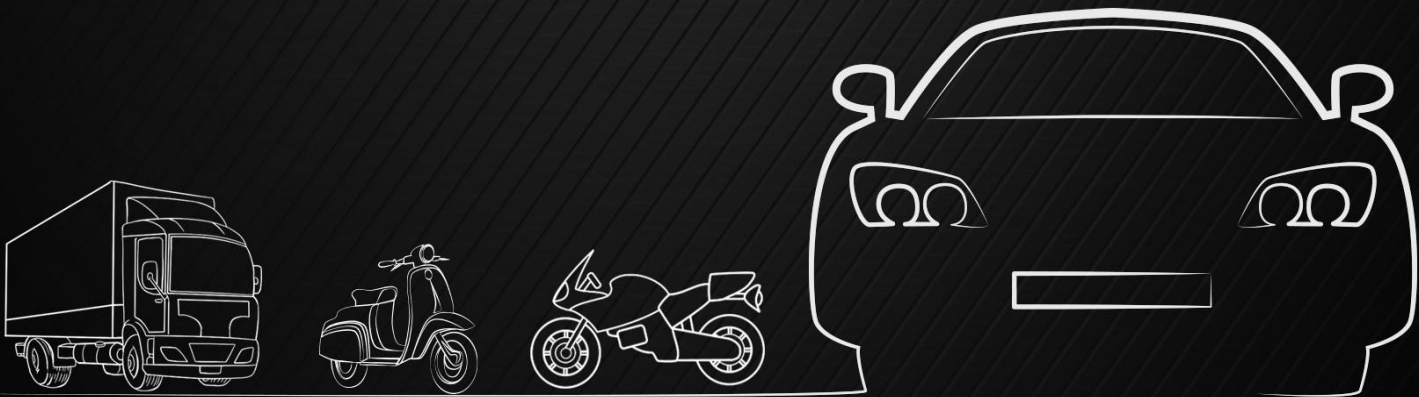


Q2FY25

Balkrishna Industries Ltd.



Balkrishna Industries Ltd.

Outlook remains cautious

CMP* INR 2,901	Target INR 2,768	Potential Upside (4.6%)	Market Cap (INR Mn) 5,58,744	Recommendation REDUCE	Sector Auto ancillaries
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Result highlights

- BIL's Q2FY25 earnings performance exceeds our estimates across the board.
- For Q2FY25, BIL reported revenue of INR 24,197 Mn (+7.4% YoY/ -10.9% QoQ), which outperformed our estimates by 4.0%.
- In Q2FY25, EBITDA grew by 8.8% YoY/ (-12.7% QoQ) to INR 5,798 Mn, which beat our estimate on higher gross margins and favorable operating leverage.
- PAT for the quarter was at INR 3,469 Mn (-0.1% YoY/ -29.3% QoQ), which is largely in line with our estimate.
- We lower our FY25 EPS estimates by 2.1%, mainly because the management has indicated flat volume growth for the year. However, for FY26E, we are maintaining our EPS projections, as we expect stronger pricing power and the delay in the EUDR policy to support our estimates. We maintain our P/E multiple of 26.5x to FY26E EPS of INR 104.4 to arrive at a price target of INR 2,768/share (maintained). Given the downside potential of 4.6% from CMP, we maintain our "REDUCE" rating on Balkrishna Industries' shares.**

MARKET DATA

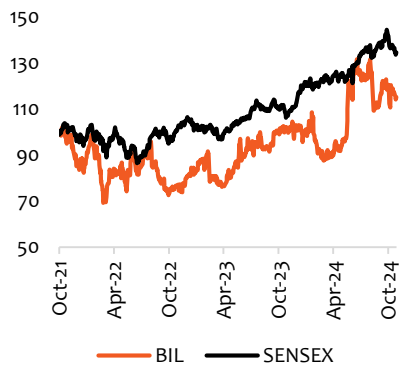
Shares O/S (Mn)	193
Mkt Cap (INR Mn)	5,58,744
52 Wk H/L (INR)	3,375/2,194
Volume Avg (3m K)	266
Face Value (INR)	2
Bloomberg Code	BIL IN

