

22 August 2023

India | Equity research | Company update

## Balkrishna Industries

Auto ancillaries

### Weakest month of OHT exports since destocking started a year back

Weakness in OHT exports from India intensified in Jun'23 and touched their lowest in past 2 years, down 30% YoY to USD 122mn. This was due to continued weak demand, impact of cyclone in Gujarat and deflationary pricing. A week's production loss from the leader with an average market share of 50%, implies overall exports got hit by ~12.5% -- adjusted for which, it was largely in line with past 6-month average export level. We expect a favourable base for OHT exports to start H2FY24 onward other than partial balancing effect of Jun'23 production loss in Q2, implying largely flattish Q2 sequentially. Balkrishna Industries' (BIL) share within India OHT exports was at ~44%, down 900bps QoQ, as bulk of its production happens in Gujarat, the centre stage of the cyclone. We retain **ADD** on BIL, with a DCF-based price target of INR 2,577, implying 26x FY25E EPS.

### India OHT exports lowest since covid

India OHT exports in Jun'23 were at the lowest in past couple of years at USD 122mn, down ~30% YoY. We believe the weakness was due to multiple factors: a) ~15% value decline driven by cut in pricing on account of container rate reduction and raw material cost reduction; b) weak demand in the end-markets led by recession fears, hence delay in replacement demand driven sales; c) last year's base got inflated by excessive stocking up with Jun'23 value incorporating a moderate impact of destocking of inventory; d) one week's production got impacted for the leading OHT maker due to adverse climate in Jun'23. We expect this subdued export trend to persist till Q2-end, post which, the base effect will likely turn favourable along with the impact of summer holidays coming to an end.

### BIL's share of India OHT tyre exports back at ~44% in Q1FY24, post a surge to ~53% in Q4FY23

BIL's share of India OHT exports was at ~53% in Q1FY24, down 900bps QoQ, and against the long-term average of ~50%. Though the decline on YoY basis was similar amongst OTR and agri segments at 30%, industry exports were down ~50% to US vs ~22% to EU. Thus BIL's volume was down ~19% YoY in Q1FY24, that too including a week's production impact because of cyclone Biparjoy. In Q2 therefore, the balancing effect of lost production is expected to take place for BIL and, alongside it being a seasonally weak quarter, we expect BIL to end FY24 with flat volume offering a favourable base effect in H2FY24.

### Financial summary

| Y/E March (INR mn) | FY22A  | FY23A  | FY24E  | FY25E    |
|--------------------|--------|--------|--------|----------|
| Net Revenue        | 82,667 | 98,105 | 96,288 | 1,11,322 |
| EBITDA             | 19,760 | 17,156 | 22,372 | 28,328   |
| EBITDA %           | 23.9   | 17.5   | 23.2   | 25.4     |
| Net Profit         | 14,112 | 10,787 | 14,713 | 19,231   |
| EPS (INR)          | 73.0   | 55.8   | 76.1   | 99.5     |
| EPS % Chg YoY      | 22.1   | (23.6) | 36.4   | 30.7     |
| P/E (x)            | 32.6   | 42.6   | 31.3   | 23.9     |
| EV/EBITDA (x)      | 25.5   | 29.8   | 22.4   | 17.4     |
| RoCE (%)           | 16.9   | 10.7   | 13.1   | 16.4     |
| RoE (%)            | 21.8   | 14.9   | 18.1   | 20.5     |

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#### Market Data

|                     |               |
|---------------------|---------------|
| Market Cap (INR)    | 460bn         |
| Market Cap (USD)    | 5,538mn       |
| Bloomberg Code      | BIL IN        |
| Reuters Code        | BLKI.BO       |
| 52-week Range (INR) | 2,570 / 1,796 |
| Free Float (%)      | 41.0          |
| ADTV-3M (mn) (USD)  | 10.3          |

| Price Performance (%) | 3m  | 6m   | 12m |
|-----------------------|-----|------|-----|
| Absolute              | 9.0 | 17.7 | 8.2 |
| Relative to Sensex    | 6.4 | 7.5  | 9.1 |

| ESG Disclosure | 2021 | 2022 | Change |
|----------------|------|------|--------|
| ESG score      | 38.7 | 38.8 | 0.2    |
| Environment    | 15.5 | 15.9 | 0.5    |
| Social         | 21.8 | 21.8 | -      |
| Governance     | 78.6 | 78.6 | -      |

