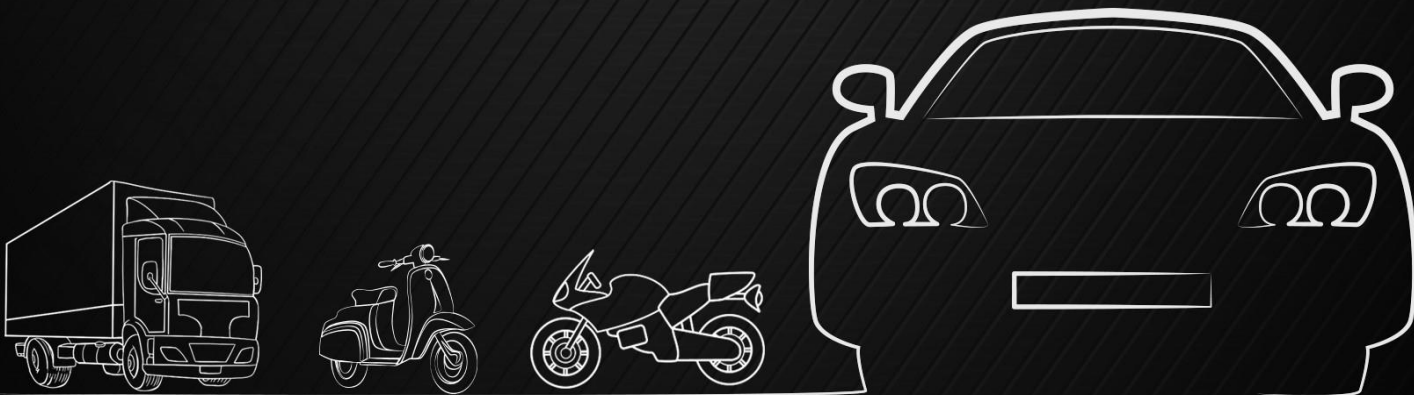


Balkrishna Industries Ltd



RESULT UPDATE

9th August 2022

Balkrishna Industries Ltd

Strong growth but short term challenges remains

CMP INR 2,155	Target INR 2,357	Potential Upside 9.4%	Market Cap (INR Mn) INR 4,16,599	Recommendation ACCUMULATE	Sector Auto ancillary
-------------------------	----------------------------	---------------------------------	--	-------------------------------------	---------------------------------

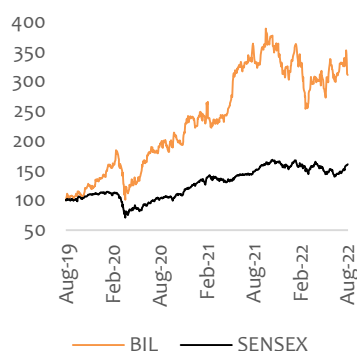
Result Highlights of Q1FY23:

- Balkrishna Industries (BIL) reported revenue of INR 26,194 Mn in Q1FY23. This is a growth of 45.3% YoY and 10.3% QoQ.
- EBITDA was INR 4,440 Mn, which declined by 13.1% YoY and 11.7% QoQ. EBITDA margin was at 16.9%, which is a sharp decline of 1,140 bps YoY and 424 bps QoQ.
- PAT was at INR 3,070 Mn, declining by 7.1% YoY and 18.1% QoQ. NPM for the quarter was 11.7%, a contraction of 662 bps YoY and 407 bps QoQ.

MARKET DATA

Shares outs (Mn)	193
Mkt Cap (INR Mn)	4,16,599
52 Wk H/L (INR)	2,724/1,691
Volume Avg (3m K)	336
Face Value (INR)	2
Bloomberg Code	BIL IN

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	58,865
NIFTY	17,525

KEY FINANCIALS

INR Mn	FY20	FY21	FY22	FY23E	FY24E
Revenue	48,112	57,832	82,951	1,01,234	1,09,130
EBITDA	12,713	18,104	20,088	22,676	27,501
PAT	9,597	11,775	14,354	15,044	18,229
EPS (INR)	49.6	60.9	74.2	77.8	94.3
EBITDA Margin (%)	26.4%	31.3%	24.2%	22.4%	25.2%
NPM (%)	19.9%	20.4%	17.3%	14.9%	16.7%

Source: Company, KRChoksey Research

Strong volume growth in Q1FY23, while BIL to see some short-term challenges going ahead:

BIL reported revenue of INR 26,194 Mn in Q1FY23, which is a growth of 45.3% YoY and 10.3% QoQ. Sales volume for the quarter was at 83,153 MT, which is a growth of 21.2% YoY and 7.8% QoQ. The segmental revenue share of Agriculture/ OTR/ Others was 64.0%/ 32.8%/ 3.2% respectively for the quarter. On geographical basis, revenue share of Europe/ Americas/ India/ RoW was 49.7%/ 19.6%/ 21.2%/ 9.6% respectively. BIL has retained its FY23E volume target of 3,20,000 MT to 3,30,000 MT. While the management is confident that end-user demand is intact, there may be short-term challenges. Europe faces some challenges due to weather patterns, and distributors cutting back on inventory. Distributors are holding off on orders as their stock is 20.0% higher YoY, shipping times have gone down, and they are also expecting some price correction as inflation has started to cool off. Performance in the USA is expected to be good despite macro issues.

Inflation impacted margins in Q1FY23, while relief to come with a lag: EBITDA for the quarter was INR 4,440 Mn, which declined by 13.1% YoY and 11.7% QoQ. EBITDA margin was at 16.9%, which is a sharp decline of 1,140 bps YoY and 424 bps QoQ. High raw material costs, logistics cost, power costs and brand building investments impacted the margins negatively in the quarter. Employee costs increased QoQ due to incremental cost of the newly commissioned plant and impact of incentives. Relief from raw material cost inflation is expected to be seen by Q4FY23 while logistics costs are expected to normalize by end of Q3FY23/ early Q4FY23. As a result, while Q2FY23 will still see some margin pressure, improvement is expected in H2FY23. BIL has taken about 5.0% price increase in Q1FY23. Further price hikes in Q2FY23 are difficult due to the challenging environment. In the long term, management targets EBITDA margins in the range of 28.0% to 30.0%

Capex on track: The 50,000 MT brownfield tire plant commissioned at Bhuj in Q4FY22 will see complete ramp up in H2FY23. The annual tire production capacity will reach 3,60,000 MT by end of FY23. In Q3FY23, BIL will commission carbon black plant with 55,000 MT annual capacity, along with the captive power plant. BIL will commission the advanced carbon black project of 30,000 MT in Q4FY23. The Modernization, Automation, and Technology Upgradation capex is on track and is expected to be complete by end of H1FY23.

SHARE HOLDING PATTERN (%)

Particulars	Jun-22	Mar-22	Dec-21
Promoters	58.3	58.3	58.3
FIIIs	14.3	14.1	15.1
DIIIs	11.2	11.7	11.6
Others	16.2	15.9	15.0
Total	100	100	100

