

Tough times don't last- but tough men do; committed to 10% global market share in OHT space in 3-4 years

About the stock: Balkrishna Industries (BKT) is the leader in the niche tyre segment (OHT: Off highway tyres) used in heavy machinery for mining & agriculture purposes.

- Exports form lion's share of its sales at ~80% of its revenues
- Channel mix: replacement account for ~70% while OEM share is pegged at ~28%. Agriculture accounts for ~63% of volumes with OTR share at ~34%
- It has consistently operated with high margins & return ratios
- It has lean Balance Sheet with Net Debt: Equity at 0.2x as of FY23

Key Investment Thesis:

- **Committed to 10% global market share in OHT segment over next 3-4 years:** BKT operates in a niche off highway tyre (OHT) segment which finds application in agriculture and mining/industrial purposes. These OHT tyres are typically large in size vs. the usual vehicle tyres and are meant for specific applications. Prior to the Bhuj plant BKT had a market share of ~2-3% in this space and post commissioning of the said plant and volume ramp up its market share in this segment as on date is pegged at ~5-6%. BKT has retained its guidance for attaining ~10% global market share in this segment over the next 3-4 years and is looking for brownfield expansion at its existing state of the art plant at Bhuj. From the existing realisable capacity of 3.6 lakh tonne the plan is to augment it to ~5 lakh tonne (brownfield expansion of ~1-1.5 lakh tonne possible at Bhuj). BKT sees sizeable opportunity to capture in the OTR segment meant for mining and industrial segments as well as greater share of business with OEM's to augment its market share.
- **Healthy financial profile and growth prospects:** BKT has over the years (ex-FY23) exhibited anti-commodity behaviour i.e. consistent high double digit operating margins (~25%+) and return ratios (RoCE>15%) by virtue of its global cost leadership that primarily track its frugal engineering skills, low manpower costs as well as optimum raw material sourcing strategy. Its business model is unique and difficult to replicate given the high capex intensity and the need to develop high number of SKU's. We believe this competitive edge to continue with BKT reverting back to its 25%+ margin trajectory amid easing raw material prices as well as normalised freight costs. Building in the recovery, we expect Sales and PAT at BKT to grow at a CAGR of 5.6% (volume CAGR: 8.9%) & 32.0% respectively over FY23-25E.

Rating and Target Price

- We assign BUY rating on BKT amid healthy sales growth prospects coupled with margin recovery leading to robust bottom-line growth. We also find comfort in its durable high double digit return ratios profile and lean B/S.
- Revising our estimates, we now value BKT at ₹ 2,920 i.e., 30x P/E on FY25E EPS. Margins and RoCE is seen at 27.0% and 19.4% respectively by FY25E.



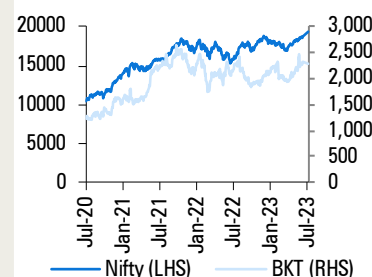
Particulars

Particular	₹ crore
Market Capitalization	45,236
Total Debt (FY23)	3,254
Cash & Inv (FY23)	2,075
EV (₹ Crore)	46,415
52 week H/L (₹)	2,525 / 1,796
Equity capital (₹ crore)	38.7
Face value (₹)	2.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	58.3	58.3	58.3	58.3
FII	14.3	13.0	12.5	12.4
DII	11.2	18.8	20.1	20.2
Other	16.2	9.9	9.1	9.1

Price Chart



Recent event & key risks

- Plant Visit (Bhuj) and management Interaction
- **Key Risk:** (i) delayed inventory liquidation at its key dealerships overseas amid steady retail demand in OHT space, (ii) lower than anticipated margin recovery going forward

