

Healthy performance, consistency merit premium...

About the stock: Balkrishna Industries (BIL) is the leader in the niche tyre segment used in heavy machinery for mining and agriculture purposes.

- Exports form lion's share of its sales at ~80% of its revenues
- Channel mix: replacement account for ~70% while OEM share is pegged at ~26%. Agriculture accounts for ~64% of volumes with OTR share at ~32%
- It has consistently operated with high (>20%) margins & return ratios

Q1FY22 Results: BIL reported healthy Q1FY22 results.

- Standalone net sales at ₹ 1,813 crore were up 3.8% QoQ
- EBITDA margins at 28.3% were lower by 276 bps QoQ
- Consequent PAT at ₹ 331.2 crore declined 11% sequentially

What should investors do? BIL's share price has grown by ~7x over the past five years (from ~₹ 375 in August 2016), thereby vastly outperforming Nifty Auto index

- We retain **BUY** rating on the stock given its consistent, healthy financials

Target Price and Valuation: We value BIL at revised target price of ₹ 2,825 i.e. 36x P/E on FY23E EPS (earlier target price ₹ 2,250).

Key triggers for future price performance:

- Ambition to double global market share to ~10% vs. 5% currently
- Robust demand in the agriculture segment to propel volume growth
- Aggressive brownfield expansion and backward integration in place
- Net debt free b/s, double-digit return ratios & strong cash generation

Alternate Stock Idea: In our auto ancillary coverage we like JK Tyre.

- Walking the talk on b/s deleveraging, sweating of assets & capital efficiency
- BUY with a target price of ₹ 180



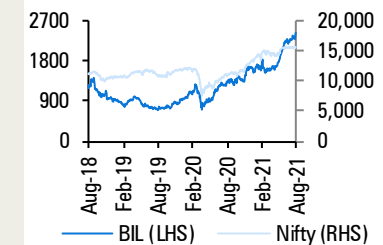
Particulars

Particular	₹ crore
Market Capitalization	47,363
Total Debt (FY21)	893
Cash & Inv (FY21)	1,475
EV (₹ Crore)	46,781
52 week H/L (₹)	2558/1237
Equity capital (₹ crore)	38.7
Face value (₹)	2.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	58.3	58.3	58.3	58.3
FII	11.5	15.5	14.4	15.2
DII	19.0	15.0	14.6	14.1
Other	11.2	11.2	12.7	12.4

Price Chart



Recent event & key risks

- Posted healthy Q1FY22 results
- **Key Risk:** (i) Slower than anticipated market demand; sales volume, (ii) longer than expected payback on new capex

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Key Financial Summary

Key Financials	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	2 year CAGR (FY21-23E)
Net Sales	5,244.5	4,782.5	5,757.9	12.2%	7,090.1	7,644.5	15.2%
EBITDA	1,311.1	1,249.3	1,785.5	10.6%	2,038.0	2,334.2	14.3%
EBITDA Margins (%)	25.0	26.1	31.0		28.7	30.5	
Net Profit	782.0	945.0	1,155.4	15.3%	1,294.9	1,516.3	14.6%
EPS (₹)	40.5	48.9	59.8		67.0	78.4	
P/E	60.6	50.1	41.0		36.6	31.2	
RoNW (%)	16.7	18.8	19.2		18.7	19.0	
RoCE (%)	16.7	14.4	19.3		19.9	21.0	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY22 Results:

- Revenues were up 3.8% QoQ tracking ~1% increase in volumes to best ever level of 68,608 MT
- On the margin front, the company recorded a sequential increase under all cost heads, with gross margins contracting 183 bps
- Other income increased 33.9% QoQ to ₹ 78 crore aided by forex gains (realised + unrealised). Tax rate for the quarter was at 32% vs. usual run rate of 25%
- The company announced a first interim dividend of ₹ 4/share