14.7%

Revenue CAGR between FY22
and FY24E

17.0%

EBITDA CAGR between FY22
and FY24E

ANALYST

Vikrant Kashyap, research2@krchoksey.com, +91-22-6696 5540

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com

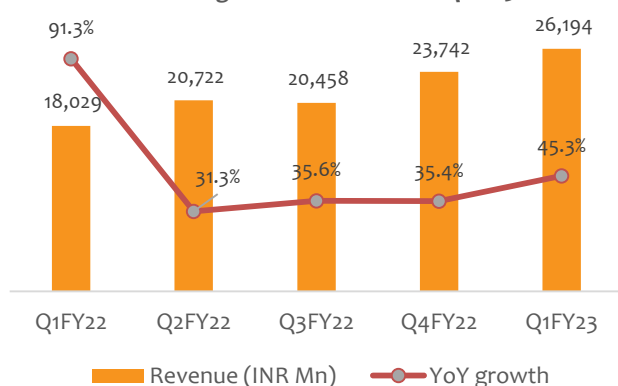
Balkrishna Industries Ltd

Key Concall Highlights: (1) In Q1FY23, raw material costs increased to 46.6% of sales vs. 42.8% in Q1FY22 and 45.3% in Q4FY22. Input costs have moderated from Q1FY23 levels. However, relief can only be expected in Q4FY23 as the benefit comes with a lag due to inventory and transit times. (2) Q1FY23 margins were impacted by high logistics costs. Logistics costs as % of sales were 14.2% for the quarter vs. 7.1% in Q1FY22 and 13.8% in Q4FY22. (3) Of the total export contract, 50.0% is based on CIF while 50.0% on FOB. While higher freight costs are passed on for FOB contracts, BIL has been able to partially pass on the costs for about 50% of CIF contracts. BIL expects relief from high logistics costs towards the end of Q3FY23. (4) BIL continues to see sustainable demand for tires despite the short term challenges. Q2FY23 is expected to have sluggish demand due to macro challenges and heatwave in Europe and inflation in USA. (5) Revenue from Carbon Black plant is expected to be INR 1,000 Mn for FY23E with margins as per industry average. (6) The other income loss in Q1FY23 was due to MTM loss on investments in equity mutual funds and debt. (7) BIL has incurred a total capex of INR 13,220 Mn on the ongoing capex program of INR 19,000 Mn. Capex for FY23E is expected to be INR 9,000 Mn. (8) BIL is also looking into another brownfield/ greenfield project as capacity needs to be expanded further. (9) The EUR hedge rate was INR 85 for the quarter, with the forward hedge rate at same level for FY23E. BIL does not expect to see any major impact of currency fluctuation. (10) The Board of Directors have declared an interim dividend of INR 4.0 per equity share of INR 2.0 each.

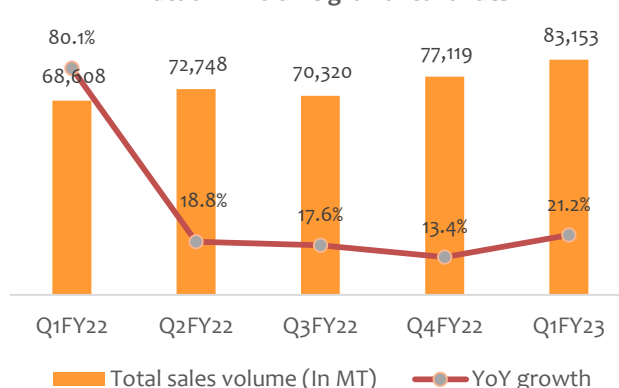
Valuation and view

BIL reported strong volume growth in Q1FY23. The company is expecting end-user demand to sustain despite short term macro challenges in Europe and USA. With new capex coming on stream in FY23E and further capex plan under discussion, the company is building capability to meet the demand. BIL is confident of performing better than competition on the back of focus on customer servicing. **We value the stock at 25.0x on FY24E EPS of INR 94.3 to arrive at a TP of INR 2,357 per share (previous price target was INR 2,290 per share), implying an upside potential of 9.4% from the CMP. Accordingly, we maintain our “ACCUMULATE” recommendation on the shares of Balkrishna Industries.**

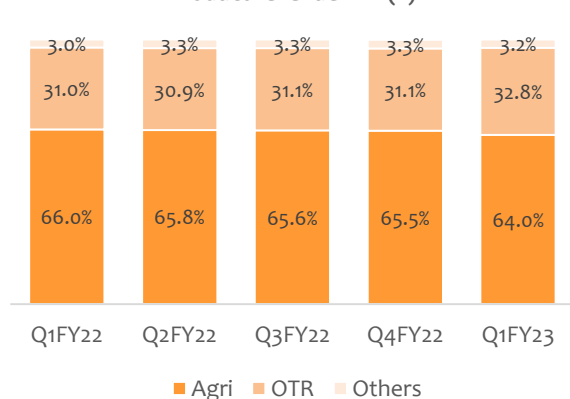
Revenue growth accelerates in Q1FY23



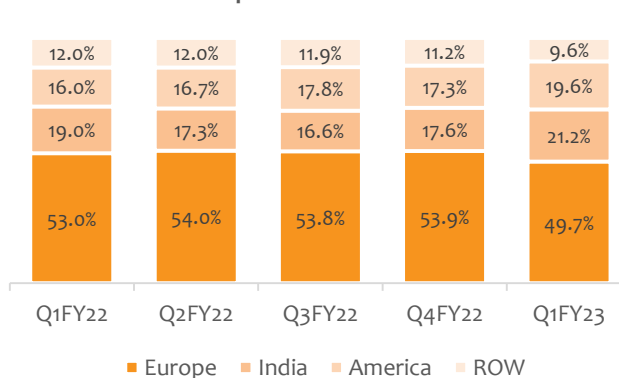
Traction in volume growth continues



Product revenue mix (%)



