



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. 55,076 cr
52-week high/low:	Rs. 3377/2193
NSE volume: (No of shares)	3.2 lakh
BSE code:	502355
NSE code:	BALKRISIND
Free float: (No of shares)	8.1 cr

Shareholding (%)

Promoters	58.3
FII	12.6
DII	22.4
Others	6.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-10.4	15.0	16.3	15.4
Relative to Sensex	-10.0	5.4	5.3	-5.7

Sharekhan Research, Bloomberg

Balkrishna Industries Ltd
Decent Q1; capacity additions on cards

Automobiles	Sharekhan code: BALKRISIND		
Reco/View: Buy	↔	CMP: Rs. 2849	Price Target: Rs. 3195
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- ♦ A 4.7% beat in topline resulted in in-line EBITDA, though PAT was 14.3% above estimates on higher-than-expected other income.
- ♦ Amidst raw material cost inflation and rising freight costs, management is looking for a minor growth in volumes and flat EBITDA margins in FY25.
- ♦ We maintain Buy on BKT with an unchanged PT of Rs 3195 in expectation of sustenance of its market share and hope of a stable margin profile.
- ♦ Stock trades at P/E multiple of 24.1x and EV/EBITDA multiple of 16.6x its FY26 estimates.

Q1FY25 numbers were decent as topline beat translated into in-line EBITDA (as gross margins shrunk by 70 bps q-o-q) and higher-than-expected other income that helped bottomline beat estimates. However, the management has indicated for a tepid demand in overseas markets and is looking for a minor volume growth in FY25 along with a flat EBITDA Margin. Revenue, EBITDA and PAT were ahead of estimates by 4.7%, 0.2% and 14.3% respectively. Revenue increased by 26.9% y-o-y to Rs 2,690 crore (against estimate of Rs 2570 crore) on 24.6% y-o-y increase in volumes and 1.8% y-o-y increase in average selling prices ASPs. AEBITDA increased by 35.1% y-o-y to Rs. 650 crore (against an estimate of Rs 649 crore) AEBITDA margin expanded by 150 bps y-o-y to 24.2% (against estimate of 25.3%) in support of 40 bps expansion in gross margin and favourable operating leverage. Other income increased by 53.2% y-o-y to Rs 159 crore (as against an estimate of Rs 100 crore). With this operating performance, APAT rose by 64.6% y-o-y to Rs 473 crore (as against an estimate of Rs 413 crore). Company has announced an interim dividend of Rs 4/ share.

Key positives

- ♦ Volumes sustained above 80,000 MT for consecutive second quarter as volumes grew by 2.0% q-o-q to 83750 MT in Q1FY25.
- ♦ Other income rose by 53.2% q-o-q to Rs 159 crore.
- ♦ Freight cost as percentage of sales has contracted by 120 bps q-o-q to 6.5%.

Key negatives

- ♦ Gross margins shrunk by 70 bps q-o-q which resulted into 70 bps contraction in EBITDA margin.
- ♦ ASPs shrunk by 1.4% q-o-q.

Management Commentary

- ♦ BKT has guided for a minor growth in volumes in FY25 as the demand is slowing down in overseas markets.
- ♦ EBITDA margins to remain flat in FY25.
- ♦ Freight cost will go up in coming quarters.

Our Call

Valuation: Maintain Buy with an unchanged PT of Rs. 3,195: After reporting an in-line EBITDA, the management has guided for a minor volume growth in FY25 as the demand trends are weak in the US and Europe though India and rest of the markets are showing positive volume growth trend. RM basket is expected to increase by 2-3% in Q2FY25 and freight rate will also go up in coming quarter. Amid rising inflationary pressure and limited volume growth scenario, the management is looking for a flat EBITDA margin in FY25 and aims to sustain its market share in global markets. While the management raised concerns on near term growth prospects it continue to strengthen its long term growth potential and hence planned for capex of Rs 1300 crore in a phased manner for an additional capacity build-up of 35,000 MTPA as its plants are running at peak capacity utilizations on considering an achievable capacity of 360,000 MTPA. While we believe the demand scenario is weak BKT would sustain its market share. Further the new capacity addition would help it to drive its growth and fulfill market share aspiration on availability of the additional capacities in future. We maintain a Buy on BKT with an unchanged PT of Rs 3195 in expectation of sustenance of its market share and hope of a stable margin profile.

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 fluctuations could impact the company's financial performance.

Valuation (Standalone)

Particulars	FY22	FY23	FY24	FY25E	FY26E
Revenues	8,267	9,811	9,299	9,769	12,062
Growth (%)	43.6	18.7	-5.2	5.1	23.5
EBIDTA	1,976	1,716	2,204	2,315	3,233
OPM (%)	23.9	17.5	23.7	23.7	26.8
Net Profit	1,383	1,144	1,396	1,542	2,287
Growth (%)	21.2	-17.2	22.0	10.5	48.3
EPS (Rs.)	71.5	59.2	72.2	79.8	118.3
P/E	39.8	48.1	39.4	35.7	24.1
P/BV	8.0	7.3	6.2	5.4	4.6
EV/EBIDTA	28.1	32.8	25.1	23.2	16.6
ROE (%)	20.0	15.1	15.8	15.1	19.2
ROCE (%)	15.1	10.3	12.8	13.9	17.6

Source: Company; Sharekhan estimates

Volume mix in Q1FY25

- ◆ Geography-wise volume mix: Europe: 46.7%, Americas: 14.3%, India: 29.4%, others: 9.6%.
- ◆ Channel-wise volume mix: Replacement: 73.5 %, OEM: 24.8%, Others: 1.7%.
- ◆ Segment-wise volume mix: Agriculture: 60.3%, OTR: 36.3%, Others: 3.4%

Capex

- ◆ Advanced carbon black project on track.
- ◆ With healthy traction OTR tyres, the company is planning to add fresh capacity of 35,000 MTPA at Bhuj with an investment of Rs 1300 crore in a phased manner.
- ◆ The company has completed a capex of Rs 200 crore in Q1FY25.
- ◆ Net cash in its balance sheet stands at Rs 175 crore.
- ◆ BKT has planned for a capex of Rs 600 crore -Rs 700 crore in FY25.

