

Near term blip amid unchanged long term guidance...

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 ~69% while OEM share is pegged at ~28%. Agriculture accounts for ~66% of volumes with OTR share at ~31%
- It has consistently operated with high (>20%) margins & return ratios

Q1FY23 Results: BIL reported a muted set of numbers for Q1FY23.

- Standalone net sales for the quarter were at ₹ 2,646 crore, up 11.5% QoQ
- EBITDA margins in Q1FY23 came in at 17.2%, down 380 bps QoQ
- PAT was at ₹ 319.7 crore, down 14% QoQ

What should investors do? BIL's share price has run up at ~25% CAGR in past five years, (~₹ 795 in August 2017), thereby vastly outperforming Nifty Auto index

- We retain **BUY**, unfazed by short term pressure on volumes, margins amid unchanged ambition of 10% global market share & 28-30% margin profile

Target Price and Valuation: We value BIL at revised target price of ₹ 2,550 i.e. 26x P/E on FY24E EPS of |98.3 (earlier target price ₹ 2,475).

Key triggers for future price performance:

- Unchanged ambition to attain global market share of 10% vs. 5-6% currently
- Steady retail demand across most of the geographies with price competitive product profile given somewhat uncertain macroeconomic conditions
- With brownfield expansion, cost efficiencies, backward integration in place amid healthy demand prospects we expect sales, PAT to grow at 20.5%, 16.1%, CAGR respectively, in FY22-24E. Margins are seen at 23.5% in FY24E
- Strong cash flow generation amid calibrated capex spend to result in healthy FCF generation and consequent retaining net debt free b/s by FY24E

Alternate Stock Idea: In our auto coverage, we also like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with a target price of ₹ 1500



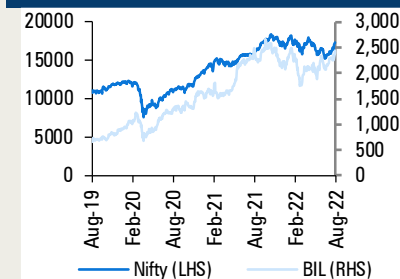
Particulars

Particular	₹ crore
Market Capitalization	41,563
Total Debt (FY22)	2,443
Cash & Inv (FY22)	1,933
EV (₹ Crore)	42,073
52 week H/L (₹)	2724/ 1682
Equity capital (₹ crore)	38.7
Face value (₹)	2.0

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	58.3	58.3	58.3	58.3
FII	15.2	15.4	15.1	14.1
DII	14.1	12.6	11.6	11.8
Other	12.4	13.7	15.1	15.9

Price Chart



Recent event & key risks

- Posted muted numbers for Q1FY23
- Key Risk:** (i) Slower than anticipated demand recovery across key overseas markers, (ii) delay in recovery in margins amid high freight and RM costs

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	5,244.5	4,782.5	5,757.9	8,266.7	16.9%	10,486.1	12,003.5	20.5%
EBITDA	1,311.1	1,249.3	1,785.5	1,975.5	11.8%	1,909.6	2,816.1	19.4%
EBITDA Margins (%)	25.0	26.1	31.0	23.9		18.2	23.5	
Net Profit	782.0	945.0	1,155.4	1,410.7	14.6%	1,262.4	1,899.9	16.1%
EPS (₹)	40.5	48.9	59.8	73.0		65.3	98.3	
P/E	53.1	44.0	36.0	29.5		32.9	21.9	
RoNW (%)	16.7	18.8	19.2	20.4		16.0	20.4	
RoCE (%)	16.7	14.4	19.3	15.9		13.1	19.7	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results:

- Balkrishna Industries (BIL) reported a muted performance in Q1FY23
- Standalone revenues at ₹ 2,646 crore, up 11.5% QoQ. Tonnage for the quarter was up ~7.8% QoQ to 83,153 MT
- EBITDA in Q1FY23 was at ₹ 455.5 crore with corresponding EBITDA margins at 17.2% down 380 bps QoQ. Gross margin erosion was sharp at ~150 bps QoQ while other expenses (driven by higher freight costs) were up ~206 bps QoQ, resulting in overall decline in margin trajectory
- Consequent PAT for the quarter came in at ₹ 319.7 crore, down 14% QoQ, aided by higher than anticipated other income
- The company announced an interim dividend of ₹ 4/ share. Further, with environmental clearance in place, the company expects the commissioning of the second phase of carbon black project along with power plant during Q3FY23. The advanced carbon black project of 30,000 MTPA will be commissioned in Q4FY23

Q1FY23 Earnings Conference Call highlights

- Management commentary on demand remained strong despite inflationary scenario in the US & heatwave and adverse economic environment in Europe. However, demand is likely to suffer a bit in Q2FY23 but with overall brand image remaining strong
- Total production capacity for FY23 is expected to be 3.6 lakh MTPA with sales guidance retained at 3.2- to 3.3 lakh MTPA for FY23
- Currency depreciation of rupee to US\$ would have negligible effect in terms of absolute cost as US\$ imports are covered by equivalent US\$ exports. Euro effective hedge rate for FY23 is ~₹ 85/€
- Margin performance was muted largely on account of RM inflation, freight rates & power cost. Logistic cost nearly doubled ~2x on YoY basis. The company also front loaded some of the brand building expenses with total annual expenses pegged at ~₹ 120-130 crore; ~40% accounted in Q1FY23
- Capex for FY23 is expected to be ~₹ 900 crore and is in line with previous commentary
- Raw material prices have remained at elevated levels and are expected to cool down in Q4FY22 due to ~one to two months inventory lying with company and current orders in transit
- Out of total export orders ~50% of orders are on CIF basis. Of that ~50% hike in freight cost is absorbed by company and 50% is passed through
- To offset rising input cost the company has taken ~5% hike during Q1FY23 while with adverse environment the company is unable to take any hike till date in Q2FY23. BIL tyres are cheaper than competition and the management expects the same to continue, going forward

For Q1FY23, cost of natural rubber (per kg) was at ₹ 160 and steel wire was at ~₹ 110 per kg.

Net debt stood at ~₹ 750 crore whereas gross debt was at ~₹ 2750 crore

Peer comparison

Exhibit 1: Peer Comparison (tyres)

Company	CMP	TP	Rating	Mcap ₹ crore	EBITDA margin (%)			Debt to Equity (x)			RoCE (%)			EV/EBITDA (x)		
	₹	₹			FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Apollo Tyres (APOTYR)	232	230	Buy	14,704	12.3	11.9	13.3	0.5	0.4	0.3	6.3	7.3	10.3	7.5	6.6	5.0
Balkrishna Inds (BALIND)	2,150	2,550	Buy	41,563	23.9	18.2	23.5	0.4	0.3	0.2	15.9	13.1	19.7	21.9	22.9	15.1
JK Tyre (JKTYRE)	130	120	Hold	3,201	9.0	8.0	9.5	1.8	1.8	1.6	8.1	7.7	10.6	7.6	7.7	5.9