Q1FY22 Earnings Conference Call highlights

- As per the management, BIL continues to witness strong demand across geographies and segments, backed by infrastructure creation and firm commodity prices in served markets. It maintained FY22E volume guidance of 2.50-2.65 lakh MT
- Long term sustainable margin guidance is unchanged at 28-30%
- The company took a 2-3% price hike in July 2021 and expects input costs to stabilise around current levels from here on
- Pricing gap of 15-20% with peers set to be closed further with improved branding being a key lever
- Logistics costs rose substantially from June 2021 onwards are expected to remain elevated for the rest of FY22E
- Carbon black sales form <3% of overall sales for BIL. Total ~30% of carbon black manufactured is sold outside
- In Q1FY22, agri segment comprised 66% of volumes with OTR constituting 31%. Among geographies, Europe accounted for 52.7% while share of Americas/India was at 16.1% and 19%, respectively. Replacement, OEM channels accounted for ~72%, 25.6%, respectively, of Q1FY22 volumes.
- Q1FY22 capex was at ₹ 336 crore with FY22E guidance at ₹ 900-1000 crore
- Global OHT market is growing at 3-5% CAGR. BIL's present market share is at ~5%, with ex-China market share at 7-8%
- Channel inventory is at 35-40 days at present

Peer comparison

Exhibit 1: Peer Comparison (tyres)

Company	CMP	TP	Rating	Mcap ₹ crore	EBITDA margin (%)			Debt to Equity (x)			RoCE (%)			P/E (x)		
	₹	₹			FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Apollo Tyres (APOTYR)	222	275	Buy	14,098	15.8	13.0	14.3	0.6	0.5	0.4	7.6	6.1	9.1	19.3	21.7	13.4
Balkrishna Inds (BALIND)	2,450	2,825	Buy	47,363	31.0	28.7	30.5	0.1	0.1	0.1	19.3	19.9	21.0	41.0	36.6	31.2
JK Tyre (JKTYRE)	162	180	Buy	3,989	14.4	11.2	12.6	1.7	1.5	1.1	11.8	10.3	14.4	12.5	13.1	7.2

Source: Company, ICICI Direct Research

We believe BIL deserves premium valuation (trades at >2x its peers) due to its far superior EBITDA margin profile (~30%) as well as healthy return ratios with RoCE at ~20% vs. ~10-15% at its peers.

Exhibit 2: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Total Operating Income	1,813.1	1,676.3	928.7	95.2	1,745.9	3.8	Revenues came in ahead of estimates tracking higher than expected volumes which rose ~1% QoQ vs. our expectation of 7.6% decline
Raw Material Expenses	782.3	719.9	366.5	113.4	721.3	8.4	Gross margins were in line with estimates
Employee Expenses	94.4	85.5	70.1	34.7	88.3	7.0	
Other expenses	423.7	385.6	261.5	62.0	394.5	7.4	
EBITDA	512.7	485.4	230.6	122.3	541.8	-5.4	Margins were slightly lower than expected
EBITDA Margin (%)	28.3	29.0	24.8	345 bps	31.0	-276 bps	
Other Income	78.2	44.8	33.3	134.9	58.4	33.9	Other came in much higher tracking forex gains amounting to ~₹ 38 crore for the quarter (realised + unrealised)
Depreciation	104.1	113.8	99.6	4.5	103.4	0.6	
Interest	2.1	2.3	2.4	-12.4	2.3	-7.8	
Tax	153.5	104.4	40.1	283.2	122.3	25.5	Tax rate came in higher at 32% vs. usual run rate of ~25%
PAT	331.2	309.8	121.8	171.9	372.2	-11.0	PAT beat was due to higher than expected revenues, EBITDA and other income
EPS	17.1	16.0	6.3	171.9	19.3	-11.0	
Key Metrics							
Volume (MT)	68,608	62,858	38,096	80.1	68,002	0.9	Volume performance was strong and better than expected

