

# Balkrishna Industries Ltd

Sector: Auto-Ancillary /Mid-Cap | Earnings Update – 2QFY22

**UNDER PERFORMER**

13 November 2021

**Background:** Balkrishna Industries (BIL) is focused solely on 'off-highway' tyres catering to agricultural & industrial segments. The company has a ~7% share of the global market. While OTR forms ~65% of the global market, for BIL, it only contributes ~33% to its revenue. The company has been undertaking various actions like setting up warehouses in markets in North America and Europe to be closer to the customer and have a just in time (JIT) system. The company sales cover over 130 countries through distribution network in Americas, Europe, India and Rest of the world. BIL also has strong partnership with OEMs. The company has over 2,700 SKUs.

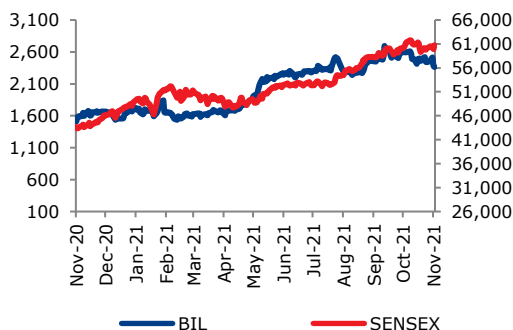
Sensex	60,686
Nifty	18,103
Price	₹ 2,362
Target Price (12 months)	₹ 2,226
Recommendation	UNDER PERFORMER

52 Week High/Low	₹ 2,723/1,485
Bloomberg / Reuters	BIL IN/BLKI.BO
Equity (shares in mn)	193.3
Mkt. Cap in bn	₹ 456.6 / \$ 6.2
Avg. Daily Vol. ('000)	383.6
Avg. Daily Vol. (mn)	₹ 906.0 / \$ 12.2

Shareholding	Sep-20	Jun-21	Sep-21
Promoters (%)	58.3	58.3	58.3
FII (%)	11.5	15.2	15.4
DII (%)	19.0	14.1	12.6
Others (%)	11.2	12.4	13.7
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2021	2022E	2023E
Revenue	57.8	79.6	85.0
EBITDA	18.1	25.0	26.3
Adj PAT	11.8	16.4	17.2
Adj EPS	60.9	84.6	89.0
% growth	22.7	38.9	5.2
P/E	38.8	27.9	26.5
P/ BV	8.3	6.8	5.6
EV/EBITDA	25.7	18.6	17.7
EV/Sales	8.0	5.8	5.5
Div Yield (%)	0.5	0.7	0.7
ROE (%)	21.4	24.2	21.1

