

ADD
TP: Rs 1,600 | ▲ 10%

**BALKRISHNA
INDUSTRIES**

Auto Components

07 November 2020

Upbeat volume outlook – upgrade to ADD

Balkrishna Industries (BIL) posted strong volume growth of 36% YoY to 61.2k MT in Q2FY21, ahead of our projections. Revenue increased 47% YoY and EBITDA margin stood at 34% (+900bps YoY), beating our estimates. We raise volume assumptions by 4% each for FY21-FY23 and bake in better operating margins, leading to an earnings upgrade of 17%/9%/18% for FY21/FY22/FY23. Our revised Sep’21 TP stands at Rs 1,600 (Rs 1,300 earlier) set at a higher 25x one-year fwd EPS (23x earlier). Upgrade to ADD from REDUCE.

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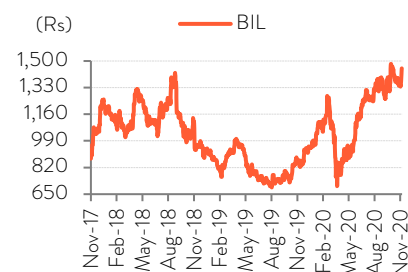
Volume growth drives Q2 performance: Buoyed by 36% YoY volume growth and 9% improvement in ASP, revenue at Rs 15.8bn (+47% YoY) came in ahead of our estimate. Better efficiencies further supported operating performance, leading to 900bps YoY EBITDA margin expansion to 34%. EBITDA doubled to Rs 5.4bn while adj. PAT increased 17% YoY to Rs 3.4bn (Q2FY20 had one-off tax reversal gains).

Ticker/Price	BIL IN/Rs 1,453
Market cap	US\$ 3.8bn
Shares o/s	193mn
3M ADV	US\$ 14.8mn
52wk high/low	Rs 1,515/Rs 679
Promoter/FPI/DII	58%/12%/18%

Source: NSE

Robust business model: BIL mainly caters to the higher-margin segments (off-road vehicle and agricultural tyres) and benefits from a range of SKUs, its export focus and price advantage over rivals. A bulk of revenue (~77%) arises from exports, largely to replacement markets in Europe and the US. The company leverages cost benefits from its India manufacturing base to price products cheaper than competitors while still earning healthy 28-31% EBITDA margins.

STOCK PERFORMANCE



Source: NSE

Upgrade to ADD: We raise our volume growth estimates by 4% each for FY21-23. With better ASP, higher gross margins and improved operating efficiencies, we also expect a better EBITDA margin profile. We thus revise our FY21/FY22/FY23 earning forecast upwards by 17%/9%/18% and now expect the company to clock a revenue/EBITDA/PAT CAGR of 13%/18%/12%. Upgrade to ADD with a higher Sep’21 TP of Rs 1,600.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	52,445	47,825	52,225	61,860	68,479
EBITDA (Rs mn)	13,125	12,494	16,445	18,349	20,373
Adj. net profit (Rs mn)	7,820	9,450	9,877	11,343	13,248
Adj. EPS (Rs)	40.5	48.9	51.1	58.7	68.5
Adj. EPS growth (%)	5.8	20.8	4.5	14.8	16.8
Adj. ROAE (%)	16.7	18.8	16.7	16.6	16.8
Adj. P/E (x)	35.9	29.7	28.4	24.8	21.2
EV/EBITDA (x)	22.2	23.1	17.6	15.7	14.0