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	5,244.5	4,782.5	5,757.9	8,266.7	9,810.5	17.1%	9,532.1	10,934.4	5.6%
EBITDA	1,311.1	1,249.3	1,785.5	1,975.5	1,715.6	9.2%	2,293.4	2,952.3	31.2%
EBITDA Margins (%)	25.0	26.1	31.0	23.9	17.5		24.1	27.0	
Net Profit	782.0	945.0	1,155.4	1,410.7	1,078.7	7.9%	1,410.2	1,880.4	32.0%
EPS (₹)	40.5	48.9	59.8	73.0	55.8		72.9	97.3	
P/E	57.8	47.9	39.2	32.1	41.9		32.1	24.1	
RoNW (%)	16.7	18.8	19.2	20.4	14.2		16.4	18.8	
RoCE (%)	16.7	14.4	19.3	15.9	10.3		14.7	19.4	

Source: Company, ICICI Direct Research

Company Background

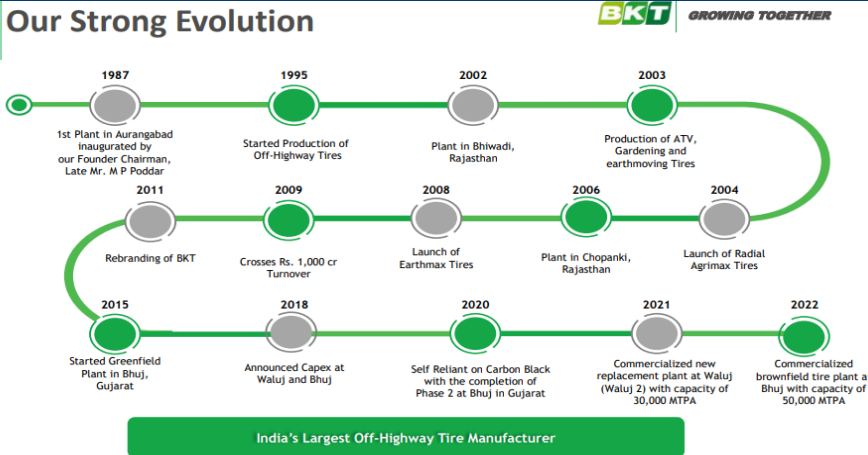
Established in 1987, Balkrishna Industries (BKT) started its journey as a 2/3 W tyre manufacturer and ventured into the niche Off Highway tyre segment (OHT) in 1995. It has four tyre manufacturing plants in India (Bhiwadi and Chopanki in Rajasthan, Waluj in Maharashtra and Bhuj in Gujarat) with nameplate capacity of ~5 lakh tonne and realisable capacity of ~3.6 lakh tonne. Its Bhuj plant is a state of art set-up across ~450 acre of land bank with vehicle testing tracks, extensive R&D capabilities, raw material integration led Carbon Black plant and does manufacturing in a truly sustainable way (green belt, waste heat recovery, air quality, water recycling, etc.). BKT is now the India's largest OHT tyre manufacturer with sizeable presence in the global markets which constitute ~80% of its sales. It has capability to manufacture ~3,200 SKUs and currently exports to over 163 countries.

BKT- ESG Disclosure Score*			
Score	FY20	FY21	FY22
Environmental	15.5	15.5	16.0
Social	21.8	21.8	21.8
Governance	78.6	78.6	78.6
Overall ESG Score	38.7	38.7	38.8

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Exhibit 1: BKT over years

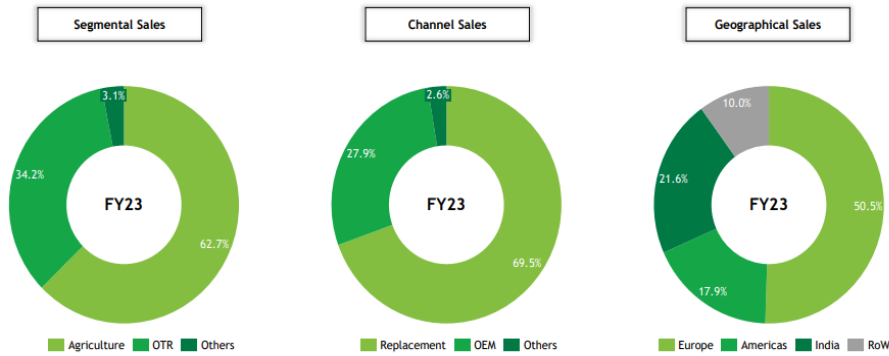
Our Strong Evolution



Source: Company, ICICI Direct Research

Exhibit 2: BKT Volume Profile – FY23

Volume Profile



Source: Company, ICICI Direct Research

In terms of geographies as of FY23, it realises ~50% sales from Europe, ~18% from Americas, ~22% from India & remaining from rest of world

In term of Channel mix, as of FY23, replacement market accounted for ~70% of sales while OEM share is pegged at ~28%.