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,904	7,090	2.7	7,738	7,645	-1.2	Marginally raise our FY22E revenue estimates based on beat recorded in Q1FY22. We expect sales at BKT to grow at a CAGR of 15.2% over FY21-23E
EBITDA	2,072	2,038	-1.6	2,436	2,334	-4.2	
EBITDA Margin (%)	30.0	28.7	-127 bps	31.5	30.5	-97 bps	Revised downwards our margin estimates tracking higher ocean freight costs as well as high commodity costs
PAT	1,319	1,295	-1.8	1,556.0	1,516	-2.6	
EPS (₹)	68.2	67.0	-1.8	80.5	78.4	-2.6	Lower margin estimates lead to trimming of PAT estimates going forward. We expect PAT at BKT to grow at a CAGR of 14.6% over FY21-23E

Source: ICICI Direct Research

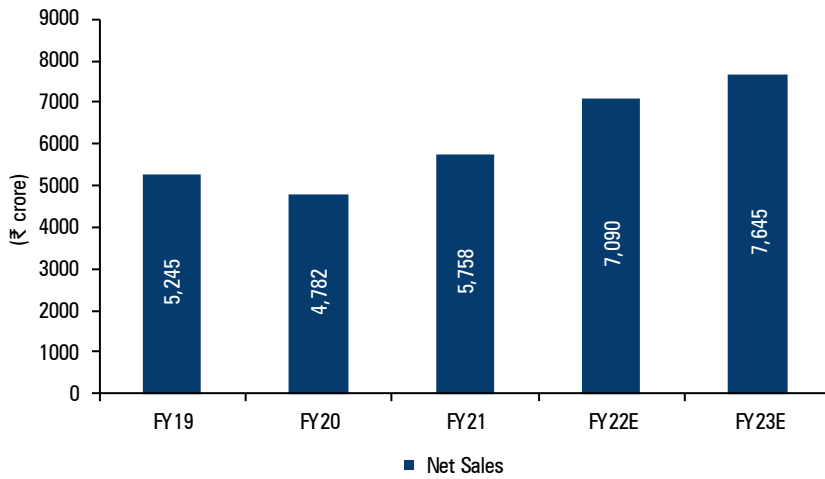
Exhibit 4: Assumptions

	FY18	FY19	FY20	FY21	FY22E	FY23E	Comments
Capacity (MT)	3,00,000	3,00,000	3,00,000	2,80,000	2,85,000	2,85,000	Going forward we expect volumes to grow at 11% CAGR over FY21-23E to ~2.80 lakh MT. They are expected to grow by 17% YoY in FY22E followed by 5% rise in FY23E. Along with ASP CAGR of 4% over that time frame, sales CAGR is seen at 15.2%
Sales volume (MT)	1,99,213	2,11,261	2,01,760	2,27,132	2,65,205	2,79,792	
Volume growth (% YoY)		6%	-4%	13%	17%	5%	
Average realisation (₹/kg)	222	246	237	254	267	273	

Source: ICICI Direct Research

Financial story in charts

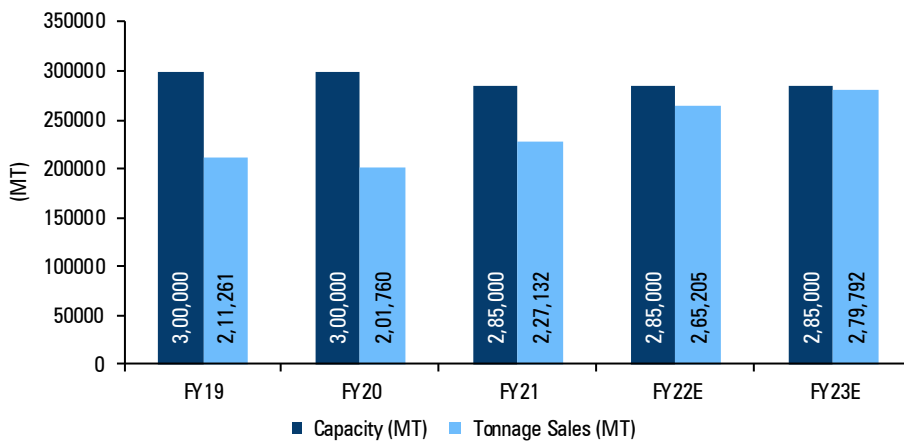
Exhibit 5: Topline trend



We expect sales to grow at a CAGR of 15.2% over FY21-23E to ₹ 7645 crore in FY23E

