

Balkrishna Industries Ltd



Balkrishna Industries Ltd

Export and volume growth remains strong; but margins affected

CMP INR 2,045	Target INR 2,290	Potential Upside 12.0%	Market Cap (INR Mn) INR 395,334	Recommendation ACCUMULATE	Sector Auto ancillary
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Result Highlights of Q4FY22:

- Revenue exceeded estimates for Q4FY22 due to higher volumes at 77,119 Mt (+13.4% YoY). Revenue for Q4FY22 stood at INR 23,742 Mn (+35.4% YoY). For the FY22, revenue stood at INR 82,951 Mn (+43.4% YoY).
- For the quarter EBITDA stood at INR 5,031Mn (-8.6% YoY), with OPM at 21.2% (-1,020 bps YoY).
- During the quarter the Company commissioned the 50,000 MTPA brownfield tire plant at Bhuj and the complete ramp up in production is expected to be achieved in H2FY23.
- The Board has declared final dividend of INR 4 per equity share. Total dividend for FY22 will be INR 28 per equity share.

MARKET DATA

Shares outs (Mn)	193
Mkt Cap (INR Mn)	395,334
52 Wk H/L (INR)	2,724/1,691
Volume Avg (3m K)	310
Face Value (INR)	2
Bloomberg Code	BIL IN

KEY FINANCIALS

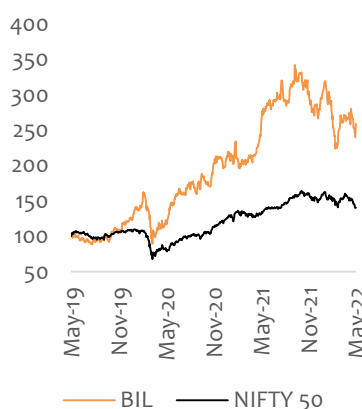
Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	48,112	57,832	82,951	99,863	1,20,772
EBITDA	12,713	18,104	20,088	24,696	30,777
PAT	9,597	11,775	14,354	14,965	19,407
EPS (INR)	49.6	60.9	74.2	77.4	100.4
EBITDA Margin	26.4%	31.3%	24.2%	24.7%	25.5%
NPM	19.9%	20.4%	17.3%	15.0%	16.1%

Source: Company, KRChoksey Research

Strong performance in Europe despite the macro environment

For the quarter, Balkrishna Industries reported total revenue of INR 23,742 Mn, a significant rise of 35.4% YoY (16.1% QoQ). It was driven by 13.4% YoY (9.7% QoQ) rise in volumes to 77,119 MT. 54% of the sales came from Europe, 17% from India, 18% from Americas and 11% from the rest of the world. Share of sales from India continued to stay low due to covid. Company gets over 80% of its revenue from exports but it expects improvement in India as the covid worries subside and economy further continues its slow recovery. The company has good demand across segments (agriculture, OTR and others) and will expect to continue volume growth. The company expect their capacity to rise to 3,60,000 MT in FY23 and utilize around 3,30,000 MT in sales volume. For FY22, Balkrishna Industries revenue stood at INR 82,951 Mn, up 43.4% YoY. The company recorded volumes of 2,88,795 MT for FY2 (surpassing its expectation of 2,75,000-2,85,000 MT for the year) vs 2,27,131 MT in FY21, an increase of 27.2% YoY. The company has put construction on the old Waluj plant on hold. They have commissioned a brownfield tire plant in Bhuj with capacity of 50,000 MTPA. Plant is expected to ramp-up production by 2nd half of FY23.

SHARE PRICE PERFORMANCE



MARKET INFO

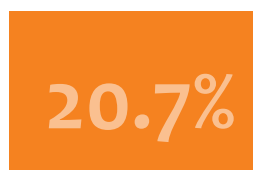
SENSEX	52,974
NIFTY	15,842

EBITDA margins lower due to freight costs

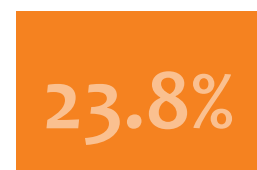
For the quarter, company's EBITDA stood at INR 5,031 Mn, down 8.6 YoY (+10.2 QoQ), while margins stand at 21.2% down 1,020 bps YoY (-113 bps QoQ), due to input cost inflation. After 5 consecutive quarters of gross margins decline, GMs have improved this quarter. For FY22, EBITDA stood at INR 20,088 up 11% from FY21, and margins stand at 24.2% down by 709 bps YoY. Freight and forwarding costs were up 223% YoY and 66% QoQ for Q4FY22. For the full year freight and forwarding cost was up 67%. The company has cost advantage compared to its Tier-1 competitor in Europe and hence maintains their goal of long-term margins of 28-30% EBITDA. The company has EUR currency hedges for most of its revenues from Europe to deal with foreign exchange fluctuations with inflation and geopolitical conditions in the background. For the quarter PAT margins contracted by 588 bps YoY and 78 bps QoQ to 15.8%. For the year PAT margins stood at 17.3%, down by 306 bps YoY.

