

FIRST LIGHT

10 February 2021

RESEARCH

Balkrishna Industries | Target: Rs 1,340 | -19% | SELL

Healthy Q3 but margin headwinds ahead – maintain SELL

SUMMARY

Balkrishna Industries

Balkrishna Industries (BIL) posted healthy volume growth of 17% YoY to 59.8k MT in Q3FY21, 8% ahead of our projections. Revenue increased 30% YoY and EBITDA margin stood at 31.7% (+220bps YoY), beating estimates. We expect rising RM costs to depress margins in coming quarters. Thus, despite increasing our FY21 volume forecast to align with management guidance, our FY22-FY23 earnings estimates remain intact. BIL has announced a Rs 19bn capex drive spread over the next 2-3 years. Maintain SELL; Mar'22 TP Rs 1,340.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	1,000
GAIL	Buy	155
Petronet LNG	Buy	330
TCS	Buy	3,710
Tech Mahindra	Buy	1,130

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,750
Greenply Industries	Buy	150
Laurus Labs	Buy	480
Transport Corp	Buy	330
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.17	1bps	6bps	(40bps)
India 10Y yield (%)	6.04	(3bps)	17bps	(40bps)
USD/INR	72.97	(0.1)	0.4	(2.3)
Brent Crude (US\$/bbl)	60.56	2.1	8.2	13.7
Dow	31,386	0.8	0.9	7.2
Shanghai	3,532	1.0	(1.1)	22.2
Sensex	51,349	1.2	5.3	25.3
India FII (US\$ mn)	5 Feb	MTD	CYTD	FYTD
FII-D	(75.6)	(20.9)	(519.2)	(4,612.8)
FII-E	193.7	2,268.3	4,246.6	34,222.3

Source: Bank of Baroda Economics Research

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SELL

TP: Rs 1,340 | ▼ 19%

**BALKRISHNA
INDUSTRIES**

| Auto Components

| 09 February 2021

Healthy Q3 but margin headwinds ahead – maintain SELL

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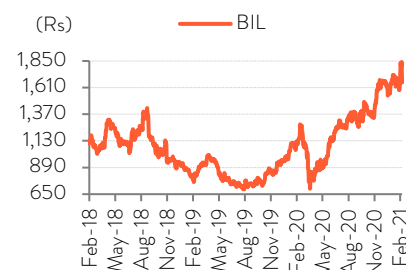
Operational beat in Q3: Buoyed by 17% YoY volume growth and 8% improvement in ASP, revenue came in at Rs 15bn (+26% YoY) – ahead of our estimate. An above-expected gross margin further supported operating performance, leading to 220bps YoY EBITDA margin expansion to 31.7% (28.8% est.). EBITDA was up 40% YoY to Rs 4.8bn and adj. PAT increased 46% YoY to Rs 3.2bn. Management has raised its volume guidance for FY21 from flattish YoY growth to 6-9% growth over FY20.

Ticker/Price	BIL IN/Rs 1,657
Market cap	US\$ 4.4bn
Shares o/s	193mn
3M ADV	US\$ 25.8mn
52wk high/low	Rs 1,875/Rs 679
Promoter/FPI/DII	58%/12%/18%

Source: NSE

New capex drive: BIL has drawn up a new Rs 19bn capex programme to be spread over the next 2-3 years. The outlay is planned for (1) debottlenecking and brownfield expansion of the Bhuj facility which would add 50,000mtpa capacity by H2FY23 at a projected cost of Rs 8bn, (2) increase in carbon black manufacturing capacity to 200,000mtpa by H1FY23 (from 115,000mtpa currently) at a projected cost of Rs 6.5bn, and (3) modernisation, automation and technology upgrades of certain existing equipment and installation of automated material handling systems at a cost of Rs 4.5bn.

STOCK PERFORMANCE



Source: NSE

Maintain SELL: We expect the rising cost of rubber and crude derivatives to weigh on profitability, compressing operating margins by ~200bps over FY21-FY23. Our Mar'22 TP remains at Rs 1,340, based on 22x Mar'23E EPS.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	52,445	47,825	54,243	61,457	68,033
EBITDA (Rs mn)	13,125	12,494	16,192	17,190	19,089
Adj. net profit (Rs mn)	7,820	9,450	9,896	10,283	11,760
Adj. EPS (Rs)	40.5	48.9	51.2	53.2	60.8
Adj. EPS growth (%)	5.8	20.8	4.7	3.9	14.4
Adj. ROAE (%)	16.7	18.8	16.7	15.3	15.3
Adj. P/E (x)	40.9	33.9	32.4	31.1	27.2
EV/EBITDA (x)	25.2	26.3	20.3	19.0	17.0

Source: Company, BOBCAPS Research



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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)

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