Source: Company, ICICI Direct Research

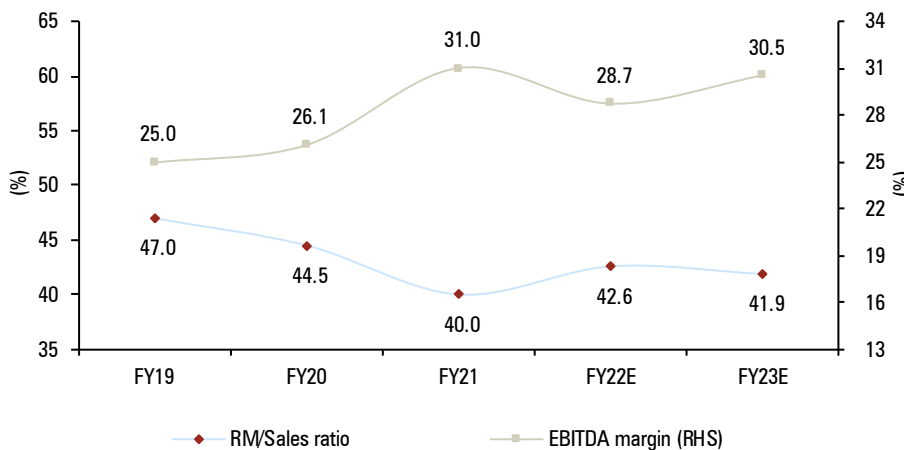
Exhibit 6: Capacity and volume trend



We expect tonnage volumes to grow at 11% CAGR over FY21-23E to 2.8 lakh MT

Source: Company, ICICI Direct Research

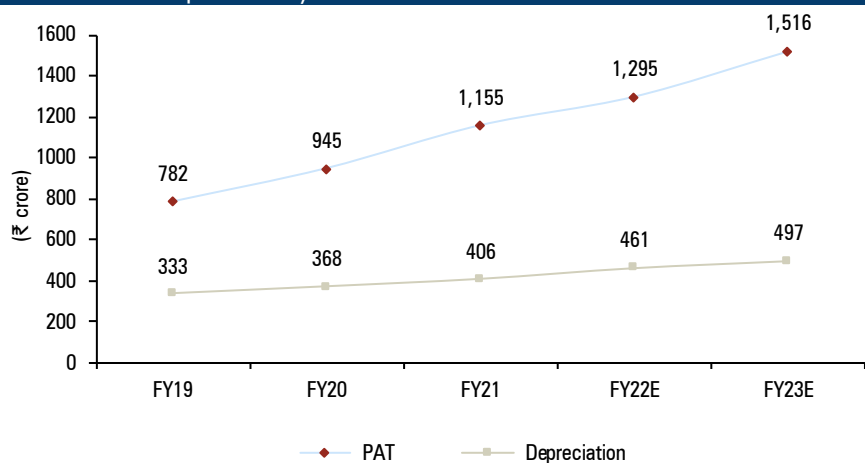
Exhibit 7: Trend in EBITDA margins



Margins are seen improving to 30.5% by FY23E amid backward integration benefits and better operating leverage