Geographical revenue mix (%)
Europe share has declined



Source: Company, KRChoksey Research

ANALYST

Vikrant Kashyap, research2@krchoksey.com, +91-22-6696 5540

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com

Balkrishna Industries Ltd

KEY FINANCIALS

Particulars (INR Mn)	Q1FY23	Q4FY22	Q1FY22	Q-o-Q	Y-o-Y
Revenue from Operations	26,194	23,742	18,029	10.3%	45.3%
Total Expenditure	21,755	18,711	12,917	16.3%	68.4%
Cost of Raw Materials	13,779	11,230	8,630	22.7%	59.7%
Purchase of Stock	233	224	172	4.1%	35.3%
Changes in Inventories	-1,501	-470	-1,080	219.7%	39.0%
Employee Cost	1,188	1,071	1,054	10.9%	12.7%
Other Expenses	8,055	6,656	4,141	21.0%	94.5%
EBITDA	4,440	5,031	5,112	-11.7%	-13.1%
EBITDA Margin (%)	16.9%	21.2%	28.4%	-424 bps	-1,140 bps
Depreciation	1,293	1,195	1,068	8.1%	21.0%
EBIT	3,147	3,836	4,043	-17.9%	-22.2%
Other Income	1,057	1,094	822	-3.3%	28.6%
Finance Cost	30	26	25	15.7%	18.0%
PBT	4,175	4,904	4,840	-14.9%	-13.8%
Tax	1,105	1,155	1,535	-4.3%	-28.0%
PAT	3,070	3,748	3,306	-18.1%	-7.1%
PAT Margin (%)	11.7%	15.8%	18.3%	-407 bps	-662 bps
EPS	15.9	19.4	17.1	-18.1%	-7.1%

Source: Company, KRChoksey Research

Income Statement (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Revenue	48,112	57,832	82,951	1,01,234	1,09,130
Cost of sales	21,388	23,110	37,778	46,972	49,327
Gross profit	26,725	34,722	45,173	54,261	59,803
Employee cost	3,286	3,709	4,301	4,758	5,020
Other operating expenses	10,726	12,909	20,785	26,827	27,282
EBITDA	12,713	18,104	20,088	22,676	27,501
Depreciation	3,736	4,163	4,554	5,517	6,293
EBIT	8,976	13,941	15,534	17,159	21,207
Finance costs	89	114	92	231	181
Other income	2,508	1,722	4,379	3,847	4,147
PBT	11,395	15,549	19,822	20,775	25,173
Income tax expense	1,799	3,774	5,468	5,731	6,944
Net profit	9,597	11,775	14,354	15,044	18,229
EPS (INR)	49.6	60.9	74.2	77.8	94.3

Cash Flow Statement (INR Mn)	FY20	FY21	FY22	FY23E	FY24E
Net Cash Generated From Operations	11,731	13,390	9,080	17,919	23,930
Net Cash Flow from/(used in) Investing Activities	-6,778	-11,734	-18,975	-9,027	-15,134
Net Cash Flow from Financing Activities	-4,947	-1,581	9,804	-8,812	-7,501
Net Inc/Dec in cash equivalents	7	76	-91	81	1,294
Opening Balance	462	468	549	461	543
Closing Balance Cash and Cash Equivalents	468	549	459	543	1,837

Source: Company, KRChoksey Research

ANALYST

Vikrant Kashyap, research2@krchoksey.com, +91-22-6696 5540

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576
www.krchoksey.com

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	42,873	50,767
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	12,148	13,096
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	5,063	5,316
Total non current assets	48,839	56,844	70,847	74,360	83,457
Inventories	6,156	9,397	16,721	19,129	18,053
Investments	3,511	3,920	6,845	7,086	7,639
Trade Receivables	5,899	7,536	10,962	13,341	14,342
Cash and Cash Equivalents	468	549	459	543	1,837
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	3,037	3,274
Total current assets	19,215	24,820	38,942	43,913	45,956
Total Assets	68,054	81,663	1,09,789	1,18,273	1,29,413
Equity share capital	387	387	387	387	387
Other equity	49,696	59,612	68,944	80,895	95,644
Total equity	50,083	59,998	69,330	81,281	96,031
Borrowings	18	15	5,010	3,923	3,163
Other Financial Liabilities	0	0	4	5	5
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	7,016	6,256
Borrowings	9,288	9,989	20,275	15,876	12,797
Trade Payables	3,837	6,550	8,299	10,256	10,423
Other financial liabilities	1,642	746	1,204	1,265	1,328
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	29,975	27,127
Total liabilities and Equity	68,053	81,663	1,09,789	1,18,273	1,29,413