KEY FINANCIALS

Particulars (INR Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	97,595	93,689	102,278	114,875	132,036
EBITDA	16,193	22,554	25,139	31,038	33,851
PAT	10,574	14,715	16,333	20,187	21,685
EPS	54.7	76.1	84.5	104.4	112.2
EBITDA Margin (%)	16.6%	24.1%	24.6%	27.0%	25.6%
PAT Margin (%)	10.8%	15.7%	16.0%	17.6%	16.4%

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	80,369
NIFTY	24,467

Despite market uncertainties, strong operating performance

- For Q2FY25, BIL reported a revenue of INR 24,197 Mn with a growth of 7.4% YoY (-10.9% QoQ). The YoY growth was driven by +3.8% YoY volume growth.
- Volume stood at 7,3298 MT, up by 3.8% (-12.3% QoQ). Realization grew by 3.4% YoY to 330 (per kg), led by favorable product mix.
- Freight costs as a percentage of revenue rose to 7.6% in Q2FY25 from 4.5% in Q2FY24. The company expects freight costs to decline in QoQ in Q3FY25E.
- Gross margin for the quarter expanded by 83bps YoY (+1bps QoQ) to 52.3%. The 3.0–4.0% rise in raw material costs in Q2FY25 was more than balanced out by a better product mix and favorable hedging rates.
- For Q2FY25, the company's EBITDA margin expanded by 32 bps YoY to 24.0%, driven by a better ASP and lower promotional expenses.
- For FY25E, management expects EBITDA to be at 25.0%.

International demand remain weak, domestic demand healthy

- Sales volume growth:** The company expects minor growth in sales volume for FY25E despite a challenging market.
- Headwinds and strategy:** The management remains agile in addressing ongoing headwinds, particularly in Europe and North America, through strategic price adjustments and cost management.
- Demand Trends:** International demand remains weak, while domestic demand in India is healthy.

SHARE HOLDING PATTERN (%)

Particulars	Sep-24	Jun-24	Mar-24
Promoters	58.3	58.3	58.3
FIIIs	11.7	12.6	12.2
DIIIs	23.3	22.4	21.9
Others	6.7	6.7	7.6
Total	100	100	100

*Based on the Today's closing

*Note: All the market data is as of Today's closing.

10.7%

Revenue CAGR between FY24 and FY26E

17.1%

PAT CAGR between FY24 and FY26E

Balkrishna Industries Ltd.

Key Con-call Highlights:

- **Macro challenges:** The quarter was impacted by global recessionary pressures, geopolitical tensions, and heightened costs for raw materials and sea freight, leading to weaker demand across key markets like Europe and the Americas. However, demand in India remained stable.
- **Raw material costs and margins:** The company faced a 3.0-4.0% increase in raw material (RM) costs, with a modest price adjustment of around 0.5%. This RM cost pressure was managed well, with anticipated marginal cost relief expected in Q4FY25E as raw materials in the pipeline get replenished at lower costs.
- **Freight and operational costs:** While freight costs showed a downward trend recently, BIL anticipated these would hold steady without further reduction in the immediate future. Additionally, promotional expenses were down for the quarter due to lower spending in the post-IPL period, benefiting operating costs.
- **Strategic pricing adjustments:** BIL implemented a minor price hike in Q2FY25, expected to impact Q3FY25E, aiming to offset some of the increased RM costs and preserve margins.
- **EUDR regulation** (The European Union Deforestation Regulation): This is likely to get postponed by one year, subject to EU Parliament approval, which is likely in November. However, BIL is prepared for the implementation, whenever approved.