Performance(%)	1M	3M	12M
BIL	-9.3	3.1	56.2
SENSEX	0.9	11.3	39.2



## Volume outperformance accelerates on robust demand

- Balkrishna Industries (BIL)** volume outperformance intensified further in 2QFY22 led by strong demand across business segments. BIL's consolidated revenue at ₹20.7bn (+31.3% YoY/14.9% QoQ) came ahead of consensus estimates by 6% in the wake of highest ever quarterly volumes and better pricing. PAT increased by 14.7% YoY/18.3% QoQ to ₹3.9bn on better sales & higher other income. EBITDA margin came lower at 26% (-830bps YoY/ 240bps QoQ) as cost inflation weigh on operational performance. Management has upgraded its volume guidance for FY22 by ~7.5% to 275/280K MT.
- Robust demand warrants more production capacity** - BIL is operating at utmost capacity yet need additional capacity to quench the robust demand. BIL has undertaken ₹3.5bn worth capex for refurbishing the old plant at Waluj which will generate incremental volume of 25K MT post completion in 3QFY23. Post commissioning of Waluj plant (25K MT) & brownfield capex at Bhuj (50K MT) in late FY23, total achievable capacity will increase from current 285K to 360K MTPA.
- Cost inflation debilitates margin performance**- The higher RM costs (up by 64.2%YoY/13.2% QoQ) & other expenses weigh on margins. Although RM cost inflation of 2.5% in Q2FY22 was offset by 2-3% price hike in July, the steep rise in logistics & shipping costs remain a near-term headwind. Management anticipates another similar price hike in Jan-21 to reinstate the margins to normalized 28%+ levels. Demand to remain undeterred- Despite staggered price hikes the demand sustained its momentum. The government spending & high grain prices boosted the farm incomes which translated in incremental demand. Buoyancy in demand persisted for both agricultural as well as industrial construction side. Strong pick-up in economic activities & resumption of infrastructure development across the globe after the covid led hiatus propelled the volumes higher and BIL expects volume growth to continue in 3QFY22.
- Debt status**- As of 1HFY22, gross debt stood at ₹14.4bn while cash & cash equivalent stood at ₹16.6bn. BIL has raised ₹5bn in current quarter via debentures which would be repaid in next 3.5 years.
- In 1HFY22, replacement business contributed 70.3% while OEM business and others contributed 26.7% & 3.0% respectively. On segmental basis, Agri continues to be driving force with 65.8% contribution while OTR & others segment add 30.9% & 3.3% respectively. Geography wise, Europe contributes more than half of total sales (54%) while America & India contribute 16.7% & 17.3% respectively. BIL's American operations are keeping well as it is gaining market share in the region.

**Valuation:** The robust demand outlook & elevated volume guidance affirm the strong topline performance for 2HFY22. The staggered price hikes will compensate for inflated cost profile and thus resultantly restoring the EBITDA margins to 28%+ in coming quarters. BIL's long-term growth catalysts are well placed implying consistent performance. Although we are enthused by the growth prospects of company, at current valuation all near-term positives look priced in. We retain our UNDER PERFORMER rating on the stock with a target price of ₹2,226 (earlier: ₹2196), valuing the company at 25x FY23E EPS.

**Risks:** Lower than expected volume growth; Rise in RM costs; Lockdown restrictions in key markets

## Results Summary 2QFY22

Y/E March (₹ mn)	2QFY22	2QFY21	YoY Growth	1QFY22	QoQ Growth
<b>Revenue</b>	20,722.3	15,779.0	31.3%	18,028.7	14.9%
<b>EBITDA</b>	5,378.5	5,399.7	-0.4%	5,111.7	5.2%
<b>Depreciation</b>	1,114.3	1,039.8	7.2%	1,068.4	4.3%
<b>Other Income</b>	1,333.0	201.7	560.9%	822.1	62.1%
<b>PBT</b>	5,576.7	4,523.2	23.3%	4,840.4	15.2%
<b>Tax</b>	1,666.4	1,113.8	49.6%	1,534.8	8.6%
<b>PAT</b>	3,910.3	3,409.4	14.7%	3,305.6	18.3%
<b>Adjusted PAT</b>	3,910.3	3,409.4	14.7%	3,305.6	18.3%
<b>EBITDA Margin (%)</b>	26.0	34.2		28.4	
<b>Tax Incidence (%)</b>	29.9	24.6		31.7	
<b>PAT Margin (%)</b>	18.9	21.6		18.3	

Nilesh Patil

+91-44-40047266

nileshmp@chola.murugappa.com

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Served as an officer, director or employee	No

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RESEARCH			
Kedar S Kadam	DGM & Head of Research	+91-44 - 4004 7361	kedarsk@chola.murugappa.com
Mugilan K	Technical Analyst	+91-44 - 4004 7353	mugilank@chola.murugappa.com
Arjun Prasad Pasumarthi	Fundamental Analyst	+91-44 - 4004 7363	arjunpp@chola.murugappa.com
Nilesh Patil	Fundamental Analyst	+91-44 - 4004 7266	nileshmp@chola.murugappa.com
Ammar Haider	Associate	+91-44 - 4004 7360	amarh@chola.murugappa.com
Balaji H	Compliance Officer	044-30007226	balajih@chola.murugappa.com
Gayathri Devi	Customer service	1800 425 4477	gayathrids@chola.murugappa.com