

18 March 2024

India | Equity Research | Company Update

Balkrishna Industries

Auto Ancillaries

Base finally favourable to drive 10%-plus growth for India OHT exports

India OHT exports in Jan'24, at USD 151mn, were higher by 13% YoY as against USD 139mn average monthly exports in CY23. This was driven by strong growth in EU/US agri segment, with overall agri segment exports being up ~17% YoY vs. OTR exports being up 6%. In US, base turned favourable from Jan'24 as expected in both agri/OTR segments, leading to YoY growth of 32%/23%; in comparison, EU saw growth of 23%/5% with the effects of a favourable base already kicking in a quarter back. We expect, in FY24, India OHT exports to deliver ~10% growth YoY on a base of USD 139mn a month on an average in CY23; against that, we build in 12% volume growth for BIL to our FY24 estimates. We maintain **BUY** on BIL with a DCF-based unchanged TP of INR 2,820, implying 25x FY26E EPS.

Base effect-led 10%-plus growth taking shape since Jan'24

OHT exports increased 13% YoY to USD 151mn vs. the YTD mean of USD 139mn. YoY growth was driven by a 23%/32% uptick in EU/US agri tyre exports while OTR exports grew 5%/23%. RoW growth remained subdued owing to lethargic demand in both segments, mainly in ASEAN markets and Russia. We envisage that the agri segment-led inertia in exports to US/EU shall lift overall industry growth in excess of 10%, including BIL's in FY25 on a favourable base. EU's favourable base effect started a quarter back; since Jan'24, US exports' base too turned favourable, paving the way for 10%-plus industry exports in FY25E.

BIL set to outperform industry exports with stronger trend in agri

Since FY12, BIL's volumes have faltered YoY twice and FY24 is expected to be the third such occasion – a 5% dip in volumes expected this time. Both in FY16 and FY20, BIL's volumes retreated 4% YoY, but was followed by 16%/13% growth in FY17/FY21. We are building in 12% volume growth for BIL in FY25E. With a stronger growth trajectory in the agri tyre space (given BIL's strong hold), we do not see any risk to BIL's share within India OHT exports from the ~50% levels in FY25, which has been its mean share through the past decade. We expect BIL to end FY24 with a 5% decline in volumes, implying flattish QoQ volumes in Q4FY24, as the disruptions at Red Sea keep the waters choppy for supply chain. Thus, with FY24's favourable base, we expect ~12% volume growth in FY25E.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	98,105	91,659	1,04,300	1,16,646
EBITDA	17,156	21,797	27,007	31,792
EBITDA %	17.5	23.8	25.9	27.3
Net Profit	10,787	14,226	18,125	21,584
EPS (INR)	55.8	73.6	93.8	111.7
EPS % Chg YoY	(23.6)	31.9	27.4	19.1
P/E (x)	40.6	30.8	24.2	20.3
EV/EBITDA (x)	27.3	21.0	16.7	13.7
RoCE (%)	10.7	12.7	15.5	17.6
RoE (%)	14.9	17.5	19.4	19.8

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Market Data

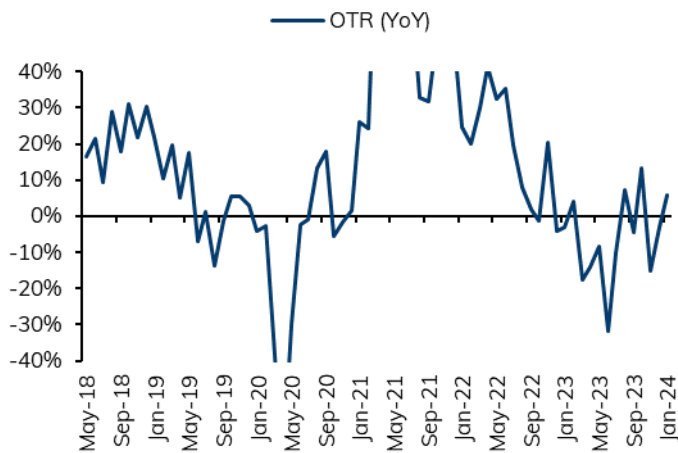
Market Cap (INR)	438bn
Market Cap (USD)	5,292mn
Bloomberg Code	BIL IN
Reuters Code	BLKI.BO
52-week Range (INR)	2,796 /1,909
Free Float (%)	41.0
ADTV-3M (mn) (USD)	9.9

Price Performance (%)	3m	6m	12m
Absolute	(13.2)	(9.4)	15.5
Relative to Sensex	(16.9)	(17.6)	(10.8)

