

SELL

TP: Rs 1,550 | ▼ 18%

**BALKRISHNA
INDUSTRIES**

| Auto Components

| 15 May 2021

Valuations rich; maintain SELL

Balkrishna Industries (BIL) posted healthy Q4FY21 volume growth of 17% YoY to 68k MT, 15% ahead of our projections. Revenue increased 29% YoY and EBITDA margin stood at 31% (+360bps YoY), beating estimates. Management has guided for robust 10-17% YoY tonnage volume growth in FY22 coupled with a stable margin at 28-30% despite RM cost headwinds. Baking in the higher volume guidance, we revise FY22/FY23 EPS up 22%/16% and our Mar'22 TP to Rs 1,550 (vs. Rs 1,340). Retain SELL on rich valuations at 27x FY23E EPS.

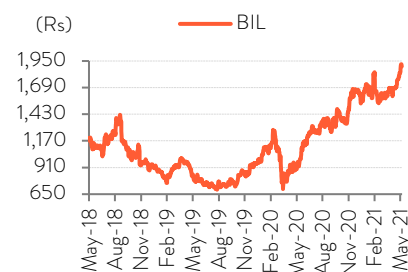
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Operational beat in Q4: Buoyed by 17% YoY volume growth and 10% improvement in ASP, BIL's Q4 revenue came in at Rs 17bn (+29% YoY) – ahead of our estimate. An above-expected gross margin further supported operational performance, leading to 360bps YoY EBITDA margin expansion to 31% (27.4% est.). EBITDA and adj. PAT both increased 45% YoY to Rs 5.4bn and Rs 3.7bn respectively.

Ticker/Price	BIL IN/Rs 1,896
Market cap	US\$ 5.0bn
Shares o/s	193mn
3M ADV	US\$ 13.4mn
52wk high/low	Rs 1,965/Rs 915
Promoter/FPI/DII	58%/12%/18%

Source: NSE

Robust volume guidance: Management has guided for volume sales of 250k-265k MT for FY22, implying 10-17% growth over FY21. EBITDA margin is also expected to remain rangebound at 28-30% despite raw material cost headwinds. Management expects costs to increase 5-6% QoQ in Q1FY22 and has taken cumulative price hikes of ~4% in CY21.

STOCK PERFORMANCE

Source: NSE

Maintain SELL on high valuations: We scale up FY22/FY23 EPS estimates by 22%/16% to incorporate higher volume growth and margin assumptions. Over FY21-FY23, we pencil in a revenue/EBITDA/PAT CAGR of 12%/7%/8% for BIL. Ascribing an unchanged 22x FY23E P/E multiple to the stock – in line with its 5Y average – we arrive at a new Mar'22 TP of Rs 1,550 (vs. Rs 1,340). BIL is trading at an expensive 27x FY23E EPS – retain SELL.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	52,445	47,825	57,579	68,594	72,709
EBITDA (Rs mn)	13,125	12,494	17,855	19,332	20,492
Adj. net profit (Rs mn)	7,820	9,450	11,554	12,522	13,580
Adj. EPS (Rs)	40.5	48.9	59.8	64.8	70.3
Adj. EPS growth (%)	5.8	20.8	22.3	8.4	8.5
Adj. ROAE (%)	16.7	18.8	19.2	17.9	16.8
Adj. P/E (x)	46.9	38.8	31.7	29.3	27.0
EV/EBITDA (x)	28.7	30.0	21.0	19.4	18.3

