

22nd May 2024

CMP – ₹3,125.8/-

View – **ACCUMULATE**

Q4FY24 Result Highlights

- **Strong growth in Q4FY24 with demand persisting even as freight rates increased due to Red sea issue** – Balkrishna Industries (BIL) reported Q4FY24 topline of ₹26.8bn, ~+18% QoQ and +16% YoY with volume growth of 12.9% YoY & 12.8% QoQ to 82.09k tonnes and ASP growth of 2.5% YoY (+4.5% QoQ). EBITDA grew 26% QoQ & 42% YoY to ₹6.8bn with expansion in operating margin by 163 bps QoQ and 469 bps QoQ to 25.4% led by better mix and benefit of operating leverage. As per the management, the demand in USA and Europe is stable even as freight rates as percentage to sales increased by 350 bps QoQ to 7%. Was able to pass on the 50% of the surcharge to its customers. Other expenses excluding freight rates contracted by 230 bps QoQ. The inventory levels in Europe had normalised even as the geopolitical challenges persist. The company is looking out for market share gains in replacement market in India. The company declared 4th dividend of ₹4 per share in addition to 3rd Dividend of ₹4 per share, 2nd interim dividend of ₹4 per share and 1st dividend of ₹4 per share (FV- ₹2/-).
- Advanced carbon black plant (30,000MT capacity) to be completed by end-1HFY25 while the Mould Manufacturing by end-Q1FY25. ASP of carbon black likely to be 20-30% higher than the normal carbon black plant.
- The company has provided ₹110mn in Q4FY24 for EPR requirement for FY23 & FY24 primarily to purchase recycling tires certificate. It estimates ₹150mn EPR costing for FY25.
- **Volume mix by geographies in FY24: Europe – 47.1%, America – 16.9%, India – 26.8% and the RoW – 9.2%. Segmental Volume mix segment-wise: Agriculture – 60.5%, OTR –36.2% and Others – 3.3%.Channel-wise volume mix - Replacement – 71.1%, OEM – 27% and others – 1.9%.**
- **Gaining market share in India’s replacement market.** Even as the demand in America has reached normalcy, the management refrained from giving specific volume guidance overall due to ongoing geopolitics. It considers the India market to sustain the current growth in the medium to long term. It holds 7-10% market share domestically in the agricultural tyres category and expects to sustain at this level going forward. Overall it has gained market share in India from 11% in FY22 to 27% in FY24. The company continues to target for a 10% market share in the global OHT segment in the next five years from the current market share of 5-6%.
- Channel inventory is rebuilding to normal levels of 40-45 days and likely to be normal in FY25. The management views ₹1-2 rise in RM cost in Q1FY25 from ₹152/kg in Q4FY24 and ₹150/kg in Q3FY24. Price hikes to be taken at appropriate time.
- Carbon black sales at 7% of total revenues. Targeting sales of 200,000 MT in FY25 from 170,000 MT in FY24. 50% of carbon black sales is used inhouse while the rest to 3rd party. Price of Carbon black at ₹100/kg in the market with supply outstripping the demand.
- The management has guided margins for FY25 at similar levels as in Q4FY24. Planned capex of ₹5-6bn in FY25 with smaller (30,000-40,000 MT) brownfield capacity addition.
- Net debt was around ₹30.2bn, with ₹1.75bn L.T debt repaid in Apr’24. Cash and cash equivalents at ₹8bn as of Mar’24.
- The forward hedge rate stood at ₹90/ Euro in FY24 and for FY25 at ₹91-92/ Euro.

Important Statistics

Nifty	22,546
Sensex	74,058
MCAP (₹ bn)	₹609.5
52 Week H/L (₹)	3162/ 2194
NSE Code	BALKRISIND
BSE Code	502355
Bloomberg Code	BIL:IN

Shareholding Pattern	
	Mar’24 (%)
Promoters	58.3
DIIs	22.1
FIIIs	12.2
Public	7.4

FINANCIALS

Particulars	(₹ mn)		
	FY21	FY22	FY23
Revenue	57,832	82,951	97,595
EBITDA	18,104	20,088	17,071
EBITDA Margin(%)	31.3	24.2	17.5
Net Profit	11,775	14,354	10,574
EPS (₹)	60.9	74.3	54.7
RoE (%)	21.4	20.7	14.0
RoCE (%)	19.5	20.5	12.6
P/E (x)	51.3	42.1	57.1
EV/EBITDA (x)	34.2	31.6	37.6
P/BV (x)	10.1	8.7	8.0