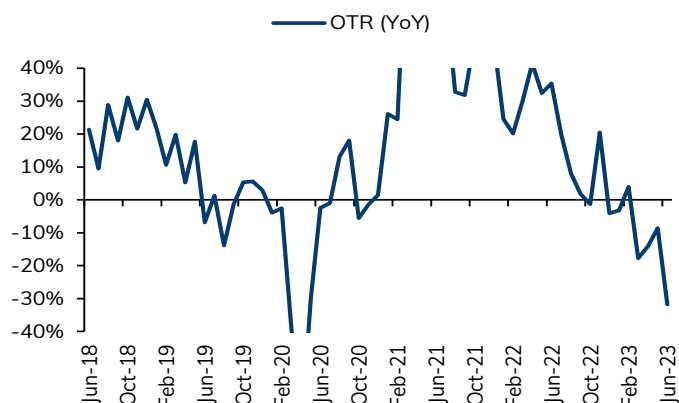
**Note** - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

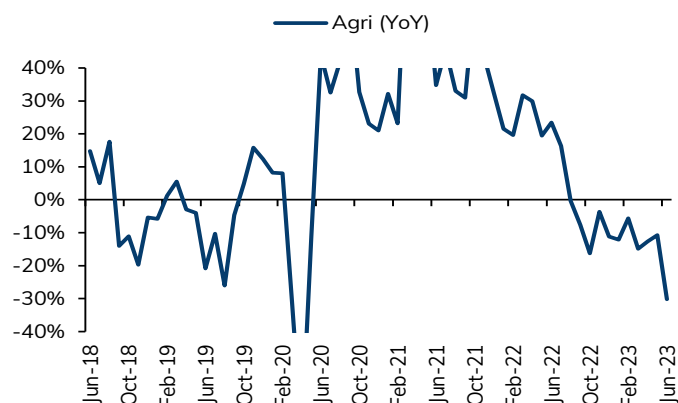
#### Previous Reports

08-08-2023: [Q1FY24 results review](#)

12-07-2023: [Company Update](#)

**Exhibit 1: India OTR tyre export growth trends**

Source: Commerce ministry, I-Sec research

**Exhibit 2: India Agri tyre export growth trends**

Source: Commerce ministry, I-Sec research

**Exhibit 3: Tyre industry's total exports (agri + OTR)**

| (USD mn)     | Jun-22       | Jul-22       | Aug-22       | Sep-22       | Oct-22       | Nov-22       | Dec-22       | Jan-23       | Feb-23       | Mar-23       | Apr-23       | May-23       | Jun-23       |
|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| Agri         | 116.9        | 113.4        | 92.4         | 92.8         | 83.9         | 89.7         | 98.4         | 87.0         | 90.3         | 99.2         | 93.4         | 95.3         | 81.6         |
| OTR          | 59.6         | 57.7         | 48.8         | 50.2         | 46.2         | 54.1         | 53.8         | 46.9         | 47.7         | 47.7         | 46.2         | 49.0         | 40.7         |
| <b>Total</b> | <b>176.5</b> | <b>171.1</b> | <b>141.1</b> | <b>142.9</b> | <b>130.1</b> | <b>143.7</b> | <b>152.2</b> | <b>133.9</b> | <b>137.9</b> | <b>147.0</b> | <b>139.6</b> | <b>144.3</b> | <b>122.3</b> |