Source: Company, BOBCAPS Research | P – Provisional

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Volumes (MT)	68,002	57,966	17.3	59,810	13.7	227,132	201,760	12.6
ASP (Rs)	256,741	234,155	9.6	251,555	2.1	253,505	237,038	6.9
Net Revenues	17,459	13,573	28.6	15,046	16.0	57,579	47,825	20.4
Total Income (A)	17,459	13,573	28.6	15,046	16.0	57,579	47,825	20.4
Operating Expenses:								
Raw materials consumed	7,213	6,049	19.2	6,035	19.5	23,028	21,268	8.3
Employee Expenses	883	754	17.0	831	6.1	3,259	2,858	14.0
Other Expenses	3,945	3,044	29.6	3,415	15.5	13,437	11,205	19.9
Total Expenditure (B)	12,041	9,848	22.3	10,282	17.1	39,724	35,331	12.4
EBITDA (A-B)	5,418	3,725	45.4	4,764	13.7	17,855	12,493	42.9
Other Income	584	664	-12.0	514	13.7	1,615	2,488	-35.1
Depreciation	1,034	983	5.3	1,019	1.5	4,062	3,680	10.4
EBIT	4,968	3,406	45.8	4,258	16.7	15,408	11,301	36.3
Finance Costs	23	19	21.7	17	34.5	98	73	34.9
PBT after excep items	4,945	3,388	46.0	4,241	16.6	15,310	11,228	36.4
Tax expense	1,223	815	50.1	1,022	19.7	3,756	1,779	111.2
Reported PAT	3,722	2,573	44.7	3,219	15.6	11,554	9,450	22.3
Adjusted PAT	3,722	2,573	44.7	3,219	15.6	11,554	9,450	22.3
Adj EPS (Rs)	19.3	13.3	44.7	16.7	15.6	60	49	22.3

Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS

(Rs mn)	Q4FY21	Q4FY20	YoY (bps)	Q3FY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross margin	58.7	55.4	325	59.9	(120)	60.0	55.5	448
EBITDA margin	31.0	27.4	359	31.7	(63)	31.0	26.1	489
EBIT margin	28.5	25.1	336	28.3	15	26.8	23.6	313
PBT margin	28.3	25.0	337	28.2	14	26.6	23.5	311
Tax rate	24.7	24.1	68	24.1	63	24.5	15.8	869
Adj PAT margin	21.3	19.0	236	21.4	(8)	20.1	19.8	31

Source: Company, BOBCAPS Research

Earnings call highlights

- Management expects RM prices to rise 5-6% QoQ in Q1FY22 and has taken cumulative price hikes of ~4% since Jan'21.
- Advertising spend totalled Rs 1bn in FY21 and BIL plans to increase this by ~25% in FY22.
- India business grew 29% in FY21 and the strong momentum is likely to continue. BIL currently commands 4-5% market share in India.
- In the global business, BIL's products are priced roughly 20% below the leading players and the company aims to narrow this gap to 12-15%. It has 6% global market share.
- EURINR realisation was at Rs 84.5/EUR in Q4 and current contracts covering sales for the next 5-6 months are hedged at Rs 89/EUR.
- Capex in FY21 stood at Rs 9bn and BIL expects to spend another Rs 8.5bn-9bn (including maintenance capex) in FY22, largely on capacity expansion.

Valuation methodology

We revise our FY22/FY23 EPS estimates upward by 22%/16% to incorporate higher volume growth and margin assumptions. Post estimate revision, our revenue and earnings forecasts are broadly in line with consensus. Over FY21-FY23, we pencil in a revenue/EBITDA/PAT CAGR of 12%/7%/8% for BIL.

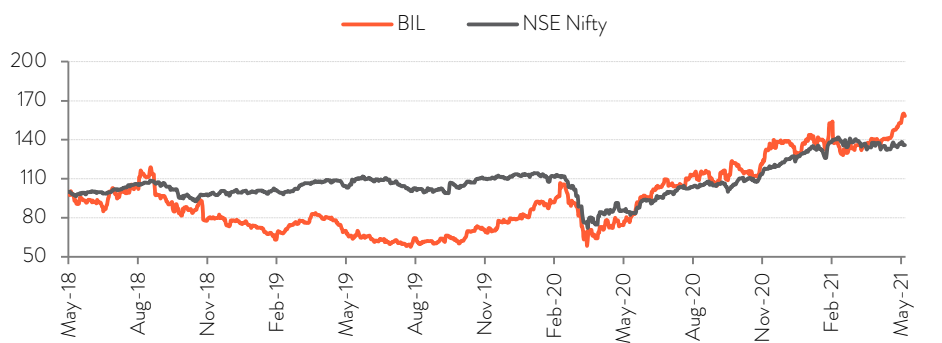
Ascribing an unchanged 22x FY23E P/E multiple to the stock – in line with its five-year average – we arrive at a new Mar’22 target price of Rs 1,550 (from Rs 1,340). Retain SELL as current valuations at 27x FY23E EPS (~20% over the five-year mean) look expensive.