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Volumes (MT)	61,224	45,169	35.5	38,096	60.7	99,320	96,473	3.0
ASP (Rs)	257,866	237,152	8.7	243,784	5.8	252,465	234,747	7.5
Net Revenues	15,788	10,712	47.4	9,287	70.0	25,075	22,647	10.7
Total Income (A)	15,788	10,712	47.4	9,287	70.0	25,075	22,647	10.7
Operating Expenses:								
Raw materials consumed	6,115	4,678	30.7	3,665	66.8	9,780	10,428	(6.2)
Employee Expenses	844	701	20.5	701	20.4	1,546	1,396	10.7
Other Expenses	3,462	2,658	30.2	2,615	32.4	6,077	5,469	11.1
Total Expenditure (B)	10,421	8,037	29.7	6,981	49.3	17,402	17,294	0.6
EBITDA (A-B)	5,367	2,675	100.7	2,306	132.8	7,673	5,353	43.3
Other Income	184	807	(77.2)	333	(44.8)	517	1,523	(66.1)
Depreciation	1,012	908	11.5	996	1.6	2,008	1,749	14.8
EBIT	4,539	2,574	76.3	1,643	176.3	6,182	5,128	20.6
Finance Costs	34	17	94.8	24	40.7	58	35	64.3
PBT after excep items	4,505	2,557	76.2	1,619	178.3	6,124	5,092	20.3
Tax expense	1,110	(353)	NA	401	177.2	1,511	422	257.7
Reported PAT	3,395	2,910	16.7	1,218	178.7	4,613	4,670	(1.2)
Adjusted PAT	3,395	2,910	16.7	1,218	178.7	4,613	4,670	(1.2)
Adj EPS (Rs)	17.6	15.1	16.7	6.3	178.7	23.9	24.2	(1.2)

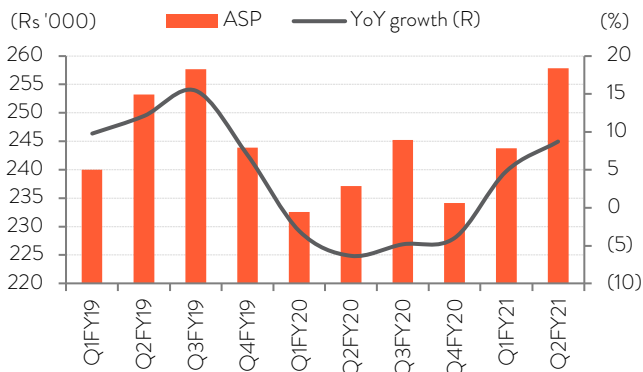
Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS

(%)	Q2FY21	Q2FY20	YoY (bps)	Q1FY21	QoQ (bps)	H1FY21	H1FY20	YoY (bps)
Gross Margin	61.3	56.3	494	60.5	73	61.0	54.0	704
EBITDA Margin	34.0	25.0	903	24.8	917	30.6	23.6	696
EBIT Margin	28.8	24.0	472	17.7	1,106	24.7	22.6	201
PBT Margin	28.5	23.9	467	17.4	1,111	24.4	22.5	194
Tax Rate	24.6	(13.8)	3,846	24.7	(10)	24.7	8.3	1,638
Adj PAT Margin	21.5	27.2	(566)	13.1	839	18.4	20.6	(222)

