KEYNOTE

Balkrishna Industries Limited

Expect H2 to be better than H1 FY24

23rd October 2023

NEUTRAL

CMP Rs. 2,564

TARGET Rs. 2,708 (+5.6%)

In Q2 FY24, Balkrishna Industries Limited (BKT) reported a decline of 15% in its top-line on a YoY basis. Notably, BKT encountered a volume contraction of 11% on a YoY basis, primarily due to challenging demand conditions prevailing in international markets. However, the Company's EBITDA margins have exhibited a noteworthy improvement, rising by ~760 Bps on a YoY basis, attributed to reduced freight costs and better product mix. Nevertheless, on the domestic front, the Company achieved a commendable volume growth of 26% on a YoY basis. Management guided that the Company will have a better H2 over H1 FY24, however a slight de-growth on sales volume in FY24.

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 ~18% and ~24% in Europe and the US, respectively. Conversely, the Company achieved substantial sales volume growth within India, registering an increase of ~26% on a YoY basis. Furthermore, the management guided that issues related to channel inventory across the globe has normalized to ~2.5 months inventory levels.

Decrease in freight costs has improved EBITDA margins

In Q2 FY24, there was a decline of ~1002 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 ~760 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 a NEUTRAL rating on Balkrishna Industries Ltd. (BKT) with a target price of Rs. 2,708 (33x FY25 earnings). We believe reducing freight costs will lead to an improvement in EBITDA margins. However, the stock looks fairly priced in.

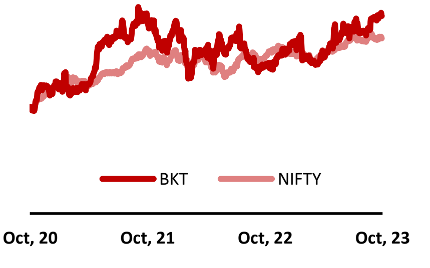
Company Data

Bloomberg Code	BIL IN
MCAP (Rs. Mn)	495,598
O/S Shares (Mn)	193
52w High/Low	2,645 / 1,801
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	581

Shareholding Pattern %

	Sep 23	Jun 23	Mar 23
Promoters	58.30	58.30	58.30
FIIs	12.53	12.40	12.42
DIIs	21.21	21	20.31
Non-Institutional	7.94	8.99	8.99

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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Q2 FY24 Result Update

Result Highlights (Rs. Mn)

Particulars	Q2 FY24	Q2 FY23	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1 FY24	H1 FY23	Change % (Y-o-Y)	FY23
Revenue from Operation	22,532	26,575	-15%	21,594	4%	44,125	52,770	-16%	97,595
Gross Profit	11,600	13,147	-12%	11,193	4%	22,793	26,831	-15%	48,442
Gross Profit %	***51.5%***	***49.5%***	***201 Bps***	***51.8%***	***-35 Bps***	***51.7%***	***50.8%***	***81 Bps***	***49.6%***
Employee Cost	1,242	1,131	10%	1,186	5%	2,428	2,319	5%	4,594
Other Expenses	5,031	7,754	-35%	4,997	1%	10,028	15,809	-37%	26,777
EBITDA	5,327	4,262	25%	5,009	6%	10,337	8,702	19%	17,071
EBITDA %	***23.6%***	***16.0%***	***760 Bps***	***23.2%***	***44 Bps***	***23.4%***	***16.5%***	***693 Bps***	***17.5%***
Depreciation	1,604	1,373	17%	1,553	3%	3,157	2,666	18%	5,708
EBIT	3,723	2,889	29%	3,457	8%	7,179	6,036	19%	11,363
EBIT %	***16.5%***	***10.9%***	***565 Bps***	***16.0%***	***52 Bps***	***16.3%***	***11.4%***	***483 Bps***	***11.6%***
Finance Cost	239	48	397%	217	10%	456	77	490%	480
Other Income	1,071	2,267	-53%	1,058	1%	2,129	3,324	-36%	3,465
PBT	4,555	5,108	-11%	4,297	6%	8,852	9,283	-5%	14,348
Tax Expenses	1,081	1,285	-16%	978	10%	2,059	2,391	-14%	3,774
PAT	3,474	3,823	-9%	3,319	5%	6,793	6,892	-1%	10,574
EPS	**17.98**	**19.78**		**17.17**		**35.15**	**35.65**		**54.70**

Source: Company, Keynote Capitals Ltd.

