

# Balkrishna Industries Ltd

Sector: Auto-Ancillary /Mid-Cap | Earnings Update – 3QFY22

**MARKET PERFORMER**

16 February 2022

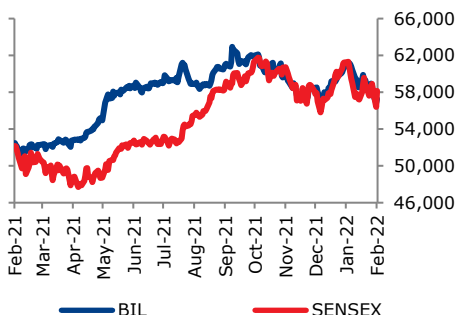
**Background:** Balkrishna Industries (BIL) is focused solely on 'off-highway' tyres catering to agricultural & industrial segments. The company has a ~7% share of the global market. While OTR forms ~65% of the global market, for BIL, it only contributes ~33% to its revenue. The company has been undertaking 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	58,142
Nifty	17,352
Price	₹ 2,126
Target Price (12 months)	₹ 2,240
Recommendation	MARKET PERFORMER
52 Week High/Low	₹ 2,723/1,517
Bloomberg / Reuters	BIL IN/BLKI.BO
Equity (shares in mn)	193.3
Mkt. Cap in bn	₹ 411.2/ \$ 5.5
Avg. Daily Vol. ('000)	231.8
Avg. Daily Vol. (mn)	₹ 493.0 /\$ 6.6

Shareholding	Dec-20	Sep-21	Dec-21
Promoters (%)	58.3	58.3	58.3
FII (%)	15.5	15.4	15.1
DII (%)	15.0	12.6	11.6
Others (%)	11.2	13.7	15.1
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)	2022	2023E	2024E
Y/E March			
Revenue	79.6	90.3	100.9
EBITDA	23.9	26.0	29.2
Adj PAT	15.5	16.8	18.9
Adj EPS	80.3	86.9	97.6
% growth	31.9	8.2	12.3
P/E	26.5	24.5	21.8
P/ BV	6.1	5.1	4.4
EV/EBITDA	17.6	16.1	14.4
EV/Sales	5.3	4.6	4.2
Div Yield (%)	0.7	0.8	0.9
ROE (%)	23.1	20.8	20.0

Performance(%)	1M	3M	12M
BIL	-14.7	-11.1	29.0
SENSEX	-5.0	-4.2	11.5



## Capacity constraints restrict volume expansion amidst buoyant demand, while RM cost inflation weigh on margins

- Balkrishna Industries (BIL)** reported subdued performance for 3QFY22. The consolidated revenues stood at ₹20.5bn (+35.6% YoY/-1.3% QoQ) with volumes of 70,320MT (+17.6% YoY/-3.3% QoQ). EBITDA de-grew by 4.8% YoY/-15.1% QoQ to ₹4.6bn while EBITDA margin plunged to 22.3% (-360bps YoY/-950bps QoQ) on RM cost inflation & higher marketing spend. PAT stood at ₹3.9bn (+4.3% YoY/-13.3% QoQ). In 3QFY22, BIL's revenue/EBITDA/PAT missed the consensus estimates by 1%/16%/7%.
- Upbeat volumes aid the topline-** BIL clocked volumes of 70kMT+ for second consecutive quarter on robust demand across the product categories. In addition to agri-business, the industrial construction & OTR segment witnessed strong traction. BIL is likely to maintain the similar volumes in coming quarters, as it is operating at max. capacity amidst buoyant demand. The management reiterates its sales volumes guidance of ~275-280kMT for FY22.
- Drop in margins – a rare deviant-** While the management affirms 28-30% EBITDA margins over long-run, the near-term prospects remain slightly off-beat over the relentless rise in input costs. RM costs have soared by 60% YoY/1.8% QoQ, whereas other expenses have expanded by 54% YoY/3.7% QoQ. The prices of natural rubber surged to ₹160/kg in 3QFY22, up by 17% QoQ. The carbon black cost has increased from ₹95/kg to ₹100/kg. BIL hasn't undertaken any price hike in 3QFY22 (2-3% in 2QFY22) & projects 2-3% cost inflation for 4QFY22. The margins are expected to remain sub-optimal to standard 28-30% in upcoming quarters.
- Debt & capex status-** As of December-21, gross debt stood at ₹8.8bn while cash & cash equivalent stood at ₹19.3bn. The management projects cumulative capex of ~₹22.5bn for next 2 years which would amplify the total capacity to 360kMT (current 285kMT). The diverse capacity expansion includes refurbishing of old plant at Waluj (generating additional 25kMT), brownfield capex at Bhuj (additional 50kMT), modernization of existing plants & augmentation of Carbon black capacity. All the capex plans are running as per schedule. BIL can cater to robust demand with incremental volume only after 2HFY23 wherein the brownfield expansion at Bhuj plant will be completed.

**Valuation:** Despite the buoyant demand, BIL is likely to report sub-optimal performance in coming quarters owing to capacity constraints & cost inflation. The long-term growth catalysts of labour cost advantage, diversified product portfolio, backward integration, strong brand building & higher margins are likely to result in market share gains for the company. With the introduction of FY24 estimates, we revise our UNDERPERFORMER rating on the stock to MARKETPERFORMER with a marginal increase in target price to ₹2,240 (earlier: ₹2,226), valuing the company at 25x FY23Dec EPS.

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

## Results Summary 3QFY22

Y/E March (₹ mn)	3QFY22	3QFY21	YoY Growth	2QFY22	QoQ Growth
Revenue	20,458	15,092	35.6%	20,722	-1.3%
EBITDA	4,567	4,796	-4.8%	5,379	-15.1%
Depreciation	1,176	1,046	12.5%	1,114	5.5%
Other Income	1,130	546	107.0%	1,333	-15.2%
PBT	4,501	4,276	5.3%	5,577	-19.3%
Tax	1,111	1,025	8.4%	1,666	-33.3%
PAT	3,390	3,251	4.3%	3,910	-13.3%
Adjusted PAT	3,390	3,251	4.3%	3,910	-13.3%
EBITDA Margin (%)	22	32		26	
Tax Incidence (%)	25	24		30	
PAT Margin (%)	17	22		19	

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