In terms of end usage, as of FY23, Agriculture accounts for ~63% of volumes with OTR share pegged at ~34%

Exhibit 3: BKT global OEM client list

To Serve Global OEMs...



Source: Company, ICICI Direct Research

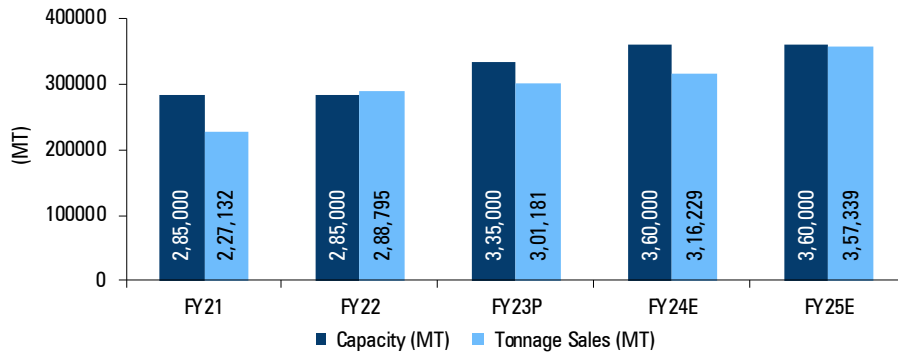
Going forward, BKT intends to penetrate more into OEM's (especially in OTR segment) amidst healthy brand recall and expects the same to be margin neutral (not dilutive) with dealership margins being replaced by competitive pricing at OEM's

Investment Rationale

Committed to 10% global market share over next 3-4 years

Global OHT segment is hard to track amidst requirement of high number of SKU's, high capex intensity (manufacturing set up) and requirement of healthy inventory stocking at dealerships in overseas markets. BKT though years of hard work and indigenous R&D efforts has been able to make a mark for itself with present market share in this space pegged at ~5-6%. Its vision is to take it to ~10% in about 3-4 years timeframe with key drivers being greater penetration in the OTR space (mining/industrial) wherein it has low presence and collaboration with OEM's offering them good value proposition amidst healthy brand recall.

Exhibit 4: Volume trend at BKT



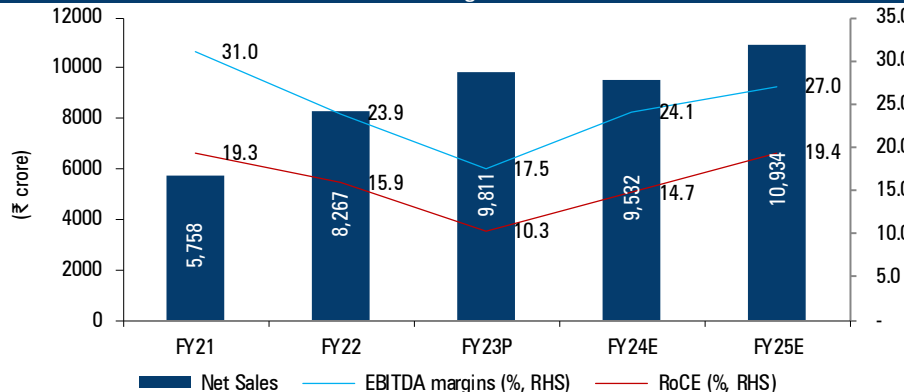
We expect sales volume to grow at a CAGR of 8.9% over FY23-25E to 3.57 lakh tonne in FY25E

