

Balkrishna Industries Limited

Expect sequential improvement to continue

7th August 2023

NEUTRAL

CMP Rs. 2,371

TARGET Rs. 2,508 (+6%)

In Q1 FY24, Balkrishna Industries Limited (BKT) has reported a decline of 18% in its top-line performance on a YoY basis. Notably, BKT encountered a volume contraction of 19%, primarily due to a temporary shutdown of its Bhuj plant and challenging demand conditions prevailing in international markets. However, the Company's EBITDA margins have exhibited a noteworthy improvement, rising by 625 Bps on a YoY basis, attributed to reduced freight costs. Nevertheless, on the domestic front, the Company achieved a commendable volume growth of 19% YoY basis. Anticipating an enhancement in sales volume, BKT is poised to leverage its operational efficiency, potentially resulting in improved EBITDA margins.

Challenging international market but robust sales volume growth in India

The Management highlighted the issues of slower demand from international market. On a YoY basis, BKT experienced a contraction in volume sales of ~27% and ~37% in Europe and the US, respectively. Conversely, the Company achieved substantial sales growth within India, registering a volume increase of ~19% on a YoY basis. Furthermore, the management guided that issues related to channel inventory across the globe is unwinding.

Decrease in freight costs has improved EBITDA margins

In Q1 FY24, there was a decline of ~794 Bps in the freight cost-to-sales ratio on a YoY basis. This reduction has significantly contributed to the enhancement of EBITDA margins, which displayed a substantial increase of ~625 Bps on a YoY basis. Based on our analysis, we believe that the Company is well-positioned to maintain an EBITDA margin of ~24% in FY24.

View & Valuation

We have revised our estimates and maintain our NEUTRAL rating on Balkrishna Industries Ltd. (BKT) with a target price of Rs. 2,508 (30x FY25 earnings). We believe reducing freight costs will lead to an improvement in EBITDA margins. However, the stock looks fairly priced in.

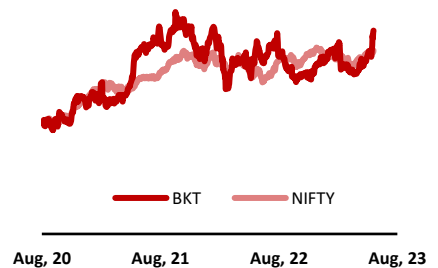
Company Data

Bloomberg Code	BIL IN
MCAP (Rs. Mn)	458,326
O/S Shares (Mn)	193
52w High/Low	2,569 / 1,801
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	814

Shareholding Pattern %

	Jun 23	Mar 23	Dec 22
Promoters	58.30	58.30	58.30
FII's	12.40	12.42	12.45
DII's	21	20.31	20.22
Non-Institutional	8.99	8.99	9.03

BKT vs Nifty



Source: Company, Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
Revenue	98	89	105
EBITDA	17	21	26
Net Profit	11	13	16
Total Assets	123	134	148
ROCE (%)	11%	12%	14%
ROE (%)	15%	16%	18%

Source: Company, Keynote Capitals Ltd.

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Q1 FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q1 FY24	Q1 FY23	Change % (Y-o-Y)	Q4 FY23	Change % (Q-o-Q)	FY23
Revenue from Operation	21,594	26,194	-18%	23,170	-7%	97,595
Gross Profit	11,193	13,683	-18%	11,424	-2%	48,442
Gross Profit %	51.8%	52.2%	-40 Bps	49.3%	253 Bps	49.6%
Employee Cost	1,186	1,188	0%	1,150	3%	4,594
Other Expenses	4,997	8,055	-38%	5,477	-9%	26,777
EBITDA	5,009	4,440	13%	4,798	4%	17,071
EBITDA %	23.2%	16.9%	625 Bps	20.7%	249 Bps	17.5%
Depreciation	1,553	1,293	20%	1,557	0%	5,708
EBIT	3,457	3,147	10%	3,241	7%	11,363
EBIT %	16.0%	12.0%	399 Bps	14.0%	202 Bps	11.6%
Finance Cost	217	30	636%	261	-17%	480
Other Income	1,058	1,057	0%	570	86%	3,465
PBT	4,297	4,175	3%	3,550	21%	14,348
Tax Expenses	978	1,105	-11%	952	3%	3,774
PAT	3,319	3,070	8%	2,598	28%	10,574
EPS	17.17	15.88		13.44		54.70

Source: Company, Keynote Capitals Ltd.