Source: Commerce ministry, I-Sec research

**Exhibit 4: Agri tyre exports**

| Region             | Jun-22       | Jun-23      | %Growth     | Q4FY23       | Q1FY24       | %Growth    | YTD FY23     | YTD FY24     | %Growth     |
|--------------------|--------------|-------------|-------------|--------------|--------------|------------|--------------|--------------|-------------|
| EU                 | 55.5         | 40.7        | -27%        | 156.6        | 145.8        | -7%        | 163.5        | 145.8        | -11%        |
| Share of total (%) | 47.5         | 49.9        |             |              |              |            | 49.5         | 53.9         |             |
| USA                | 33.1         | 17.4        | -48%        | 50.0         | 52.9         | 6%         | 83.5         | 52.9         | -37%        |
| Share of total (%) | 28.3         | 21.3        |             |              |              |            | 25.3         | 19.6         |             |
| ROW                | 28.3         | 23.5        | -17%        | 69.9         | 71.6         | 2%         | 83.6         | 71.6         | -14%        |
| Share of total (%) | 24.2         | 28.8        |             |              |              |            | 25.3         | 26.5         |             |
| <b>Total</b>       | <b>116.9</b> | <b>81.6</b> | <b>-30%</b> | <b>276.5</b> | <b>270.3</b> | <b>-2%</b> | <b>330.6</b> | <b>270.3</b> | <b>-18%</b> |

Source: Commerce ministry, I-Sec research

**Exhibit 5: OTR tyre exports**

| Region             | Jun-22      | Jun-23      | %Growth     | Q4FY23       | Q1FY24       | %Growth    | YTD FY23     | YTD FY24     | %Growth     |
|--------------------|-------------|-------------|-------------|--------------|--------------|------------|--------------|--------------|-------------|
| EU                 | 17.9        | 14.6        | -18%        | 53.1         | 50.8         | -4%        | 49.5         | 50.8         | 3%          |
| Share of total (%) | 30.1        | 36.0        |             |              |              |            | 29.7         | 37.4         |             |
| USA                | 22.2        | 9.7         | -56%        | 32.8         | 32.4         | -1%        | 59.0         | 32.4         | -45%        |
| Share of total (%) | 37.2        | 23.9        |             |              |              |            | 35.3         | 23.8         |             |
| ROW                | 19.6        | 16.3        | -16%        | 56.4         | 52.7         | -6%        | 58.5         | 52.7         | -10%        |
| Share of total (%) | 32.8        | 40.1        |             |              |              |            | 35.0         | 38.8         |             |
| <b>Total</b>       | <b>59.6</b> | <b>40.7</b> | <b>-32%</b> | <b>142.2</b> | <b>135.9</b> | <b>-4%</b> | <b>167.0</b> | <b>135.9</b> | <b>-19%</b> |

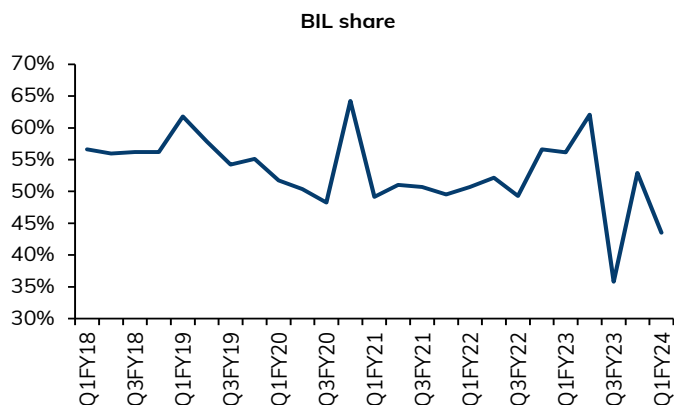
Source: Commerce ministry, I-Sec research

