WAY2WEALTH Research Desk

Sector – Auto Ancillaries – Tyres & Rubber Products

BALKRISHNA INDUSTRIES Ltd.

15th February 2023 | CMP – ₹1,994.2/- | View – **ACCUMULATE**

Q3FY23 Result Highlights

- **QoQ decline in volume and realisation due to lower freight surcharge and channel level inventory de-stocking** – Balkrishna Industries (BIL) reported Q3FY23 topline of ₹21.7bn, ~+6% YoY and -18.5% QoQ with volume de-growth of 5.5% YoY to 66.5k tonnes and ASP decline by 3.3% QoQ on account of lower freight surcharge and channel level inventory de-stocking. **Volume mix by geographies: Europe – 49%, USA – 19%, India – 21% and the RoW – 11%. Volume mix segment-wise: Agriculture – 63%, OTR–34% and Others – 3%.** OEM-Replacement mix stood at: Replacement – 70%, OEM – 28% and others – 2%.Forex gains on sales stood at ₹730mn. EBITDA margin at ~12.4% was down 989bps YoY due to high cost RM inventory, negative operating leverage and unfavorable forex movement, partially offset by lower freight costs. The company declared 2nd interim dividend of ₹4 per share in addition to the 1st interim dividend of ₹4 per share (FV- ₹2/-)

- **Cost pressures to persist in the near term with aim to have margins at 28-30% –** The impact of lower freight costs in Q3FY23 was offset by higher RM costs in the inventory of carbon black and synthetic rubber. Also, reduction in freight cost led to reduction in ASP by ~6% on QoQ basis at ₹335.7/kg. The management has guided for improvement in margins sequentially beginning Q1FY24 with cooling off of RM in Q4FY23. Overall, BIL aims to achieve EBITDA margin of 28-30% on a sustainable basis in the long term.

- **Demand to be sluggish in the short term –** Demand continued to remain weak across segments and regions. The distribution channel across global markets had excess inventory not only in OHT segment but other tire segments as well. Along with this, the slow lowering of raw material prices and improvement in delivery timelines owing to better availability of containers have led to slower ordering cycle by the channel. The end demand is still holding up, but the channel issues of ordering continue to impact volumes. The management views that the channel de-stocking will continue in Q4FY23 as well. While USA and Europe markets were impacted by recessionary fears, demand in India was relatively stable, supported by a better economic environment. Ongoing macro challenges in Europe and inflationary pressures in USA will continue to keep volume under pressure. However, new markets like USA are expected to remain key volume drivers as the company is expected to benefit from specialized SKUs and network expansion. BIL continues to maintain a price differential of ~10% with its Tier 1 competitors in Europe.

- **Moving out of capex –** BIL has commissioned a 55k MTPA carbon black capacity along with a power plant with a project capex of ₹6.5bn. It indicated that further brownfield expansion (₹3.5bn) at the Waluj facility will create an additional 55k MT capacity. The achievable capacity at the end of 1HFY24 will be 360k MT v/s existing 335k MT.

- EUR:INR hedge rate stood at 85 in Q3FY23 and forward hedge rate is around 86. Gross debt is around ₹34.6bn as of 31December 2022. The company has a natural hedge of USD currency. Revenue from the sale of carbon black stood at 5% of topline.

Important Statistics

MCAP (₹ bn)	₹385.5
52 Week H/L (₹)	2451/ 1682
NSE Code	BALKRISIND
BSE Code	502355

Shareholding Pattern	Dec'22 (%)
Promoters	58.3
DIIs	20.2
FIIs	12.5
Public	9.0

Financials

(₹ mn)

Particulars	FY19	FY20	FY21	FY22
Revenue	**52,100**	**48,112**	**57,832**	**82,951**
EBITDA	**13,021**	**12,713**	**18,104**	**20,088**
EBITDA Margin(%)	*25.0*	*26.4*	*31.3*	*24.2*
Net Profit	**7,737**	**9,597**	**11,775**	**14,354**
EPS (₹)	40.0	49.6	60.9	74.3
RoE (%)	17.7	19.9	21.4	20.7
RoCE (%)	14.9	18.5	19.5	20.5
P/E (x)	49.8	40.2	32.7	26.9
EV/EBITDA (x)	30.3	31.1	21.8	20.5
P/BV (x)	8.3	7.7	6.4	5.6