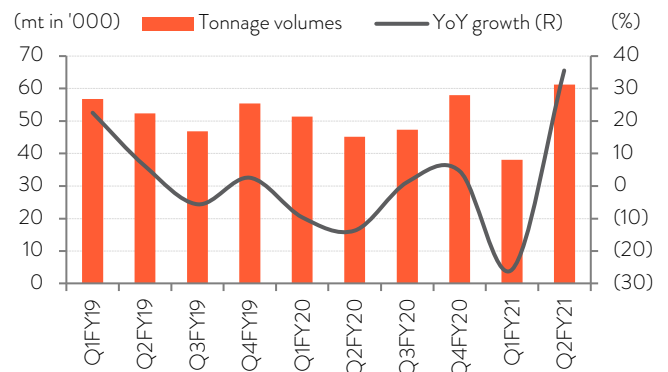
Source: Company, BOBCAPS Research

FIG 3 – AVERAGE SELLING PRICE PER MT



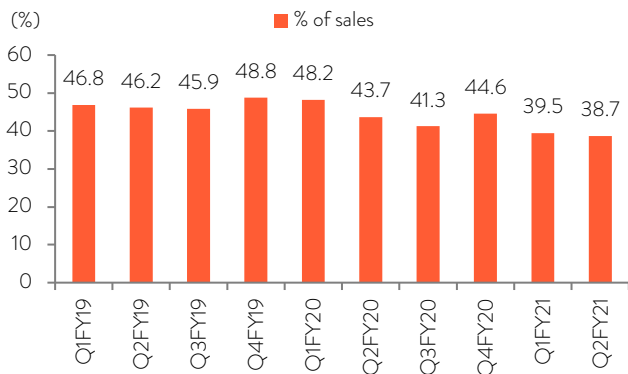
Source: Company, BOBCAPS Research

FIG 4 – TOTAL VOLUMES



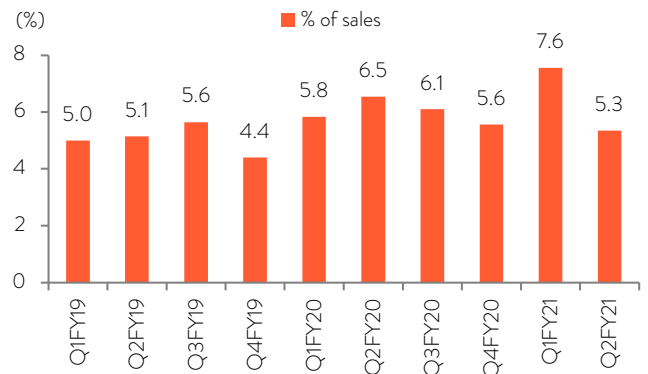
Source: Company, BOBCAPS Research

FIG 5 – RM COST/SALES TREND



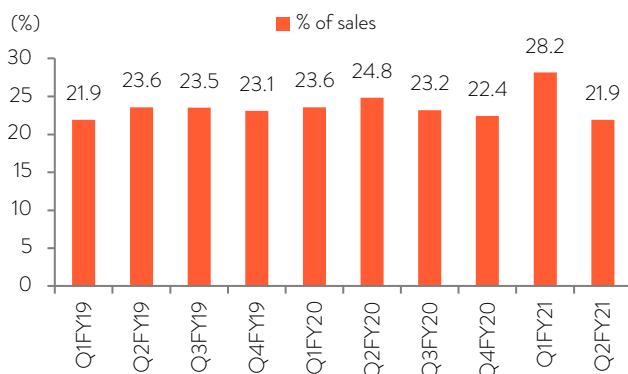
Source: Company, BOBCAPS Research

FIG 6 – STAFF COST/SALES TREND



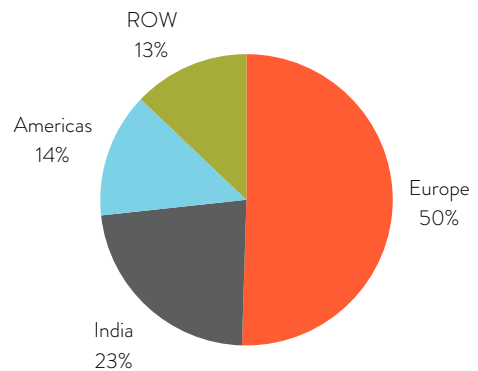
Source: Company, BOBCAPS Research

FIG 7 – OTHER EXPENSES/SALES TREND



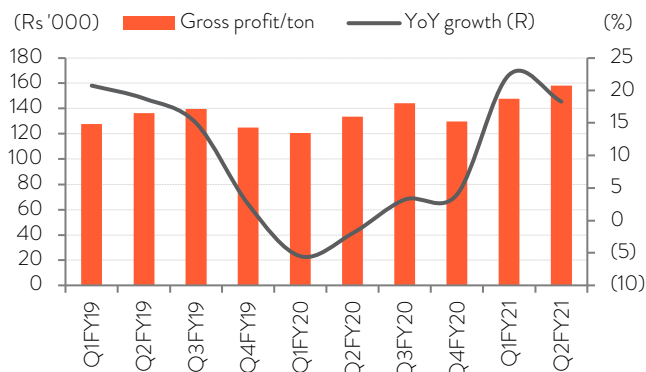
Source: Company, BOBCAPS Research

FIG 8 – GEOGRAPHICAL SALES MIX (H1FY21)



