valuing BIL at 22x Jun'24E EPS (in line to its five/10-year average P/E), we arrive at our TP of INR2,120. We maintain our **Neutral** rating.

#### Exhibit 10: Revisions to our estimates

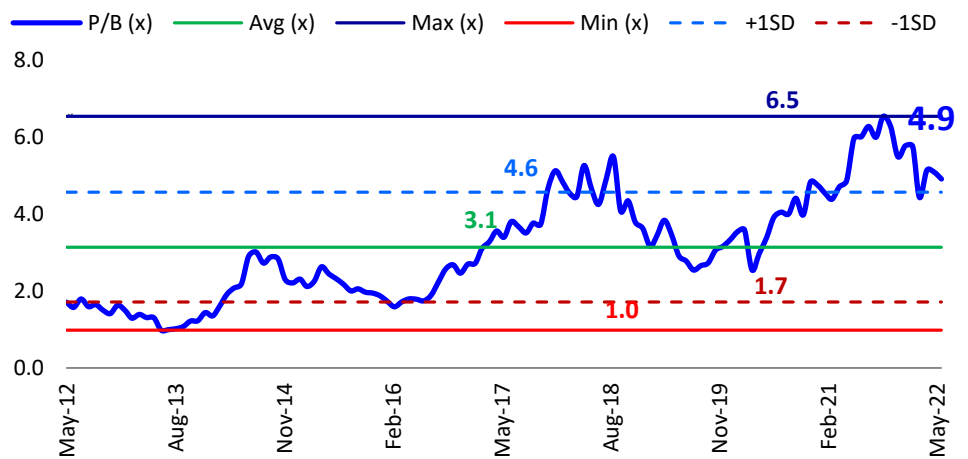
(INR m)	FY23E			FY24E		
	Revised	Old	Change (%)	Revised	Old	Change (%)
Net sales	1,02,650	94,005	9.2	1,15,724	1,06,530	8.6
EBITDA	24,325	23,125	5.2	29,217	28,048	4.2
EBITDA (%)	23.7	24.6	-90bp	25.2	26.3	-110bp
Adj. PAT	15,887	14,773	7.5	18,328	17,657	3.8
EPS (INR)	82.2	76.4	7.5	94.8	91.3	3.8

**Exhibit 11: One-year forward P/E**



Source: MOFSL, Company

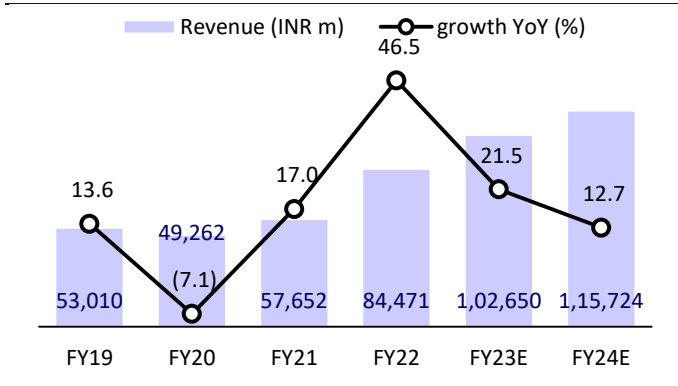
**Exhibit 12: One-year forward P/B band**