Particulars	FY23E	FY24E	FY25E
Revenue	**99,525**	**108,690**	**117,029**
EBITDA	**15,437**	**18,983**	**22,759**
EBITDA Margin (%)	*15.5*	*17.5*	*19.4*
Net Profit	**11,987**	**14,684**	**16,417**
EPS (₹)	62.0	76.0	84.9
RoE (%)	16.1	18.2	18.8
RoCE (%)	14.4	16.9	18.2
P/E (x)	32.2	26.3	23.5
EV/EBITDA (x)	19.9	16.2	14.5
P/BV (x)	5.1	4.5	4.0

Source: Company, Way2Wealth

W2W Lighthouse - A Quick Perspective

View

We like BIL's export oriented business model, and labour cost advantage v/s global peers. We expect increase in manufacturing expenses in US and Europe due to sharp jump in energy cost would help BKT to increase in wallet share in Agri and OTR segment along with increase in realization and margin. Furthermore, ongoing macro challenges in Europe and inflationary pressures in USA will continue to keep volume under pressure. Although Europe is showing some weakness, incremental volume from new geographies to aid volume growth. The softening of RM basket prices will aid margin improvement from Q4FY23; however, BIL may need to pass on the benefit to end-consumers if demand remains under pressure. **Hence, we continue to maintain our *ACCUMULATE* stance with stock trading at *P/E 23.5x* FY25E EPS of ₹84.9.**

15th February 2023 CMP – ₹1,994.2/- View – **ACCUMULATE**

FINANCIAL & OPERATING PERFORMANCE

(₹ mn)

Particulars	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	9MFY23	9MFY22	YoY (%)
Volume (tonnes)	66,480	70,320	(5.5)	78,872	(15.7)	228,505	211,676	8.0
Realisation (₹ / Kg)	*325.7*	*295.6*	*10.2*	*336.9*	*(3.3)*	*325.7*	*279.7*	*16.4*
Revenue	**21,655.7**	**20,458.1**	**5.9**	**26,575.2**	**(18.5)**	**74,425.2**	**59,209.1**	**25.7**
Cost of matl	10,825.1	9,948.6	8.8	12,073.9	(10.3)	36,678.3	28,349.2	29.4
Stock Purchases	273.5	203.2	34.6	258.5	5.8	765.2	551.3	38.8
Inventory Changes	369.9	(427.0)	186.6	1,094.9	(66.2)	(36.3)	(2,106.2)	(98.3)
Employee Costs	1,125.2	1,082.5	3.9	1,131.0	(0.5)	3,444.4	3,229.3	6.7
Other Exps	6,369.1	5,084.3	25.3	7,754.3	(17.9)	21,300.1	14,128.8	50.8
EBITDA	**2,692.9**	**4,566.5**	**(41.0)**	**4,262.6**	**(36.8)**	**12,273.5**	**15,056.7**	**(18.5)**
EBITDA Margin (%)	***12.4***	***22.3***	***(989)***	***16.0***	***(360)***	***16.5***	***25.4***	***(894)***
Other Income	449.7	1,130.4	(60.2)	2,266.5	(80.2)	2,895.2	3,285.5	(11.9)
Depreciation	1,485.6	1,175.7	26.4	1,373.3	8.2	4,151.6	3,358.4	23.6
Finance Cost	142.2	20.5	593.7	47.7	198.1	219.4	66.0	232.4
Exceptional Item	-	-	-	-	-	-	-	-
PBT	1,514.8	4,500.7	(66.3)	5,108.1	(70.3)	10,797.7	14,917.8	(27.6)
Tax	431.0	1,111.2	(61.2)	1,285.5	(66.5)	2,821.7	4,312.4	(34.6)
Net Profit	**1,083.8**	**3,389.5**	**(68.0)**	**3,822.6**	**(71.6)**	**7,976.0**	**10,605.4**	**(24.8)**
EPS (₹)	5.6	17.5	(68.0)	19.8	(71.6)	41.3	54.9	(24.8)

As % of Sales	Q3FY23	Q3FY22	YoY(bps)	Q2FY23	QoQ(bps)	9MFY23	9MFY22	YoY(bps)
Matl Cost	53.0	47.5	542	50.5	243	50.3	45.3	501
Gross Profit	47.0	52.5	(542)	49.5	(243)	49.7	54.7	(501)
Employee Exps	5.2	5.3	(10)	4.3	94	4.6	5.5	(83)
Other Exps	29.4	24.9	456	29.2	23	28.6	23.9	476

Source: *Company, Way2Wealth*

Segmental volume mix (%)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	9MFY23
Agriculture	63.0	62.4	62.4	61.1	61.5	64.0	65.5	63.2
OTR (Industrial, mining, construction)	33.7	33.8	33.8	35.5	35.0	32.0	31.1	33.7
Others	3.3	3.8	3.8	3.4	3.5	4.0	3.3	3.1