Source: Company, ICICI Direct Research

Healthy growth in the offering

With inventory de-stocking to complete in near time (inventory days at ~70 days vs. the desired ~45 days) and steady retail demand, we expect volume growth to turn positive in H2FY24 and thereafter grow healthy double digit in FY25E. We have built in sales volume of 3.16 lakh tonne in FY24E (up 5% YoY) and 3.57 lakh tonne in FY25E (up 13% YoY) thereby resulting in sales volume CAGR of 8.9% over FY23-25E. With ASP's set to decline to ~₹300/kg levels in FY24E vs. ~₹320/kg levels seen in FY23 amid decline in sea freight (charged to some customers) as well as decline in key RM prices, we expect topline at BKT to grow at a CAGR of 5.6% over FY23-25E. With margins already bottoming out and healthy expansion on anvil with management guiding for it to range between 26-28% in the long term, we expect BKT exiting FY24 with ~25% EBITDA margins & thereafter clocking ~27% margins in FY25E. BKT bottom-line henceforth is seen growing at a CAGR of 32.0% over FY23-25E (albeit on a low base) amid high single digit volume growth & margin gains.

Exhibit 5: Trend in Net Sales, EBITDA margins and RoCE



Margins are seen improving to 27% by FY25E vs. ~17.5% in FY23 amid cooling of commodity prices and better operating leverage

Source: Company, ICICI Direct Research

Lean B/S status remains with Return ratios reverting back to >15% mark

Lean balance sheet & healthy double digit return ratios (RoCE>15%) has been the key USP at BKT which differentiated it with respect to other tyre players in the listed space (with limited presence in OHT segment) which had levered balance sheet and realised subdued return ratios. With margin recovery on the horizon, the return ratios are seen reverting back to >15% mark thereby supporting the premium valuations at which BKT trades. It has all the attributes of portfolio stock i.e., capital efficient business model, lean B/S, good management pedigree and growth longevity.

Key risks and Concerns

Less than anticipated volume growth

BKT has a high exposure to overseas markets by virtue of it realising ~80% of sales from exports and hence is susceptible to risk on account of slowdown in global economy. The company is currently witnessing inventory destocking at dealer's end and hence any delay in the same could impact manufacturing volumes from India.

Foreign currency risk

BKT exports to over 163 countries worldwide and hence is susceptible to foreign exchange risk. It presently realises ~50% of sales from Europe, ~18% from USA and ~10% from rest of world (excluding India), hence any adverse currency movement in any of the markets that it operates into could impact its overall profitability.

Slower than anticipated margin recovery

BKT has in the past on consistent basis realised healthy 25%+ margins with FY23 an aberration wherein its margins dropped below 20% mark amidst unprecedented rise in freights as well as raw material costs. EBITDA margins touched a low of ~12% in Q3FY23 and thereafter recovered sharply to 20%+ profile as of Q4FY23. With high-cost inventory already used, we have built in healthy margin improvement at BKT going forward. Any delay or slower than anticipated margin recovery could impact the overall profitability estimates and is negative for our target price calculation.

Financial Summary

Exhibit 6: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Total operating Income	8,266.7	9,810.5	9,532.1	10,934.4
Growth (%)	43.6	18.7	-2.8	14.7
Raw Material Expenses	3,778.6	4,955.8	4,742.6	5,357.9
Employee Expenses	380.4	404.2	416.3	437.4
Other Expenses	2,132.2	2,735.0	2,079.8	2,186.9
Total Operating Expenditure	6,291.2	8,094.9	7,238.6	7,982.1
EBITDA	1,975.5	1,715.6	2,293.4	2,952.3
Growth (%)	10.6	-13.2	33.7	28.7
Depreciation	443.8	556.6	643.4	699.8
Interest	7.9	45.6	70.0	49.0
Other Income	430.6	337.8	305.2	310.5
PBT	1,954.5	1,451.1	1,885.3	2,514.0
Total Tax	543.8	372.5	475.1	633.5
Reported PAT	1,410.7	1,078.7	1,410.2	1,880.4
Growth (%)	22.1	-23.5	30.7	33.3
EPS (₹)	73.0	55.8	72.9	97.3