**Exhibit 6: BIL's export share in India's total OHT exports is at 44%, below the long-term mean level of ~50%**

| Particulars (USD mn)          | Q1FY22       | Q2FY22       | Q3FY22       | Q4FY22       | Q1FY23       | Q2FY23       | Q3FY23       | Q4FY23       | Q1FY24       |
|-------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|--------------|
| BIL Volume                    | 68,608       | 72,748       | 70,320       | 77,119       | 83,153       | 78,872       | 66,480       | 72,676       | 67,209       |
| YoY Growth (%)                | 80%          | 19%          | 18%          | 13%          | 21%          | 8%           | -5%          | -6%          | -2%          |
| <b>BIL Revenue (ex-India)</b> | <b>197.1</b> | <b>226.0</b> | <b>222.6</b> | <b>262.5</b> | <b>279.3</b> | <b>282.6</b> | <b>152.5</b> | <b>221.7</b> | <b>176.8</b> |
| QoQ Growth (%)                | 7%           | 15%          | -2%          | 18%          | 6%           | 1%           | -46%         | 45%          | -20%         |
| YoY Growth (%)                | 102%         | 41%          | 41%          | 43%          | 42%          | 25%          | -32%         | -16%         | -37%         |
| <b>India OHT Tyre exports</b> | <b>388.9</b> | <b>433.2</b> | <b>451.8</b> | <b>463.7</b> | <b>497.6</b> | <b>455.1</b> | <b>426.1</b> | <b>418.8</b> | <b>406.2</b> |
| QoQ Growth (%)                | 5%           | 11%          | 4%           | 3%           | 7%           | -9%          | -6%          | -2%          | -3%          |
| YoY Growth (%)                | 95%          | 38%          | 45%          | 25%          | 28%          | 5%           | -6%          | -10%         | -18%         |
| <b>BIL overall share</b>      | <b>51%</b>   | <b>52%</b>   | <b>49%</b>   | <b>57%</b>   | <b>56%</b>   | <b>62%</b>   | <b>36%</b>   | <b>53%</b>   | <b>44%</b>   |

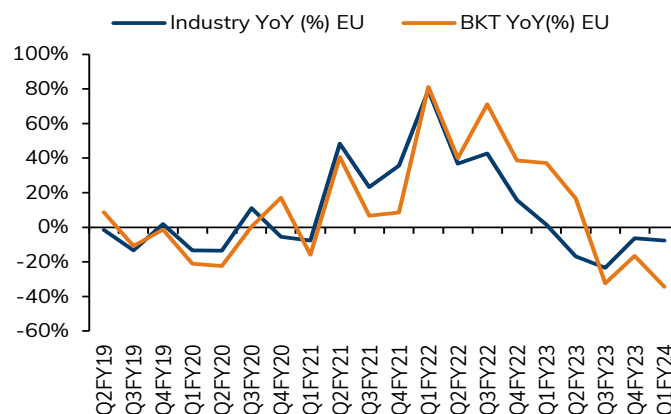
Source: Commerce ministry, Company, I-Sec research

**Exhibit 7: BIL's share dipped to 44% of India's OHT exports in Q1FY24, post a surge to 53% in Q4FY23**



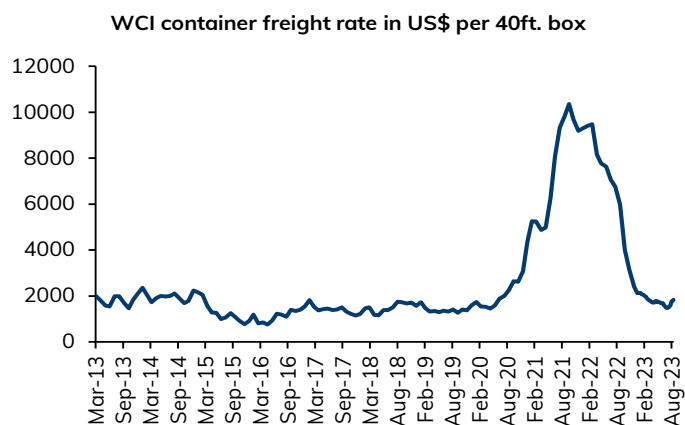
Source: Commerce ministry, Company, I-Sec research

