

Q3FY24 Result Highlights

- **Q3FY24 witnessed strong YoY growth; Q4FY24 likely to be impacted due to Red sea issue** – Balkrishna Industries (BIL) reported Q3FY24 topline of ₹22.7bn, ~+1% QoQ and +5% YoY with volume growth of 9.4% YoY & 3.1% QoQ to 72.75k tonnes and ASP de-growth of 4% YoY (-2.1% QoQ). EBITDA grew 1.5% QoQ & 2x YoY to ₹5.4bn with expansion in operating margin by +13 bps QoQ to 23.6% led by better mix and benefit of operating leverage. As per the management currently margin is under pressure due to an increase in freight rate led by the Red Sea issue, it is trying to pass on the increase in freight rate to the customer. Currently, some part of it is passed onto customers but the whole incremental value will be passed only if the freight rates are elevated going forward. The company is not facing any issues on container supply, while the rates have taken a toll. RM prices are expected to rise in the coming quarter due to an increase in rubber prices offset by a fall in crude oil prices. The company declared 3rd Dividend of ₹4 per share in addition to 2nd interim dividend of ₹4 per share and 1st dividend of ₹4 per share (FV- ₹2/-).
- **Company expects a flat volume growth in Q4FY24 due to geopolitical concerns in the Red sea** – The company does not have a negative view of demand and expects to remain stable and improve. The company highlighted that the challenges pertaining to inventory in international markets have normalized; however, the confidence levels in the distribution channel are currently at a moderate level, implying a gradual and slow recovery in volumes. The inventory level has come down and is at a reduced level. BIL's peers will also face RM supply side issues which are sourced from Asia and Africa. The inventory level of BKT is coming down and is at a reduced level. However, if the Red sea issue escalates, it is expected to go down sharply leading to strong dispatches in FY25.
- **Volume mix by geographies in 9MFY24: Europe – 46.3%, America – 16.6%, India – 27.6% and the RoW – 9.6%. Segmental Volume mix segment-wise: Agriculture – 58.9%, OTR –37.9% and Others – 3.3%.Channel-wise volume mix - Replacement – 71.6%, OEM – 26.5% and others – 1.9%.**
- **BIL's global market share stands at 4-5%, aspires to achieve a 10% market share domestically and internationally** – BIL gained market share in Q3FY24. BIL Q4FY24 volume numbers are likely to be flat due to geopolitical issues and Red Sea disruption, margin to be under pressure due to an increase in freight rate. However peers will also face RM supply side issue which is sourced from Asia, and Africa for NR, and other chemicals. If issues get escalated, the company will benefit as the dispatches and orders intact will continue to accelerate. The company does not have a negative view of demand and expects to remain stable and improve. Agriculture and OTR market demand has been picking up towards the end of the year and it continues. The company expects the Indian market to grow faster, and stabilize. Moreover, enhancing are basket substantially. The company is treating all markets separately. The current global market share stands at 4-5%, aspires to achieve a 10% market share domestically and internationally, and is focused on increasing volume from the OTR segment and adding SKUs.

Important Statistics

| | |
|------------------------|------------|
| Nifty | 21,659 |
| Sensex | 71,662 |
| MCAP (₹ bn) | ₹488.9 |
| 52 Week H/L (₹) | 2794/ 1912 |
| NSE Code | BALKRISIND |
| BSE Code | 502355 |
| Bloomberg Code | BIL:IN |

| Shareholding Pattern | Dec'23 (%) |
|-----------------------------|-------------------|
| Promoters | 58.3 |
| DIIs | 21.4 |
| FIIIs | 12.7 |
| Public | 7.6 |