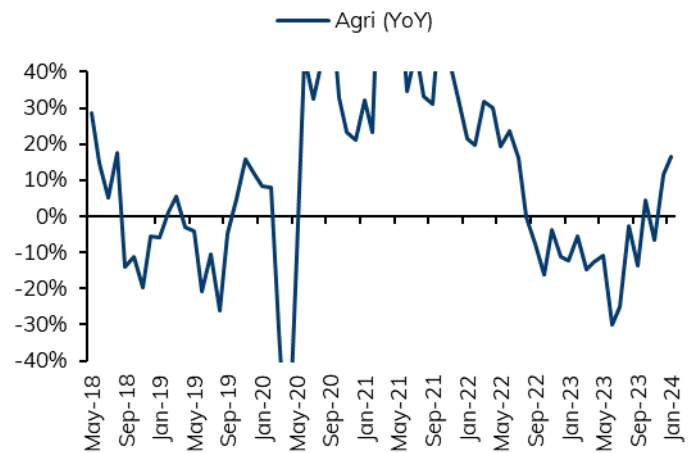
Previous Reports

23-02-2023: [Company Update](#)

26-01-2023: [Q3FY24 result review](#)

Exhibit 1: India OTR tyre exports growth trend

Source: Commerce ministry, I-Sec research

Exhibit 2: India agri tyre exports growth trend

Source: Commerce ministry, I-Sec research

Exhibit 3: Tyre industry's total exports (agri + OTR)

USD mn	Jan-23	Feb-23	Mar-23	Apr-23	May-23	Jun-23	Jul-23	Aug-23	Sep-23	Oct-23	Nov-23	Dec-23	Jan-24
Agri	87.0	90.3	99.2	93.4	95.3	81.6	84.9	89.7	80.0	87.5	83.6	109.7	101.5
OTR	46.9	47.7	47.7	46.2	49.0	40.7	51.8	52.3	47.9	52.4	46.0	52.1	49.6
Total	133.9	137.9	147.0	139.6	144.3	122.3	136.7	142.0	128.0	139.9	129.6	161.8	151.1

Source: Commerce ministry, I-Sec research

Exhibit 4: Agri tyre exports see growth in EU driven by favourable base

USD mn	Jan-23	Jan-24	% Growth	YTD FY23	YTD FY24	% Growth
EU	46.2	56.6	23%	472.6	500.3	6%
Share of total (%)	53.0	55.8		47.8	55.1	
USA	18.6	24.6	32%	254.1	190.0	-25%
Share of total (%)	21.4	24.3		25.7	20.9	
ROW	22.3	20.3	-9%	261.5	217.0	-17%
Share of total (%)	25.6	20.0		26.5	23.9	
Total	87.0	101.5	17%	988.2	907.3	-8%

Source: Commerce ministry, I-Sec research

Exhibit 5: OTR tyre exports supporting overall demand; US still declining

USD mn	Jan-23	Jan-24	% Growth	YTD FY23	YTD FY24	% Growth
EU	17.1	18.0	5%	163.2	173.7	6%
Share of total (%)	36.5	36.2		31.1	35.6	
USA	12.2	14.9	23%	165.0	124.1	-25%
Share of total (%)	25.9	30.1		31.5	25.4	
ROW	17.6	16.7	-5%	196.3	190.2	-3%
Share of total (%)	37.5	33.7		37.4	39.0	
Total	46.9	49.6	6%	524.5	488.0	-7%

Source: Commerce ministry, I-Sec research

Exhibit 6: Expect BIL's OHT exports share to remain around 50% in the long run

Particulars (USD mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
BIL Volume	70,320	77,119	83,153	78,872	66,480	72,676	67,209	70,585	72,749
YoY Growth (%)	18%	13%	21%	8%	-5%	-6%	-2%	-11%	+9%
BIL Revenue (ex-India)	222.6	262.5	279.3	282.6	152.5	221.7	176.8	202.1	209.3
QoQ Growth (%)	-2%	18%	6%	1%	-46%	45%	-20%	14%	4%
YoY Growth (%)	41%	43%	42%	25%	-32%	-16%	-37%	-28%	37%
India OHT Tyre exports	451.8	463.7	497.6	455.1	426.1	418.8	406.2	406.7	431.3
QoQ Growth (%)	4%	3%	7%	-9%	-6%	-2%	-3%	0%	6%
YoY Growth (%)	45%	25%	28%	5%	-6%	-10%	-18%	-11%	1%
BIL overall share	49%	57%	56%	62%	36%	53%	44%	50%	49%

Source: Commerce ministry, Company, I-Sec research

Downside risks

- Weakness in retail offtake from key markets may impact volume offtake for BIL in coming quarters, post weak volumes in the past couple of quarters due to inventory destocking.
- Inability to enhance market share in global OHT due to competition intensifying.
- Inability to rebound to 28% operating margin level due to adverse input cost scenario and higher competition.