**Exhibit 8: Industry vs BIL export trends – EU**



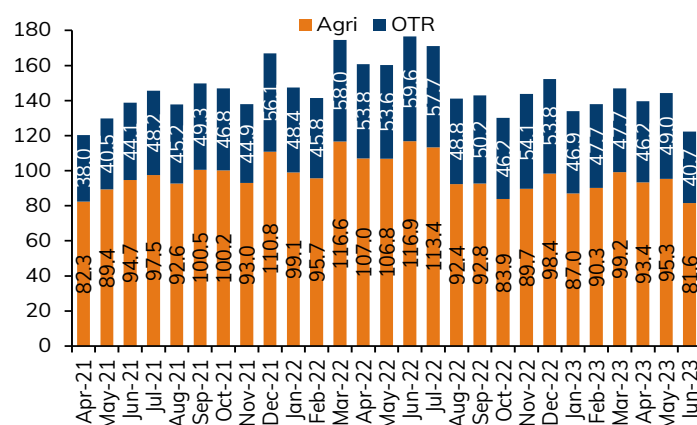
Source: Commerce ministry, Company, I-Sec research

**Exhibit 9: WCI container freight rates have fallen back to pre-covid levels**



Source: Bloomberg, I-Sec research

**Exhibit 10: Weakness visible in exports from India across both the segments**



Source: Commerce ministry, I-Sec research

### Downside risks:

- Weakness in retail offtake from key markets would impact volume offtake for BIL in the coming quarters, post weak volumes in past few quarters due to inventory destocking.
- Inability to grab further market share in global OHT market due to intense rise in competition.
- Inability to go back to 28% operating margin levels due to adverse input cost scenario and higher competition.

**Exhibit 11: Shareholding pattern**

| %                       | Dec'22 | Mar'23 | Jun'23 |
|-------------------------|--------|--------|--------|
| Promoters               | 58.3   | 58.3   | 58.3   |
| Institutional investors | 32.7   | 32.7   | 33.4   |
| MFs and others          | 11.7   | 11.4   | 12.4   |
| FIs/Banks               | 0.2    | 0.2    | 0.2    |
| Insurance               | 7.6    | 7.9    | 7.8    |
| FIIIs                   | 13.2   | 13.2   | 13.0   |
| Others                  | 9.0    | 9.0    | 8.3    |

Source: Bloomberg

**Exhibit 12: Price chart**



Source: Bloomberg

## Financial summary

### Exhibit 13: Profit & Loss

(INR mn, year ending March)

|                               | FY22A         | FY23A         | FY24E         | FY25E           |
|-------------------------------|---------------|---------------|---------------|-----------------|
| <b>Net Sales</b>              | <b>82,667</b> | <b>98,105</b> | <b>96,288</b> | <b>1,11,322</b> |
| Operating Expenses            | 25,122        | 31,391        | 28,977        | 32,566          |
| <b>EBITDA</b>                 | <b>19,760</b> | <b>17,156</b> | <b>22,372</b> | <b>28,328</b>   |
| EBITDA Margin (%)             | 23.9          | 17.5          | 23.2          | 25.4            |
| Depreciation & Amortisation   | 4,438         | 5,566         | 6,442         | 6,978           |
| EBIT                          | 15,322        | 11,590        | 15,930        | 21,350          |
| Interest expenditure          | 79            | 456           | 70            | 70              |
| Other Non-operating Income    | 4,306         | 3,378         | 3,500         | 4,025           |
| <b>Recurring PBT</b>          | <b>19,550</b> | <b>14,512</b> | <b>19,360</b> | <b>25,305</b>   |
| Profit / Loss from Associates | -             | -             | -             | -               |
| Less: Taxes                   | 5,438         | 3,725         | 4,646         | 6,074           |
| PAT                           | 14,112        | 10,787        | 14,713        | 19,231          |
| Less: Minority Interest       | -             | -             | -             | -               |
| Extraordinaries (Net)         | -             | -             | -             | -               |
| <b>Net Income (Reported)</b>  | <b>14,112</b> | <b>10,787</b> | <b>14,713</b> | <b>19,231</b>   |
| <b>Net Income (Adjusted)</b>  | <b>14,112</b> | <b>10,787</b> | <b>14,713</b> | <b>19,231</b>   |