Strategic Developments

- **Expansion into high-value carbon materials:** BIL commissioned a 30,000 metric tonnes per annum plant for high-value carbon materials in September, targeting non-tire-grade applications such as plastics, inks, and paints. This addition signals diversification into advanced materials and is expected to contribute to revenue starting in Q3FY25E. The company currently sells 50.0% of carbon black produced, which constitutes ~10.0% of the total revenue vis-à-vis ~8.0% in Q1FY25.
- **OTR Tire capacity expansion:** The company announced the first phase of a tire CapEx program focused on Off-the-Road (OTR) tire production, with completion slated for H1FY26E. This expansion supports BIL's growth ambitions in specialized tire markets, crucial for sectors like agriculture and industrial applications. The current tire achievable capacity is 360k MTPA. The current carbon black achievable capacity is 200k MTPA, including 30k MTPA high-value advanced carbon material.
- **Inventory and demand outlook:** Inventory levels at BIL's distribution points remained stable. However, weak demand in Europe and North America due to macro factors like geopolitical tensions and economic uncertainties continues to dampen growth in those regions. The agricultural segment, a significant part of BIL's revenue, is particularly impacted by sluggish demand in these international markets.

Other Financial Highlights

- The company recorded a foreign exchange gain of INR 290 Mn in Q2FY25, contributing to its revenue performance.
- The company declared an interim dividend of INR 4.0 per share for FY24-25, bringing the total dividend for H1FY25 to INR 8.0 per share.
- BIL's debt position remained stable, with gross debt at INR 30,620 Mn and net debt at approximately INR 680 Mn, reflecting efficient cash management.
- The company spent INR 5,400 Mn on CapEx in H1FY25, with full-year projections between INR 8,000-10,000 Mn. This is part of a broader growth strategy, primarily focusing on expanding the OTR tire range.
- The Euro-INR rate, which influences earnings, was around INR 91 in Q2FY25 and is projected to be INR 92 for the remaining of FY25E.

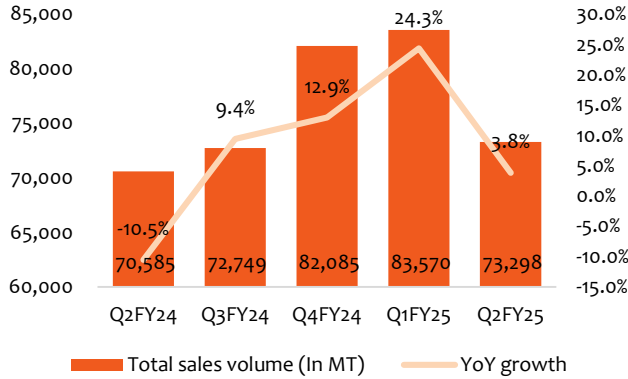
Valuation and view

BIL demonstrated resilient growth in Q2FY25 despite external challenges. The company effectively managed rising raw material costs and maintained strong margins through strategic pricing and operational efficiencies. While international demand remains weak, domestic performance is stable, supporting the outlook for modest volume growth. With ongoing expansions and diversification into high-value materials, BIL is well-positioned to navigate market dynamics and pursue its long-term growth objectives.

We lower our FY25E EPS estimates by 2.1%, mainly because the management has indicated flat volume growth for the year. However, for FY26E, we are maintaining our EPS projections, as we expect stronger pricing power and the delay in the EUDR policy to support our estimates. We expect Revenue/EBITDA/PAT to grow at a CAGR of 10.7%/ 17.3%/ 17.1% over FY24-FY26E. The stock is currently trading at 34.3x/27.8x our estimated EPS for FY25E/FY26E, respectively. We maintain our P/E multiple of 26.5x to FY26E EPS of INR 104.4 to arrive at a price target of INR 2,768/share (unchanged). Given the downside potential of 4.6% from CMP, we maintain our "REDUCE" rating on Balkrishna Industries' shares.

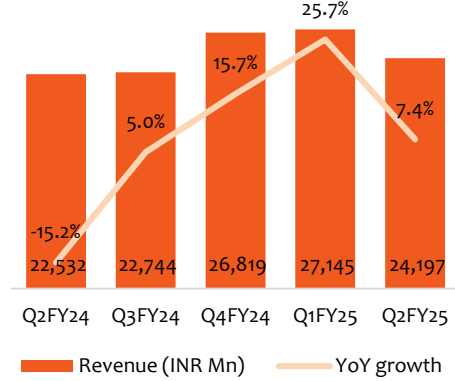
Balkrishna Industries Ltd.