Freight rate:

- ◆ Freight cost as percentage of sales has contracted by 120 bps q-o-q to 6.5% ,mainly due to negotiation happened in past.
- ◆ However, the freight cost has been showing a rising trend and likley to be in the range of 8-9% of sales in coming quarters

Geography-wise demand trend

- ◆ Geopolitical issues are impacting demand in European region.
- ◆ US market is getting impacted due to recessionary fears.
- ◆ The demand trends in the rest of the world is steady. Demand in Indian markets has been healthy.

Others

- ◆ EPR cost: EPR obligation in Q1FY25 stood at Rs. 4 crore.
- ◆ Total achievable capacity of stand at 360,000 MT per annum.
- ◆ Dealer inventory levels are rising in overt markets as end demand is slowing down.

Outlook

- ◆ Demand trend is expected to be tepid in rest of the year due to macro challenges in overseas markets though BKT has guided for a minor growth in volumes in FY25 over FY24.
- ◆ BKT is expecting flat margins in FY25.
- ◆ RM cost may increase in the coming period due to European deforestation rule.
- ◆ RM cost is expected to increase by 2-3 % in Q2 FY25.
- ◆ The company has not taken any price in the recent past and will decide about pricing action backed by market conditions.

Results (Standalone)

Particulars	Rs cr				
	Q1FY25	Q1FY24	YoY %	Q4FY24	QoQ %
Revenues	2,690	2,120	26.9	2,673	0.6
Total operating expenses	2,039	1,639	24.4	2,008	1.6
EBITDA	650	481	35.1	665	-2.2
Depreciation	162	154	5.2	172	-6.2
Interest	21	21	0.8	30	-29.8
Other income	159	104	53.2	171	-6.9
PBT	627	411	52.6	634	-1.1
Tax	149	98	51.9	153	-2.3
Reported PAT	477.3	312	52.8	480.9	-0.7
Adjusted PAT	473	287	64.6	444	6.5
Adjusted EPS	24.5	15	64.6	23.0	6.5

Source: Company, Sharekhan Research

Key ratios (Standalone)

Particulars	Rs cr				
	Q1FY25	Q1FY24	YoY %	Q4FY24	QoQ %
Gross margin (%)	52.2	51.8	40	52.9	-70
EBIDTA margin (%)	24.2	22.7	150	24.9	-70
Net profit margin (%)	17.6	13.5	400	16.6	100
Effective tax rate (%)	23.8	23.9	-10	24.1	-30

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Indian tyre market is recovering, destocking likely to complete soon in 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 tyres industry is well positioned to gain momentum in the medium term, backed by higher OEM offtake and ripple effect of the same, which are likely to result in steady growth for replacement demand. Further, de-stocking in overseas market is likely to complete soon, given overseas markets are observing de stocking due to reduction in overseas transportation due to increase in availability of containers.

■ Company outlook - Focus on profitability

BKT continue 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 US market is performing better than that of European market. The company is eyeing on the Indian market for market share gain.

■ Valuation - Maintain Buy with an unchanged PT of Rs. 3,195

After reporting an in-line EBITDA, the management has guided for a minor volume growth in FY25 as the demand trends are weak in the US and Europe though India and rest of the markets are showing positive volume growth trend. RM basket is expected to increase by 2-3% in Q2FY25 and freight rate will also go up in coming quarter. Amid rising inflationary pressure and limited volume growth scenario, the management is looking for a flat EBITDA margin in FY25 and aims to sustain its market share in global markets. While the management raised concerns on near term growth prospects it continue to strengthen its long term growth potential and hence planned for capex of Rs 1300 crore in a phased manner for an additional capacity build-up of 35,000 MTPA as its plants are running at peak capacity utilizations on considering an achievable capacity of 360,000 MTPA. While we believe the demand scenario is weak BKT would sustain its market share. Further the new capacity addition would help it to drive its growth and fulfill market share aspiration on availability of the additional capacities in future. We maintain a Buy on BKT with an unchanged PT of Rs 3195 in expectation of sustenance of its market share and hope of a stable margin profile.

Change in earnings estimates (Rs. crore)

Particulars	New		Earlier		% change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	9,769	12062	10,440	12062	(6.4)	-
EBITDA	2,315	3233	2,599	3233	(10.9)	-
EBITDA margin (%)	23.7	26.8	24.9	26.8		
PAT	1,542	2287	1,758	2287	(12.3)	-
EPS (Rs)	79.8	118.3	91.0	118.3	(12.3)	-

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, US, 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 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. The company has a robust balance sheet strength. Rising concerns related with European market may impact its performance in near term.

Key Risks

Given BKT follows 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	Life Insurance Corp of India	3.94
4	Poddar Khushboo	3.93
5	HDFC Asset Management Co Ltd	3.91
6	PPFAS Asset Management	2.17
7	Kotak Mahindra Asset Management Co	1.91
8	Norges Bank	1.7
9	BlackRock Inc	1.59
10	Poddar Rishabh Sureshkumar	1.44

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	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	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	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
Negative	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	
Positive	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.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	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

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