Channel-wise mix (%)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	9MFY23
OEM	23.5	23.5	25.6	26.9	25.5	26.0	27.7	27.7
Replacement	74.2	73.8	71.4	71.2	71.5	70.0	69.1	69.8
Off-take (contract manufacturing)	2.3	2.7	3.0	1.9	3.0	4.0	3.3	2.5

Region-wise mix (%)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	9MFY23
Europe	55.2	54.2	53.9	50.4	51.0	50.0	53.9	49.4
America	15.4	15.3	15.0	16.7	17.0	15.0	17.3	19.0
Rest of World	14.8	14.9	14.7	14.6	12.0	12.0	11.9	10.5
India	14.6	15.6	16.4	18.3	20.0	23.0	17.6	21.1

Source: *Company, Way2Wealth*

FINANCIALS & VALUATIONS

(₹ mn)

Particulars	FY17	FY18	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Volume (tonnes)	**172,420**	**199,213**	**211,261**	**201,760**	**227,132**	**288,795**	**298,875**	**318,739**	**339,214**
YoY Growth (%)	*16.9*	*15.5*	*6.0*	*(4.5)*	*12.6*	*27.1*	*3.5*	*6.6*	*6.4*
Realisation (₹/Kg)	***219***	***224***	***247***	***238***	***255***	***287***	**333**	**341**	**345**
YoY Growth (%)	*(1.6)*	*2.0*	*10.1*	*(3.3)*	*6.8*	*12.8*	*15.9*	*2.4*	*1.2*
Revenue	**37,838**	**44,610**	**52,100**	**48,112**	**57,832**	**82,951**	**99,525**	**108,690**	**117,029**
YoY Growth (%)	*15.0*	*17.9*	*16.8*	*(7.7)*	*20.2*	*43.4*	*20.0*	*9.2*	*7.7*
EBITDA (₹ mn)	**11,310**	**11,016**	**13,021**	**12,713**	**18,104**	**20,088**	**15,437**	**18,983**	**22,759**
EBITDA Margin (%)	***29.9***	***24.7***	***25.0***	***26.4***	***31.3***	***24.2***	***15.5***	***17.5***	***19.4***
YoY Growth (%)	*37.5*	*(2.6)*	*18.2*	*(2.4)*	*42.4*	*11.0*	*(23.2)*	*23.0*	*19.9*
Net Profit (₹ mn)	**7,169**	**7,358**	**7,737**	**9,597**	**11,775**	**14,354**	**11,987**	**14,684**	**16,417**
EPS (₹)	37.1	38.1	40.0	49.6	60.9	74.3	62.0	76.0	84.9
DPS (₹)	8.0	10.0	8.0	21.0	18.0	28.0	25.0	28.0	30.0
RoE (%)	21.8	19.0	17.7	19.9	21.4	20.7	16.1	18.2	18.8
RoCE (%)	17.4	18.5	14.9	18.9	20.8	14.1	14.4	16.9	18.2
Net Debt/Equity (x)	0.4	0.2	0.2	0.2	0.2	0.4	0.1	(0.0)	(0.1)
FCF	7,867	4,013	1,697	4,989	5,496	(4,655)	2,416	16,016	17,819
Cash Balances	248	334	656	691	752	517	3,389	5,781	7,071
Debtors Days	47	38	36	44	48	48	45	44	43
Inventory Days	110	48	52	46	59	72	51	49	48
Creditors Days	115	32	27	28	41	36	35	36	36
P/E (x)	53.8	52.4	49.8	40.2	32.7	26.9	32.2	26.3	23.5
EV/EBITDA (x)	35.3	35.8	30.3	31.1	21.8	20.5	19.9	16.2	14.5
P/BV (x)	10.9	9.4	8.3	7.7	6.4	5.6	5.1	4.5	4.0

Source: Company, Way2Wealth Research

Disclosure of Interest Statement BALKRISHNA INDUSTRIES Ltd. as on 15 February 2023

Name of the Security	BALKRISHNA INDUSTRIES Ltd
Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained Financial Interest Analyst : Analyst's Relative : Yes / No Date of buying Analyst's Associate/Firm : Yes/No	 No No No No
Conflict of Interest	No
Receipt of Compensation	No
Way2Wealth ownership of any stock related to the information contained	NIL
Broking relationship with company covered	NIL
Investment Banking relationship with company covered	NIL