SHARE HOLDING PATTERN (%)

Particulars	Mar-22	Dec-21	Sep-21
Promoters	58.3	58.3	58.3
FIIIs	14.1	15.1	15.4
DIIIs	11.7	11.6	12.6
Others	15.9	15.0	13.7
Total	100	100	100



Revenue CAGR between FY22 and FY24E



EBITDA CAGR between FY22 and FY24E

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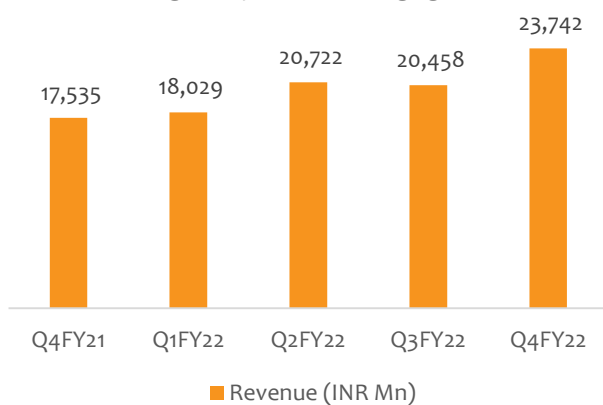
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Key Concall Highlights: (1) Geopolitical situation has increased prices and affected availability of raw materials. Logistics and freight costs continue to be high and the company has not been able to full recover the increased costs from customers (2) Higher power costs, higher power tariffs, cost of coal and gas have gone up (in company’s plants). (3) In FY23 management expects the sales volume to be 320,000-330,000 MT. Capacity enhancement coming from ongoing capex. (4) Price increase Q4FY22 in February-March were around 2-3%. June FY23 price increase expected to be around 3-4%. (5) Q3FY22 price increases full impact was shown in Q4FY22. (6) The company has strong demand momentum and expects the demand momentum to continue in the near future. (7) Working capital is expected to remain at these levels for next year. (8) Availability of raw materials and outward shipment inventory was at high levels. It will reverse when condition of shipment containers among other things improves. (9) Export EU market is very strong and India covid shutdown affected sales from the region. (10) Coal condition doesn’t impact production; company has backup to continue production but coal price is expected to remain high. (11) Margin outlook is around 28-30% EBITDA on long term sustainable basis. (12) Maintenance capex for the company is around INR 2,000 Mn. FY23 capex expected to be INR 9,000 Mn. Total capex expected to be around INR 11,000 Mn. (13) Commodity basket cost inflation was 3-4% for the current quarter. (14) FY22 price hike 15-16%. Price gap between peers continue to remain the same. (15) The company is optimistic about growing ahead of the industry growth going forward and expects to gain market share in global markets. Currently, it has a 4-5% market share in India’s replacement segment.

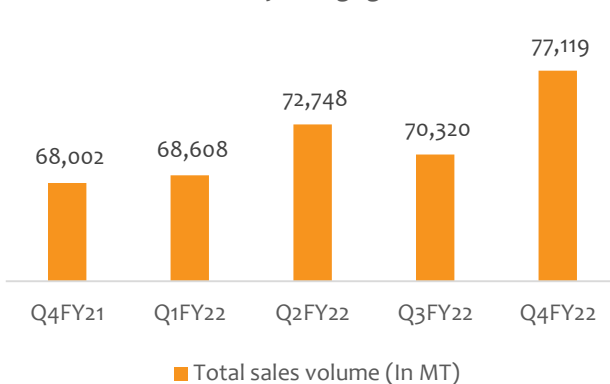
Valuation and view

The company expects demand momentum to continue across geographies and segments, driven by pick-up in economic activities, government spending on infra worldwide and robust prices of commodities & agricultural commodities. The company is seeing good demand from Mining as well as Agriculture sectors in the OTR segment. Also, the company still continues to maintain their 28-30% EBITDA margin target on long term sustainable basis. The BKT brand is continuing to gain market share even in challenging circumstances. **On the back of continued strong revenue and volume growth performance, also with strong demand expected in FY23 and planned capacity addition, we value the stock at 22.8x on FY24E and arrive at a TP of INR 2,290 per share (unchanged), implying an upside potential of 12.0% from the CMP. Accordingly, we maintain our “ACCUMULATE” recommendation on the shares of Balkrishna Industries.**