Source: MOFSL, Company

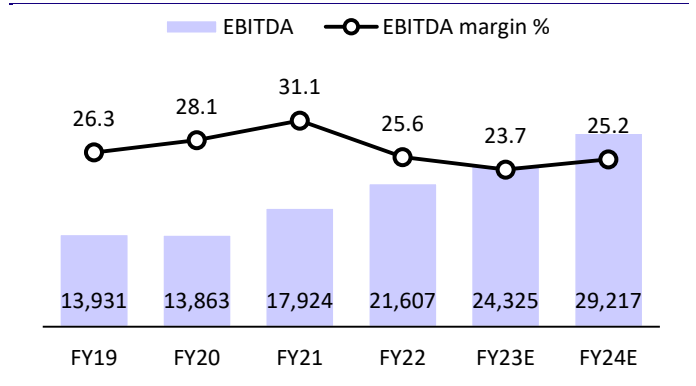
## Story in charts

**Exhibit 13: Expect revenue to grow by ~17% CAGR over FY22-24**



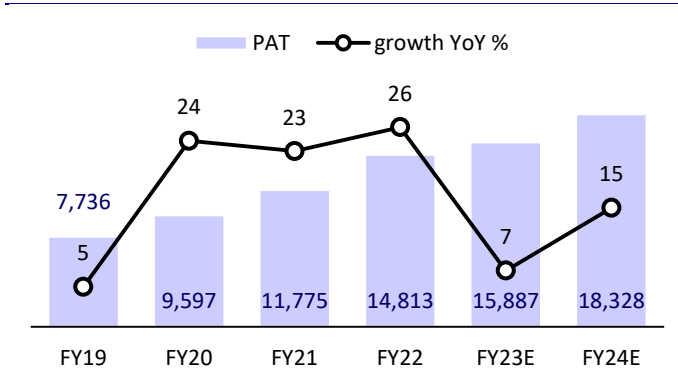
Source: Company, MOFSL

**Exhibit 14: Expect EBITDA margin to marginally decline over FY22-24**



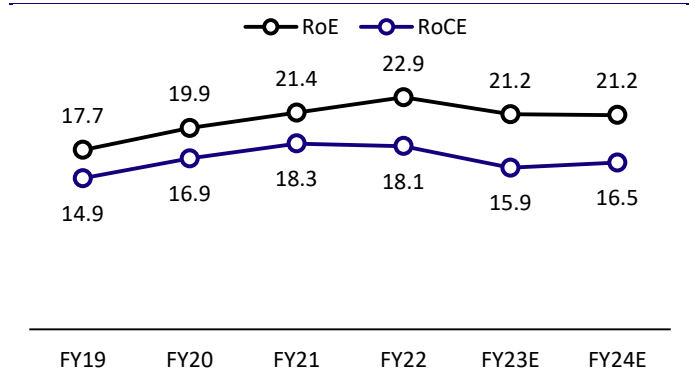
Source: Company, MOFSL

**Exhibit 15: Expect PAT to grow by ~11% CAGR over FY22-24**



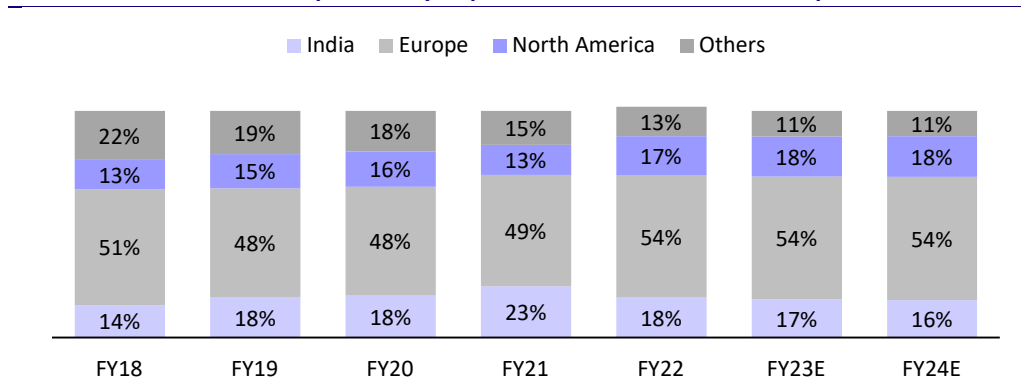
Source: Company, MOFSL

**Exhibit 16: RoE to remain subdued**



Source: Company, MOFSL

**Exhibit 17: Market mix can potentially improve towards the US and Europe**



Source: Company, MOFSL

## Financials and valuations

### Consolidated Income Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Adj. Net Revenue</b>	<b>46,648</b>	<b>53,010</b>	<b>49,262</b>	<b>57,652</b>	<b>84,471</b>	<b>1,02,650</b>	<b>1,15,724</b>
Change (%)	23.0	13.6	-7.1	17.0	46.5	21.5	12.7
<b>EBITDA</b>	<b>13,226</b>	<b>13,931</b>	<b>13,863</b>	<b>17,924</b>	<b>21,607</b>	<b>24,325</b>	<b>29,217</b>
EBITDA Margin (%)	28.4	26.3	28.1	31.1	25.6	23.7	25.2
Depreciation	3,114	3,326	3,736	4,163	4,554	5,118	6,136
<b>EBIT</b>	<b>10,112</b>	<b>10,605</b>	<b>10,126</b>	<b>13,761</b>	<b>17,053</b>	<b>19,207</b>	<b>23,081</b>
EBIT Margin (%)	21.7	20.0	20.6	23.9	20.2	18.7	19.9
Int. and Finance Charges	139	111	89	114	92	114	126
Other Income	1,188	1,272	1,358	1,902	2,859	2,146	1,548
<b>PBT bef. EO Exp.</b>	<b>11,160</b>	<b>11,766</b>	<b>11,395</b>	<b>15,549</b>	<b>19,821</b>	<b>21,239</b>	<b>24,502</b>
EO Items	0	0	0	0	-615	0	0
<b>PBT after EO Exp.</b>	<b>11,160</b>	<b>11,766</b>	<b>11,395</b>	<b>15,549</b>	<b>19,206</b>	<b>21,239</b>	<b>24,502</b>
Eff. Tax Rate (%)	34.1	34.2	15.8	24.3	25.3	25.2	25.2
<b>Reported PAT</b>	<b>7,358</b>	<b>7,736</b>	<b>9,597</b>	<b>11,775</b>	<b>14,353</b>	<b>15,887</b>	<b>18,328</b>
<b>Adjusted PAT</b>	<b>7,358</b>	<b>7,736</b>	<b>9,597</b>	<b>11,775</b>	<b>14,813</b>	<b>15,887</b>	<b>18,328</b>