FINANCIALS

| Particulars | 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) | 41.5 | 34.1 | 46.2 |
| EV/EBITDA (x) | 27.6 | 25.6 | 30.7 |
| P/BV (x) | 8.1 | 7.1 | 6.5 |

| Particulars | FY24E | FY25E | FY26E |
|--------------------------|---------------|---------------|----------------|
| Revenue | 90,683 | 99,778 | 109,919 |
| EBITDA | 21,683 | 25,458 | 28,774 |
| EBITDA Margin (%) | 23.9 | 25.5 | 26.2 |
| Net Profit | 12,827 | 14,762 | 17,139 |
| EPS (₹) | 66.4 | 76.4 | 88.7 |
| RoE (%) | 15.9 | 16.4 | 16.8 |
| RoCE (%) | 13.2 | 15.3 | 17.1 |
| P/E (x) | 38.1 | 33.1 | 28.5 |
| EV/EBITDA (x) | 21.7 | 18.9 | 16.4 |
| P/BV (x) | 5.7 | 5.1 | 4.5 |

Source: Company, Way2Wealth

Relative Comparison

| Return (%) | 1 Yr | 3Yr | 5 Yr |
|-------------------|-------------|-------------|--------------|
| BKT | 17.1 | 63.7 | 229.5 |
| Nifty 50 | 22.7 | 58.9 | 103.3 |
| Sensex | 20.4 | 54.8 | 101.3 |

Source: Company, Way2Wealth

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CMP – ₹2,529.0/-

View – **ACCUMULATE**

- **Capex plans are as per schedule along with the mould manufacturing unit** – The management highlighted that all the tyres building capex programs are completed. Further, to realise the company's aspirations of growth by reducing lead time to market and better control over quality, the company has decided to set up a mold manufacturing capacity. This will be a standalone new project at Bhuj, entailing a capex of ₹3bn, which will get commercialized by Q1FY25. Company could potentially expand capacity by ~100-150K MT via brownfield projects at its Bhuj facility (current capacity: 360K MT annually).
- The third-party sales of carbon black constituted 6-7% of total revenues and are likely to improve to 10% of total revenues in FY25.
- Gross debt was around ₹28.8bn, with 75% of debt used for working capital, and the cash and cash equivalents at ₹25.5 bn as of Dec'23.
- The forward hedge rate stood at ₹88-90/ Euro in Q3FY24 and for FY25 at ₹91-92/ Euro.

View

In Q3FY24, Balkrishna Industries Limited (BIL) reported Revenue/EBITDA growth of 5%/2x YoY led by better mix and benefit of operating leverage. The management expects Q4 volume to be flat and margin to be under pressure due to increase in freight rate led by ongoing red sea issue. Company is trying to pass on the increase in freight rate to the customer. Despite near term hiccups, we maintain a positive view on stock led by improving demand in Europe/US, strong growth trajectory in domestic market and faster clearance of channel inventory due to production cut expected by European peers due to supply chain issue. We expect lower cost advantage and strong backward integration would help BIL to increase wallet share in Agri and OTR .**Hence, we continue to maintain our ACCUMULATE stance with stock trading at P/E 28.5x FY26E EPS of ₹88.7.**

FINANCIAL & OPERATING PERFORMANCE

(₹ mn)