Particulars	FY20	FY21	FY22	FY23E	FY24E
Profitability					
Return on Assets	14.4%	15.7%	15.0%	13.2%	14.7%
Return on Capital	16.7%	18.2%	17.4%	15.4%	17.1%
Return on Equity	19.2%	19.6%	20.7%	18.5%	19.0%
Margin Trend					
EBITDA	26.4%	31.3%	24.2%	22.4%	25.2%
EBIT	18.7%	24.1%	18.7%	17.0%	19.4%
Net Profit	19.9%	20.4%	17.3%	14.9%	16.7%
Liquidity					
Current Ratio	1.2	1.3	1.2	1.5	1.7
Debtor Days	45	48	48	48	48
Creditors Days	66	97	75	75	75
EV/EBITDA	34.7x	24.4x	22.0x	19.5x	16.0x
P/E	43.4x	35.4x	29.0x	27.7x	22.9x
P/B	8.3x	6.9x	6.0x	5.1x	4.3x

Source: Company, KRChoksey Research

ANALYST

Vikrant Kashyap, research2@krchoksey.com, +91-22-6696 5540

KRChoksey Research

is also available on Bloomberg KRCS<GO>
Thomson Reuters, Factset and Capital IQ

Phone: +91-22-6696 5555, Fax: +91-22-6691 9576

www.krchoksey.com

Balkrishna Industries Ltd

Balkrishna Industries Ltd				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
09-Aug-2022	2,155	2,357	ACCUMULATE	Buy	More than 15%
16-May-2022	2,045	2,290	ACCUMULATE	Accumulate	5% – 15%
16-Feb-2022	2,003	2,290	ACCUMULATE	Hold	0 – 5%
15-Nov-2021	2,362	2,700	ACCUMULATE	Reduce	-5% – 0
10-Aug-2021	2,319	2,700	BUY	Sell	Less than – 5%
30-Jun-2021	2,243	2,455	ACCUMULATE		

ANALYST CERTIFICATION:

I, Vikrant Kashyap (PGDBM Finance IT, Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & Conditions and other disclosures:

KRChoksey Shares and Securities Pvt. Ltd (hereinafter referred to as KRCSSPL) is a registered member of National Stock Exchange of India Limited and Bombay Stock Exchange Limited. KRCSSPL is a registered Research Entity vides SEBI Registration No. INH000001295 under SEBI (Research Analyst) Regulations, 2014.

We submit that no material disciplinary action has been taken on KRCSSPL and its associates (Group Companies) by any Regulatory Authority impacting Equity Research Analysis activities.

KRCSSPL prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analyst covers. The information and opinions in this report have been prepared by KRCSSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of KRCSSPL. While we would endeavor to update the information herein on a reasonable basis, KRCSSPL is not under any obligation to update the information. Also, there may be regulatory, compliance or other reasons that may prevent KRCSSPL from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or KRCSSPL policies, in circumstances where KRCSSPL might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. KRCSSPL will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. KRCSSPL accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice. Our employees in sales and marketing team, dealers and other professionals may provide oral or written market commentary or trading strategies that reflect opinions that are contrary to the opinions expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest.

Associates (Group Companies) of KRCSSPL might have received any commission/compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of brokerage services or specific transaction or for products and services other than brokerage services.

KRCSSPL or its Associates (Group Companies) have not managed or co-managed public offering of securities for the subject company in the past twelve months.

KRCSSPL encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. KRCSSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither KRCSSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that, Vikrant Kashyap (PGDBM Finance IT), Research Analyst of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Compensation of our Research Analysts is not based on any specific brokerage service transactions.

KRCSSPL or its associates (Group Companies) collectively or its research analyst do not hold any financial interest/beneficial ownership of more than 1% (at the end of the month immediately preceding the date of publication of the research report) in the company covered by Analyst, and has not been engaged in market making activity of the company covered by research analyst.

It is confirmed that, Vikrant Kashyap (PGDBM Finance IT), Research Analyst do not serve as an officer, director or employee of the companies mentioned in the report.

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 KRCSSPL and affiliates 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 certain category of investors. Persons in whose possession this document may come are required to inform them of and to observe such restriction.

Please send your feedback to research.insti@krchoksey.com
Visit us at www.krchoksey.com
KRChoksey Shares and Securities Pvt. Ltd
Registered Office:
1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.
Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.
Corporate Office:
ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.
Phone: +91-22-6696 5555; Fax: +91-22-6691 9576.