Unit Economics (Rs/KG)

Particulars	Q2 FY24	Q2 FY23	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1 FY24	H1 FY23	Change % (Y-o-Y)	FY23
Volume Sold (MT)	70,585	78,872	-11%	67,209	5%	1,37,794	1,62,025	-15%	3,01,181
Revenue from Operation	319	337	-5%	321	-1%	320	326	-2%	324
Gross Profit	164	167	-1%	167	-1%	165	166	0%	161
Employee Cost	18	14	23%	18	0%	18	14	23%	15
Other Expenses	71	98	-28%	74	-4%	73	98	-25%	89
EBITDA	75	54	40%	75	1%	75	54	40%	57
EBIT	53	37	44%	51	3%	52	37	40%	38
PBT	65	65	0%	64	1%	64	57	12%	48
Tax Expenses	15	16	-6%	15	5%	15	15	1%	13
PAT	49	48	2%	49	0%	49	43	16%	35

Source: Company, Keynote Capitals Ltd.

Volume Sales (MT)

Particulars	Q2 FY24	Q2 FY23	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1 FY24	H1 FY23	Change % (Y-o-Y)	FY23
Geography-wise									
Europe	32,035	39,062	-18%	30,110	6%	62,145	80,389	-23%	1,52,096
US	12,567	16,610	-24%	10,307	22%	22,874	32,908	-30%	53,911
India	18,397	14,635	26%	21,012	-12%	39,409	32,263	22%	65,055
RoW	7,586	8,565	-11%	5,780	31%	13,366	16,465	-19%	30,118
Segment-wise									
Agriculture	40,879	50,478	-19%	39,317	4%	80,196	1,03,696	-23%	1,88,840
OTR & Others	29,706	28,394	5%	27,892	7%	57,598	58,329	-1%	1,12,341
Channel-wise									
OEM	19,041	21,602	-12%	17,474	9%	36,515	44,719	-18%	84,029
Replacement	50,300	55,053	-9%	48,222	4%	98,523	1,13,093	-13%	2,09,321
Others	1,244	2,217	-44%	1,512	-18%	2,756	4,213	-35%	7,831

Source: Company, Keynote Capitals Ltd.

Q2 FY24 Conference Call Takeways

General Highlights

- The volumes in Q2 FY24 were partly contributed by the inventory created in June 2023 but could not be shipped out, due to Cyclone Biparjoy disruptions.
- Gross cash and cash equivalents as on H1 FY24 was ~Rs. 23 Bn.
- Normalization of inventory on books has led to reduction in working capital.
- In Q2 FY24, sales of carbon black accounted for 6-7% of the revenue.
- The quarterly forex loss amounted to Rs. 210 Mn.
- In India, the Company is gaining market share. Currently, BKT has a market share of ~4-5% in India (based on MT). The management has set a milestone to increase it to 9-10%.

Management Guidance

- Management is expecting that the Company will see a gradual improvement in volume sales as inventory de-stocking related challenges in the international market has normalized.
- The Company will witness a minor de-growth in volume for FY24 on a YoY basis, due to heat waves and recessionary fear in export market.
- Increase in fuel prices can impact power & fuel cost in the coming quarters, which can impact profitability of the Company.
- The Company will do an EBITDA margin of 23-24% for FY24.

Capacity Expansion

- Estimated capex for FY24 is Rs. 9 Bn, which includes maintenance capex worth Rs. 2.5-3 Bn, mould manufacturing capacity in Bhuj worth Rs. 3 Bn (expect it to commission in Q1 FY25) and balance will be spent towards new product development and giant tires to widen the product basket.
- Mould manufacturing capacity is not to be looked from a perspective of margin enhancement, but quality control. Moulds will be required for Giant tires and more SKUs.

