

Healthy margins, positives built in for further margin expansion in FY24 amid steady demand outlook...

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 ~28%. Agriculture accounts for ~63% of volumes with OTR share at ~34%
- It has consistently operated with high margins & return ratios

Q4FY23 Results: BIL reported a healthy set of Q4FY23 numbers

- Standalone net sales for the quarter were at ₹ 2,317.6 crore, up 8.2% QoQ
- Tonnage for the quarter was at 72,676 tonnes, up 9.3% QoQ
- EBITDA margins in Q4FY23 came in at 20.3%, up 831 bps QoQ
- PAT was at ₹ 255.6 crore, up 156.5% QoQ

What should investors do? BIL's share price has grown at 16% CAGR in the past five years, (~₹ 1,120 in May 2018), vastly outperforming the Nifty Auto index

- We upgrade the stock from HOLD to **BUY** tracking sooner-than-expected margin recovery amid steady FY23 volumes and tracking structural positives like tapering input costs, steady demand outlook in foreign market

Target Price and Valuation: Revising our estimates, we now value BIL at ₹ 2,700 i.e. 28x P/E on FY25E EPS of ~₹ 96.5 (earlier target price ₹ 2,170).

Key triggers for future price performance:

- Steady demand in Indian & American markets followed by a recovery in key export market (i.e. Europe) in H2FY23 aided by strong focus on branding, leading to ~8.1% sales volume CAGR over FY23-25E
- Industry leading growth in the offing amid BIL's persistent focus to attain global market share of ~10% in four to five years vs. ~5-6% currently
- With a ramp up at new plants, cost efficiencies & backward integration at bay we expect sales, PAT to grow at a CAGR of 7%, 31.5%, respectively, in FY23-25E. Margins are seen at 25% in FY25E tracking input cost benefits
- Double digit margins amid calibrated capex spends leading to return ratios reverting back to 20% mark by FY25E (i.e. in tandem with pre-Covid levels)

Alternate Stock Idea: Besides Balkrishna Industries, we like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with a target price of ₹ 1,600



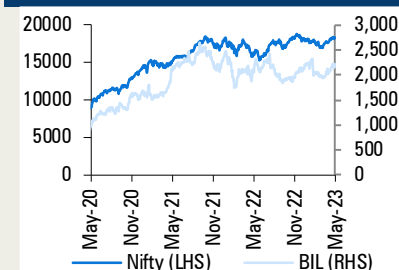
Particulars

Particular	₹ crore
Market Capitalization	44,753
Total Debt (FY23P)	3,254
Cash & Inv (FY23P)	2,075
EV (₹ Crore)	45,932
52 week H/L (₹)	2,490 / 1,801
Equity capital (₹ crore)	38.7
Face value (₹)	2.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	58.3	58.3	58.3	58.3
FII	14.3	13.0	12.5	12.4
DII	11.2	18.8	20.1	20.2
Other	16.2	9.9	9.1	9.1

Price Chart



Recent event & key risks

- Posted healthy Q4FY23 results
- **Key Risk:** (i) Delay in demand recovery in European markets thereby limiting volume growth, (ii) Less than anticipated margin recovery amid benign input costs

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23P	5 year CAGR (FY18-23P)	FY24E	FY25E	2 year CAGR (FY23P-25E)
Net Sales	5,244.5	4,782.5	5,757.9	8,266.7	9,810.5	17.1%	10,400.4	11,242.4	7.0%
EBITDA	1,311.1	1,249.3	1,785.5	1,975.5	1,715.6	9.2%	2,424.6	2,810.4	28.0%
EBITDA Margins (%)	25.0	26.1	31.0	23.9	17.5		23.3	25.0	
Net Profit	782.0	945.0	1,155.4	1,410.7	1,078.7	7.9%	1,560.5	1,864.8	31.5%
EPS (₹)	40.5	48.9	59.8	73.0	55.8		80.7	96.5	
P/E	57.2	47.4	38.7	31.7	41.5		28.7	24.0	
RoNW (%)	16.7	18.8	19.2	20.4	14.2		18.0	18.6	
RoCE (%)	16.7	14.4	19.3	15.9	10.3		16.1	18.9	

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results: Reports healthy performance in Q4FY23

