



**3R MATRIX**

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

**What has changed in 3R MATRIX**

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

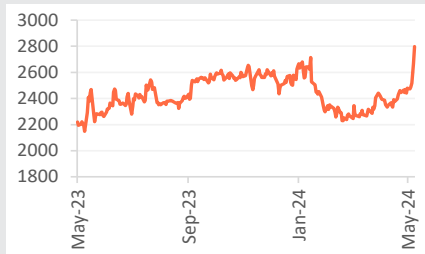
**Company details**

Market cap:	Rs. 54,090 cr
52-week high/low:	Rs. 2798/2105
NSE volume: (No of shares)	3.1 lakh
BSE code:	502355
NSE code:	BALKRISIND
Free float: (No of shares)	8.1 cr

**Shareholding (%)**

Promoters	58.3
FII	12.2
DII	22.1
Others	7.4

**Price chart**



**Price performance**

(%)	1m	3m	6m	12m
Absolute	19.0	19.3	9.1	26.1
Relative to Sensex	17.5	15.2	-4.9	6.5

Sharekhan Research, Bloomberg

**Balkrishna Industries Ltd**  
Strong beat, upgrade to BUY

<b>Automobiles</b>	<b>Sharekhan code: BALKRISIND</b>			
<b>Reco/View: Buy</b>	↑	CMP: Rs. 2,798	Price Target: Rs. 3,195	↑
	↑ Upgrade	↔ Maintain	↓ Downgrade	

**Summary**

- Strong earnings beat on robust volume growth (+12.8% q-o-q), healthy realisations (+3.9% q-o-q), and sharp gross margin expansion (+160bps q-o-q). Revenue and EBITDA exceeded estimates by 16.2% and 18.2%, respectively.
- With volume growth assumption in FY2025, management is planning for a price hike in the near term.
- We upgrade our rating from Hold to BUY with a revised PT of Rs. 3,195 in expectation of demand revival, sustenance of EBITDA margin, and its market share gain strategies.
- The stock is trading at a P/E multiple of 23.6x and EV/EBITDA multiple of 16.3x its FY2026 estimates.

**Balkrishna Industries Limited (BKT) reported better-than-estimated operating performance in Q4FY2024 on account of strong volume growth (+12.8% q-o-q), healthy realisations (+3.9% q-o-q), and sharp gross margin expansion (+160bps q-o-q). Hence, revenue and EBITDA exceeded estimates by 16.2% and 18.2%, respectively, while EBITDA margin came 50bps ahead of estimates. EBITDA margin expansion was stemmed by a 230bps q-o-q expansion in freight rates as the percentage of sales (due to the Red Sea issue). Revenue increased by 17.3% q-o-q to Rs. 2,673 crore (against our estimate of Rs. 2,300 crore) on the back of a 12.8% q-o-q increase in volumes and a 3.9% q-o-q increase in realization. EBITDA increased by 23.4% q-o-q to Rs. 665 crore (against our estimate of Rs. 560 crore). Gross margin expansion of 160bps and favourable operating leverage (90bps contraction in employee cost and 230bps contraction in other expenses (excluding freight cost) as a percentage of sales) were partly netted off by the 350bps expansion in freight cost (as a percentage of sales). Hence, the EBITDA margin expanded by 120bps q-o-q to 24.9% (against our estimate of 24.3%). The company's realized forex gain stood at Rs. 34 crore and unrealized forex gain stood at Rs. 49 crore. On excluding unrealized forex gain, APAT increased by 27.4% q-o-q to Rs. 444 crore (against our estimate of Rs. 322 crore).**

**Key positives**

- Volumes and ASPs increased by 12.9% and 3.9%, respectively, on a sequential basis.
- Gross margin expanded by 160bps q-o-q.
- Other expenses (excluding freight rates) contracted by 230 bps q-o-q.

**Key negatives**

- Freight rates as a percentage of sales expanded by 350bps q-o-q due to the Red Sea issue.
- While demand is holding up, management has not shared specific volume guidance due to geopolitical issues.
- Input basket is expected to rise by Rs. 1-2 per kg in Q1FY2024.