Source: Company, ICICI Direct Research

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

Exhibit 2: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Total Operating Income	2,646.3	2,461.7	1,813.1	46.0	2,373.9	11.5	Topline came in ahead of estimates tracking higher than anticipated sales volume
Raw Material Expenses	1,269.2	1,160.2	782.3	62.2	1,102.8	15.1	RM costs came in higher at 48% of sales, up 150 bps QoQ vs. our estimates of 47.1% of sales
Employee Expenses	107.1	98.5	94.4	13.4	89.9	19.2	
Other expenses	814.5	701.6	423.7	92.2	681.7	19.5	Other expenses came in substantially higher at 30.8% of sales vs. our estimates of 28.5%
EBITDA	455.5	501.4	512.7	-11.2	499.5	-8.8	
EBITDA Margin (%)	17.2	20.4	28.3	-1107 bps	21.0	-383 bps	EBITDA margins came in at a new low of 17.2%, down 380 bps QoQ vs. our estimates of 20.4%
Other Income	102.3	65.3	78.2	30.8	107.7	-5.0	
Depreciation	126.2	121.7	104.1	21.2	116.7	8.1	Depreciation came in on expected lines
Interest	2.7	4.2	2.1	29.2	2.1	28.0	
Tax	109.1	111.1	153.5	-28.9	114.7	-4.9	
PAT	319.7	329.7	331.2	-3.5	373.7	-14.4	PAT came in lower tracking miss on margins, however was supported by higher than anticipated other income
EPS	16.5	17.1	17.1	-3.5	19.3	-14.4	
Key Metrics							
Volume (MT)	83,153	75,469	68,608	21.2	77,119	7.8	Volumes came in much ahead of estimates at 83,153 tonne, up 21.2% YoY and 7.8% QoQ

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

(₹ Crore)	FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	10,632	10,486	-1.4	12,122	12,003	-1.0	Broadly retain topline estimates. We expect sales at the company to grow at a CAGR of 20.5% over FY22-24E
EBITDA	2,447	1,910	-22.0	3,036	2,816	-7.2	
EBITDA Margin (%)	23.0	18.2	-481 bps	25.0	23.5	-159 bps	Lowered margin estimates tracking muted Q1FY23 as well as management commentary on delayed margin recovery
PAT	1,574	1,262	-19.8	1,994	1,900	-4.7	
EPS (₹)	81	65	-19.8	103	98	-4.7	PAT gets downgraded tracking downward revision in margin estimates. We expect PAT at the company to grow at a CAGR of 16.1% over FY22-24E

Source: ICICI Direct Research

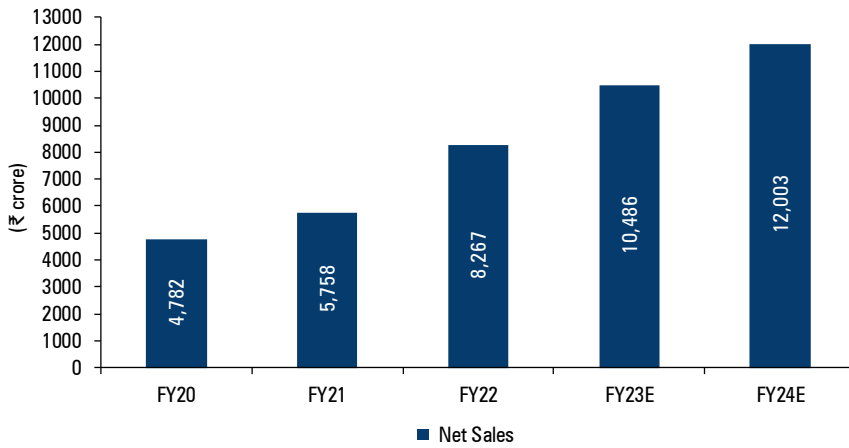
Exhibit 4: Assumptions

	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	Comments
Capacity (MT)	3,00,000	3,00,000	3,00,000	2,80,000	2,85,000	3,60,000	3,60,000	Retained sales volume estimates for FY23E, 24E.
Sales volume (MT)	1,99,213	2,11,261	2,01,760	2,27,132	2,88,795	3,25,237	3,57,761	We expect sales volume to grow at a CAGR of 11.3% over FY22-24E to 3.6 lakh tonne by FY24E.
Volume growth (% YoY)		6%	-4%	13%	27%	13%	10%	
Average realisation (₹/kg)	222	246	237	254	286	322	336	Our ASP's gets an uptick due to INR depreciation