Unit Economics (Rs/KG)

Particulars	Q1 FY24	Q1 FY23	Change % (Y-o-Y)	Q4 FY23	Change % (Q-o-Q)	FY23
Volume Sold (MT)	67,209	83,153	-19%	72,676	-8%	3,01,181
Revenue from Operation	321	315	2%	319	1%	324
Gross Profit	167	165	1%	157	6%	161
Employee Cost	18	14	24%	16	12%	15
Other Expenses	74	97	-23%	75	-1%	89
EBITDA	75	53	40%	66	13%	57
EBIT	51	38	36%	45	15%	38
PBT	64	50	27%	49	31%	48
Tax Expenses	15	13	10%	13	11%	13
PAT	49	37	34%	36	38%	35

Source: Company, Keynote Capitals Ltd.

Volume Sales (MT)

Particulars	Q1 FY24	Q1 FY23	Change % (Y-o-Y)	Q4 FY23	Change % (Q-o-Q)	FY23
Geography-wise						
Europe	30,110	41,327	-27%	39,199	-23%	1,52,096
US	10,307	16,298	-37%	10,433	-1%	53,911
India	21,012	17,628	19%	16,836	25%	65,055
RoW	5,780	7,900	-27%	6,208	-7%	30,118
Segment-wise						
Agriculture	39,317	53,218	-26%	44,425	-11%	1,88,840
OTR & Others	27,892	29,935	-7%	28,251	-1%	1,12,341
Channel-wise						
OEM	17,474	23,117	-24%	20,734	-16%	84,029
Replacement	48,222	58,041	-17%	49,824	-3%	2,09,321
Others	1,512	1,996	-24%	2,118	-29%	7,831

Source: Company, Keynote Capitals Ltd.

Q1 FY24 Conference Call Highlights

General Highlights

- The operations of the Bhuj plant were halted for a duration of 5 days in the month of June 23 due to the Biparjoy cyclone, leading to decreased export activities during the Q1 FY24.
- As of June 23, the Company's gross debt stood at Rs.28.61 Bn, of which 75% is related to working capital requirements.
- Globally, heatwave is affecting Agricultural segment demand. We believe that it will negatively impact sales for a couple of quarters.
- Current utilization of carbon black plant is ~85-90%.

Management Guidance

- Channel inventory related challenges across the globe is unwinding. However, challenges related to export demand continues.
- The management's projected timeline indicates that achieving their targeted market share of 10% will necessitate 3-4 years from the point of expected capacity commercialization.
- Expect realization to further decrease in coming quarters and settle around ~300-305/KG on a lower end.
- The management's guidance asserts the sustainability of the Gross margin reported in the Q1 FY24.
- Going forward, volume growth will be the key factor for increasing EBITDA margins.

Capacity Expansion

- The expansion of the carbon black capacity is anticipated to be concluded by H2 FY24.
- CAPEX for FY24 is ~Rs. 5.5-6 Bn, which includes ~Rs. 2.5-3 Bn of maintenance capex. The balance will be spent towards new product development like rubber tracks, giant solid tires to widen product basket in end markets along with higher investments in brand building and marketing efforts which is required to reach market share goal of 10%.
- Post commissioning of Waluj brownfield project, current achievable capacity has increased to 360,000 MPTA (earlier it was 335,000 MPTA).

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	82,951	97,595	89,270	1,05,293	1,17,191
Growth %	18%	-9%	18%	11%	
Raw Material Expenses	37,778	49,153	42,850	49,488	55,080
Employee Expenses	4,301	4,594	4,910	5,581	5,860
Other Expenses	20,783	26,489	20,532	24,217	26,954
EBITDA	20,090	17,359	20,978	26,007	29,298
Growth %	-14%	21%	24%	13%	
Margin%	24%	18%	24%	25%	25%
Depreciation	4,554	5,708	6,899	7,539	8,339
EBIT	15,536	11,651	14,079	18,468	20,958
Growth %	-25%	21%	31%	13%	
Margin%	19%	12%	16%	18%	18%
Interest Paid	94	768	922	922	922
Other Income & exceptional	4,379	3,465	4,000	4,000	4,000
PBT	19,822	14,348	17,157	21,546	24,036
Tax	5,468	3,774	4,289	5,386	6,009
Net Profit	14,354	10,574	12,868	16,159	18,027
Growth %	-26%	22%	26%	12%	
Shares (Mn)	193.3	193.3	193.3	193.3	193.3
EPS	74.26	54.70	66.56	83.59	93.25