Particulars	(₹ mn)		
	FY24P	FY25E	FY26E
Revenue	93,689	100,459	119,975
EBITDA	22,554	26,009	32,641
EBITDA Margin (%)	24.1	25.9	27.2
Net Profit	14,715	17,489	22,916
EPS (₹)	76.1	90.5	118.6
RoE (%)	19.5	17.2	19.1
RoCE (%)	17.8	15.7	17.4
P/E (x)	41.1	34.5	26.4
EV/EBITDA (x)	28.4	22.6	18.2
P/BV (x)	6.8	5.9	5.0

Source: Company, Way2Wealth

Relative Comparison

Return (%)	1 Yr	3Yr	5 Yr
BKT	37.4	47.5	305.5
Nifty 50	23.1	48.6	92.1
Sensex	19.5	46.2	89.4

Source: Company, Way2Wealth

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View

In Q4FY24 and FY24 Balkrishna Industries Limited (BIL) reported strong growth of led by better mix, RM cost and benefit of operating leverage. It estimates that the margins for FY25 can match the Q4FY24 levels as it expects RM price to increase leading to pass it on to its customers (based on business environment), normalised tariff rates along with the commencement of high-margin advanced carbon capacity in FY25. It views stable demand in USA and looks to gain market share in India's replacement market. It continues to aspire for a 10% market share in the global OHT in the medium term compared to a 5-6% market share currently. Despite geopolitical uncertainty, we maintain a positive view on stock supported by its strong distribution network, led by improving demand in Europe/US and strong growth trajectory in domestic market on the back of ongoing and expected infra projects. We expect lower cost advantage and strong backward integration would help BIL to increase wallet share in Agri and OHT. **Hence, we continue to maintain our ACCUMULATE stance with stock trading at P/E 26.4x FY26E EPS of ₹118.6.**

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View – **ACCUMULATE**

FINANCIAL & OPERATING PERFORMANCE

(₹ mn)

Particulars	Q4FY24	Q4FY23	YoY (%)	Q3FY23	QoQ (%)	FY24	FY23	YoY (%)
Volume (tonnes)	82,085	72,676	12.9	72,749	12.8	292,628	301,181	(2.8)
Realisation (₹ / Kg)	326.7	318.8	2.5	312.6	4.5	320.2	324.0	(1.2)
Revenue	26,819.2	23,170.1	15.7	22,744.1	17.9	93,688.7	97,595.3	(4.0)
Cost of matl	12,194.4	11,363.6	7.3	10,848.7	12.4	44,044.5	48,041.9	(8.3)
Stock Purchases	336.3	297.3	13.1	300.9	11.8	1,198.5	1,062.5	12.8
Inventory Changes	24.0	85.0	(71.8)	(122.5)	119.6	(328.8)	48.7	(775.2)
Employee Costs	1,303.8	1,149.9	13.4	1,262.9	3.2	4,995.1	4,594.3	8.7
Other Exps	6,149.5	5,476.7	12.3	5,048.1	21.8	21,225.7	26,776.8	(20.7)
EBITDA	6,811.2	4,797.6	42.0	5,406.0	26.0	22,553.7	17,071.1	32.1
EBITDA Margin (%)	25.4	20.7	469	23.8	163	24.1	17.5	658
Other Income	1,707.4	570.1	199.5	656.3	160.2	4,492.2	3,465.3	29.6
Depreciation	1,741.5	1,556.5	11.9	1,608.5	8.3	6,507.2	5,708.1	14.0
Finance Cost	308.7	261.0	18.3	364.4	(15.3)	1,128.7	480.4	135.0
Exceptional Item	-	-	-	-	-	-	-	-
PBT	6,468.4	3,550.2	82.2	4,089.4	58.2	19,410.0	14,347.9	35.3
Tax	1,600.9	952.2	68.1	1,035.2	54.6	4,695.1	3,773.9	24.4
Net Profit	4,867.5	2,598.0	87.4	3,054.2	59.4	14,714.9	10,574.0	39.2
EPS (₹)	25.2	13.4	87.4	15.8	59.4	76.1	54.7	39.2