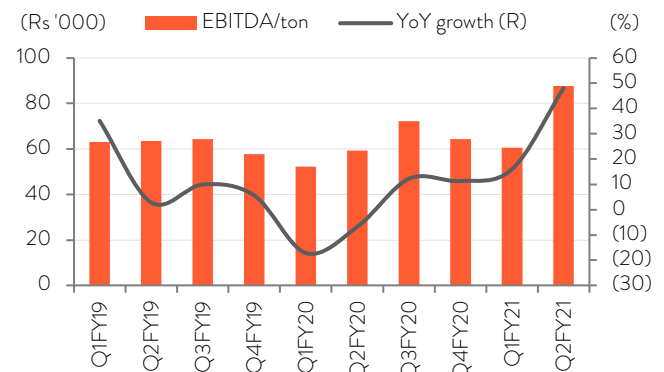
Source: Company, BOBCAPS Research

FIG 9 – GROSS PROFIT/TON TREND



Source: Company, BOBCAPS Research

FIG 10 – EBITDA/TON TREND



Source: Company, BOBCAPS Research

Earnings call highlights

- Per management, tyre demand from the agriculture sector has been strong while other segments remain stable.
- As per BIL’s internal estimates, achievable capacity is at 280,00mtpa (vs. 305,000mtpa earlier). The reduction is on account of redundancies in capacities built on older technology and the product mix shifting towards larger tyres.
- Management maintains guidance of achieving marginally positive volume growth in FY21 and remains conservative on its assumptions given the second Covid-19 wave in Europe.
- In European markets, the company has managed to achieve marginal market share gains. Channel inventory also remains low here due to strong demand, leaving room for an increase from current levels.
- In Q2, EURIND realisation was at Rs 82.4. Management guides for realisation at Rs 85/EUR in H2FY21 and similar levels in FY22.
- Sale of carbon black to third parties forms ~2% of overall sales. About 20% of carbon black production capacity is utilised for such sales.
- Management has guided for capex spend of Rs 7bn in FY21, of which Rs 3.5bn has been incurred in H1.

Valuation methodology

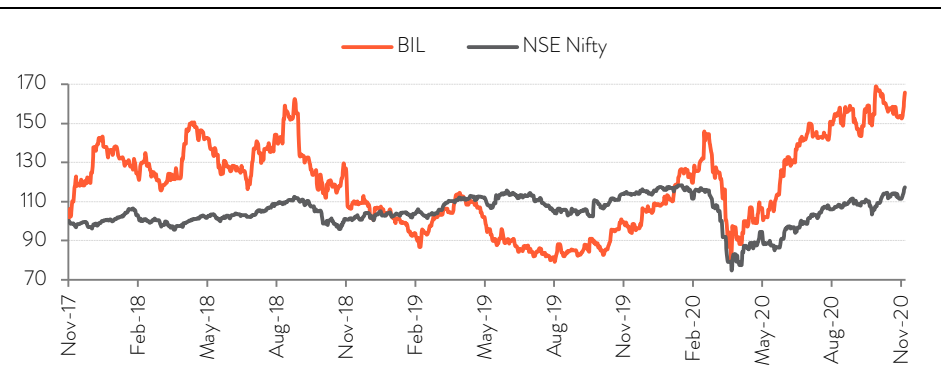
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FIG 11 – REVISED ESTIMATES

