

Balkrishna Industries

Demand outlook remains uncertain

Balkrishna Industries' (BKT) Q4FY23 margin, at 21.3%, was in line with our estimate. Demand in Europe continues to be weak and the company hopes it will improve in H2. Hence, inventory destocking is likely to continue until it normalizes by June-July. Given this challenging demand environment, management has refrained from providing any volume guidance for FY24. We factor in BKT's margin to improve to 24% in FY24 (from 20% in FY23) on the back of reduced input costs, normalization of freight rates, and favourable Euro-INR hedge rate at INR 88-89 vs INR 85.3 for FY23. However, cost pressures like (1) competitive headwinds (which may force BKT to pass on input cost reduction) and (2) continuous investments in its brand; may result in downside risks to our estimates. Further, the sharp rise in interest burden is likely to cap earnings growth, unless BKT aims to reduce debt soon. On account of continued demand weakness, we have lowered our EPS estimates by 8%/1% for FY24-25E. However, despite factoring in most positives, the stock at 31x FY24E appears expensive. Maintain REDUCE with a revised TP of INR2,083 (INR1,936 earlier), as we roll forward to FY25 EPS (no change in target multiple).

- **Q4 margin in line with estimate:** Demand remained weak in Q4 with volume down 6% YoY but up 9% QoQ. BKT's Q4 EBITDA margin improved 210bps QoQ to 21.3%, led by: (1) a 70bps improvement in gross margin, led by lower input cost and better forex (Euro-INR at 86.5 vs 85 for Q3) (2) freight costs declining by 310bps QoQ to 5.7% of revenue. However, this was offset by the sharp rise in ad spend, which led to other expenses (ex of freight) rising 200bps QoQ. Overall, Q4 PAT came in at INR 2.6bn (sharply higher than the INR 996mn reported in Q3FY23 but 31% lower YoY due to margin pressure).
- **Call takeaways:** (1) Channel inventory still remains higher than normal (but on a reducing trend) and is likely to normalize by June-July, as per management. (2) In terms of demand in its key markets, BKT expects Europe demand to normalize later in FY24 while the Americas and India markets are expected to continue their momentum. Overall, management expects H2 to be better than H1 but has refrained from giving any volume guidance for FY24 given the ongoing uncertainty in Europe. (3) Management aims to double its market share to 10% (from around 5%) over the next 4-5 years. (4) Management expects its margin to improve by 200-300 bps over Q4, led by: (a) a decline in input cost pressure; (b) normalization of freight expenses; (c) improved hedge rate for FY24 to INR 88-89 level from INR 85.3 in FY23 (80% is hedged at this rate). However, the bulk of this margin expansion is likely to come in H2, as per management. (5) Management indicated that it would target to become net debt free in 15-18 months, provided it is not required to commence any major capex plan in this time. (6) Capex guidance for FY24 stands at INR 5-6 bn, of which maintenance capex is likely to be INR 2.5-3bn.

Quarterly/annual financial summary

YE Mar (INR mn)	Q4 FY23	Q4 FY22	YoY (%)	Q3 FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
Net Sales	23,246	24,319	-4.4	22,153	4.9	84,187	1,00,725	1,01,449	1,15,396
EBITDA	4,943	5,765	-14.3	4,238	16.6	21,825	20,286	24,348	30,003
APAT	2,556	3,737	-31.6	996	156.5	14,107	10,786	14,233	18,302
Diluted EPS (INR)	13.2	19.3	-31.6	5.2	156.5	73.0	55.8	73.6	94.7
P/E (x)						31.2	40.8	31.0	24.1
EV / EBITDA (x)						20.4	22.3	18.1	14.5
RoCE (%)						20.4	13.5	16.9	19.9

Source: Company, HSIE Research

REDUCE

CMP (as on 29 May 23)	INR 2,281
Target Price	INR 2,083
NIFTY	18,599

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1,936	INR 2,083
	FY23E	FY24E
EPS %	-7.8%	-1.4%

KEY STOCK DATA

Bloomberg code	BIL IN
No. of Shares (mn)	193
MCap (INR bn) / (\$ mn)	441/5,391
6m avg traded value (INR mn)	640
52 Week high / low	INR 2,492/1,796

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	13.2	12.1	2.0
Relative (%)	6.6	11.8	(12.5)

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	58.29	58.29
FIs & Local MFs	20.22	20.31
FPIs	12.12	12.42
Public & Others	9.04	8.98
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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