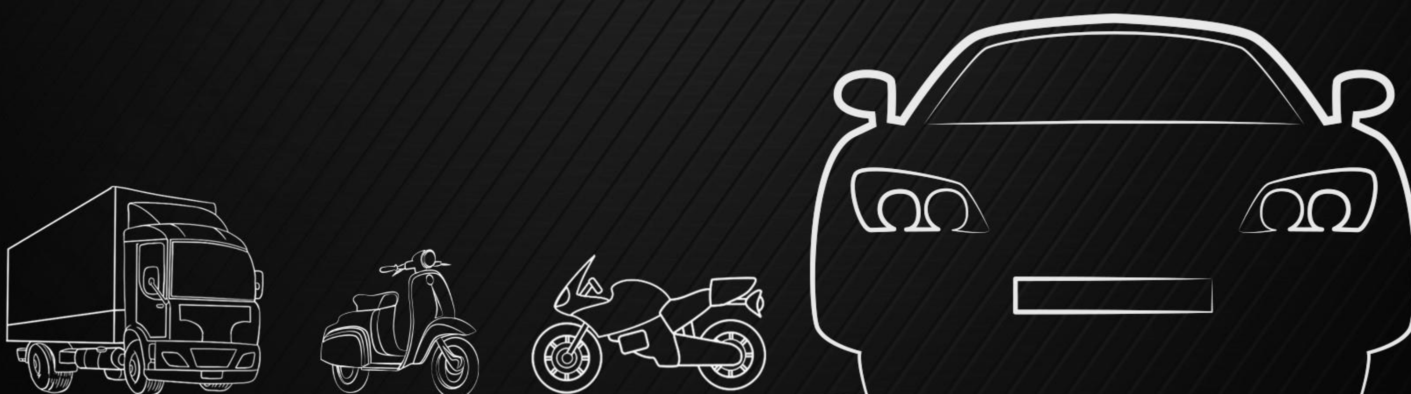
Q1FY25
Balkrishna Industries Ltd.



Result Update

23rd Aug, 2024

Balkrishna Industries Ltd.

Strong operating performance; outlook remains cautious

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 2,867*	**INR 2,768**	**-3.5%**	**5,54,240**	**REDUCE**	**Auto ancillaries**

Result highlights

- For Q1FY25, BIL reported robust revenue of INR 27,145 Mn (+25.7% YoY, +1.2% QoQ), which outperformed our estimates.
- Gross margin for the quarter expanded by 47 bps YoY (-88 bps QoQ) to 52.3%.
- In Q1FY25, EBITDA grew by 32.6% YoY (-2.5% QoQ) to INR 6,640 Mn, which beat our estimate on higher gross margins and possibly due to favorable operating leverage.
- PAT for the quarter was at INR 4,900 Mn (+47.6% YoY, +0.7% QoQ), which beat our estimate on higher-than-estimated other income and lower-than-estimated finance cost and tax rate.
- **We lower our FY26E EPS by 7.6%, assuming a cautious stance on volume and margins due to market uncertainties. We maintain a P/E multiple of 26.5x to FY26E EPS of INR 104.5 to arrive at a price target of INR 2,768/share (previously: INR 2,998). Given the marginal downside potential from CMP, we maintain our rating of "REDUCE" for Balkrishna Industries' shares.**

MARKET DATA

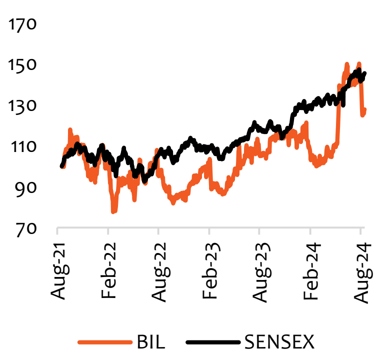
Shares O/S (Mn)	193
Mkt Cap (INR Mn)	5,54,240
52 Wk H/L (INR)	3,375/ 2,194
Volume Avg (3m K)	413
Face Value (INR)	2
Bloomberg Code	BIL IN

KEY FINANCIALS

Particulars (INR Mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
Revenue	57,832	82,951	97,595	93,689	107,234	122,888
EBITDA	18,104	20,088	16,193	22,554	26,352	31,478
PAT	11,775	14,354	10,574	14,715	16,677	20,192
EPS	60.9	74.2	54.7	76.1	86.3	104.4
EBITDA Margin (%)	31.3%	24.2%	16.6%	24.1%	24.6%	25.6%
PAT Margin (%)	20.4%	17.3%	10.8%	15.7%	15.6%	16.4%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