Exhibit 7: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	58.3	58.3	58.3
Institutional investors	33.4	33.6	33.9
MFs and others	12.4	12.7	14.0
FIs/Banks	0.2	0.6	0.6
Insurance	7.8	7.8	6.6
FIIIs	13.0	12.5	12.7
Others	8.3	8.1	7.8

Source: Bloomberg

Exhibit 8: Price chart


Source: Bloomberg

Financial Summary

Exhibit 9: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	98,105	91,659	1,04,300	1,16,646
Operating Expenses	31,391	26,286	29,578	32,848
EBITDA	17,156	21,797	27,007	31,792
EBITDA Margin (%)	17.5	23.8	25.9	27.3
Depreciation & Amortization	5,566	6,509	7,112	7,749
EBIT	11,590	15,288	19,894	24,043
Interest expenditure	456	70	70	70
Other Non-operating Income	3,378	3,500	4,025	4,428
Recurring PBT	14,512	18,718	23,849	28,401
Profit / Loss from Associates	-	-	-	-
Less: Taxes	3,725	4,492	5,724	6,816
PAT	10,787	14,226	18,125	21,584
Less: Minority Interest	-	-	-	-
Extraordinary (Net)	-	-	-	-
Net Income (Reported)	10,787	14,226	18,125	21,584
Net Income (Adjusted)	10,787	14,226	18,125	21,584

Source Company data, I-Sec research

Exhibit 10: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	34,943	36,229	40,211	46,370
of which cash & cash eqv.	378	3,229	3,223	7,173
Total Current Liabilities & Provisions	11,880	11,911	12,906	14,410
Net Current Assets	23,063	24,319	27,305	31,960
Investments	20,373	20,373	20,373	20,373
Net Fixed Assets	53,492	55,982	57,870	60,121
ROU Assets	-	-	-	-
Capital Work-in-Progress	13,916	13,916	13,916	13,916
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	1,10,844	1,14,590	1,19,464	1,26,371
Liabilities				
Borrowings	32,539	25,539	16,539	6,539
Deferred Tax Liability	2,413	2,413	2,413	2,413
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	387	387	387	387
Reserves & Surplus	75,505	86,251	1,00,125	1,17,032
Total Net Worth	75,891	86,638	1,00,512	1,17,418
Minority Interest	-	-	-	-
Total Liabilities	1,10,844	1,14,590	1,19,464	1,26,371

Source Company data, I-Sec research

Exhibit 11: 5-stage DuPont analysis

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Tax Burden	74.3	76.0	76.0	76.0
Interest Burden (PBT/EBIT)	125.2	121.5	119.1	115.7
EBIT Margin	11.8	17.1	19.3	22.7
Asset Turnover	88.5	81.4	89.9	95.2
Financial Leverage	146.1	132.2	118.8	107.5
ROE	14.9	18.1	20.0	22.2

Source Company data, I-Sec research

Exhibit 12: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	18,078	22,331	22,246	28,629
Working Capital Changes	1,725	1,596	(2,993)	(705)
Capital Commitments	(20,529)	(9,000)	(9,000)	(10,000)
Free Cashflow	(2,451)	13,331	13,246	18,629
Other investing cashflow	(1,400)	-	-	-
Cashflow from Investing Activities	(21,929)	(9,000)	(9,000)	(10,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	8,114	(7,000)	(9,000)	(10,000)
Dividend paid	(3,093)	(3,479)	(4,253)	(4,678)
Others	(1,145)	-	-	-
Cash flow from Financing Activities	3,876	(10,479)	(13,253)	(14,678)
Chg. in Cash & Bank balance	25	2,851	(6)	3,951
Closing cash & balance	377	3,229	3,223	7,174

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	55.8	73.6	93.8	111.7
Adjusted EPS (Diluted)	55.8	73.6	93.8	111.7
Cash EPS	84.6	107.3	130.6	151.7
Dividend per share (DPS)	1.6	1.8	2.2	2.4
Book Value per share (BV)	392.6	448.2	520.0	607.4
Dividend Payout (%)	2.9	2.4	2.3	2.2
Growth (%)				
Net Sales	18.7	(6.6)	13.8	11.8
EBITDA	(13.2)	27.1	23.9	17.7
EPS (INR)	(23.6)	31.9	27.4	19.1
Valuation Ratios (x)				
P/E	40.6	30.8	24.2	20.3
P/CEPS	26.8	21.1	17.4	14.9
P/BV	5.8	5.1	4.4	3.7
EV / EBITDA	27.3	21.0	16.7	13.7
EV / Sales	4.8	5.0	4.3	3.7
Profitability Ratios				
Gross Profit Margins (%)	49.5	52.5	54.3	55.4
EBITDA Margins (%)	17.5	23.8	25.9	27.3
EBIT Margins (%)	11.8	16.7	19.1	20.6
Net Profit Margins (%)	11.0	15.5	17.4	18.5
RoCE (%)	10.7	12.7	15.5	17.6
RoE (%)	14.9	17.5	19.4	19.8
Dividend Yield (%)	0.1	0.1	0.1	0.1
Operating Ratios				
Fixed Asset Turnover (x)	1.5	1.3	1.5	1.6
Inventory Turnover Days	57	57	57	57
Receivables Days	45	45	45	38
Payables Days	30	30	30	32
Effective Tax Rate (%)	25.7	24.0	24.0	24.0
Net Debt / Equity (x)	0.4	0.3	0.1	0.0
Net Debt / EBITDA (x)	1.9	1.0	0.5	0.0

Source Company data, I-Sec research

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