- Standalone revenues at ₹ 2,318 crore, up 8.2% QoQ. Tonnage for the quarter was up ~9.3% QoQ to 72,676 MT
- EBITDA in Q4FY23 was at ₹ 470.8 crore with corresponding EBITDA margins at 20.3%, up 831 bps QoQ. Gross margin expansion was sharp at ~222 bps QoQ with the company realising partial benefits of muted RM costs & was further aided by decline in outward freight charges with total other expenses including freight costs down 552 bps QoQ
- Consequent PAT for the quarter came in at ₹ 255.6 crore, up 156.5% QoQ, primarily tracking higher than expected margins
- The company announced a final dividend of ₹ 4/ share taking total dividend to ₹ 16/ share for FY23 (payout of ~30%)

BIL- ESG Disclosure Score*			
Score	FY20	FY21	FY22
Environmental	15.5	15.5	16.0
Social	21.8	21.8	21.8
Governance	78.6	78.6	78.6
Overall ESG Score	38.7	38.7	38.8

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

Q4FY23 Earnings Conference Call highlights

- The management informed about demand in Indian and American markets being steady and expects them to grow at a healthy pace whereas recovery to lag in European markets and expects uptick from H2FY23. Further, the management expects lower raw material and freight costs, better hedge rate, better end market situation to lead margin recovery in FY24
- The management continues to remain focused on achieving 10% market share in the coming four to five years vs. ~5-6% currently amid focus on increased branding in foreign markets. Further, the management informed about market share in the Indian market being ~3-3.5%
- The management said carbon black plant expansion was delayed & new plant at Waluj to ramp up from H2FY23 with total capacity at ~55,000 tonne at this site leading to total capacity to 3.6 lakhs tonne per annum
- Capex for FY24E:** Total ~₹ 550-600 crore including ~₹ 250-300 crore for maintenance capex and balance for product development among others
- Euro to INR hedge rate for Q4FY23 was at ₹ 86.5 vs. ~₹ 85.3 for FY23 & ~₹ 88-89 for FY24E. The management informed about forex gain of ₹ 26 crore booked during Q4FY23 vs. loss of ₹ 88 crore during Q3FY23
- Average rate of borrowing on short to long term debt was at 4-5%
- Gross debt was at ~₹ 3,254 crore as at March 31, 2023 (~75% relating to working capital needs). The management expects to reduce gross debt in FY24E. Inventory days continued at 45-60 days
- Carbon black constituted ~6% of sales in FY23 with utilisation at 85-90%
- The management expects RM to decline 1-2% in Q1FY24 and expects overall 200-300 bps margin improvement in FY24E from Q4FY23 levels
- The management informed about ASP in Q4FY23 remaining lower due to adverse product mix and pass through of freight cost

Peer comparison

Exhibit 1: Peer Comparison (tyres)

Company	CMP	TP	Rating	Mcap	EBITDA margin (%)			Debt to Equity (x)			RoCE (%)			EV/EBITDA (x)		
	₹	₹		₹ crore	FY23P	FY24E	FY25E	FY23P	FY24E	FY25E	FY23P	FY24E	FY25E	FY23P	FY24E	FY25E
Apollo Tyres (APOTYR)	390	420	Hold	24,767	13.5	16.0	16.3	0.4	0.3	0.2	9.8	14.8	15.6	8.8	6.3	5.6
Balkrishna Inds (BALIND)	2,315	2,700	Buy	44,753	17.5	23.3	25.0	0.4	0.3	0.1	10.3	16.1	18.9	27.5	19.0	16.0
JK Tyre (JKTYRE)	192	210	Buy	4,728	8.9	11.0	11.0	1.4	1.2	0.9	10.2	13.9	15.1	7.1	5.4	4.6

Source: Company, ICICI Direct Research

We assign BUY rating to BIL tracking a sharp recovery in margin profile with further benefits in terms of decline in commodity prices and logistics costs to accrue in FY24E. Structural positives of high double digit return ratios and b/s strength (low leverage) remains unchanged.