Volume declined QoQ due to sluggish demand in the international market



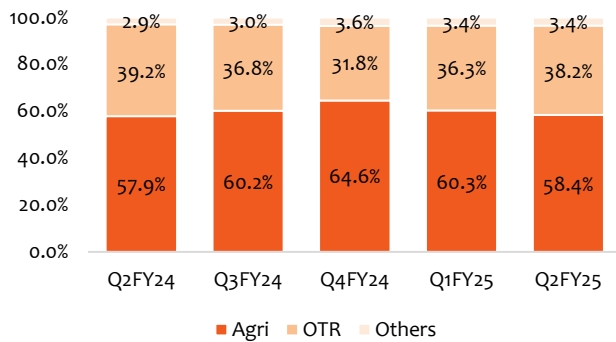
Source: Company, KRChoksey Research

Increase in revenue YoY is primarily attributed to the growth in sales volume



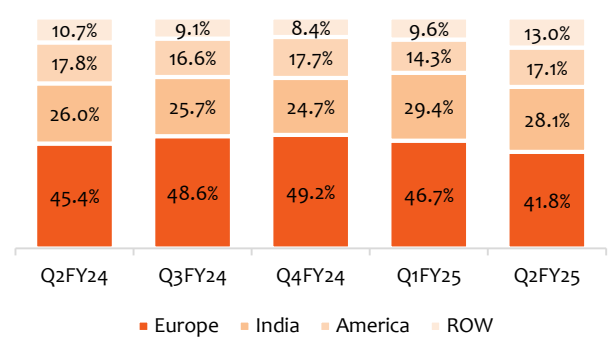
Source: Company, KRChoksey Research

OTR continue to improved its product revenue mix (%) sequentially



Source: Company, KRChoksey Research

Revenue mix from Europe decreased sequentially due to inflationary pressures



Source: Company, KRChoksey Research

RESULT SNAPSHOT

Particulars (INR Mn)	Q2FY25	Q1FY25	Q2FY24	Q-o-Q	Y-o-Y
Revenue from Operations	24,197	27,145	22,532	-10.9%	7.4%
Total Expenditure	18,400	20,505	17,205	-10.3%	6.9%
Cost of Raw Materials	11,293	12,745	10,708	-11.4%	5.5%
Purchase of Stock	290	349	266	-16.8%	9.1%
Changes in Inventories	-44	-147	-42	69.9%	4.7%
Employee Cost	1,305	1,294	1,242	0.8%	5.1%
Other Expenses	5,555	6,263	5,031	-11.3%	10.4%
EBITDA	5,798	6,640	5,327	-12.7%	8.8%
EBITDA Margin (%)	24.0%	24.5%	23.6%	-50 bps	32 bps
Depreciation	1,664	1,634	1,604	1.9%	3.7%
EBIT	4,134	5,006	3,723	-17.4%	11.0%
Other Income	905	1,616	1,071	-44.0%	-15.5%
Finance Cost	412	219	239	88.0%	72.8%
PBT	4,626	6,403	4,555	-27.8%	1.6%
Tax	1,157	1,499	1,081	-22.8%	7.1%
PAT	3,469	4,904	3,474	-29.3%	-0.1%
PAT Margin (%)	14.3%	18.1%	15.4%	-373 bps	-108 bps
EPS	17.9	25.4	18.0	-29.3%	-0.1%

Source: Company, KRChoksey Research

Balkrishna Industries Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Revenues	97,595	93,689	102,278	114,875	132,036
COGS	49,153	44,914	48,792	53,947	63,224
Gross profit	48,442	48,775	53,487	60,928	68,812
Employee cost	4,594	4,995	5,044	5,728	6,586
Other expenses	27,655	21,226	23,304	24,162	28,374
EBITDA	16,193	22,554	25,139	31,038	33,851
EBITDA Margin	16.6%	24.1%	24.6%	27.0%	25.6%
D&A	5,708	6,507	7,410	8,431	9,583
EBIT	10,485	16,047	17,729	22,607	24,269
Interest expense	480	1,129	1,238	1,291	961
Other income	4,344	4,492	5,208	5,246	5,416
PBT	14,348	19,410	21,699	26,561	28,723
Tax	3,774	4,695	5,366	6,375	7,038
PAT	10,574	14,715	16,333	20,187	21,685
EPS (INR)	54.7	76.1	84.5	104.4	112.2