Change (%)	2.6	5.1	24.0	22.7	25.8	7.2	15.4

### Consolidated Balance Sheet

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
Equity Share Capital	387	387	387	387	387	387	387
Total Reserves	40,447	46,150	49,696	59,612	68,944	79,998	92,527
<b>Net Worth</b>	<b>40,834</b>	<b>46,537</b>	<b>50,083</b>	<b>59,998</b>	<b>69,330</b>	<b>80,385</b>	<b>92,913</b>
Total Loans	8,675	8,796	9,316	10,006	25,286	25,286	25,286
Deferred Tax Liabilities	3,289	3,255	1,783	2,035	2,509	2,509	2,509
<b>Capital Employed</b>	<b>52,797</b>	<b>58,588</b>	<b>61,182</b>	<b>72,039</b>	<b>97,125</b>	<b>1,08,180</b>	<b>1,20,708</b>
Gross Block	36,950	39,355	48,210	52,954	64,069	82,153	93,153
Less: Accum. Deprn.	8,966	12,264	15,992	20,115	24,669	29,786	35,922
<b>Net Fixed Assets</b>	<b>27,985</b>	<b>27,091</b>	<b>32,218</b>	<b>32,839</b>	<b>39,401</b>	<b>52,367</b>	<b>57,231</b>
Capital WIP	1,183	6,004	5,866	8,555	12,584	5,500	5,500
Investment property	511	772	857	864	793	793	793
<b>Total Investments</b>	<b>11,027</b>	<b>10,826</b>	<b>10,625</b>	<b>14,177</b>	<b>18,967</b>	<b>18,967</b>	<b>18,967</b>
<b>Curr. Assets, Loans, and Adv.</b>	<b>18,077</b>	<b>20,099</b>	<b>18,498</b>	<b>25,230</b>	<b>38,045</b>	<b>45,195</b>	<b>54,724</b>
Inventory	6,189	7,587	6,156	9,397	16,721	14,062	15,853
Account Receivables	4,796	5,171	5,899	7,536	10,962	12,656	14,267
Cash and Bank Balance	334	656	691	780	517	5,822	10,337
Loans and Advances	6,758	6,684	5,752	7,517	9,846	12,656	14,267
<b>Curr. Liability and Prov.</b>	<b>5,985</b>	<b>6,202</b>	<b>6,882</b>	<b>9,626</b>	<b>12,665</b>	<b>14,642</b>	<b>16,507</b>
Account Payables	4,093	3,861	3,837	6,550	8,293	9,843	11,097
Other Current Liabilities	1,688	2,073	2,746	2,750	4,056	4,219	4,756
Provisions	204	267	299	326	316	581	655
<b>Net Current Assets</b>	<b>12,093</b>	<b>13,897</b>	<b>11,616</b>	<b>15,604</b>	<b>25,380</b>	<b>30,553</b>	<b>38,217</b>
<b>Appl. of Funds</b>	<b>52,797</b>	<b>58,589</b>	<b>61,182</b>	<b>72,039</b>	<b>97,125</b>	<b>1,08,180</b>	<b>1,20,708</b>