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	19,822	14,348	17,157	21,546	24,036
Adjustments	2,127	5,426	3,822	4,462	5,262
Change in Working Capital	-8,289	-1,865	4,464	-740	-2,271
Total Tax Paid	-4,579	-3,429	-4,289	-5,386	-6,009
Cash flow from operating Activities	9,080	14,480	21,153	19,881	21,018
Net Capital Expenditure	-15,889	-17,523	-6,000	-10,000	-10,000
Change in investments	-3,516	-883	0	0	0
Other investing activities	431	575	4,000	4,000	4,000
Cash flow from investing activities	-18,975	-17,831	-2,000	-6,000	-6,000
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	15,498	7,097	0	0	0
Dividend (incl. tax)	-5,603	-3,091	-3,860	-4,848	-5,408
Other financing activities	-91	-421	-922	-922	-922
Cash flow from financing activities	9,804	3,585	-4,783	-5,770	-6,330
Net Change in cash	-91	234	14,370	8,111	8,687

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	74	55	67	84	93
Growth %	-26%	22%	26%	12%	
Book Value Per Share	359	391	438	496	561
Return Ratios					
Return on Assets (%)	15%	9%	10%	11%	12%
Return on Equity (%)	22%	15%	16%	18%	18%
Return on Capital Employed (%)	19%	11%	12%	14%	14%
Turnover Ratios					
Asset Turnover (x)	0.9	0.8	0.7	0.7	0.8
Sales / Gross Block (x)	1.4	1.3	1.0	1.1	1.1
Working Capital / Sales (x)	7%	6%	12%	19%	26%
Receivable Days	41	41	45	40	42
Inventory Days	126	124	129	109	111
Payable Days	60	49	50	54	63
Working Capital Days	107	116	124	95	90
Liquidity Ratios					
Current Ratio (x)	1.2	1.2	1.5	1.6	1.9
Interest Coverage Ratio (x)	213.0	19.7	19.6	24.4	27.1
Total Debt to Equity	0.4	0.4	0.4	0.3	0.3
Net Debt to Equity	0.4	0.4	0.2	0.1	0.0
Valuation					
PE (x)	28.8	39.1	35.6	28.4	25.4
Earnings Yield (%)	3%	3%	3%	4%	4%
Price to Sales (x)	5.0	4.2	5.1	4.4	3.9
Price to Book (x)	6.0	6.1	5.4	4.8	4.2
EV/EBITDA (x)	21.8	27.8	23.0	18.6	16.5
EV/Sales (x)	5.3	4.9	5.4	4.6	4.1

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	517	763	15,134	23,245	31,932
Current Investments	6,845	7,746	7,746	7,746	7,746
Debtors	10,962	11,153	10,712	12,635	14,063
Inventory	16,721	16,674	13,712	15,836	17,626
Short Term Loans & Advances	870	2,242	2,242	2,242	2,242
Other Current Assets	3,027	702	702	702	702
Total Current Assets	38,942	39,280	50,248	62,406	74,310
Net Block & CWIP	52,778	67,757	66,858	69,318	70,979
Long Term Investments	12,122	12,621	12,621	12,621	12,621
Other Non-current Assets	5,949	3,820	3,820	3,820	3,820
Total Assets	1,09,790	1,23,477	1,33,546	1,48,164	1,61,730
Creditors	8,293	4,921	5,983	9,290	10,236
Provision	45	67	67	67	67
Short Term Borrowings	20,270	23,033	23,033	23,033	23,033
Other Current Liabilities	3,749	5,471	5,471	5,471	5,471
Total Current Liabilities	32,356	33,493	34,554	37,861	38,808
Long Term Debt	5,010	10,381	10,381	10,381	10,381
Deferred Tax Liabilities	2,509	2,419	2,419	2,419	2,419
Other Long Term Liabilities	584	1,615	1,615	1,615	1,615
Total Non Current Liabilities	8,103	14,415	14,415	14,415	14,415
Paid-up Capital	387	387	387	387	387
Reserves & Surplus	68,944	75,183	84,190	95,502	1,08,121
Shareholders' Equity	69,330	75,569	84,577	95,888	1,08,507
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	1,09,790	1,23,477	1,33,546	1,48,164	1,61,730

Source: Company, Keynote Capitals Ltd.

KEYNOTE Rating History

Date	Rating	Market price at Recommendation	Upside/Downside
20 th January 2023	BUY	2,223	+12.4%
13 th February 2023	BUY	2,044	+14.5%
30 th May 2023	NEUTRAL	2,226	+4.7%
7 th August 2023	NEUTRAL	2371	+6%

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd./Rating & Fair value under Review/Keynote Capitals Ltd. has suspended coverage

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