FIG 3 – REVISED ESTIMATES

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Volumes	258,929	274,465	237,270	256,251	9.1	7.1
Revenues	68,594	72,709	61,457	68,033	11.6	6.9
EBITDA	19,332	20,492	17,190	19,089	21.2	12.5
OPM (%)	28.2	28.2	28.0	28.1	21bps	12bps
Adj. PAT	12,522	13,580	10,283	11,760	21.8	15.5
EPS (Rs)	64.8	70.3	53.2	60.8	21.8	15.6

Source: Company, BOBCAPS Research

FIG 4 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Upside risks to our estimates include:

- above-expected volume growth, and
- a fall in natural rubber and crude derivative prices, which could take margins ahead of estimates.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue	52,445	47,825	57,579	68,594	72,709
EBITDA	13,125	12,494	17,855	19,332	20,492
Depreciation	3,326	3,680	4,062	4,587	5,187
EBIT	11,941	11,302	15,408	16,867	18,267
Net interest income/(expenses)	(111)	(73)	(98)	(127)	(112)
Other income/(expenses)	2,142	2,488	1,615	2,122	2,962
Exceptional items	(428)	0	0	0	0
EBT	11,402	11,229	15,310	16,741	18,155
Income taxes	4,010	1,779	3,756	4,219	4,575
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	4	5	6	7	8
Reported net profit	7,392	9,450	11,554	12,522	13,580
Adjustments	428	0	0	0	0
Adjusted net profit	7,820	9,450	11,554	12,522	13,580

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	4,094	3,610	6,335	6,540	6,499
Other current liabilities	1,377	2,404	2,401	2,608	2,930
Provisions	77	278	299	299	299
Debt funds	8,296	8,612	8,934	7,934	6,934
Other liabilities	410	344	327	327	327
Equity capital	387	387	387	387	387
Reserves & surplus	46,400	49,895	59,685	69,703	80,567
Shareholders' fund	46,787	50,281	60,072	70,090	80,954
Total liabilities and equities	61,042	65,530	78,367	87,797	97,942
Cash and cash eq.	556	455	571	766	689
Accounts receivables	5,681	6,492	7,301	8,645	9,163
Inventories	7,130	5,804	9,093	9,396	9,562
Other current assets	3,351	2,508	3,029	3,759	3,984
Investments	10,831	10,631	14,182	21,182	28,182
Net fixed assets	27,861	32,771	33,342	36,755	38,569
CWIP	5,854	5,856	8,555	5,000	5,500
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(3,255)	(1,783)	(2,035)	(2,035)	(2,035)
Other assets	3,033	2,796	4,329	4,329	4,329
Total assets	61,042	65,529	78,367	87,797	97,942

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	10,717	13,130	15,615	17,109	18,767
Interest expenses	111	73	98	127	112
Non-cash adjustments	(2,142)	(2,488)	(1,615)	(2,122)	(2,962)
Changes in working capital	(1,592)	2,273	(3,426)	(1,964)	(629)
Other operating cash flows	(60)	0	0	0	0
Cash flow from operations	7,034	12,988	10,673	13,149	15,288
Capital expenditures	(7,367)	(8,591)	(7,332)	(4,445)	(7,500)
Change in investments	202	200	(3,552)	(7,000)	(7,000)
Other investing cash flows	2,142	2,488	1,615	2,122	2,962
Cash flow from investing	(5,023)	(5,904)	(9,269)	(9,323)	(11,538)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(59)	316	321	(1,000)	(1,000)
Interest expenses	(111)	(73)	(98)	(127)	(112)
Dividends paid	(1,688)	(5,127)	(3,283)	(2,504)	(2,716)
Other financing cash flows	(272)	(2,301)	1,772	0	0
Cash flow from financing	(2,129)	(7,185)	(1,288)	(3,631)	(3,828)
Changes in cash and cash eq.	(118)	(101)	116	195	(78)
Closing cash and cash eq.	556	455	571	766	689