Strong volume growth leads to robust revenue growth

- For Q1FY25, BIL reported a revenue of INR 27,145 Mn with a growth of 25.7% YoY (+1.2% QoQ), driven by +24.3% YoY (+1.8% QoQ) volume growth. The volume growth was led by a low base of Q1FY24 and healthy demand.
- Freight costs as a % of revenue rose to 6.4% in Q1FY25 from 4.6% in Q1FY24 but remained below 7.8% in Q4FY24.
- The management expects a rise in freight costs to 8.0% in Q2FY25E and a rise in raw material costs of 2.0%–3.0% due to higher natural rubber prices.
- Gross margin for the quarter expanded by 47bps YoY (-88bps) to 52.3%.
- For Q1FY25, the Company's EBITDA margin reached 24.5% (+126bps YoY/ -93bps QoQ), the YoY margin expansion led by a better product mix.
- For FY25E, management expects EBITDA to be at the level of FY24.

Management maintains a cautious outlook on demand trends

- Due to short-term uncertainties from geopolitical tensions, potential US recession, and system inventory issues, management has provided a cautious volume growth forecast for FY25E.
- Management has announced an INR 13.0 Bn capex program to gradually increase OTR tyre capacity by 35,000 tonnes.
- With the new European Union Deforestation Regulation (EUDR) taking effect in December 2024, and inputs being 15.0% more expensive, management expects challenges in early CY25E.

MARKET INFO

SENSEX	81,053
NIFTY	24,812

SHARE HOLDING PATTERN (%)

Particulars	Jun-24	Mar-24	Dec-23
Promoters	58.3	58.3	58.3
FIIs	12.6	12.2	12.7
DIIs	22.4	21.9	21.4
Others	6.7	7.6	7.6
Total	100	100	100

14.5%

Revenue CAGR between FY24 and FY26E

17.1%

PAT CAGR between FY24 and FY26E

*Based on previous closing

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Balkrishna Industries Ltd.

Key Concall Highlights:

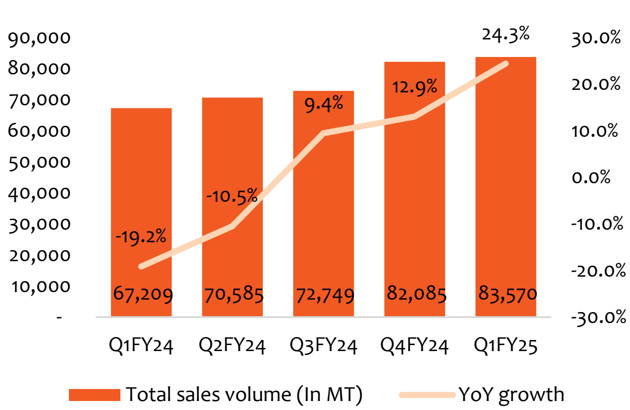
- Management **expects modest volume growth** in FY25E due to macroeconomic challenges, including US recession fears, geopolitical sanctions, inflationary pressures on raw materials, and high freight costs in Europe. However, the Company expects positive trends in India and other regions.
- In Q1FY25, **freight costs** were relatively low at around 6.0% of revenue due to successful customer negotiations. However, The Company is expected to rise 8.0% to 9.0% in the coming quarters due to container shortages.
- **Raw material prices** increased during the quarter and are **expected to rise an additional 3.0% to 4.0% in Q2FY25E**. In Q1FY25, there was a net impact of INR 40 Mn due to Extended Producer Responsibility (EPR).
- Management stated that sourcing rubber for Europe will become more expensive starting December 30, 2024, due to new regulations prohibiting tyre deliveries from deforested land.
- The Company spent INR 2.0 Bn on capital expenditures in Q1FY25 and **plans to invest INR 6.0 to 7.0 Bn for FY25E**. Noting strong demand and growth in the OTR segment, it intends to invest INR 13.0 Bn to expand its Bhuj plant by 35,000 metric tonnes per annum (mtpa).
- Market share in India's agri space ranges from 6.0% to 7.0%.
- The Company did not implement any price increases during Q1FY25.
- The inventory level during the quarter remained at an elevated level, **which is likely to be sustained.**
- Carbon black revenue share to a third party was 8.0% of its total revenue.
- The euro-rupee at INR 92 for Q1FY25; INR 92.5 hedged for Q2FY25E.
- The Company declared an **interim dividend at INR 4.0/share for FY25**.