Source: Company, ICICI Direct Research

Exhibit 8: Trend in profitability



PAT seen growing at 14.6% CAGR in FY21P-23E

Source: Company, ICICI Direct Research

Exhibit 9: Valuation Summary

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY18	4,464	17.8	38.2	3.4	64.1	42.9	18.1	15.7
FY19	5,245	17.5	40.5	5.8	60.6	36.1	16.7	16.7
FY20	4,782	-8.8	48.9	20.8	50.1	38.3	18.8	14.4
FY21	5,758	20.4	59.8	22.3	41.0	26.8	19.2	19.3
FY22E	7,090	23.1	67.0	12.1	36.6	23.5	18.7	19.9
FY23E	7,645	7.8	78.4	17.1	31.2	20.4	19.0	21.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Total operating Income	4,782.5	5,757.9	7,090.1	7,644.5
Growth (%)	-8.8	20.4	23.1	7.8
Raw Material Expenses	2,126.8	2,302.8	3,017.8	3,200.4
Employee Expenses	285.8	325.9	361.9	405.2
Other Expenses	1,120.5	1,343.7	1,672.4	1,704.7
Total Operating Expenditure	3,533.2	3,972.4	5,052.0	5,310.4
EBITDA	1249.3	1785.5	2038.0	2334.2
Growth (%)	-4.7	42.9	14.1	14.5
Depreciation	368.0	406.2	460.9	496.9
Interest	7.3	9.8	9.2	8.7
Other Income	248.8	161.5	205.0	198.5
PBT	1122.8	1531.0	1773.0	2027.1
Total Tax	177.9	375.6	478.1	510.8
Reported PAT	945.0	1155.4	1294.9	1516.3
Growth (%)	20.8	22.3	12.1	17.1
EPS (₹)	48.9	59.8	67.0	78.4

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	945.0	1,155.4	1,294.9	1,516.3
Add: Depreciation	368.0	406.2	460.9	496.9
(Inc)/dec in Current Assets	135.9	-461.9	-373.2	-181.1
Inc/(dec) in CL and Provisions	42.2	273.7	4.4	69.0
CF from operating activities	1491.1	1373.3	1387.0	1901.1
(Inc)/dec in Investments	412.4	-40.9	150.0	-40.0
(Inc)/dec in Fixed Assets	-848.8	-734.0	-950.0	-1,000.0
Others	-501.6	-442.7	-104.0	-135.0
CF from investing activities	-937.9	-1217.6	-904.0	-1175.0
Inc/(dec) in loan funds	31.6	32.1	-100.0	-250.0
Dividend paid & dividend tax	-465.5	-328.6	-386.6	-464.0
Others	-130.1	152.5	0.0	0.0
CF from financing activities	-564.0	-144.0	-486.6	-714.0
Net Cash flow	-10.9	11.7	-3.7	12.2
Opening Cash	56.4	45.5	57.2	53.5
Closing Cash	45.5	57.2	53.5	65.7

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	38.7	38.7	38.7	38.7
Reserve and Surplus	4,989.4	5,968.6	6,876.8	7,929.1
Total Shareholders funds	5028.1	6007.2	6915.5	7967.8
Total Debt	861.2	893.4	793.4	543.4
Deferred Tax Liability	178.3	203.5	203.5	203.5
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	6126.3	7161.6	7969.9	8772.2
Assets				
Gross Block	4,788.5	5,252.5	6,058.0	7,058.0
Less: Acc Depreciation	1,599.4	2,005.5	2,466.4	2,963.3
Net Block	3189.1	3247.0	3591.7	4094.8
Capital WIP	585.6	855.5	1,000.0	1,000.0
Total Fixed Assets	3,774.7	4,102.5	4,591.7	5,094.8
Investments	1,151.0	1,505.4	1,375.4	1,515.4
Inventory	580.4	909.3	971.2	1,047.2
Debtors	649.2	730.1	971.2	1,047.2
Loans and Advances	18.5	38.8	47.8	51.6
Cash	45.5	57.2	53.5	65.7
Other current assets	232.3	264.0	325.1	350.5
Total Current Assets	1,525.9	1,999.5	2,368.9	2,562.2
Creditors	361.0	633.5	582.7	628.3
Provisions	4.2	5.1	4.7	5.1
Other current liabilities	239.6	240.0	295.5	318.6
Total Current Liabilities	604.9	878.5	882.9	952.0
Net Current Assets	921.1	1120.9	1486.0	1610.2
Others	279.1	432.4	516.4	551.3
Application of Funds	6126.3	7161.6	7969.9	8772.2