Source: ICICI Direct Research

Financial story in charts

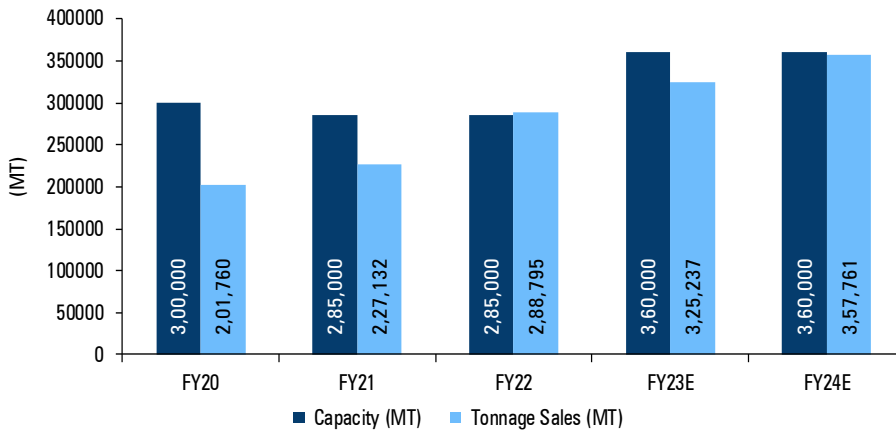
Exhibit 5: Topline trend



We expect sales to grow at a CAGR of 20.5% over FY22-24E to ₹ 12,003 crore in FY24E

Source: Company, ICICI Direct Research

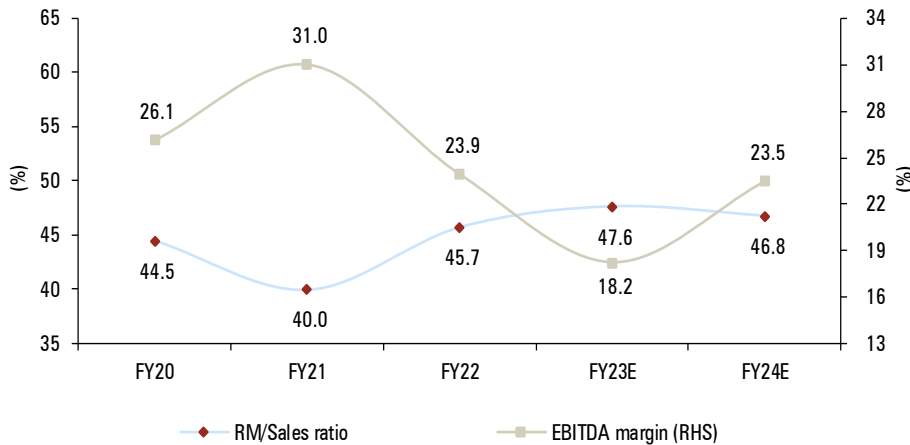
Exhibit 6: Capacity and volume trend



We expect tonnage volumes to grow at 11.3% CAGR over FY22-24E to 3.6 lakh MT in FY24E

Source: Company, ICICI Direct Research

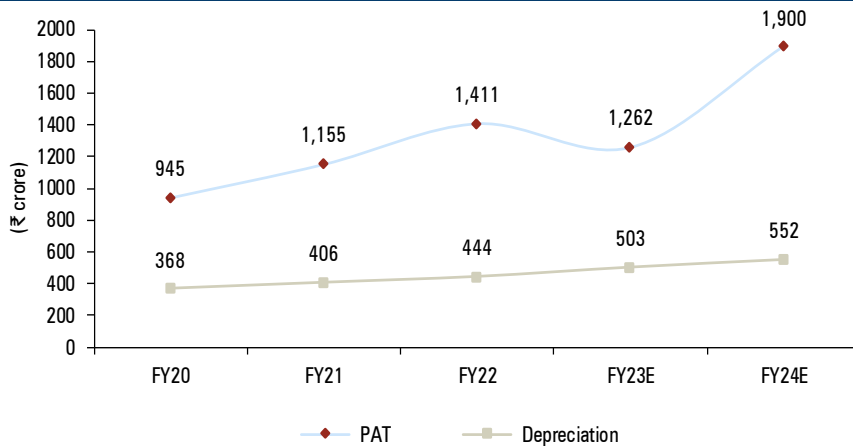
Exhibit 7: Trend in EBITDA margins



Margins are seen improving to 23.5% by FY24E vs. ~18% in FY23 amid backward integration benefits and better operating leverage