**Management Commentary**

- Volumes are expected to grow in FY2025 from its 292.6k MT in FY2024.
- Margins in FY2025 are likely to be similar to EBITDA margin in Q4FY2024 (24.9%).
- With the expectation of an increase in input basket, management is looking to increase prices in the coming quarters.

**Our Call**

**Valuation – Upgrade to BUY with a revised PT of Rs. 3,195:** Post reporting higher-than-expected operating performance, management is looking for volume growth in FY2025 over FY2024 and assumes the EBITDA margin in FY2025 can match the EBITDA margin in Q4FY2024 as it is planning to raise prices to counter the expected rise in input basket, expecting normalised tariff rates along with the commencement of high-margin advanced carbon capacity in FY2025. Management foresees a stable demand situation in the U.S. and is looking for a market share gain in the Indian market as replacement demand is rising in the domestic market. Inventory levels in European markets are reaching normal levels. Further, management has highlighted that geopolitical issues are continuing to be a challenge. BKT continues to aspire for a 10% market share in the domestic market in the medium term compared to a 5-6% market share currently. Along with the result, BKT has announced a fourth interim dividend of Rs. 4/share in addition to the already announced interim dividend of Rs. 12/share. Post incorporating Q4FY2024 performance, we upgrade our rating on the stock from Hold to BUY, with a revised PT of Rs. 3,195 in expectation of demand revival, sustenance of EBITDA margin, and its market share gain strategies.

**Key Risks**

BKT derives a significant part of its revenue from exports markets. Any adverse movement in the macro environment of these countries or forex fluctuation could impact the company's financial performance.

**Valuation (Standalone)**

Particulars	FY22	FY23	FY24P	FY25E	FY26E
Revenues	8,267	9,811	9,299	10,440	12,062
Growth (%)	43.6	18.7	-5.2	12.3	15.5
EBIDTA	1,976	1,716	2,204	2,599	3,233
OPM (%)	23.9	17.5	23.7	24.9	26.8
Net Profit	1,383	1,144	1,396	1,758	2,287
Growth (%)	21.2	-17.2	22.0	26.0	30.1
EPS (Rs.)	71.5	59.2	72.2	91.0	118.3
P/E	39.1	47.3	38.7	30.8	23.6
P/BV	7.8	7.1	6.1	5.3	4.5
EV/EBIDTA	27.6	32.2	24.7	20.2	16.3
ROE (%)	20.0	15.1	15.8	17.3	19.2
ROCE (%)	15.1	10.3	12.8	15.8	17.6

Source: Company; Sharekhan estimates

## Concall highlights

### Revenue mix

- ◆ Geography-wise revenue mix (FY2024): Europe: 47.1%, America: 16.9%, India: 26.8%, Others: 9.2%.
- ◆ Channel-wise revenue mix (FY2024): Replacement: 71.1 %, OEM: 27.0%, Others: 1.9%.
- ◆ Segment-wise revenue mix (FY2024): Agriculture: 60.5%, OTR: 36.2%, Others: 3.3%

### EPR provisioning

- ◆ BKT has provided Rs. 11 crore in Q4FY2024 for EPR requirement for FY2023 and FY2024.
- ◆ BKT has to purchase the recycling certificate about volumes in the Indian market (26.8% of its revenue in FY2024).
- ◆ The company estimates EPR costing would be Rs. 15 crore in FY2025.

### Others

- ◆ The company has not taken any price hike in Q4FY2024 and the topline performance was largely driven by improvement in the model mix and partial passing on of higher tariffs to customers.
- ◆ BKT incurred a capex of Rs. 1,140 crore in FY2024.
- ◆ Gross debt stood at Rs. 3,036 crore and cash stood at Rs. 2,746 crore.
- ◆ Raw-material basket has inched up from Rs. 149-150 in Q3FY2024 to Rs. 152 in Q4FY2025. While the raw-material cost has been increasing, management believes that it would not impact its performance immediately due to inventory in transition for raw materials.