Change (%)	FY21E	FY22E	FY23E
Volume	4.0	4.0	4.0
Revenues	6.0	6.0	6.0
EBITDA	23.7	15.4	15.4
OPM (bps)	452	242	243
Adj. PAT	16.5	9.1	17.5
EPS	16.5	9.1	17.5

Source: Company, BOBCAPS Research

FIG 12 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Below-expected volume growth
- Rise in natural rubber and crude derivative prices could put downward pressure on expected margins

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	52,445	47,825	52,225	61,860	68,479
EBITDA	13,125	12,494	16,445	18,349	20,373
Depreciation	3,326	3,680	4,374	4,997	5,536
EBIT	11,941	11,302	13,347	15,247	17,737
Net interest income/(expenses)	(111)	(73)	(142)	(82)	(26)
Other income/(expenses)	2,142	2,488	1,276	1,895	2,901
Exceptional items	(428)	0	0	0	0
EBT	11,402	11,229	13,205	15,165	17,711
Income taxes	4,010	1,779	3,328	3,821	4,463
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	4	5	6	7	8
Reported net profit	7,392	9,450	9,877	11,343	13,248
Adjustments	428	0	0	0	0
Adjusted net profit	7,820	9,450	9,877	11,343	13,248

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	4,094	3,610	4,106	4,664	5,163
Other current liabilities	1,377	2,404	2,520	2,730	3,037
Provisions	77	278	235	235	235
Debt funds	8,296	8,612	5,612	2,612	22
Other liabilities	410	344	344	344	344
Equity capital	387	387	387	387	387
Reserves & surplus	46,400	49,895	58,784	67,859	78,457
Shareholders' fund	46,787	50,281	59,171	68,245	78,844
Total liabilities and equities	61,042	65,530	71,989	78,831	87,645
Cash and cash eq.	556	455	777	627	874
Accounts receivables	5,681	6,492	7,440	7,796	8,630
Inventories	7,130	5,804	6,582	7,457	8,255
Other current assets	3,351	2,508	4,149	4,406	4,878
Investments	10,831	10,631	10,631	14,631	21,631
Net fixed assets	27,861	32,771	36,397	38,400	38,864
CWIP	5,854	5,856	5,000	4,500	3,500
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(3,255)	(1,783)	(1,783)	(1,783)	(1,783)
Other assets	3,033	2,796	2,796	2,796	2,796
Total assets	61,042	65,529	71,989	78,831	87,645

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	10,717	13,130	14,251	16,340	18,784
Interest expenses	111	73	142	82	26
Non-cash adjustments	(2,142)	(2,488)	(1,276)	(1,895)	(2,901)
Changes in working capital	(1,592)	2,273	(2,797)	(721)	(1,298)
Other operating cash flows	(60)	0	0	0	0
Cash flow from operations	7,034	12,988	10,320	13,807	14,612
Capital expenditures	(7,367)	(8,591)	(7,144)	(6,500)	(5,000)
Change in investments	202	200	0	(4,000)	(7,000)
Other investing cash flows	2,142	2,488	1,276	1,895	2,901
Cash flow from investing	(5,023)	(5,904)	(5,869)	(8,605)	(9,099)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(59)	316	(3,000)	(3,000)	(2,590)
Interest expenses	(111)	(73)	(142)	(82)	(26)
Dividends paid	(1,688)	(5,127)	(988)	(2,269)	(2,650)
Other financing cash flows	(272)	(2,301)	0	0	0
Cash flow from financing	(2,129)	(7,185)	(4,130)	(5,351)	(5,266)
Changes in cash and cash eq.	(118)	(101)	322	(150)	247
Closing cash and cash eq.	556	455	777	627	874

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	40.5	48.9	51.1	58.7	68.5
Adjusted EPS	40.5	48.9	51.1	58.7	68.5
Dividend per share	7.5	22.0	5.1	11.7	13.7
Book value per share	242.0	260.1	306.1	353.1	407.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	5.6	6.0	5.5	4.6	4.2
EV/EBITDA	22.2	23.1	17.6	15.7	14.0
Adjusted P/E	35.9	29.7	28.4	24.8	21.2
P/BV	6.0	5.6	4.7	4.1	3.6

