

Q4FY22 Result Highlights

- **Strong topline but EBITDA impacted by freight & power inflation** – Balkrishna Industries (BIL) reported Q4FY22 EBITDA of ₹5.03bn (+10.2% QoQ & ~-9% YoY) with EBITDA margin at 21.2% (-1,020 bps YoY & -113 bps QoQ) due to strong volume growth of 13.4% at 77,119 tonnes and price hikes at 2-4% taken in each of Q3FY22, Q4FY22 and Q1FY23 in order to preserve profitability partly offset by a sharp increase in freight costs. Freight cost increased by 66% on a QoQ basis as the company had to re-new the older contracts, in which the freight rates were much below the current rates. Power cost increased on account of Coal price increase impacting power generation cost of 20MW captive power plant in Bhuj, power tariff rates increasing in rest of the plants, and elevated cost of running diesel gensets due to rising diesel cost. As a result, EBITDA per kg stood at ₹65.2 per kg (-19.4% YoY) in Q4FY22. Revenues increased by 35.4% YoY in Q4FY22 led by 16-19% YoY growth in agricultural and OTR segment volumes and 19.4% YoY increase ASPs due to price increases during the quarter. In terms of region, volumes in EU and North America grew by 17-45% YoY whereas volumes declined by 15% YoY in India. Volume growth was due to the company capex plans for old Waluj plant on hold and utilized its capacity (25k MT annual capacity) in order to meet the growing demand. The company expects its capacity to increase to 360k MT annually by 2HFY23. PAT came in at ₹3.7bn -1.3% YoY & ~+11% QoQ.
- Brownfield Bhuj capacity got onstream with capacity of ~50k tonnes and would get ramped up fully by the end of FY23. Waluj plant refurbishment was postponed led by strong demand and BIL thus would not shutdown the ~25k tonne capacity in between, until the refurbished capacity got onstream. BIL has given production guidance of ~320-330k tonne in FY23, implying ~10-14% volume growth.
- Carbon Black (CB) capacity is at 140k tonnes and is achievable to 116k. Nearly 20% of production sold to third party now, contributing ~3% of revenue. With Bhuj tyre capacity rising and new CB capacity (55k tonne) going onstream, management expects CB to be fully consumed internally in next 2-3 years.
- **Raw material inflation due to increase in crude prices impacted 2HFY22** – Demand across OHT segments remained strong in FY22 on account of higher global food prices which improved farmer realizations as well as profitability and increased capex spends by various governments which aided growth for mining and construction equipment. As a result, volumes for the company increased by 27.1% on a YoY basis to ~289k MT in FY22. However, through the course of the year, the company witnessed increase in RM basket especially on account of a sharp increase in crude prices during 2HFY22, which put pressure of gross margins. The company took price hikes to partly offset the impact of RM inflation, however could not completely offset the impact of the same. Also, sharp increase in freight and power costs resulted in EBITDA margin declining by 709 bps on a YoY basis in FY22. EBITDA per kg declined by ~13% on a YoY basis in FY22. Overall, net profit increased by ~22% on a YoY basis in FY22.
- The company reported FCF outflow of ₹6.9bn despite strong operating performance mainly on account of working capital drag due to increase in inventory days because of non-availability of containers and higher capex

Important Statistics

MCAP (₹ bn)	₹410.6
52 Week H/L (₹)	2724 / 1682
NSE Code	BALKRISIND
BSE Code	502355
Shareholding Pattern Mar'22 (%)	
Promoters	58.3
DIIs	11.7
FIIIs	14.1
Public	15.9

Financials

(₹ mn)

Particulars	FY19	FY20	FY21	FY22P
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)	53.1	42.8	34.9	28.6
EV/EBITDA (x)	32.2	33.1	23.2	21.7
P/BV (x)	8.8	8.2	6.8	5.9

Particulars	FY23E	FY24E
Revenue	101,614	103,437
EBITDA	23,215	28,127
EBITDA Margin (%)	22.8	27.2
Net Profit	15,771	17,832
EPS (₹)	81.6	92.3
RoE (%)	21.2	22.1
RoCE (%)	15.4	16.7
P/E (x)	26.0	23.0
EV/EBITDA (x)	17.8	14.6
P/BV (x)	5.1	4.4

Source: Company, Way2Wealth

spends on account of capacity expansion, plants upgradation and setting up of carbon black facility. As a result, the company's gross debt increased to ₹26.5bn in FY22 from ₹10.8bn in FY21 out of which ₹19bn is pertaining to working capital, which is expected to reverse in FY23.