### Outlook

- ◆ While management has not shared specific volume guidance for FY2025 due to geopolitical concerns, it indicates that so far demand is holding up and assumes that its volumes would grow in FY2025.
- ◆ Demand in the U.S. has reached normalcy, and it has been gaining market share in the domestic market on the rise in replacement demand.
- ◆ Management considers the Indian market as a focused market going forward and hopes to sustain its 7-10% market share in India in the medium term.
- ◆ Channel inventory has started rebuilding.
- ◆ The company's ongoing capex on advanced car black capacity and mould manufacturing would be completed in H1FY2025.
- ◆ The company envisages capex of Rs. 500-600 crore in FY2025 and plans for small brownfield capex in the medium term.
- ◆ The company continues to target for a 10% market share in the global OHT segment in the next five years from the current market share of 5-6%.
- ◆ The company is looking to be a net debt-free company by FY2025.
- ◆ BKT foresees Rs. 1-2 rupees in the input basket in Q1FY2025. Hence, the company is looking for a suitable price hike at an appropriate time.
- ◆ The freight rate issue is likely to be normalised in the coming year.
- ◆ Margins in FY2025 would likely be similar to its EBITDA margin in Q4FY2024 (24.9%).
- ◆ The advanced carbon segment would have 200-300 bps higher EBITDA margin than the normal carbon segment. The company has entered into advanced carbon capacity formation on identified demand from existing customers.
- ◆ Rise in the share of Indian revenue in its revenue mix is not margin dilutive.

### Results (Standalone)

Particulars	Rs cr				
	Q4FY24	Q4FY23	YoY%	Q3FY24	QoQ%
Revenues	2,673	2,318	15.3	2,280	17.3
Total operating expenses	2,008	1,847	8.7	1,741	15.3
EBITDA	665	471	41.3	539	23.4
Depreciation	172	151	13.8	159	8.4
Interest	30	25	19.6	35	-15.5
Other income	171	54	216.0	66	156.6
PBT	634	348	81.9	411	54.1
Tax	153	93	64.6	102	49.8
Reported PAT	480.9	256	88.2	309.2	55.5
Adjusted PAT	444	253	75.1	348	27.4
Adjusted EPS	23.0	13	75.1	18.0	27.4

Source: Company, Sharekhan Research

### Key ratios (Standalone)

Particulars	Rs cr				
	Q4FY24	Q4FY23	YoY (bps)	Q3FY24	QoQ (bps)
Gross margin (%)	52.9	49.1	380	51.3	160
EBIDTA margin (%)	24.9	20.3	460	23.6	120
Net profit margin (%)	16.6	10.9	570	15.3	130
Effective tax rate (%)	24.1	26.6	-250	24.8	-70

Source: Company, Sharekhan Research

## Outlook and Valuation

### ■ Sector view - Indian tyre market is recovering and destocking likely to be completed soon in the overseas market

We expect the domestic tyre industry to naturally benefit from the sharp recovery in automobile sales post normalisation of the economy in India. The automobile sector has witnessed broad-based recovery across segments, driven by pent-up demand, preference for personal mobility, and faster-than-expected recovery in infrastructure, mining, and other economic activities. The tyre industry is well positioned to gain momentum in the medium term, backed by higher OEM offtake and the ripple effect of the same, which are likely to result in steady growth for replacement demand. Further, de-stocking in the overseas market is likely to be completed soon, given overseas markets are observing de-stocking due to a reduction in overseas transportation due to an increase in the availability of containers.

### ■ Company outlook - Focus on profitability

BKT continues to be a dominant player in the global OHT segment supported by its strong distribution network, quality of product, and relatively low-cost production. However, BKT is expected to face demand headwinds in the near term owing to ongoing destocking in the European market. The U.S. market is performing better than the European market. The company is eyeing on the Indian market for market share gains.

