

Balkrishna Industries Ltd

Sector: Auto-Ancillary /Mid-Cap | Earnings Update – 2QFY21

MARKET PERFORMER

20 November 2020

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.

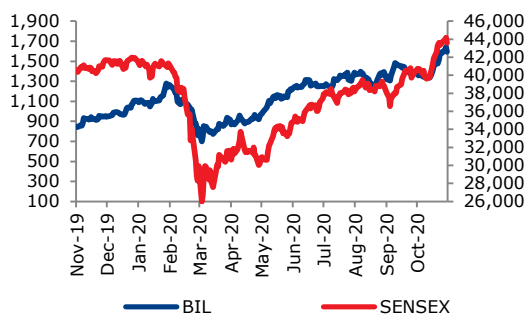
Sensex	43,629
Nifty	12,788
Price	₹ 1,655
Target Price (12 months)	₹ 1,630
Recommendation	MARKET PERFORMER

52 Week High/Low	₹ 1,684/677
Bloomberg / Reuters	BIL IN/BLKI.BO
Equity (shares in mn)	193.3
Mkt. Cap in bn	₹ 319.9/ \$ 4.2
Avg. Daily Vol. ('000)	859.9
Avg. Daily Vol. (mn)	₹ 1,423.1 / \$ 19.0

Shareholding	Sep-19	Jun-20	Sep-20
Promoters (%)	58.3	58.3	58.3
FII (%)	11.2	13.0	11.5
DII (%)	15.9	17.8	19.0
Others (%)	14.6	10.9	11.2
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2020	2021E	2022E
Revenue	48.1	51.5	55.0
EBITDA	12.7	15.8	16.9
Adj PAT	9.6	9.8	11.0
Adj EPS	49.6	50.7	56.8
% growth	24.0	2.1	12.0
P/E	33.3	32.6	29.2
P/ BV	6.6	5.8	4.9
EV/EBITDA	25.8	20.8	19.4
EV/Sales	6.8	6.4	6.0
Div Yield (%)	0.6	0.6	0.7
ROE (%)	19.9	17.6	16.8

Performance(%)	1M	3M	12M
BIL	15.5	19.0	89.1
SENSEX	7.5	13.2	7.5



Robust performance; Management raises volume guidance for FY21 on the back of strong demand in agri segment ; Favourable product mix and in-house sourcing of carbon black to support margins at 28-30% range

- In 2QFY21, Balkrishna Industries registered 45.5% YoY increase in revenues to ₹15.7bn. This was on account of robust volume growth (+35.5% YoY) leading to the highest ever quarterly volume of 61,224MT whilst improving Average realizations (+7.4% YoY). The strong quarterly performance was driven by increased demand in Europe, market share gains and inventory stocking. Demand remains strong in agriculture segment across geographies. Management remains optimistic of achieving marginal growth in volumes in FY21. Domestic volume increased by 49% YoY to ~13,444MT in 2QFY21.
- The management believes that the long term industry growth stands at CAGR of 4-5%. BKT's industry leading growth coupled with its presence in all SKU's of agri tyre segment has led to market share gains across geographies. In India, BKT's agri tyre market share stood at 7% with pan-India presence across the country. The company continues to focus on market share gains through domestic presence where it sees more potential. Market share in agri tyres in Europe: 12-15% and US: 7-10%. BKT currently has a low market share (2-3%) in Industrial tyres wherein the management aspires to expand it to 5-6% in 3 years. Meanwhile, the off highway target market share reached 10% (vs 5% earlier).
- The price realization during the quarter increased by 7.4%/4.2% (YoY/QoQ) to ₹258 per kg due to favourable product mix and better forex realizations. Geography wise volume break up for the quarter: Europe 51%, US 14%, India 23% and rest of the world 13%. Going forward management expects the share of India in the topline to increase given company's pan-India reach and strong demand for agri tyres in the domestic market. Product wise break-up for the quarter: Agri tyres 64%, OTR 33% and ATV & others 3%. OEM segment contributed 25% of volumes while replacement business and others contributed 71% and 3%, respectively. During the quarter, the channel inventory remained below normal levels ~2-3months with production at ~61k. The entire production for the quarter was dispatched.
- EBITDA for 2QFY21 increased by 98% YoY to ₹5.3bn driven by better operating efficiencies. The EBITDA margins increased by ~904bps YoY to 34.2% supported by favourable product mix, in-sourcing of carbon black and better forex realizations. The management expects EBITDA margins to remain in the sustainable range of 29-30% for FY21 driven by an increase in share of carbon black, lower raw material costs and better currency realization. PAT declined by 15.8% YoY.
- The capex outlay for FY20 stood at ₹7.6bn and the planned capex for FY21 is ₹7bn. From FY22 onwards the management expects maintenance capex of ₹2bn. BKT's achievable capacity has reduced to 280k mtpa (vs 305k mtpa earlier). This is on account of two factors: Firstly, the product mix is shifting towards larger tyres and secondly, the existing capacities have become redundant as they were built on older technologies. The company is optimistic that the decline in achievable capacity will not hinder topline growth for FY22 and FY23.

Valuation: Despite a challenging first half on account of the lockdown the company reported strong operating performance. In-sourcing of carbon black, favourable product mix and better operating efficiencies are expected to support margins in FY21E. The stock is currently trading at P/E of ~29.2x FY22E. We arrive at a revised target price of ₹1,630 valuing the company at 28.7x FY22E EPS, and maintain the rating as a MARKET PERFORMER on account of robust agri demand outlook and BKT's market share gains.

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

Results Summary 2QFY21

Y/E March (₹ mn)	2QFY21	2QFY20	YoY Growth	1QFY21	QoQ Growth
Revenue	15,779.0	10,842.8	45.5%	9,426.1	67.4%
EBITDA	5,399.7	2,730.4	97.8%	2,404.3	124.6%
Depreciation	1,039.8	919.3	13.1%	1,015.6	2.4%
Other Income	201.7	807.4	-75.0%	360.9	-44.1%
PBT	4,523.2	2,597.9	74.1%	1,722.7	162.6%
Tax	1,113.8	-345.2	-422.7%	407.1	173.6%
PAT	3,409.4	2,943.1	15.8%	1,315.6	159.2%
Adj. PAT	3,409.4	2,943.1	15.8%	2,303.0	48.0%
EBITDA Margin (%)	34.2	25.2		25.5	
Tax Incidence (%)	24.6	-13.3		23.6	
PAT Margin (%)	21.6	27.1		14.0	

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Served as an officer, director or employee	No

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