| Particulars | Q3FY24 | Q3FY23 | YoY (%) | Q2FY23 | QoQ (%) | 9MFY24 | 9MFY23 | YoY (%) |
|--------------------------|-----------------|-----------------|--------------|-----------------|---------------|-----------------|-----------------|---------------|
| Volume (tonnes) | 72,749 | 66,480 | 9.4 | 70,585 | 3.1 | 210,543 | 228,505 | (7.9) |
| Realisation (₹ / Kg) | 312.6 | 325.7 | (4.0) | 319.2 | (2.1) | 317.6 | 325.7 | (2.5) |
| Revenue | 22,744.1 | 21,655.7 | 5.0 | 22,531.9 | 0.9 | 66,869.5 | 74,425.2 | (10.2) |
| Cost of matl | 10,848.7 | 10,825.1 | 0.2 | 10,708.0 | 1.3 | 31,850.1 | 36,678.3 | (13.2) |
| Stock Purchases | 300.9 | 273.5 | 10.0 | 266.1 | 13.1 | 862.2 | 765.2 | 12.7 |
| Inventory Changes | (122.5) | 369.9 | (133.1) | (42.2) | 190.3 | (352.8) | (36.3) | 871.9 |
| Employee Costs | 1,262.9 | 1,125.2 | 12.2 | 1,242.1 | 1.7 | 3,691.3 | 3,444.4 | 7.2 |
| Other Exps | 5,048.1 | 6,369.1 | (20.7) | 5,030.8 | 0.3 | 15,076.2 | 21,300.1 | (29.2) |
| EBITDA | 5,406.0 | 2,692.9 | 100.8 | 5,327.1 | 1.5 | 15,742.5 | 12,273.5 | 28.3 |
| EBITDA Margin (%) | 23.8 | 12.4 | 1,133 | 23.6 | 13 | 23.5 | 16.5 | 705 |
| Other Income | 656.3 | 449.7 | 45.9 | 1,070.9 | (38.7) | 2,784.8 | 2,895.2 | (3.8) |
| Depreciation | 1,608.5 | 1,485.6 | 8.3 | 1,604.3 | 0.3 | 4,765.7 | 4,151.6 | 14.8 |
| Finance Cost | 364.4 | 142.2 | 156.3 | 238.5 | 52.8 | 820.0 | 219.4 | 273.7 |
| Exceptional Item | - | - | - | - | - | - | - | - |
| PBT | 4,089.4 | 1,514.8 | 170.0 | 4,555.2 | (10.2) | 12,941.6 | 10,797.7 | 19.9 |
| Tax | 1,035.2 | 431.0 | 140.2 | 1,080.8 | (4.2) | 3,094.2 | 2,821.7 | 9.7 |
| Net Profit | 3,054.2 | 1,083.8 | 181.8 | 3,474.4 | (12.1) | 9,847.4 | 7,976.0 | 23.5 |
| EPS (₹) | 15.8 | 5.6 | 181.8 | 18.0 | (12.1) | 50.9 | 41.3 | 23.5 |

| As % of Sales | Q3FY24 | Q3FY23 | YoY(bps) | Q2FY24 | QoQ(bps) | 9MFY24 | 9MFY23 | YoY(bps) |
|---------------|--------|--------|----------|--------|----------|--------|--------|----------|
| Matl Cost | 48.5 | 53.0 | (448) | 48.5 | (3) | 48.4 | 50.3 | (187) |
| Gross Profit | 51.5 | 47.0 | 448 | 51.5 | 3 | 51.6 | 49.7 | 187 |
| Employee Exps | 5.6 | 5.2 | 36 | 5.5 | 4 | 5.5 | 4.6 | 89 |
| Other Exps | 22.2 | 29.4 | (722) | 22.3 | (13) | 22.5 | 28.6 | (607) |

Source: Company, Way2Wealth

| Segmental volume mix (%) | FY16 | FY17 | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | 9MFY24 |
|---|------|------|------|------|------|------|------|------|--------|
| Agriculture | 63.0 | 62.4 | 62.4 | 61.1 | 61.5 | 64.0 | 65.5 | 62.7 | 58.9 |
| OTR (Industrial, mining, construction) | 33.7 | 33.8 | 33.8 | 35.5 | 35.0 | 32.0 | 31.1 | 34.2 | 37.9 |
| 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 | 9MFY24 |
|--|------|------|------|------|------|------|------|------|--------|
| OEM | 23.5 | 23.5 | 25.6 | 26.9 | 25.5 | 26.0 | 27.7 | 27.9 | 26.5 |
| Replacement | 74.2 | 73.8 | 71.4 | 71.2 | 71.5 | 70.0 | 69.1 | 69.5 | 71.6 |
| 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 | 9MFY24 |
|----------------------|------|------|------|------|------|------|------|------|--------|
| Europe | 55.2 | 54.2 | 53.9 | 50.4 | 51.0 | 50.0 | 53.9 | 50.5 | 46.3 |
| America | 15.4 | 15.3 | 15.0 | 16.7 | 17.0 | 15.0 | 17.3 | 17.9 | 16.6 |
| Rest of World | 14.8 | 14.9 | 14.7 | 14.6 | 12.0 | 12.0 | 11.9 | 10.0 | 9.5 |
| India | 14.6 | 15.6 | 16.4 | 18.3 | 20.0 | 23.0 | 17.6 | 21.6 | 27.6 |