### ■ Valuation - Upgrade to BUY with a revised PT of Rs. 3,195

Post reporting higher-than-expected operating performance, management is looking for volume growth in FY2025 over FY2024 and assumes the EBITDA margin in FY2025 can match the EBITDA margin in Q4FY2024 as it is planning to raise prices to counter the expected rise in input basket, expecting normalised tariff rates along with the commencement of high-margin advanced carbon capacity in FY2025. Management foresees a stable demand situation in the U.S. and is looking for a market share gain in the Indian market as replacement demand is rising in the domestic market. Inventory levels in European markets are reaching normal levels. Further, management has highlighted that geopolitical issues are continuing to be a challenge. BKT continues to aspire for a 10% market share in the domestic market in the medium term compared to a 5-6% market share currently. Along with the result, BKT has announced a fourth interim dividend of Rs. 4/share in addition to the already announced interim dividend of Rs. 12/share. Post incorporating Q4FY2024 performance, we upgrade our rating on the stock from Hold to BUY, with a revised PT of Rs. 3,195 in expectation of demand revival, sustenance of EBITDA margin, and its market share gain strategies.

#### Change in estimates

(Rs cr)

Change in estimates	New		Earlier		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	10,440	12062	10,752	12418	(2.9)	(2.9)
EBITDA	2,599	3233	2,688	3229	(3.3)	0.1
EBITDA margin (%)	24.9	26.8	25.0	26.0		
PAT	1,758	2287	1,700	2103	3.4	8.7
EPS (Rs)	91.0	118.3	88.0	108.8	3.4	8.7

Source: Company, Sharekhan Research

## About company

BKT is one of the leading manufacturers of over-the-highway tyres. The company makes tyres that are used in various applications, including agricultural, construction, and industrial vehicles as well as earthmoving, port, mining, ATV, and gardening. BKT is a global player present in Europe, the U.S., and India. The company has a well-spread distribution network that supports sales to 160 countries. The company has three manufacturing plants in India – in Aurangabad and Bhuj (western India), Bhiwadi, and Chopanki (in North India).

## Investment theme

BKT is one of the leading tyre companies, having a well-diversified product portfolio, spread across niche segments, including agriculture, industrial, construction, earthmoving, mining, port, lawn and garden, and ATV tyres. The company has superior margin and return ratio profiles to its domestic counterpart due to its product positioning and stronghold in the overseas market. The company has built a resilient business model and is expected to emerge as a stronger global player. The company aims to achieve a 10% market share globally in the tyres market, with new product launches and expansion into new geographies. The company is self-reliant in carbon black along with multiple sourcing arrangements for other raw materials, which keep its margins firm. .

## Key Risks

Given BKT follows an export-oriented business model and, hence, any adverse movement in the macro environment of overseas markets or forex fluctuation could impact the company's financial performance.

## Additional Data

### Key management personnel

Arvind Poddar	Chairman and Managing Director
Rajiv Poddar	Joint Managing Director
Vipul Shah	Wholetime Director and Company Secretary
Madhu Sudan Bajaj	President (Commercials) and Chief Financial Officer

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Poddar Rajiv A	27.71
2	VKP Enterprises LLP	24.95
3	Poddar Khushboo	3.93
4	Life Insurance Corp of India	3.65
5	HDFC Asset Management Co Ltd	2.93
6	PPFAS Asset Management	2.17
7	Kotak Mahindra Asset Management Co	2.09
8	Norges Bank	1.7
9	Vanguard Group Inc/The	1.69
10	BlackRock Inc	1.6

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

## Understanding the Sharekhan 3R Matrix

Right Sector	
<b>Positive</b>	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
<b>Neutral</b>	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
<b>Negative</b>	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
<b>Positive</b>	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
<b>Neutral</b>	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
<b>Negative</b>	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
<b>Positive</b>	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
<b>Neutral</b>	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
<b>Negative</b>	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

# Sharekhan

by BNP PARIBAS

## DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/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 SHAREKHAN 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 themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on [www.sharekhan.com](http://www.sharekhan.com)

---

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-67502000.

Correspondence Office: Gigaplex IT Park, Unit No 1001, 10th floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669. BSE – 748, NSE – 10733, MCX – 56125, MSEI – 1043.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: [complianceofficer@sharekhan.com](mailto:complianceofficer@sharekhan.com)

For any complaints/grievance, email us at [igc@sharekhan.com](mailto:igc@sharekhan.com) or you may even call Customer Service desk on - 022-41523200/022 - 33054600