

Balkrishna Industries

Demand outlook remains uncertain

Balkrishna Industries' (BKT) Q1 FY24 PAT, at INR3.1bn, came in ahead of our estimate of INR2.6bn, led by higher other income even as EBITDA lagged estimates. Q1 tonnage declined 19% YoY and was lower than expected due to plant shutdown at Bhuj on account of the cyclone. While Q2 will have the spillover benefit for a weak Q1, management maintained that demand continues to be weak globally due to the impact of heat waves and recessionary trends in key regions. As a result, management has refrained from giving any volume guidance for FY24. We factor in BKT's margin to improve to 25% 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 87-88 vs INR 85.3 for FY23 and expect it to improve to 27% for FY25, as operating leverage benefits are likely to kick in. However, cost pressures like (1) competitive headwinds and (2) continuous investments in its brand may result in downside risks to our estimates. However, despite factoring in most positives, the stock at 25.6x FY25E appears expensive. Maintain REDUCE with a revised TP of INR2,148 (INR2,083 earlier), as we roll forward to June-25 EPS (no change in target multiple).

- **Q1 PAT beats estimate, led by higher other income:** Tonnage declined 19% YoY in Q1 to 67,209 MT. Sales tonnage in Q1 was weak as BKT lost about 4-5k MT of production on account of (1) loss of five days' production as Bhuj plant was shut down due to the cyclone and (2) disruption in dispatches for all plants at Mundra port in the second half of June. However, margins have improved 170bps QoQ (+300bps YoY) to 23%, led by: (1) reduced input costs and (2) reduced freight expenses. Other income increased to INR 987mn in Q1 due to MTM gains on investments. As a result, PAT came in ahead of estimates at INR 3.1bn vs our estimate of INR 2.6bn.
- **Call takeaways:** (1) Due to stable retail demand, inventory stock with channels is back at normal levels. (2) Management has indicated that they expect to see weak demand in Q2, given challenges due to heat waves and recessionary fears in export markets. Given the uncertain demand situation globally, they have refrained from giving any volume guidance for FY24. (3) While the loss in production in Q1 is likely to spill over to Q2, one needs to adjust this for the impact of weak global demand and a seasonally weak quarter. Even domestic demand would be tepid due to the onset of rainfall in Q2. (4) Despite the current run-up in crude prices, management expects input cost to largely remain stable over the course of the year. They also expect ASP to stabilise at INR 302-305 per kg levels by Q4FY24, as they pass on the benefit of cost reduction to the market, in line with the competition. (5) Hedge rate for Euro stands at INR 87-88 for FY24. (6) Capex guidance for FY24 stands at INR 5-6 bn, of which maintenance capex is likely to be INR 2.5-3bn. (7) The key margin driver from here on to achieve their long-term margin guidance is expected to be the operating leverage benefit and an improved mix.

Quarterly/annual financial summary

YE Mar (INR mn)	Q1 FY24	Q1 FY23	YoY (%)	Q4 FY23	QoQ (%)	FY23	FY24E	FY25E	FY26E
Net Sales	21,150	27,263	-22.4	23,246	-9.0	1,00,725	94,242	1,09,896	1,20,905
EBITDA	4,864	5,465	-11.0	4,943	-1.6	20,286	23,748	29,672	33,249
APAT	3,123	3,197	-2.3	2,556	22.2	10,787	14,231	18,300	20,584
Diluted EPS (INR)	16.2	16.5	-2.3	13.2	22.2	55.8	73.6	94.7	106.5
P/E (x)						42.5	32.2	25.0	22.3
EV / EBITDA (x)						23.1	19.3	15.2	13.3
RoCE (%)						13.5	16.9	19.8	20.4

Source: Company, HSIE Research

REDUCE

CMP (as on 07 Aug 2023) INR 2,371

Target Price INR 2,148

NIFTY 19,597

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 2,083	INR 2,148
	FY24E	FY25E
EPS %	0.0%	0.0%

KEY STOCK DATA

Bloomberg code	BIL IN
No. of Shares (mn)	193
MCap (INR bn) / (\$ mn)	458/5,603
6m avg traded value (INR mn)	702
52 Week high / low	INR 2,570/1,796

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	10.8	4.2	9.6
Relative (%)	2.8	(5.2)	(3.4)

SHAREHOLDING PATTERN (%)

	Mar-23	Jun-23
Promoters	58.29	58.29
FIs & Local MFs	20.31	21.00
FPIs	12.42	12.41
Public & Others	8.98	8.30
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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