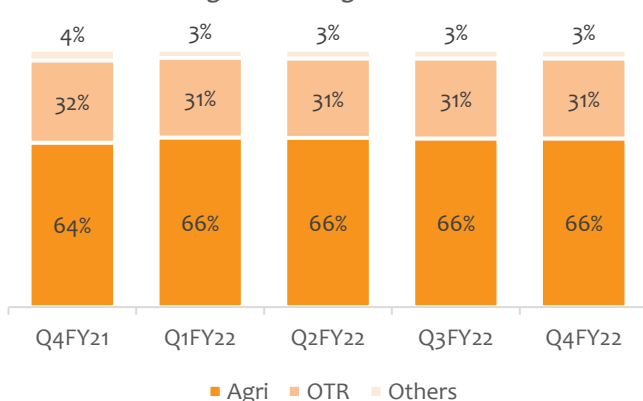
Revenue grew by 36% YoY owing agri business



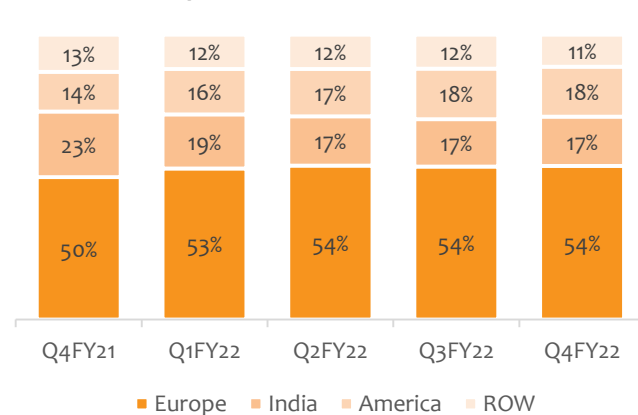
In Q4FY22, the sales volume grew by 13% YoY attributed by strong agri demand



Product revenue mix (%)
Highest share contributed by non cyclical agricultural segment



Geographical revenue mix (%)
Europe market continue to dominate



Source: Company, KRChoksey Research

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KEY FINANCIALS

Particulars (INR Mn)	Q4FY22	Q3FY22	Q4FY21	Q-o-Q	Y-o-Y	FY22	FY21	Y-o-Y
Revenue from Operations	23,742	20,458	17,535	16.1%	35.4%	82,951	57,832	43.4%
Total Expenditure	18,711	15,892	12,030	17.7%	55.5%	62,864	39,728	58.2%
Cost of Raw Materials	11,230	9,949	7,540	12.9%	48.9%	39,579	23,795	66.3%
Purchase of Stock	224	203	228	10.2%	-1.6%	775	756	2.6%
Changes in Inventories	-470	-427	-537	10.0%	-12.6%	-2,576	-1,440	78.9%
Employee Cost	1,071	1,083	1,017	-1.0%	5.3%	4,301	3,709	16.0%
Other Expenses	6,656	5,084	3,782	30.9%	76.0%	20,785	12,909	61.0%
EBITDA	5,031	4,567	5,505	10.2%	-8.6%	20,088	18,104	11.0%
EBITDA Margin (%)	21.2%	22.3%	31.4%	-113 bps	-1,020 bps	24.2%	31.3%	-709 bps
Depreciation	1,195	1,176	1,062	1.7%	12.5%	4,554	4,163	9.4%
EBIT	3,836	3,391	4,443	13.1%	-13.7%	15,534	13,941	11.4%
Other Income	1,094	1,130	613	-3.2%	78.4%	4,379	1,722	154.4%
Finance Cost	26	21	28	24.4%	-8.6%	92	114	-19.6%
PBT	4,904	4,501	5,028	9.0%	-2.5%	19,822	15,549	27.5%
Tax	1,155	1,111	1,228	4.0%	-5.9%	5,468	3,774	44.9%
PAT	3,748	3,390	3,800	10.6%	-1.3%	14,354	11,775	21.9%
PAT Margin (%)	15.8%	16.6%	21.7%	-78 bps	-588 bps	17.3%	20.4%	-306 bps
EPS	19.4	17.5	19.7	10.6%	-1.3%	74.3	60.9	21.9%

Source: Company, KRChoksey Research

Income Statement (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	48,112	57,832	82,951	99,863	1,20,772
Cost of sales	21,388	23,110	37,778	44,709	53,764
Gross profit	26,725	34,722	45,173	55,155	67,009
Employee cost	3,286	3,709	4,301	5,992	7,246
Other operating expenses	10,726	12,909	20,785	24,467	28,985
EBITDA	12,713	18,104	20,088	24,696	30,777
Depreciation	3,736	4,163	4,554	5,819	6,690
EBIT	8,976	13,941	15,534	18,877	24,087
Finance costs	89	114	92	231	191
Other income	2,508	1,722	4,379	1,577	1,980
PBT	11,395	15,549	19,822	20,223	25,876
Income tax expense	1,799	3,774	5,468	5,258	6,469
Net profit	9,597	11,775	14,354	14,965	19,407
EPS (INR)	49.6	60.9	74.2	77.4	100.4