Source Company data, I-Sec research

### Exhibit 14: Balance sheet

(INR mn, year ending March)

|  | FY22A         | FY23A           | FY24E           | FY25E           |
|--|---------------|-----------------|-----------------|-----------------|
| Total Current Assets                   | 37,153        | 34,943          | 38,493          | 42,986          |
| of which cash & cash eqv.              | 353           | 378             | 4,150           | 3,960           |
| Total Current Liabilities & Provisions | 12,391        | 11,880          | 12,140          | 13,254          |
| <b>Net Current Assets</b>              | <b>24,763</b> | <b>23,063</b>   | <b>26,353</b>   | <b>29,731</b>   |
| Investments                            | 18,973        | 20,373          | 20,373          | 20,373          |
| Net Fixed Assets                       | 39,861        | 53,492          | 54,049          | 56,071          |
| ROU Assets                             | -             | -               | -               | -               |
| Capital Work-in-Progress               | 12,584        | 13,916          | 13,916          | 13,916          |
| Total Intangible Assets                | -             | -               | -               | -               |
| Other assets                           | -             | -               | -               | -               |
| Deferred Tax assets                    | -             | -               | -               | -               |
| <b>Total Assets</b>                    | <b>96,180</b> | <b>1,10,844</b> | <b>1,14,691</b> | <b>1,20,095</b> |
| Liabilities                            |               |                 |                 |                 |
| Borrowings                             | 24,426        | 32,539          | 25,539          | 16,539          |
| Deferred Tax Liability                 | 2,509         | 2,413           | 2,413           | 2,413           |
| Provisions                             | -             | -               | -               | -               |
| Other Liabilities                      | -             | -               | -               | -               |
| Equity Share Capital                   | 387           | 387             | 387             | 387             |
| Reserves & Surplus                     | 68,859        | 75,505          | 86,352          | 1,00,756        |
| <b>Total Net Worth</b>                 | <b>69,246</b> | <b>75,891</b>   | <b>86,739</b>   | <b>1,01,143</b> |
| Minority Interest                      | -             | -               | -               | -               |
| <b>Total Liabilities</b>               | <b>96,180</b> | <b>1,10,844</b> | <b>1,14,691</b> | <b>1,20,095</b> |

Source Company data, I-Sec research

### Exhibit 15: 5-stage DuPont analysis

(INR mn, year ending March)

|                            | FY22A | FY23A | FY24E | FY25E |
|----------------------------|-------|-------|-------|-------|
| Tax Burden                 | 72.2  | 74.3  | 76.0  | 76.0  |
| Interest Burden (PBT/EBIT) | 127.6 | 125.2 | 121.5 | 118.5 |
| EBIT Margin                | 18.5  | 11.8  | 16.5  | 19.2  |
| Asset Turnover             | 86.0  | 88.5  | 84.0  | 92.7  |
| Financial Leverage         | 138.9 | 146.1 | 132.2 | 118.7 |
| ROE                        | 21.8  | 14.9  | 18.1  | 20.5  |

Source Company data, I-Sec research

### Exhibit 16: Cashflow statement

(INR mn, year ending March)