Source: Company, ICICI Direct Research

Exhibit 8: Trend in profitability



PAT seen growing at 16.1% CAGR in FY22-24E

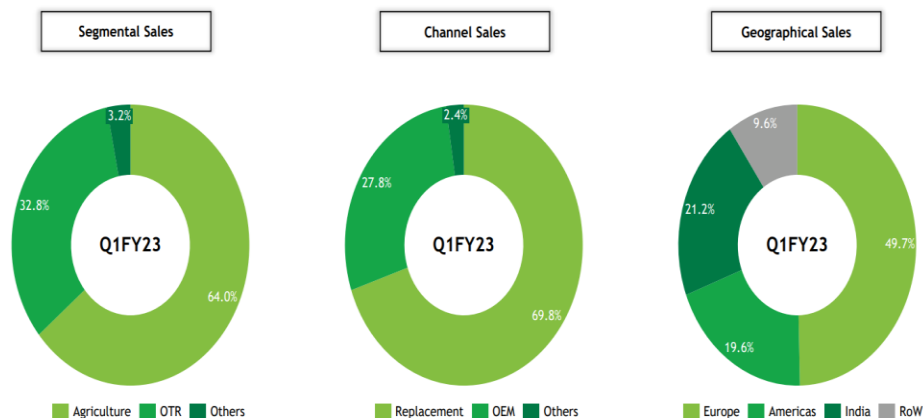
Source: Company, ICICI Direct Research

Exhibit 9: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	4,464	17.8	38.2	3.4	56.2	37.7	18.1	15.7
FY19	5,245	17.5	40.5	5.8	53.1	31.7	16.7	16.7
FY20	4,782	-8.8	48.9	20.8	44.0	33.6	18.8	14.4
FY21	5,758	20.4	59.8	22.3	36.0	23.5	19.2	19.3
FY22	8,267	43.6	73.0	22.1	29.5	21.9	20.4	15.9
FY23E	10,486	26.8	65.3	(10.5)	32.9	22.9	16.0	13.1
FY24E	12,003	14.5	98.3	50.5	21.9	15.1	20.4	19.7

Source: Company, ICICI Direct Research

Exhibit 10: Sales volume mix (end segments, channel, geography)



Source: Company, ICICI Direct Research

Exhibit 11: Important management commentary - snippet

Raw Material prices have remained at elevated levels. In the current quarter, Raw material costs have come at 46.6% of sales versus 42.8% in Q1FY22 and 45.3% in Q4FY22. We expect some relief to come in Q4FY23.

We continue to grapple with high logistics costs. In the current quarter, the logistics costs have come at 14.2% of sales versus 7.1% in Q1FY22 and 13.8% in Q4FY22. We expect relief in logistics costs towards the end of Q3/early Q4.

We continue to see a sustained uptick in demand for BKT tires. However, in Q2 we expect sluggish demand given macro challenges in Europe coupled with Heatwaves and inflationary trends in USA.

Our continued focus on customer servicing especially in the last 2 years, since the start of the pandemic, gives us the confidence to outperform the competition.

Sales Volume guidance for FY23 stands at 320,000 - 330,000 MT.