Exhibit 2: Variance Analysis

	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Total Operating Income	2,317.6	2,363.1	2,373.9	-2.4	2,142.3	8.2	Topline came in marginally lower than our estimates
Raw Material Expenses	1,179.6	1,211.6	1,102.8	7.0	1,138.0	3.7	Substantial savings were realised on RM front with RM as a percentage of sales down 220 bps QoQ at 50.9% of sales
Employee Expenses	94.9	106.3	89.9	5.6	99.9	-5.0	
Other expenses	572.4	690.0	681.7	-16.0	647.2	-11.6	Other expenses were down substantially by 550 bps QoQ largely tracking lower freight costs
EBITDA	470.8	355.2	499.5	-5.7	257.3	83.0	
EBITDA Margin (%)	20.3	15.0	21.0	-73 bps	12.0	831 bps	EBITDA margins came in higher than estimates at 20.3%
Other Income	54.0	76.1	107.7	-49.9	43.1	25.2	
Depreciation	151.5	151.7	116.7	29.8	144.9	4.5	Depreciation came in on expected lines
Interest	25.0	4.3	2.1	1,067.8	13.6	83.8	
Tax	92.8	69.4	114.7	-19.1	42.2	119.8	
PAT	255.6	205.9	373.7	-31.6	99.6	156.5	PAT was a beat to our estimates tracking beat on margins amid lower RM as well as freight costs
EPS	13.2	10.7	19.3	-31.6	5.2	156.5	
Key Metrics							
Volume (MT)	72,676	73,263	77,119	-5.8	66,480	9.3	Volumes for the quarter were up 9.3% QoQ at 72,676 tonne vs. our estimates of 73,263 tonne

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore	FY24E			FY25E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	10,433	10,400	-0.3	11,456	11,242	-1.9	Our topline estimates remain broadly unchanged. We expect sales at the company to grow at a CAGR of 7% over FY23-25E
EBITDA	2,299	2,425	5.5	2,745	2,810	2.4	
EBITDA Margin (%)	22.0	23.3	128 bps	24.0	25.0	104 bps	Upgraded margin estimates tracking robust Q4FY23 performance and upbeat management commentary
PAT	1,499	1,560	4.1	1,854	1,865	0.6	
EPS (₹)	78	81	4.1	96	96	0.6	Our earning estimates witness an marginally upgrade tracking upward revision of margins. We expect PAT to grow at a CAGR of 31.5% over FY23-25E

Source: ICICI Direct Research

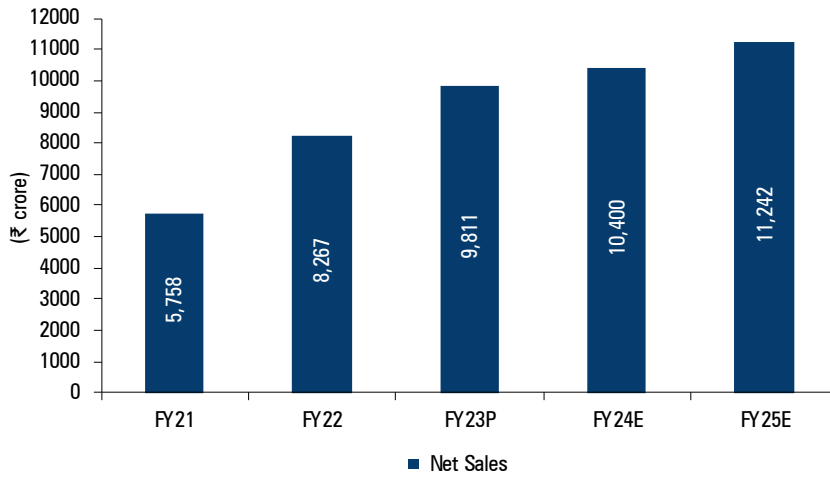
Exhibit 4: Assumptions

	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	Comments
Capacity (MT)	300,000	300,000	300,000	280,000	285,000	335,000	360,000	360,000	Total volumes at the company are seen growing at
Sales volume (MT)	199,213	211,261	201,760	227,132	288,795	301,181	327,655	352,229	a CAGR of 8.1% over FY23-25E to 3.5 lakh tonne in
Volume growth (% YoY)		6%	-4%	13%	27%	4%	9%	8%	FY25E (capacity pegged at 3.6 lakh tonne)