Valuation and view

BIL's demonstrated strong growth in sales volume due to the low base effect, which resulted in healthy revenue, reflecting an uptick market demand. However, challenges persist, including macroeconomic pressures and rising freight and raw material costs, which may affect future performance. While the Company's commitment to sustainable practices and expansion projects offers a positive outlook, concerns about demand softness and inventory levels highlight the need for cautious monitoring in the coming quarters.

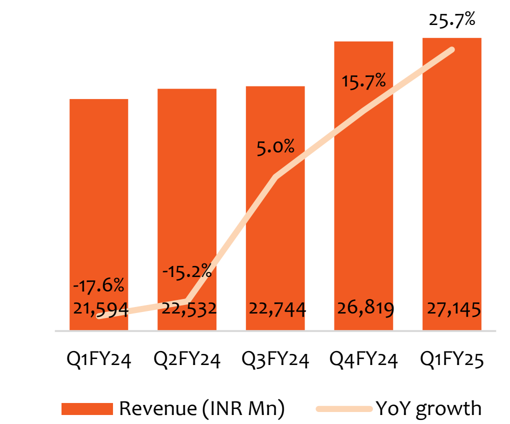
We lower our FY25E/ FY26E EPS by 6.5%/ 7.6%, respectively, mainly due to cautious stance on volume and margins due to market uncertainties. We expect Revenue/EBITDA/PAT to grow at a CAGR of 14.5%/ 18.1%/ 17.1% over FY24-FY26E. The stock is currently trading at 33.0x/27.2x our estimated EPS for FY25E/FY26E, respectively. We maintain a P/E multiple of 26.5x to FY26E EPS of INR 104.4 (previously: INR 113.1) to arrive at a price target of INR 2,768/share (previously: INR 2,998). Given the marginal downside potential, we maintain our rating of "REDUCE" for Balkrishna Industries' shares.

Volume improvement continues due to healthy market demand



Source: Company, KRChoksey Research

Increase in revenue driven by strong sales volume



Source: Company, KRChoksey Research

Balkrishna Industries Ltd.

KEY FINANCIALS

Q1 FY25 Results (INR Mn)	Q1FY25	Q4FY24	Q1FY24	Q-o-Q	Y-o-Y
Revenue from Operations	**27,145**	**26,819**	**21,594**	**1.2%**	**25.7%**
Total Expenditure	**20,505**	**20,008**	**16,584**	**2.5%**	**23.6%**
Cost of Raw Materials	12,745	12,194	10,293	4.5%	23.8%
Purchase of Stock	349	336	295	3.7%	18.2%
Changes in Inventories	-147	24	-188	711.3%	-22.0%
Employee Cost	1,294	1,304	1,186	-0.7%	9.1%
Other Expenses	6,263	6,150	4,997	1.9%	25.3%
EBITDA	**6,640**	**6,811**	**5,009**	**-2.5%**	**32.6%**
EBITDA Margin (%)	**24.5%**	**25.4%**	**23.2%**	**-93 bps**	**126 bps**
Depreciation	1,634	1,742	1,553	-6.2%	5.2%
EBIT	**5,006**	**5,070**	**3,457**	**-1.2%**	**44.8%**
Other Income	1,612	1,707	1,058	-5.6%	52.4%
Finance Cost	219	309	217	-29.0%	1.0%
PBT	**6,399**	**6,468**	**4,297**	**-1.1%**	**48.9%**
Tax	1,499	1,601	978	-6.3%	53.3%
PAT	**4,900**	**4,868**	**3,319**	**0.7%**	**47.6%**
PAT Margin (%)	**18.1%**	**18.1%**	**15.4%**	**-10 bps**	**268 bps**
EPS	**25.3**	**25.2**	**17.2**	**0.7%**	**47.6%**

Income Statement (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Revenue	**82,951**	**97,595**	93,689	107,234	122,888
Cost of sales	37,778	49,153	44,914	50,385	58,868
Gross profit	**45,173**	**48,442**	**48,775**	**56,849**	**64,020**
Employee cost	4,301	4,594	4,995	5,139	6,133
Other operating expenses	20,785	27,655	21,226	25,358	26,409
EBITDA	**20,088**	**16,193**	**22,554**	**26,352**	**31,478**
Depreciation	4,554	5,708	6,507	7,624	8,683
EBIT	**15,534**	**10,485**	**16,047**	**18,728**	**22,794**
Finance costs	92	480	1,129	1,401	1,291
Other income	4,379	4,344	4,492	4,859	5,246
PBT	**19,822**	**14,348**	**19,410**	**22,186**	**26,748**
Income tax expense	5,468	3,774	4,695	5,509	6,557
Net profit	**14,354**	**10,574**	**14,715**	**16,677**	**20,192**
EPS (INR)	**74.2**	**54.7**	**76.1**	**86.3**	**104.4**