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	68.6	84.2	74.8	74.8	74.8
Interest burden (PBT/EBIT)	95.5	99.4	98.9	99.5	99.9
EBIT margin (EBIT/Revenue)	22.8	23.6	25.6	24.6	25.9
Asset turnover (Revenue/Avg TA)	99.8	83.4	84.0	90.8	91.1
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.1	1.1	1.0
Adjusted ROAE	17.8	19.5	18.0	17.8	18.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	17.9	(8.8)	9.2	18.5	10.7
EBITDA	18.5	(4.8)	31.6	11.6	11.0
Adjusted EPS	5.8	20.8	4.5	14.8	16.8
Profitability & Return ratios (%)					
EBITDA margin	25.0	26.1	31.5	29.7	29.8
EBIT margin	22.8	23.6	25.6	24.6	25.9
Adjusted profit margin	14.9	19.8	18.9	18.3	19.3
Adjusted ROAE	16.7	18.8	16.7	16.6	16.8
ROCE	14.7	16.6	16.1	16.7	17.6
Working capital days (days)					
Receivables	37	46	49	45	44
Inventory	45	49	43	41	42
Payables	63	66	66	60	61
Ratios (x)					
Gross asset turnover	0.8	1.0	1.1	1.0	1.0
Current ratio	3.0	2.4	2.8	2.7	2.7
Net interest coverage ratio	107.6	154.8	93.8	185.4	673.4
Adjusted debt/equity	0.2	0.2	0.1	0.0	0.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

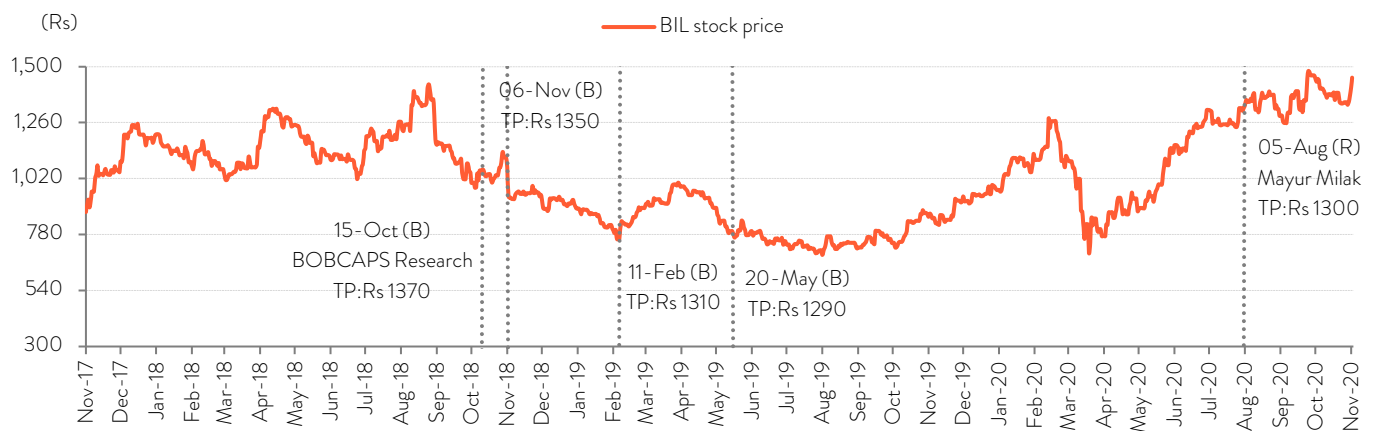
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): BALKRISHNA INDUSTRIES (BIL IN)



B – Buy, A – Add, R – Reduce, S – Sell

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