Source: ICICI Direct Research

Financial story in charts

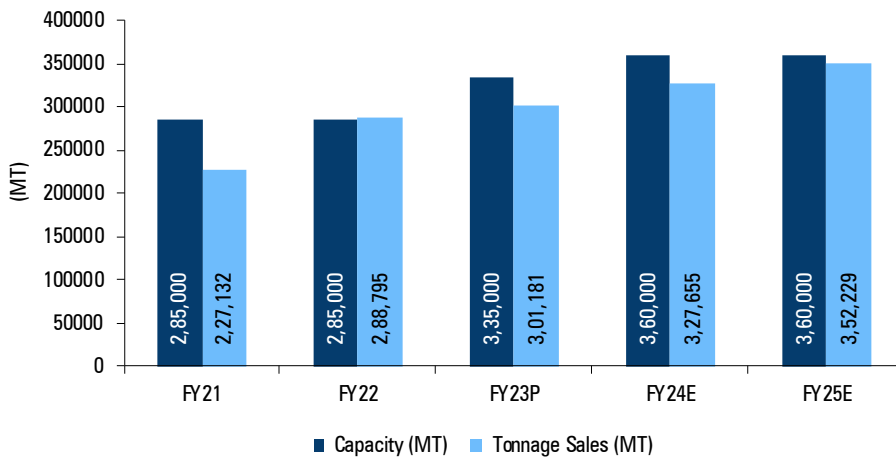
Exhibit 5: Topline trend



We expect sales to grow at a CAGR of 7% over FY23-25E to ₹ 11,242 crore in FY25E

Source: Company, ICICI Direct Research

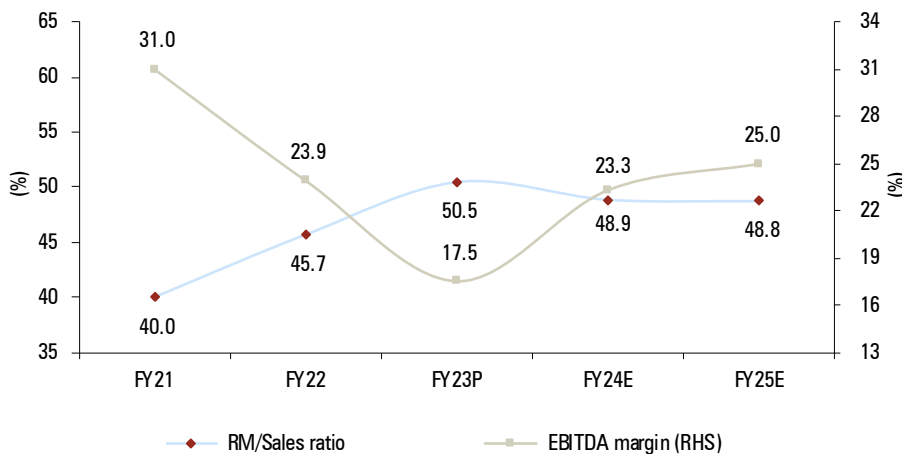
Exhibit 6: Capacity and volume trend



We expect tonnage volumes to grow at 8.1% CAGR over FY23-25E to 3.52 lakh MT in FY25E

Source: Company, ICICI Direct Research

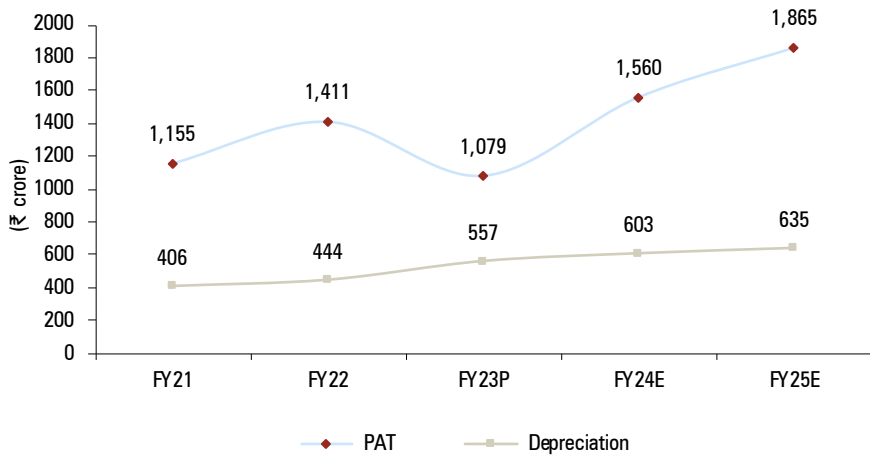
Exhibit 7: Trend in EBITDA margins



Margins are seen improving to 25% by FY25E vs. ~17.5% in FY23 amid backward integration benefits, cooling of commodity prices and better operating leverage