Exhibit 3: Cash Flow Statement

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
CFFO	14,480	20,826	21,969	26,124	27,315
CFFI	(17,831)	(14,755)	(11,287)	(13,211)	(15,184)
CFFF	3,585	(6,019)	(9,845)	(11,372)	(11,042)
Net Inc/Dec in cash	234	52	837	1,541	1,089
Opening Cash	459	693	746	1,584	3,126
Closing Cash	693	746	1,584	3,126	4,217

Exhibit 4: Key Ratios

Key Ratio	FY23	FY24	FY25E	FY26E	FY27E
EBITDA Margin (%)	16.6%	24.1%	24.6%	27.0%	25.6%
RoE (%)	14.0%	16.6%	16.1%	17.1%	15.9%
RoCE (%)	10.4%	12.9%	13.2%	15.3%	15.2%
P/E	53.0x	38.1x	34.3x	27.8x	25.9x
P/B	7.4x	6.3x	5.5x	4.7x	4.1x
EPS (INR)	54.7	76.1	84.5	104.4	112.2

Exhibit 2: Balance Sheet

INR Mn	FY23	FY24	FY25E	FY26E	FY27E
Equity					
Equity Capital	387	387	387	387	387
Other Equity	75,183	88,152	101,005	117,712	135,917
Total Equity	75,569	88,538	101,391	118,098	136,303
Non-Current Liabilities					
Borrowings	10,381	6,914	5,769	4,295	2,821
Deferred Tax Liabilities (Net)	2,419	3,490	3,490	3,490	3,490
Other Current Liabilities	1,615	1,298	1,298	1,298	1,298
Total Non-Current Liabilities	14,415	11,703	10,558	9,084	7,609
Current Liabilities					
Borrowings	23,037	24,040	20,059	14,933	9,808
Other financial liabilities	2,182	1,563	1,641	1,723	1,809
Trade Paybles	4,921	9,102	9,888	10,933	12,813
Other current liabilities	3,353	1,900	1,900	1,900	1,900
Total Current Liabilities	33,493	36,604	33,487	29,489	26,329
Total Liabilities	47,907	48,307	44,045	38,572	33,938
Non-Current Assets					
PPE	52,917	62,319	64,196	68,976	74,577
Capital WIP	13,916	9,444	9,444	9,444	9,444
Other current assets	17,364	18,641	20,646	20,652	20,657
Total Non-Current Assets	84,197	90,405	94,287	99,072	104,679
Current Assets					
Inventories	16,674	13,315	14,465	15,993	18,743
Trade Receivables	11,153	14,454	15,780	17,723	20,370
Investments	7,746	13,490	14,490	15,490	16,490
Cash and Bank	693	746	1,584	3,126	4,217
Oher current assets	3,014	4,435	4,831	5,266	5,742
Total Current Assets	39,280	46,441	51,150	57,598	65,563
Total Assets	123,477	136,845	145,436	156,670	170,241

Source: Company, KRChoksey Research

Balkrishna Industries Ltd.

Balkrishna Industries Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP(INR)	Recommendation	Our Rating	Upside
29-Oct-24	2,901	2,768	REDUCE	Buy	More than 15%
22-Aug-24	2,845	2,768	REDUCE	Accumulate	5% – 15%
28-May-24	3,100	2,998	REDUCE	Hold	0 – 5%
29-Jan-24	2,509	2,598	HOLD	Reduce	-5% – 0
25-Oct-23	2,593	2,598	HOLD	Sell	Less than – 5%
11-Aug-23	2,350	2,443	HOLD		

ANALYST CERTIFICATION:

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