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	1,410.7	1,078.7	1,410.2	1,880.4
Add: Depreciation	443.8	556.6	643.4	699.8
(Inc)/dec in Current Assets	-1,140.9	8.5	-20.3	-455.3
Inc/(dec) in CL and Provisions	305.2	-148.5	152.3	174.7
CF from operating activities	1,018.8	1,495.3	2,185.6	2,299.7
(Inc)/dec in Investments	-292.5	-90.1	-150.0	425.0
(Inc)/dec in Fixed Assets	-1,506.1	-2,061.6	-600.0	-1,000.0
Others	-295.3	261.6	-14.2	-104.6
CF from investing activities	(2,093.8)	(1,890.0)	(764.2)	(679.6)
Inc/(dec) in loan funds	1,549.2	811.4	-1,000.0	-1,000.0
Dividend paid & dividend tax	-541.3	-309.3	-386.6	-502.6
Others	47.9	-104.8	0.0	0.0
CF from financing activities	1,055.9	397.2	(1,386.6)	(1,502.6)
Net Cash flow	-19.2	2.5	34.8	117.4
Opening Cash	54.5	35.3	37.8	72.6
Closing Cash	35.3	37.8	72.6	190.1

Source: Company, ICICI Direct Research

Exhibit 8: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Liabilities				
Equity Capital	38.7	38.7	38.7	38.7
Reserve and Surplus	6,885.9	7,550.5	8,574.0	9,951.8
Total Shareholders funds	6,924.6	7,589.1	8,612.6	9,990.5
Total Debt	2,442.6	3,253.9	2,253.9	1,253.9
Deferred Tax Liability	250.9	241.3	241.3	241.3
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	9,673.3	11,237.0	11,260.6	11,638.4
Assets				
Gross Block	6,355.7	8,284.1	9,775.7	10,525.7
Less: Acc Depreciation	2,449.3	3,005.9	3,649.3	4,349.1
Net Block	3,906.4	5,278.1	6,126.3	6,176.5
Capital WIP	1,258.4	1,391.6	500.0	750.0
Total Fixed Assets	5,164.8	6,669.7	6,626.3	6,926.5
Investments	1,977.0	2,108.3	2,283.3	1,908.3
Inventory	1,639.4	1,592.4	1,566.9	1,797.4
Debtors	1,097.7	1,253.5	1,305.8	1,497.9
Loans and Advances	68.5	55.1	53.6	61.4
Cash	35.3	37.8	72.6	190.1
Other current assets	277.5	173.6	168.7	193.5
Total Current Assets	3,118.4	3,112.4	3,167.5	3,740.3
Creditors	807.5	486.6	652.9	748.9
Provisions	4.5	4.3	5.7	6.6
Other current liabilities	371.8	544.5	529.0	606.8
Total Current Liabilities	1,183.8	1,035.3	1,187.6	1,362.3
Net Current Assets	1,934.6	2,077.1	1,979.9	2,377.9
Others	596.5	381.4	370.6	425.1
Application of Funds	9,673.3	11,237.0	11,260.6	11,638.4

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	73.0	55.8	72.9	97.3
Cash EPS	95.9	84.6	106.2	133.5
BV	358.2	392.6	445.5	516.8
DPS	28.0	16.0	20.0	26.0
Cash Per Share	37.2	42.0	51.6	35.7
Operating Ratios (%)				
EBITDA Margin	23.9	17.5	24.1	27.0
PBT / Net sales	18.5	11.8	17.3	20.6
PAT Margin	17.1	11.0	14.8	17.2
Inventory days	72.4	59.2	60.0	60.0
Debtor days	48.5	46.6	50.0	50.0
Creditor days	35.7	18.1	25.0	25.0
Return Ratios (%)				
RoE	20.4	14.2	16.4	18.8
RoCE	15.9	10.3	14.7	19.4
RoIC	20.0	12.9	16.9	22.1
Valuation Ratios (x)				
P/E	32.1	41.9	32.1	24.1
EV / EBITDA	23.8	27.8	20.3	15.5
EV / Net Sales	5.7	4.9	4.9	4.2
Market Cap / Sales	5.5	4.6	4.7	4.1
Price to Book Value	6.5	6.0	5.3	4.5
Solvency Ratios				
Debt/EBITDA	1.2	1.9	1.0	0.4
Debt / Equity	0.4	0.4	0.3	0.1
Current Ratio	3.8	6.3	4.7	4.7
Quick Ratio	1.8	3.0	2.3	2.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

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Name of the Compliance officer (Research Analyst): Mr. Atul Agarwal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: heads-servicequality@icicidirect.com Contact Number: 18601231122

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