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	40.5	48.9	59.8	64.8	70.3
Adjusted EPS	40.5	48.9	59.8	64.8	70.3
Dividend per share	7.5	22.0	17.0	13.0	14.1
Book value per share	242.0	260.1	310.8	362.6	418.8

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	7.2	7.8	6.5	5.5	5.1
EV/EBITDA	28.7	30.0	21.0	19.4	18.3
Adjusted P/E	46.9	38.8	31.7	29.3	27.0
P/BV	7.8	7.3	6.1	5.2	4.5

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	68.6	84.2	75.5	74.8	74.8
Interest burden (PBT/EBIT)	95.5	99.4	99.4	99.3	99.4
EBIT margin (EBIT/Revenue)	22.8	23.6	26.8	24.6	25.1
Asset turnover (Revenue/Avg TA)	99.8	83.4	89.6	92.9	87.3
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.2	1.1	1.1
Adjusted ROAE	17.8	19.5	20.9	19.2	18.0

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	17.9	(8.8)	20.4	19.1	6.0
EBITDA	18.5	(4.8)	42.9	8.3	6.0
Adjusted EPS	5.8	20.8	22.3	8.4	8.5
Profitability & Return ratios (%)					
EBITDA margin	25.0	26.1	31.0	28.2	28.2
EBIT margin	22.8	23.6	26.8	24.6	25.1
Adjusted profit margin	14.9	19.8	20.1	18.3	18.7
Adjusted ROAE	16.7	18.8	19.2	17.9	16.8
ROCE	14.7	16.6	18.1	17.1	16.4
Working capital days (days)					
Receivables	37	46	44	42	45
Inventory	45	49	47	49	48
Payables	63	66	79	79	75
Ratios (x)					
Gross asset turnover	0.8	1.0	0.9	0.9	0.9
Current ratio	3.0	2.4	2.2	2.4	2.4
Net interest coverage ratio	107.6	154.8	156.9	133.3	163.8
Adjusted debt/equity	0.2	0.2	0.1	0.1	0.1

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

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

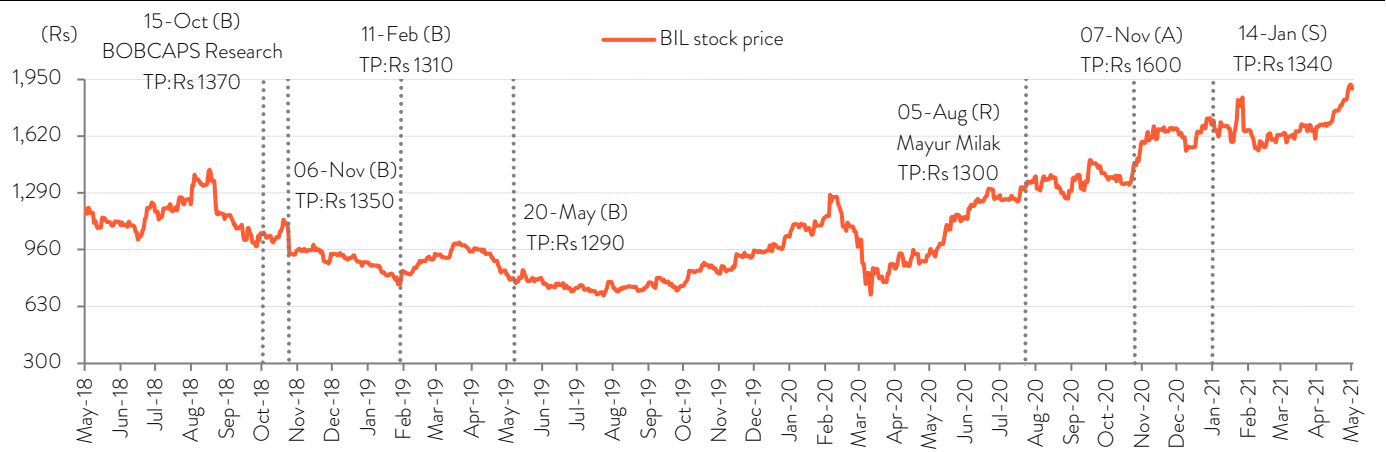
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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



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

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