Source: Company, ICICI Direct Research

Exhibit 8: Trend in profitability



PAT seen growing at 31.5% CAGR in FY23-25E

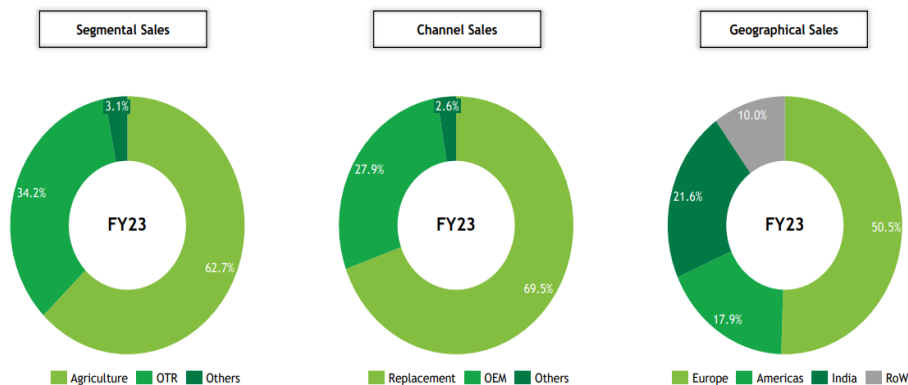
Source: Company, ICICI Direct Research

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	60.5	40.5	18.1	15.7
FY19	5,245	17.5	40.5	5.8	57.2	34.1	16.7	16.7
FY20	4,782	-8.8	48.9	20.8	47.4	36.2	18.8	14.4
FY21	5,758	20.4	59.8	22.3	38.7	25.3	19.2	19.3
FY22	8,267	43.6	73.0	22.1	31.7	23.5	20.4	15.9
FY23P	9,811	18.7	55.8	(23.5)	41.5	27.5	14.2	10.3
FY24E	10,400	6.0	80.7	44.7	28.7	19.0	18.0	16.1
FY25E	11,242	8.1	96.5	19.5	24.0	16.0	18.6	18.9

Source: Company, ICICI Direct Research

Exhibit 10: Volume Profile during FY23



Source: Company, ICICI Direct Research

Exhibit 11: Important management commentary - snippet

- Historically, Q4 is the best performing quarter, however, end markets, especially channel inventory situation is not completely out of the woods. The Company believes the channel inventory led issues may be resolved by June / July.
- Q4FY23 has been a better quarter from a sequential standpoint. The Company witnessed uptick in volumes, better demand from its end markets, and partial clearing of our high-priced raw materials.
- In Q4, the EBITDA margin is 21.3% and has improved sequentially. This has been on account of better absorption of high-cost raw material inventory the Company was carrying in the system along with lower freight costs. In view of its long-term strategy of increasing market share, the Company shall continue to invest in brand building and marketing initiatives however, the benefits of the same will accrue over time reflecting in lower percentage to sales.
- The Company remains positive for FY24. On margins, multiple levers such as favourable raw material costs, better hedge rate, complete normalization of logistics costs will aid the improvement in margin profile.
- In terms of end markets, the Company expects Europe to normalize later during the year while Americas and India market will continue its FY23 performance trajectory.