E: MOFSL estimates

## Financials and valuations

### Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Basic (INR)</b>							
EPS	38.1	40.0	49.6	60.9	76.6	82.2	94.8
BV/Share	211.2	240.7	259.1	310.4	358.7	415.9	480.7
DPS	5.3	7.5	22.0	17.0	28.0	25.0	30.0
Payout (%)	16.6	22.6	53.4	27.9	37.7	30.4	31.6
<b>Valuation (x)</b>							
P/E	49.6	47.2	38.0	31.0	24.6	23.0	19.9
P/BV	8.9	7.8	7.3	6.1	5.3	4.5	3.9
EV/Sales	8.0	7.0	7.6	6.5	4.6	3.7	3.3
EV/EBITDA	28.2	26.8	26.9	20.9	18.0	15.8	13.0
Dividend Yield (%)	0.3	0.4	1.2	0.9	1.5	1.3	1.6
FCF per share	17.5	4.4	20.2	21.5	-35.2	47.9	47.5
<b>Return Ratios (%)</b>							
RoE	19.3	17.7	19.9	21.4	22.9	21.2	21.2
RoCE	15.1	14.9	16.9	18.3	18.1	15.9	16.5
RoIC	17.0	17.1	20.0	22.5	22.4	20.1	21.1
<b>Working Capital Ratios</b>							
Fixed Asset Turnover (x)	1.3	1.3	1.0	1.1	1.3	1.2	1.2
Asset Turnover (x)	0.9	0.9	0.8	0.8	0.9	0.9	1.0
Inventory (Days)	48	52	46	59	72	50	50
Debtor (Days)	38	36	44	48	47	45	45
Creditor (Days)	32	27	28	41	36	35	35
<b>Leverage Ratio (x)</b>							
Net Debt/Equity ratio	-0.1	-0.1	0.0	-0.1	0.1	0.0	0.0

### Consolidated Cash Flow Statement

(INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E
OP/(Loss) before Tax	11,160	11,766	11,395	15,549	19,206	21,239	24,502
Depreciation	3,114	3,326	3,736	4,163	4,554	5,118	6,136
Interest and Finance Charges	68	49	-135	-289	-324	-876	-1,134
Direct Taxes Paid	-3,873	-4,076	-2,884	-3,510	-4,579	-5,352	-6,175
(Inc.)/Dec. in WC	-2,154	-1,934	544	-1,273	-8,289	133	-3,150
Others	-816	-927	-924	-1,250	-1,487	0	0
<b>CF from Operations incl. EO</b>	<b>7,499</b>	<b>8,204</b>	<b>11,731</b>	<b>13,390</b>	<b>9,080</b>	<b>20,261</b>	<b>20,180</b>
(Inc.)/Dec. in FA	-4,113	-7,344	-7,830	-9,232	-15,889	-11,000	-11,000
<b>Free Cash Flow</b>	<b>3,386</b>	<b>860</b>	<b>3,901</b>	<b>4,159</b>	<b>-6,809</b>	<b>9,261</b>	<b>9,180</b>
(Pur.)/Sale of Investments	3,094	877	863	-2,891	-3,516	0	0
Others	96	108	190	388	431	990	1,260
<b>CF from Investments</b>	<b>-923</b>	<b>-6,360</b>	<b>-6,778</b>	<b>-11,734</b>	<b>-18,975</b>	<b>-10,010</b>	<b>-9,740</b>
Issue of Shares	0	0	0	0	0	0	0
Inc./(Dec.) in Debt	-5,185	213	279	857	15,498	0	0
Interest Paid	-140	-115	-88	-114	-90	-114	-126
Dividend Paid	-1,212	-1,745	-5,126	-2,316	-5,603	-4,833	-5,799
Others	0	0	-13	-3	0	0	0
<b>CF from Fin. Activity</b>	<b>-6,538</b>	<b>-1,647</b>	<b>-4,947</b>	<b>-1,575</b>	<b>9,804</b>	<b>-4,946</b>	<b>-5,925</b>
<b>Inc./Dec. in Cash</b>	<b>39</b>	<b>198</b>	<b>7</b>	<b>81</b>	<b>-90</b>	<b>5,305</b>	<b>4,515</b>
Opening Balance	226	265	462	468	549	459	5,764
<b>Closing Balance</b>	<b>265</b>	<b>462</b>	<b>468</b>	<b>549</b>	<b>459</b>	<b>5,764</b>	<b>10,279</b>



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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