- **Capex in FY23 guided at ₹11bn, with ₹9bn as growth capex and rest as maintenance capex.** The management has chalked out a capex of ~₹22.5bn over the next two years. It will allocate ₹8bn towards setting up new capacity in Bhuj, ₹6.5bn for carbon black capacity expansion, ₹4.5bn for plant automation, and ₹3.5bn for capex at the old Waluj plant. On completion of the ongoing capex, capacity will increase to 360k tonnes (from the current 285k tonnes) by 2HFY23. Working capital surge in FY23 closing books is on account of elevated raw material costs and freight availability disruptions. Expectation is that the inventory days should normalise back to ~55 days from the elevated 72 days as soon as container availability issue gets resolved along with reversal in raw material costs.

View

We expect BIL's outperformance to the industry to continue, with scope to strengthen its competitive positioning. BIL has a well-established competitive advantage, which has enabled consistent market share gains. Its competitive advantage is driven by competitive cost & pricing, consistent product portfolio expansion, and expanding reach. With a current market share of ~6% in the US\$ 15bn global Specialty Tyre segment, BIL aspires to increase this to 10% over the next four-to-five years by ramping-up in the OTR segment, which is much larger than Agri tyres, strengthening its presence in North America and RoW markets, and gaining share with OEMs. The management volume growth guidance is led by healthy demand across mining & agriculture markets and market share gain. Market share gain will be aided by increased market reach by expanding distribution network, strong brand recall and attractive pricing. However, cost pressure will persist as RM, freight cost as well as power cost continues to remain at elevated levels, which will weigh on EBITDA margins in the near to medium term. **Hence, we continue to maintain our ACCUMULATE stance with stock trading at P/E 23x FY24E EPS of ₹92.3.**

18th May 2022

CMP – ₹2,124.2/-

View – **ACCUMULATE**

Financial & Operating Performance

(₹mn)								
Particulars	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Volume (tonnes)	77,119	68,003	13.4	70,320	9.7	288,795	227,131	27.1
Realisation (₹ / Kg)	307.9	257.8	19.4	295.6	4.1	287.2	254.6	12.8
Revenue	23,742.1	17,534.5	35.4	20,458.1	16.1	82,951.2	57,831.9	43.4
Cost of matl	11,229.6	7,540.1	48.9	9,948.6	12.9	39,578.8	23,794.6	66.3
Stock Purchases	224.0	227.6	(1.6)	203.2	10.2	775.3	755.8	2.6
Inventory Changes	(469.5)	(537.3)	(12.6)	(427.0)	10.0	(2,575.7)	(1,440.0)	78.9
Employee Costs	1,071.4	1,017.0	5.3	1,082.5	(1.0)	4,300.7	3,708.6	16.0
Other Exps	6,655.8	3,782.4	76.0	5,084.3	30.9	20,784.6	12,908.5	61.0
EBITDA	5,030.8	5,504.7	(8.6)	4,566.5	10.2	20,087.5	18,104.4	11.0
EBITDA Margin (%)	21.2	31.4	(1,020)	22.3	(113)	24.2	31.3	(709)
Other Income	1,093.7	612.9	78.4	1,130.4	(3.2)	4,379.2	1,721.6	154.4
Depreciation	1,195.3	1,062.1	12.5	1,175.7	1.7	4,553.7	4,163.0	9.4
Finance Cost	25.5	27.9	(8.6)	20.5	24.4	91.5	113.8	(19.6)
Exceptional Item	-	-	-	-	-	-	-	-
PBT	4,903.7	5,027.6	(2.5)	4,500.7	9.0	19,821.5	15,549.2	27.5
Tax	1,155.3	1,228.1	(5.9)	1,111.2	4.0	5,467.7	3,773.9	44.9
Net Profit	3,748.4	3,799.5	(1.3)	3,389.5	10.6	14,353.8	11,775.3	21.9
EPS (₹)	19.4	19.7	(1.3)	17.5	10.6	74.3	60.9	21.9