Balkrishna Industries Limited | Quarterly Update

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	**82,951**	**97,595**	**89,631**	**1,04,687**	**1,14,724**
Growth %		18%	-8%	17%	10%
Raw Material Expenses	37,778	49,153	43,471	49,203	53,920
Employee Expenses	4,301	4,594	4,930	5,548	5,736
Other Expenses	20,783	26,489	20,167	24,078	26,386
EBITDA	**20,090**	**17,359**	**21,063**	**25,858**	**28,681**
Growth %		-14%	21%	23%	11%
Margin%	24%	18%	24%	25%	25%
Depreciation	4,554	5,708	7,019	7,779	8,579
EBIT	**15,536**	**11,651**	**14,044**	**18,078**	**20,102**
Growth %		-25%	21%	29%	11%
Margin%	19%	12%	16%	17%	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**	**17,122**	**21,156**	**23,179**
Tax	5,468	3,774	4,280	5,289	5,795
Net Profit	**14,354**	**10,574**	**12,841**	**15,867**	**17,384**
Growth %		-26%	21%	24%	10%
Shares (Mn)	193.3	193.3	193.3	193.3	193.3
EPS	**74.26**	**54.70**	**66.43**	**82.08**	**89.93**

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	517	763	12,115	20,442	29,267
Current Investments	6,845	7,746	7,746	7,746	7,746
Debtors	10,962	11,153	10,756	12,562	13,767
Inventory	16,721	16,674	13,911	15,745	17,254
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	47,472	59,439	70,978
Net Block & CWIP	52,778	67,757	69,738	71,958	73,379
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**	**1,33,650**	**1,47,838**	**1,60,798**
Creditors	8,293	4,921	6,106	9,187	9,977
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	34,678	37,758	38,549
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	84,172	95,279	1,07,448
Shareholders' Equity	69,330	75,569	84,558	95,665	1,07,834
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	**1,09,790**	**1,23,477**	**1,33,650**	**1,47,838**	**1,60,798**

Source: Company, Keynote Capitals Ltd.

Cash Flow

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	19,822	14,348	17,122	21,156	23,179
Adjustments	2,127	5,426	3,942	4,702	5,502
Change in Working Capital	-8,289	-1,865	4,345	-560	-1,923
Total Tax Paid	-4,579	-3,429	-4,280	-5,289	-5,795
Cash flow from operating Activities	**9,080**	**14,480**	**21,128**	**20,008**	**20,963**
Net Capital Expenditure	-15,889	-17,523	-9,000	-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**	**-5,000**	**-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	-3,852	-4,760	-5,215
Other financing activities	-91	-421	-922	-922	-922
Cash flow from financing activities	**9,804**	**3,585**	**-4,775**	**-5,682**	**-6,138**
Net Change in cash	-91	234	11,353	8,326	8,825

Valuation Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	74	55	66	82	90
Growth %		-26%	21%	24%	10%
Book Value Per Share	359	391	437	495	558
Return Ratios					
Return on Assets (%)	15%	9%	10%	11%	11%
Return on Equity (%)	22%	15%	16%	18%	17%
Return on Capital Employed (%)	19%	11%	12%	14%	14%
Turnover Ratios					
Asset Turnover (x)	0.9	0.8	0.7	0.7	0.7
Sales / Gross Block (x)	1.4	1.3	1.0	1.1	1.1
Working Capital / Sales (x)	7%	6%	10%	16%	24%
Receivable Days	41	41	45	41	42
Inventory Days	126	124	128	110	112
Payable Days	60	49	49	55	63
Working Capital Days	107	116	124	96	90
Liquidity Ratios					
Current Ratio (x)	1.2	1.2	1.4	1.6	1.8
Interest Coverage Ratio (x)	213.0	19.7	19.6	23.9	26.1
Total Debt to Equity	0.4	0.4	0.4	0.3	0.3
Net Debt to Equity	0.4	0.4	0.3	0.1	0.0
Valuation					
PE (x)	28.8	39.1	38.2	31.0	28.3
Earnings Yield (%)	3%	3%	3%	3%	4%
Price to Sales (x)	5.0	4.2	5.5	4.7	4.3
Price to Book (x)	6.0	6.5	5.8	5.1	4.6
EV/EBITDA (x)	21.8	29.7	24.5	20.0	18.0
EV/Sales (x)	5.3	5.3	5.8	4.9	4.5

KEYNOTE Rating History

Date	Rating	Market price at Recommendation	Upside/Downside
20th January 2023	BUY	2,223	+12.4%
13th February 2023	BUY	2,044	+14.5%
30th May 2023	NEUTRAL	2,226	+4.7%
7th August 2023	NEUTRAL	2371	+6%
23rd October 2023	NEUTRAL	2,564	+5.6%

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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