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	5,757.9	8,266.7	10,486.1	12,003.5
Growth (%)	20.4	43.6	26.8	14.5
Raw Material Expenses	2,302.8	3,778.6	4,992.1	5,616.4
Employee Expenses	325.9	380.4	420.7	450.1
Other Expenses	1,343.7	2,132.2	3,163.6	3,120.9
Total Operating Expenditure	3,972.4	6,291.2	8,576.4	9,187.4
EBITDA	1785.5	1975.5	1909.6	2816.1
Growth (%)	42.9	10.6	-3.3	47.5
Depreciation	406.2	443.8	503.3	552.2
Interest	9.8	7.9	14.2	12.1
Other Income	161.5	430.6	297.0	288.1
PBT	1531.0	1954.5	1689.1	2539.9
Total Tax	375.6	543.8	426.7	640.1
Reported PAT	1155.4	1410.7	1262.4	1899.9
Growth (%)	22.3	22.1	-10.5	50.5
EPS (₹)	59.8	73.0	65.3	98.3

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	1,155.4	1,410.7	1,262.4	1,899.9
Add: Depreciation	406.2	443.8	503.3	552.2
(Inc)/dec in Current Assets	-461.9	-1,140.9	-750.9	-554.8
Inc/(dec) in CL and Provisions	273.8	305.2	246.5	207.0
CF from operating activities	1373.4	1018.8	1261.4	2104.2
(Inc)/dec in Investments	-40.9	-292.5	250.0	-500.0
(Inc)/dec in Fixed Assets	-734.0	-1,506.1	-1,100.0	-250.0
Others	-445.5	-295.3	-233.1	-158.1
CF from investing activities	-1220.4	-2093.8	-1083.1	-908.1
Inc/(dec) in loan funds	32.1	1,549.2	150.0	-700.0
Dividend paid & dividend tax	-328.6	-541.3	-309.3	-483.3
Others	152.5	47.9	0.0	0.0
CF from financing activities	-144.0	1055.9	-159.3	-1183.3
Net Cash flow	9.0	-19.2	18.9	12.8
Opening Cash	45.5	54.5	35.3	54.2
Closing Cash	54.5	35.3	54.2	67.0

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	38.7	38.7	38.7	38.7
Reserve and Surplus	5,968.6	6,885.9	7,839.0	9,255.6
Total Shareholders funds	6007.2	6924.6	7877.7	9294.3
Total Debt	893.4	2,442.6	2,592.6	1,892.6
Deferred Tax Liability	203.5	250.9	250.9	250.9
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	7161.6	9673.3	10776.4	11493.0
Assets				
Gross Block	5,252.5	6,355.7	8,464.1	8,864.1
Less: Acc Depreciation	2,005.5	2,449.3	2,952.6	3,504.8
Net Block	3247.0	3906.4	5511.5	5359.3
Capital WIP	855.5	1,258.4	250.0	100.0
Total Fixed Assets	4,102.5	5,164.8	5,761.5	5,459.3
Investments	1,505.4	1,977.0	1,802.0	2,352.0
Inventory	909.3	1,639.4	2,011.0	2,302.0
Debtors	730.1	1,097.7	1,436.4	1,644.3
Loans and Advances	38.8	68.5	86.9	99.5
Cash	54.5	35.3	54.2	67.0
Other current assets	264.0	277.5	299.6	342.9
Total Current Assets	1,996.7	3,118.4	3,888.2	4,455.8
Creditors	633.5	807.5	1,005.5	1,151.0
Provisions	5.1	4.5	5.6	6.4
Other current liabilities	240.1	371.8	419.2	479.9
Total Current Liabilities	878.6	1,183.8	1,430.3	1,637.3
Net Current Assets	1118.1	1934.6	2457.9	2818.6
Others	435.2	596.5	754.6	862.7
Application of Funds	7161.6	9673.3	10776.4	11493.0