Source: Company, Way2Wealth

29th January 2024

CMP – ₹2,529.0/-

 View – **ACCUMULATE**
FINANCIALS & VALUATIONS

(₹ mn)

| Particulars | FY18 | FY19 | FY20 | FY21 | FY22 | FY23 | FY24E | FY25E | FY26E |
|--------------------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|----------------|
| Volume (tonnes) | 199,213 | 211,261 | 201,760 | 227,132 | 288,795 | 301,181 | 284,171 | 309,984 | 339,355 |
| YoY Growth (%) | 15.5 | 6.0 | (4.5) | 12.6 | 27.1 | 4.3 | (5.6) | 9.1 | 9.5 |
| Realisation (₹ /Kg) | 224 | 247 | 238 | 255 | 287 | 324 | 319 | 322 | 324 |
| YoY Growth (%) | 2.0 | 10.1 | (3.3) | 6.8 | 12.8 | 12.8 | (1.5) | 0.9 | 0.6 |
| Revenue | 44,610 | 52,100 | 48,112 | 57,832 | 82,951 | 97,595 | 90,683 | 99,778 | 109,919 |
| YoY Growth (%) | 17.9 | 16.8 | (7.7) | 20.2 | 43.4 | 17.7 | (7.1) | 10.0 | 10.2 |
| EBITDA (₹mn) | 11,016 | 13,021 | 12,713 | 18,104 | 20,088 | 17,071 | 21,683 | 25,458 | 28,774 |
| EBITDA Margin (%) | 24.7 | 25.0 | 26.4 | 31.3 | 24.2 | 17.5 | 23.9 | 25.5 | 26.2 |
| YoY Growth (%) | (2.6) | 18.2 | (2.4) | 42.4 | 11.0 | (15.0) | 27.0 | 17.4 | 13.0 |
| Net Profit (₹mn) | 7,358 | 7,737 | 9,597 | 11,775 | 14,354 | 10,574 | 12,827 | 14,762 | 17,139 |
| EPS (₹) | 38.1 | 40.0 | 49.6 | 60.9 | 74.3 | 54.7 | 66.4 | 76.4 | 88.7 |
| 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 | 15.9 | 16.4 | 16.8 |
| RoCE (%) | 18.5 | 14.9 | 18.9 | 20.8 | 20.1 | 12.6 | 13.2 | 15.3 | 17.1 |
| Net Debt/Equity (x) | 0.2 | 0.2 | 0.2 | 0.2 | 0.4 | 0.5 | (0.1) | (0.1) | (0.1) |
| FCF | 4,013 | 1,697 | 4,989 | 5,496 | (6,873) | (3,145) | 12,186 | 13,618 | 13,306 |
| Cash Balances | 334 | 656 | 691 | 752 | 517 | 763 | 2,872 | 3,461 | 3,024 |
| Debtors Days | 38 | 36 | 44 | 48 | 48 | 42 | 45 | 43 | 42 |
| Inventory Days | 48 | 52 | 46 | 59 | 72 | 57 | 58 | 56 | 55 |
| Creditors Days | 32 | 27 | 28 | 41 | 36 | 37 | 38 | 37 | 35 |
| P/E (x) | 66.4 | 63.2 | 50.9 | 41.5 | 34.1 | 46.2 | 38.1 | 33.1 | 28.5 |
| EV/EBITDA (x) | 45.2 | 38.2 | 39.3 | 27.6 | 25.6 | 30.7 | 21.7 | 18.9 | 16.4 |
| P/BV (x) | 12.0 | 10.5 | 9.8 | 8.1 | 7.1 | 6.5 | 5.7 | 5.1 | 4.5 |

Source: Company, Way2Wealth

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Disclosure of Interest Statement BALKRISHNA INDUSTRIES Ltd. as on 29 January 2024

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|--|---------------------------|
| 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 |
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