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 12: Profit and loss statement		₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Total operating Income	8,266.7	9,810.5	10,400.4	11,242.4	
Growth (%)	43.6	18.7	6.0	8.1	
Raw Material Expenses	3,778.6	4,955.8	5,085.0	5,482.3	
Employee Expenses	380.4	404.2	422.1	449.7	
Other Expenses	2,132.2	2,735.0	2,468.7	2,500.0	
Total Operating Expenditure	6,291.2	8,094.9	7,975.8	8,432.0	
EBITDA	1,975.5	1,715.6	2,424.6	2,810.4	
Growth (%)	10.6	-13.2	41.3	15.9	
Depreciation	443.8	556.6	603.2	635.2	
Interest	7.9	45.6	70.0	49.0	
Other Income	430.6	337.8	334.8	366.9	
PBT	1,954.5	1,451.1	2,086.2	2,493.1	
Total Tax	543.8	372.5	525.7	628.3	
Reported PAT	1,410.7	1,078.7	1,560.5	1,864.8	
Growth (%)	22.1	-23.5	44.7	19.5	
EPS (₹)	73.0	55.8	80.7	96.5	

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement		₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Profit after Tax	1,410.7	1,078.7	1,560.5	1,864.8	
Add: Depreciation	443.8	556.6	603.2	635.2	
(Inc)/dec in Current Assets	-1,140.9	8.5	-302.2	-273.4	
Inc/(dec) in CL and Provisions	305.2	-148.5	260.5	104.9	
CF from operating activities	1,018.8	1,495.3	2,122.0	2,331.6	
(Inc)/dec in Investments	-292.5	-90.1	50.0	-50.0	
(Inc)/dec in Fixed Assets	-1,506.1	-2,061.6	-600.0	-500.0	
Others	-295.3	261.6	-48.0	-82.8	
CF from investing activities	(2,093.8)	(1,890.0)	(598.0)	(632.8)	
Inc/(dec) in loan funds	1,549.2	811.4	-1,000.0	-1,100.0	
Dividend paid & dividend tax	-541.3	-309.3	-464.0	-541.3	
Others	47.9	-104.8	0.0	0.0	
CF from financing activities	1,055.9	397.2	(1,464.0)	(1,641.3)	
Net Cash flow	-19.2	2.5	60.1	57.5	
Opening Cash	54.5	35.3	37.8	97.9	
Closing Cash	35.3	37.8	97.9	155.4	

Source: Company, ICICI Direct Research

Exhibit 14: Balance Sheet		₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Liabilities					
Equity Capital	38.7	38.7	38.7	38.7	
Reserve and Surplus	6,885.9	7,550.5	8,647.0	9,970.5	
Total Shareholders funds	6,924.6	7,589.1	8,685.6	10,009.2	
Total Debt	2,442.6	3,253.9	2,253.9	1,153.9	
Deferred Tax Liability	250.9	241.3	241.3	241.3	
Minority Interest / Others	0.0	0.0	0.0	0.0	
Total Liabilities	9,673.3	11,237.0	11,333.5	11,557.1	
Assets					
Gross Block	6,355.7	8,284.1	9,775.7	10,525.7	
Less: Acc Depreciation	2,449.3	3,005.9	3,609.1	4,244.3	
Net Block	3,906.4	5,278.1	6,166.5	6,281.3	
Capital WIP	1,258.4	1,391.6	500.0	250.0	
Total Fixed Assets	5,164.8	6,669.7	6,666.5	6,531.3	
Investments	1,977.0	2,108.3	2,083.3	2,183.3	
Inventory	1,639.4	1,592.4	1,709.7	1,848.1	
Debtors	1,097.7	1,253.5	1,424.7	1,540.0	
Loans and Advances	68.5	55.1	58.4	63.2	
Cash	35.3	37.8	97.9	155.4	
Other current assets	277.5	173.6	184.0	198.9	
Total Current Assets	3,118.4	3,112.4	3,474.7	3,805.6	
Creditors	807.5	486.6	712.4	770.0	
Provisions	4.5	4.3	6.2	6.7	
Other current liabilities	371.8	544.5	577.2	623.9	
Total Current Liabilities	1,183.8	1,035.3	1,295.8	1,400.7	
Net Current Assets	1,934.6	2,077.1	2,178.9	2,404.8	
Others	596.5	381.4	404.4	437.1	
Application of Funds	9,673.3	11,237.0	11,333.5	11,557.1	