Cashflow Statement (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Net Cash Generated From Operations	9,080	14,480	20,826	22,138	25,598
Net Cash Flow from/(used in) Investing Activities	-18,975	-17,831	-14,755	-14,331	-14,132
Net Cash Flow from Financing Activities	9,804	3,585	-6,019	-7,470	-11,372
Net Inc/Dec in cash equivalents	-91	234	52	338	94
Opening Balance	549	459	693	746	1,085
Adjustments	1	-0	1	1	1
Closing Balance Cash and Cash Equivalents	**459**	**693**	**746**	**1,085**	**1,179**

Source: Company, KRChoksey Research

Balkrishna Industries Ltd.

Balance Sheet (INR Mn)	FY22	FY23	FY24	FY25E	FY26E
Property, Plant and Equipment	39,391	52,917	62,319	64,127	69,575
Capital Work-in-Progress	12,584	13,916	9,444	9,444	9,444
Investment Property	793	708	643	643	643
Intangible Assets	9	13	20	20	20
Right of use assets	1	203	193	193	193
Investments	12,122	12,621	13,367	15,367	15,367
Other Financial Assets	829	938	1,551	1,551	1,551
Income tax Assets (Net)	58	0	101	106	112
Other Non-Current Assets	5,062	2,882	2,767	2,767	2,767
Total non-current assets	**70,848**	**84,197**	**90,405**	**94,217**	**99,671**
Inventories	16,721	16,674	13,315	14,937	17,452
Investments	6,845	7,746	13,490	14,490	15,490
Trade Receivables	10,962	11,153	14,454	16,544	18,959
Cash and Cash Equivalents	459	693	746	1,085	1,179
Other Bank Balances	58	70	54	54	54
Loans	35	38	68	68	68
Other Financial Assets	651	513	696	730	767
Other Current Assets	3,211	2,393	3,618	3,980	4,378
Total current assets	**38,942**	**39,280**	**46,441**	**51,887**	**58,347**
Total Assets	**109,789.8**	**123,477**	**136,845**	**146,104**	**158,018**
Equity share capital	387	387	387	387	387
Other equity	68,944	75,183	88,152	101,349	118,061
Total equity	**69,330.1**	**75,569**	**88,538**	**101,736**	**118,447**
Borrowings	5,010	10,381	6,914	8,024	5,973
Other Financial Liabilities	5	684	199	199	199
Provisions	271	305	347	347	347
Deferred Tax Liabilities (Net)	2,509	2,419	3,490	3,490	3,490
Other Non-Current Liabilities	308	626	752	752	752
Total non-current liabilities	**8,103.4**	**14,415**	**11,703**	**12,812**	**10,762**
Borrowings	20,275	23,037	24,040	17,806	13,256
Trade Payables	8,299	4,921	9,102	10,211	11,930
Other financial liabilities	1,204	2,182	1,563	1,641	1,723
Other current liabilities	2,540	3,286	1,855	1,855	1,855
Provisions	39	67	44	44	44
Total current liabilities	**32,356**	**33,493**	**36,604**	**31,557**	**28,808**
Total liabilities and Equity	**109,789.3**	**123,477**	**136,845**	**146,104**	**158,018**

Key Ratio	FY22	FY23	FY24	FY25E	FY26E
EBITDA Margin (%)	24.2%	16.6%	24.1%	24.6%	25.6%
RoE (%)	20.7%	14.0%	16.6%	16.4%	17.0%
RoCE (%)	17.4%	10.4%	12.9%	13.5%	15.2%
P/E	38.3x	52.0x	37.4x	33.0x	27.2x
P/B	7.9x	7.3x	6.2x	5.4x	4.6x
EPS (INR)	74.2	54.7	76.1	86.3	104.4

Source: Company, KRChoksey Research

Balkrishna Industries Ltd.

Balkrishna Industries Ltd.			
Date	CMP (INR)	TP(INR)	Recommendation
23-Aug-24	2,867	2,768	REDUCE
28-May-24	3,100	2,998	REDUCE
29-Jan-24	2,509	2,598	HOLD
25-Oct-23	2,593	2,598	HOLD
11-Aug-23	2,350	2,443	HOLD
30-May-23	2,247	2,443	ACCUMULATE

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

ANALYST CERTIFICATION:

I, Unnati Jadhav (MMS, Finance), Research Analyst, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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