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	48.9	59.8	67.0	78.4
Cash EPS	67.9	80.8	90.8	104.1
BV	260.1	310.7	357.7	412.2
DPS	20.0	17.0	20.0	24.0
Cash Per Share	20.5	23.2	15.3	18.0
Operating Ratios (%)				
EBITDA Margin	26.1	31.0	28.7	30.5
PBT / Net sales	18.4	24.0	22.2	24.0
PAT Margin	19.8	20.1	18.3	19.7
Inventory days	44.3	57.6	50.0	50.0
Debtor days	49.6	46.3	50.0	50.0
Creditor days	27.6	40.2	30.0	30.0
Return Ratios (%)				
RoE	18.8	19.2	18.7	19.0
RoCE	14.4	19.3	19.9	21.0
RoIC	17.2	23.7	23.7	24.8
Valuation Ratios (x)				
P/E	50.1	41.0	36.6	31.2
EV / EBITDA	38.3	26.8	23.5	20.4
EV / Net Sales	10.0	8.3	6.8	6.2
Market Cap / Sales	9.9	8.2	6.7	6.2
Price to Book Value	9.4	7.9	6.8	5.9
Solvency Ratios				
Debt/EBITDA	0.7	0.5	0.4	0.2
Debt / Equity	0.2	0.1	0.1	0.1
Current Ratio	4.1	3.0	3.9	3.9
Quick Ratio	2.5	1.6	2.3	2.3

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E	FY21P	FY22E	FY23E
Apollo Tyre (APOTYR)	222	275	Buy	14,098	5.5	10.2	16.6	40.3	21.7	13.4	6.7	6.9	5.0	7.6	6.1	9.1	6.4	5.5	8.4
Ashok Leyland (ASHLEY)	134	150	Buy	39,223	-1.1	1.1	4.4	-125.4	121.6	30.5	78.8	32.1	15.8	-1.9	4.8	15.7	-4.4	4.5	16.5
Bajaj Auto (BAAUTO)	3,850	4,350	Hold	1,11,407	157.4	167.7	193.6	24.5	23.0	19.9	18.2	16.9	14.2	18.2	19.3	22.5	18.1	18.9	21.4
Balkrishna Ind. (BALIND)	2,450	2,825	Buy	47,363	59.8	67.0	78.4	41.0	36.6	31.2	26.8	23.5	20.4	19.3	19.9	21.0	19.2	18.7	19.0
Bharat Forge (BHAFOR)	778	875	Buy	36,221	-2.7	15.9	25.0	NM	49.1	31.1	44.7	24.0	17.1	2.2	8.0	12.1	3.3	12.3	16.9
Eicher Motors (EICMOT)	2,750	2,970	Hold	74,965	49.3	66.7	87.4	55.8	41.2	31.5	37.8	29.0	22.1	11.3	13.5	15.8	11.8	14.3	16.6
Escorts (ESCORT)	1,200	1,325	Hold	14,710	71.2	67.7	78.2	16.8	17.7	15.4	10.4	11.1	9.1	18.7	14.7	15.1	16.2	13.6	13.8
Hero Moto (HERHON)	2,833	3,440	Buy	56,575	148.4	170.8	196.5	19.1	16.6	14.4	12.1	10.2	8.7	20.8	23.1	24.5	19.5	20.7	21.7
M&M (MAHMAH)	760	1,000	Buy	94,483	2.3	29.9	37.8	337.6	25.4	20.1	14.0	14.8	11.8	9.5	8.2	10.5	2.7	9.6	11.1
Maruti Suzuki (MARUTI)	7,100	6,400	Reduce	2,14,477	140.0	153.1	228.5	50.7	46.4	31.1	32.0	26.8	18.2	4.3	5.9	9.5	8.2	8.5	11.7
Minda Industries (MININD)	715	725	Buy	19,442	7.6	10.9	19.1	94.1	65.7	37.3	27.9	23.4	16.5	9.1	10.6	16.7	10.4	14.2	19.6
Motherson (MOTSUM)	237	300	Buy	74,843	3.3	7.4	10.0	NM	31.9	23.7	16.5	10.0	8.0	6.7	16.2	20.5	8.8	16.7	19.7
Tata Motors (TATMOT)	300	375	Buy	1,14,870	-35.0	0.9	37.9	NM	348.4	7.9	5.2	5.0	3.2	6.3	7.9	14.8	-23.6	0.6	20.3

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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