|   | FY22A           | FY23A           | FY24E           | FY25E           |
|---|-----------------|-----------------|-----------------|-----------------|
| <b>Operating Cashflow</b>                 | <b>8,529</b>    | <b>18,078</b>   | <b>21,638</b>   | <b>22,643</b>   |
| Working Capital Changes                   | (10,020)        | 1,725           | 483             | (3,568)         |
| Capital Commitments                       | (14,986)        | (20,529)        | (7,000)         | (9,000)         |
| <b>Free Cashflow</b>                      | <b>(6,456)</b>  | <b>(2,451)</b>  | <b>14,638</b>   | <b>13,643</b>   |
| Other investing cashflow                  | (4,790)         | (1,400)         | -               | -               |
| <b>Cashflow from Investing Activities</b> | <b>(19,776)</b> | <b>(21,929)</b> | <b>(7,000)</b>  | <b>(9,000)</b>  |
| Issue of Share Capital                    | -               | -               | -               | -               |
| Interest Cost                             | -               | -               | -               | -               |
| Inc (Dec) in Borrowings                   | 15,492          | 8,114           | (7,000)         | (9,000)         |
| Dividend paid                             | (5,412)         | (3,093)         | (3,866)         | (4,833)         |
| Others                                    | 953             | (1,145)         | -               | -               |
| <b>Cashflow from Financing Activities</b> | <b>11,033</b>   | <b>3,876</b>    | <b>(10,866)</b> | <b>(13,833)</b> |
| Chg. in Cash & Bank balance               | (214)           | 25              | 3,772           | (190)           |
| Closing cash & balance                    | 357             | 377             | 4,150           | 3,960           |

Source Company data, I-Sec research

### Exhibit 17: Key ratios

(Year ending March)

|                             | FY22A | FY23A  | FY24E | FY25E |
|-----------------------------|-------|--------|-------|-------|
| <b>Per Share Data (INR)</b> |       |        |       |       |
| Reported EPS                | 73.0  | 55.8   | 76.1  | 99.5  |
| Adjusted EPS (Diluted)      | 73.0  | 55.8   | 76.1  | 99.5  |
| Cash EPS                    | 96.0  | 84.6   | 109.4 | 135.6 |
| Dividend per share (DPS)    | 2.8   | 1.6    | 2.0   | 2.5   |
| Book Value per share (BV)   | 358.2 | 392.6  | 448.7 | 523.2 |
| Dividend Payout (%)         | 3.8   | 2.9    | 2.6   | 2.5   |
| <b>Growth (%)</b>           |       |        |       |       |
| Net Sales                   | 43.6  | 18.7   | (1.9) | 15.6  |
| EBITDA                      | 10.7  | (13.2) | 30.4  | 26.6  |
| EPS (INR)                   | 22.1  | (23.6) | 36.4  | 30.7  |
| <b>Valuation Ratios (x)</b> |       |        |       |       |
| P/E                         | 32.6  | 42.6   | 31.3  | 23.9  |
| P/CEPS                      | 24.8  | 28.1   | 21.7  | 17.6  |
| P/BV                        | 6.6   | 6.1    | 5.3   | 4.5   |
| EV / EBITDA                 | 25.5  | 29.8   | 22.4  | 17.4  |
| EV / Sales                  | 6.1   | 5.2    | 5.2   | 4.4   |
| <b>Profitability Ratios</b> |       |        |       |       |
| Gross Profit Margins (%)    | 54.3  | 49.5   | 53.3  | 54.7  |
| EBITDA Margins (%)          | 23.9  | 17.5   | 23.2  | 25.4  |
| EBIT Margins (%)            | 18.5  | 11.8   | 16.5  | 19.2  |
| Net Profit Margins (%)      | 17.1  | 11.0   | 15.3  | 17.3  |
| RoCE (%)                    | 16.9  | 10.7   | 13.1  | 16.4  |
| RoE (%)                     | 21.8  | 14.9   | 18.1  | 20.5  |
| Dividend Yield (%)          | 0.1   | 0.1    | 0.1   | 0.1   |
| <b>Operating Ratios</b>     |       |        |       |       |
| Fixed Asset Turnover (x)    | 1.6   | 1.5    | 1.4   | 1.6   |
| Inventory Turnover Days     | 72    | 57     | 57    | 57    |
| Receivables Days            | 48    | 45     | 45    | 45    |
| Payables Days               | 36    | 30     | 30    | 30    |
| Effective Tax Rate (%)      | 27.8  | 25.7   | 24.0  | 24.0  |
| Net Debt / Equity (x)       | 0.3   | 0.4    | 0.2   | 0.1   |
| Net Debt / EBITDA (x)       | 1.2   | 1.9    | 1.0   | 0.4   |

Source Company data, I-Sec research

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**BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return**

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