As % of Sales	Q4FY24	Q4FY23	YoY(bps)	Q3FY24	QoQ(bps)	FY24	FY23	YoY(bps)
Matl Cost	46.8	50.7	(388)	48.5	(167)	47.9	50.4	(242)
Gross Profit	53.2	49.3	388	51.5	167	52.1	49.6	242
Employee Exps	4.9	5.0	(10)	5.6	(69)	5.3	4.7	62
Other Exps	22.9	23.6	(71)	22.2	73	22.7	27.4	(478)

Source: Company, Way2Wealth

Segmental volume mix (%)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Agriculture	63.0	62.4	62.4	61.1	61.5	64.0	65.5	62.7	60.5
OTR (Industrial, mining, construction)	33.7	33.8	33.8	35.5	35.0	32.0	31.1	34.2	36.2
Others	3.3	3.8	3.8	3.4	3.5	4.0	3.3	3.1	3.3

Channel-wise mix (%)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
OEM	23.5	23.5	25.6	26.9	25.5	26.0	27.7	27.9	27.0
Replacement	74.2	73.8	71.4	71.2	71.5	70.0	69.1	69.5	71.1
Off-take (contract manufacturing)	2.3	2.7	3.0	1.9	3.0	4.0	3.3	2.6	1.9

Region-wise mix (%)	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24
Europe	55.2	54.2	53.9	50.4	51.0	50.0	53.9	50.5	47.1
America	15.4	15.3	15.0	16.7	17.0	15.0	17.3	17.9	16.9
Rest of World	14.8	14.9	14.7	14.6	12.0	12.0	11.9	10.0	9.2
India	14.6	15.6	16.4	18.3	20.0	23.0	17.6	21.6	26.8

Source: Company, Way2Wealth

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 View – **ACCUMULATE**
FINANCIALS & VALUATIONS

(₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24P	FY25E	FY26E
Volume (tonnes)	199,213	211,261	201,760	227,132	288,795	301,181	292,628	311,994	340,417
YoY Growth (%)	15.5	6.0	(4.5)	12.6	27.1	4.3	(2.8)	6.6	9.1
Realisation (₹ /Kg)	224	247	238	255	287	324	320	322	352
YoY Growth (%)	2.0	10.1	(3.3)	6.8	12.8	12.8	(1.2)	0.6	9.5
Revenue	44,610	52,100	48,112	57,832	82,951	97,595	93,689	100,459	119,975
YoY Growth (%)	17.9	16.8	(7.7)	20.2	43.4	17.7	(4.0)	7.2	19.4
EBITDA (₹mn)	11,016	13,021	12,713	18,104	20,088	17,071	22,554	26,009	32,641
EBITDA Margin (%)	24.7	25.0	26.4	31.3	24.2	17.5	24.1	25.9	27.2
YoY Growth (%)	(2.6)	18.2	(2.4)	42.4	11.0	(15.0)	32.1	15.3	25.5
Net Profit (₹mn)	7,358	7,737	9,597	11,775	14,354	10,574	14,715	17,489	22,916
EPS (₹)	38.1	40.0	49.6	60.9	74.3	54.7	76.1	90.5	118.6
DPS (₹)	10.0	8.0	21.0	18.0	28.0	16.0	16.0	18.0	20.0
RoE (%)	19.0	17.7	19.9	21.4	20.7	14.0	19.5	17.2	19.1
RoCE (%)	18.5	14.9	18.9	20.8	20.1	12.6	17.8	15.7	17.4
Net Debt/Equity (x)	0.2	0.2	0.2	0.2	0.4	0.4	0.3	0.2	(0.1)
FCF	4,013	1,697	4,989	5,496	(6,873)	(3,145)	9,841	12,107	13,619
Cash Balances	334	656	691	752	517	763	800	1,352	2,985
Debtors Days	38	36	44	48	48	42	56	55	52
Inventory Days	48	52	46	59	72	57	57	56	53
Creditors Days	32	27	28	41	36	37	74	72	68
P/E (x)	82.1	78.1	63.0	51.3	42.1	57.1	41.1	34.5	26.4
EV/EBITDA (x)	56.1	47.5	48.8	34.2	31.6	37.6	28.4	22.6	18.2
P/BV (x)	14.8	13.0	12.1	10.1	8.7	8.0	6.8	5.9	5.0

Source: Company, Way2Wealth

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Disclosure of Interest Statement BALKRISHNA INDUSTRIES Ltd. as on 22 May 2024

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 :	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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