As % of Sales	Q4FY22	Q4FY21	YoY(bps)	Q3FY22	QoQ(bps)	FY22	FY21	YoY(bps)
Matl Cost	46.3	41.2	503	47.5	(127)	45.5	40.0	558
Gross Profit	53.7	58.8	(503)	52.5	127	54.5	60.0	(558)
Employee Exps	4.5	5.8	(129)	5.3	(78)	5.2	6.4	(123)
Other Exps	28.0	21.6	646	24.9	318	25.1	22.3	274

Source: Company, Way2Wealth

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

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

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

Source: Company, Way2Wealth

18th May 2022

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View – **ACCUMULATE**

Financials & Valuations

(₹mn)

Particulars	FY16	FY17	FY18	FY19	FY20	FY21	FY22P	FY23E	FY24E
Volume (tonnes)	147,535	172,420	199,213	211,261	201,760	227,132	288,795	327,892	346,523
YoY Growth (%)	(4.3)	16.9	15.5	6.0	(4.5)	12.6	27.1	13.5	5.7
Realisation (₹/Kg)	223	219	224	247	238	255	287	310	299
YoY Growth (%)	(9.9)	(1.6)	2.0	10.1	(3.3)	6.8	12.8	7.9	(3.7)
Revenue	32,895	37,838	44,610	52,100	48,112	57,832	82,951	101,614	103,437
YoY Growth (%)	(13.8)	15.0	17.9	16.8	(7.7)	20.2	43.4	22.5	1.8
EBITDA (₹ mn)	8,223	11,310	11,016	13,021	12,713	18,104	20,088	23,215	28,127
EBITDA Margin (%)	25.0	29.9	24.7	25.0	26.4	31.3	24.2	22.8	27.2
YoY Growth (%)	13.1	37.5	(2.6)	18.2	(2.4)	42.4	11.0	15.6	21.2
Net Profit (₹ mn)	4,457	7,169	7,358	7,737	9,597	11,775	14,354	15,771	17,832
EPS (₹)	23.1	37.1	38.1	40.0	49.6	60.9	74.3	81.6	92.3
DPS (₹)	5.5	8.0	10.0	8.0	21.0	18.0	28.0	25.0	28.0
RoE (%)	23.9	21.8	19.0	17.7	19.9	21.4	20.7	21.2	22.1
RoCE (%)	15.1	17.4	18.5	14.9	18.9	20.8	14.1	15.4	16.7
Net Debt/Equity (x)	0.6	0.4	0.2	0.2	0.2	0.2	0.4	0.2	0.1
FCF	6,373	7,867	4,013	1,697	4,989	5,496	(6,873)	8,691	10,341
Cash Balances	3,300	248	334	656	691	752	517	4,682	6,003
Debtors Days	64	47	38	36	44	48	48	45	45
Inventory Days	102	110	48	52	46	59	72	52	50
Creditors Days	96	115	32	27	28	41	36	36	35
P/E (x)	92.1	57.3	55.8	53.1	42.8	34.9	28.6	26.0	23.0
EV/EBITDA (x)	51.9	37.6	38.1	32.2	33.1	23.2	21.7	17.8	14.6
P/BV (x)	14.8	11.6	10.1	8.8	8.2	6.8	5.9	5.1	4.4

Source: Company, Way2Wealth Research

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Disclosure of Interest Statement BALKRISHNA INDUSTRIES Ltd. as on 18th May 2022

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	No
Analyst :	No
Analyst's Relative : Yes / No	No
Date of buying	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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