Cash Flow Statement (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	11,731	13,390	9,080	24,395	19,985
Net Cash Flow from/(used in) Investing Activities	-6,778	-11,734	-18,975	-12,584	-11,255
Net Cash Flow from Financing Activities	-4,947	-1,581	9,804	-11,316	-9,265
Net Inc/Dec in cash equivalents	7	76	-91	495	-535
Opening Balance	462	468	549	459	955
Closing Balance Cash and Cash Equivalents	468	549	459	955	421

Source: Company, KRChoksey Research

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Balkrishna Industries Ltd

Exhibit 3: Balance Sheet

Particulars (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Property, Plant and Equipment	32,195	32,830	39,391	53,860	59,247
Capital Work-in-Progress	5,866	8,555	12,584	12,584	12,584
Investment Property	857	864	793	793	793
Intangible Assets	13	8	9	9	9
Investments	7,114	10,256	12,122	7,989	9,662
Other Financial Assets	130	148	829	829	829
Income tax Assets (Net)	898	699	58	61	64
Other Non-Current Assets	1,767	3,484	5,062	5,062	5,315
Total non current assets	48,839	56,844	70,847	81,187	88,503
Inventories	6,156	9,397	16,721	16,767	18,567
Investments	3,511	3,920	6,845	4,993	6,642
Trade Receivables	5,899	7,536	10,962	12,278	16,454
Cash and Cash Equivalents	468	549	459	955	421
Other Bank Balances	223	231	58	58	58
Loans	45	43	35	35	35
Other Financial Assets	142	347	651	684	718
Other Current Assets	2,771	2,797	3,211	2,993	3,626
Total current assets	19,215	24,820	38,942	38,763	46,521
Total Assets	68,054	81,663	1,09,789	1,19,950	1,35,024
Equity share capital	387	387	387	387	387
Other equity	49,696	59,612	68,944	80,815	96,743
Total equity	50,083	59,998	69,330	81,202	97,129
Borrowings	18	15	5,010	4,131	3,516
Other Financial Liabilities	0	0	4	4	4
Provisions	257	275	271	271	271
Deferred Tax Liabilities (Net)	1,783	2,035	2,509	2,509	2,509
Other Non-Current Liabilities	342	326	308	308	308
Total non current liabilities	2,400	2,650	8,103	7,224	6,609
Borrowings	9,288	9,989	20,275	16,718	14,228
Trade Payables	3,837	6,550	8,299	10,963	13,151
Other financial liabilities	1,642	746	1,204	1,264	1,327
Other current liabilities	762	1,678	2,540	2,540	2,540
Provisions	42	51	39	39	39
Total current liabilities	15,571	19,014	32,356	31,524	31,286
Total liabilities and Equity	68,053	81,663	1,09,789	1,19,950	1,35,024

Particulars	FY20	FY21	FY22	FY23E	FY24E
Profitability					
Return on Assets	14.4%	15.7%	15.0%	13.0%	15.2%
Return on Capital	16.7%	18.2%	17.4%	15.2%	17.9%
Return on Equity	19.2%	19.6%	20.7%	18.4%	20.0%
Margin Trend					
EBITDA	26.4%	31.3%	24.2%	24.7%	25.5%
EBIT	18.7%	24.1%	18.7%	18.9%	19.9%
Net Profit	19.9%	20.4%	17.3%	15.0%	16.1%
Liquidity					
Current Ratio	1.23	1.31	1.20	1.23	1.49
Debtor Days	44.87	47.56	48.23	45.00	50.00
Creditors Days	65.66	97.38	75.06	85.00	85.00
EV/EBITDA	31.73	22.28	20.08	16.33	13.11
P/E	41.20	33.57	27.54	26.42	20.37
P/B	7.89	6.59	5.70	4.87	4.07

Source: Company, KRChoksey Research

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Balkrishna Industries Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
17-May-2022	2,045	2,290	ACCUMULATE	Buy	More than 15%
16-Feb-2022	2,003	2,290	ACCUMULATE	Accumulate	5% – 15%
15-Nov-2021	2,362	2,700	ACCUMULATE	Hold	0 – 5%
10-Aug-2021	2,319	2,700	BUY	Reduce	-5% – 0
30-Jun-2021	2,243	2,455	ACCUMULATE	Sell	Less than – 5%
19-May-2021	2,177	2,369	ACCUMULATE		

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