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	59.8	73.0	65.3	98.3
Cash EPS	80.8	95.9	91.3	126.8
BV	310.7	358.2	407.5	480.8
DPS	17.0	28.0	16.0	25.0
Cash Per Share	23.1	37.2	25.3	51.8
Operating Ratios (%)				
EBITDA Margin	31.0	23.9	18.2	23.5
PBT / Net sales	24.0	18.5	13.4	18.9
PAT Margin	20.1	17.1	12.1	10.7
Inventory days	57.6	72.4	70.0	70.0
Debtor days	46.3	48.5	50.0	50.0
Creditor days	40.2	35.7	35.0	35.0
Return Ratios (%)				
RoE	19.2	20.4	16.0	20.4
RoCE	19.3	15.9	13.1	19.7
RoIC	23.6	20.0	14.0	21.8
Valuation Ratios (x)				
P/E	36.0	29.5	32.9	21.9
EV / EBITDA	23.5	21.9	22.9	15.1
EV / Net Sales	7.3	5.2	4.2	3.5
Market Cap / Sales	7.2	5.0	4.0	3.5
Price to Book Value	6.9	6.0	5.3	4.5
Solvency Ratios				
Debt/EBITDA	0.5	1.2	1.4	0.7
Debt / Equity	0.1	0.4	0.3	0.2
Current Ratio	3.0	3.8	3.8	3.8
Quick Ratio	1.6	1.8	1.8	1.8

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E	FY22P	FY23E	FY24E
Apollo Tyre (APOTYR)	232	230	Buy	14,704	10.1	12.7	19.4	23.0	18.2	11.9	7.5	6.6	5.0	6.3	7.3	10.3	5.4	6.6	9.4
Ashok Leyland (ASHLEY)	146	180	Buy	42,706	1.8	1.7	4.8	79.0	85.3	30.6	44.1	26.9	15.2	2.1	7.6	17.7	0.2	6.5	17.1
Bajaj Auto (BAAUTO)	4,009	4,180	Hold	1,16,020	173.4	218.4	247.2	23.1	18.4	16.2	18.0	13.4	11.7	18.4	27.1	29.3	17.6	24.5	26.3
Balkrishna Ind. (BALIND)	2,150	2,550	Buy	41,563	73.0	65.3	98.3	29.5	32.9	21.9	21.9	22.9	15.1	15.9	13.1	19.7	20.4	16.0	20.4
Bharat Forge (BHAFOR)	709	840	Buy	33,025	23.1	23.9	30.0	30.7	29.7	23.7	17.9	15.8	13.2	9.6	10.7	12.6	15.2	15.1	16.8
Eicher Motors (EICMOT)	3,133	2,480	Hold	85,625	61.3	87.6	107.2	51.1	35.8	29.2	35.5	25.3	20.7	13.3	17.3	18.7	13.3	16.9	18.2
Escorts Kubota (ESCORT)	1,646	1,650	Hold	21,720	55.8	56.4	71.9	29.5	29.2	22.9	17.7	18.0	14.0	10.4	8.8	10.1	9.3	8.7	10.2
Hero Moto (HERHON)	2,782	2,495	Hold	55,563	123.8	156.1	176.3	22.5	17.8	15.8	14.1	11.0	9.7	16.3	20.7	22.2	15.7	18.7	19.9
M&M (MAHMAH)	1,273	1,500	Buy	1,52,308	41.2	49.9	59.3	30.9	25.5	21.5	20.9	16.3	13.5	9.3	11.9	13.6	13.1	13.8	14.6
Maruti Suzuki (MARUTI)	8,908	10,000	Buy	2,69,105	124.7	236.8	333.3	71.5	37.6	26.7	40.2	22.5	16.3	5.1	11.5	15.2	7.0	12.1	15.3
Uno Minda (MININD)	523	575	Buy	29,862	6.2	9.6	12.5	83.9	54.6	41.9	34.4	26.6	21.5	10.2	13.1	15.9	10.3	13.9	15.6
Tata Motors (TATMOT)	469	530	Buy	1,79,733	-29.9	-9.5	17.9	-15.7	-49.2	26.2	7.5	6.2	4.6	4.8	8.2	14.5	-23.5	-8.1	13.2

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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