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios					
(Year-end March)	FY22	FY23P	FY24E	FY25E	
Per share data (₹)					
EPS	73.0	55.8	80.7	96.5	
Cash EPS	95.9	84.6	111.9	129.3	
BV	358.2	392.6	449.3	517.8	
DPS	28.0	16.0	24.0	28.0	
Cash Per Share	37.2	42.0	42.5	48.1	
Operating Ratios (%)					
EBITDA Margin	23.9	17.5	23.3	25.0	
PBT / Net sales	18.5	11.8	17.5	19.3	
PAT Margin	17.1	11.0	15.0	16.6	
Inventory days	72.4	59.2	60.0	60.0	
Debtor days	48.5	46.6	50.0	50.0	
Creditor days	35.7	18.1	25.0	25.0	
Return Ratios (%)					
RoE	20.4	14.2	18.0	18.6	
RoCE	15.9	10.3	16.1	18.9	
RoIC	20.0	12.9	18.2	21.0	
Valuation Ratios (x)					
P/E	31.7	41.5	28.7	24.0	
EV / EBITDA	23.5	27.5	19.0	16.0	
EV / Net Sales	5.6	4.8	4.4	4.0	
Market Cap / Sales	5.4	4.6	4.3	4.0	
Price to Book Value	6.5	5.9	5.2	4.5	
Solvency Ratios					
Debt/EBITDA	1.2	1.9	0.9	0.4	
Debt / Equity	0.4	0.4	0.3	0.1	
Current Ratio	3.8	6.3	4.7	4.7	
Quick Ratio	1.8	3.0	2.3	2.3	

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)	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Apollo Tyre (APOTYR)	390	420	Hold	24,767	17.4	28.5	33.1	22.4	13.7	11.8	8.8	6.3	5.6	9.8	14.8	15.6	8.6	12.7	13.3
Ashok Leyland (ASHLEY)	145	200	Buy	42,443	4.7	8.9	10.6	30.8	16.3	13.6	14.5	9.5	8.0	17.0	25.9	30.5	15.7	27.3	28.6
Bajaj Auto (BAAUTO)	4,630	4,530	Hold	1,33,978	198.9	246.2	280.9	23.3	18.8	16.5	17.8	14.1	12.0	24.3	29.4	32.3	22.1	26.1	28.1
Balkrishna Ind. (BALIND)	2,315	2,700	Buy	44,753	55.8	80.7	96.5	41.5	28.7	24.0	27.5	19.0	16.0	10.3	16.1	18.9	14.2	18.0	18.6
Bharat Forge (BHAFOR)	775	980	Buy	36,082	10.9	25.1	32.6	71.0	30.9	23.7	23.1	16.6	13.7	6.8	11.0	13.4	8.0	15.5	17.7
Eicher Motors (EICMOT)	3,700	4,165	Buy	1,01,121	106.5	124.1	138.3	34.7	29.8	26.8	26.2	23.1	20.2	18.8	18.5	25.4	19.4	19.8	19.3
Escorts Kubota (ESCORT)	2,100	2,450	Buy	27,707	46.0	72.8	86.6	45.6	28.8	24.3	32.6	22.3	17.6	7.4	10.4	11.8	8.3	10.4	11.3
Hero Moto (HERHON)	2,750	2,840	Hold	54,918	145.7	182.6	199.7	18.9	15.1	13.8	11.8	9.4	8.5	18.9	22.7	23.6	17.4	20.4	20.9
M&M (MAHMAH)	1,280	1,600	Buy	1,59,130	54.9	72.9	84.5	23.3	17.6	15.1	14.3	11.6	9.8	14.0	16.1	16.7	17.8	17.6	17.8
Maruti Suzuki (MARUTI)	9,350	11,000	Buy	2,82,445	266.5	354.9	422.5	35.1	26.3	22.1	21.7	16.5	13.6	12.8	16.0	17.4	13.3	15.9	16.7
Uno Minda (MININD)	550	625	Buy	31,515	11.4	14.2	18.4	48.2	38.8	29.9	26.2	21.2	17.0	13.7	15.8	18.7	15.7	16.7	18.1
Tata Motors (TATMOT)	523	650	Buy	2,00,161	6.3	35.7	48.2	82.9	14.7	10.8	6.4	4.1	3.3	9.8	19.1	24.0	4.6	21.0	22.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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