

Auto Ancillary | Q3FY24 Result Update

Near term hiccups, long term positive

- BIL displayed an improved performance sequentially. Revenue grew 2.4 % QoQ to Rs.22.79 bn led by 3.1% QoQ volume growth. EBITDA grew 4% QoQ with expansion in operating margin (+35 bps QoQ) at 23.6% led by better mix and benefit of operating leverage.
- Management expects 4Q 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 is expected by European peers due to supply chain issue. We expect lower cost advantage and strong backward integration would help BKT to increase wallet share in Agri and OTR. We forecast 25% EPS CAGR over FY24-26E and recommend to Accumulate with TP Rs 2880(28xFY26E EPS).

Demand on recovery mode

Company expects a flat volume growth in 4Q 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. BKT'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.

Targeting 10% market share

We expect volume to see gradual recovery with an improving situation in Europe. Given the expected RM basket inflation and production cut by its peers, we expect inventory buildup to gather pace at dealer level. The company is aiming at 10% market share in the global off-highway tyre market in next 4 years vs current ~5% which will lead to double-digit volume growth (vs. industry growth of 3-5%). This target would be driven by expanding its offerings in the OTR space and adding SKUs. To support growth, Company could potentially expand capacity by ~100-150K MT via brownfield projects at its Bhuj facility (current capacity: 360K MT annually).

Q3FY24 Result (Rs Mn)

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenue	22,798	21,423	6.4	22,258	2.4
Total Expense	17,408	18,851	(7.7)	17,074	2.0
EBITDA	5,390	2,573	109.5	5,184	4.0
Depreciation	1,591	1,449	9.8	1,586	0.3
EBIT	3,799	1,123	238.2	3,598	5.6
Other Income	665	431	54.2	1,070	(37.8)
Interest	354	136	160.1	229	54.6
EBT	4,111	1,418	189.8	4,438	(7.4)
Tax	1,020	422	141.5	1,085	(6.0)
RPAT	3,091	996	210.3	3,354	(7.8)
APAT	3,091	996	210.3	3,354	(7.8)
			(bps)		(bps)
Gross Margin (%)	51.3	46.9	437	51.4	(16)
EBITDA Margin (%)	23.6	12.0	1163	23.3	35
NPM (%)	13.6	4.7	891	15.1	(151)
Tax Rate (%)	24.8	29.8	(496)	24.4	37
EBIT Margin (%)	16.7	5.2	1142	16.2	50

CMP	Rs 2,527
Target / Upside	Rs 2,880 / 14%
NIFTY	21,454

Scrip Details

Equity / FV	Rs 387mn / Rs 2
Market Cap	Rs 489bn
	USD 5.9bn
52-week High/Low	Rs 2,796/ 1,909
Avg. Volume (no)	289,689
Bloom Code	BIL IN
Price Performance	1M 3M 12M
Absolute (%)	1 (3) 13
Rel to NIFTY (%)	1 (13) (5)

Shareholding Pattern

	Jun'23	Sep'23	Dec'23
Promoters	58.3	58.3	58.3
MF/Banks/FIs	21.0	21.2	21.2
FIs	12.4	12.5	12.5
Public / Others	8.3	7.9	7.9

Valuation (x)

	FY24E	FY25E	FY26E
P/E	38.4	28.2	24.6
EV/EBITDA	24.8	18.9	16.7
ROE (%)	15.8	19.4	20.4
RoACE (%)	12.1	15.0	15.7

Estimates (Rs bn)

	FY24E	FY25E	FY26E
Revenue	90.8	107.0	118.8
EBITDA	20.8	27.4	30.9
PAT	12.7	17.3	19.9
EPS (Rs.)	65.8	89.6	102.9

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Exhibit 1: Actual vs DART

Particulars (Rs. Mn)	Actual	DART Est.	Variance
Revenue	22,798	22,320	2
EBIDTA	5,390	5,334	1
EBIDTA Margin	23.6	23.9	(26) bps
PAT	3,091	3,577	(14)

Source: Company, DART

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY24E			FY25E			FY26E		
	New	Previous	New	Previous	Chg.(%)	Chg.(%)	New	Previous	Chg.(%)
Net sales	90,757	95,102	(4.6)	107,004	109,459	(2.2)	118,797	121,180	(2.0)
EBITDA	20,783	22,444	(7.4)	27,393	28,459	(3.7)	30,887	31,749	(2.7)
EBITDA margin (%)	22.9	23.6	(70)	25.6	26.0	(40)	26.0	26.2	(20)
APAT	12,712	13,997	(9.2)	17,322	18,159	(4.6)	19,886	20,477	(2.9)
EPS	65.8	72.4	(9.2)	89.6	93.9	(4.6)	102.9	105.9	(2.9)

Source: Company, DART

Exhibit 3: Summary of quarterly performance

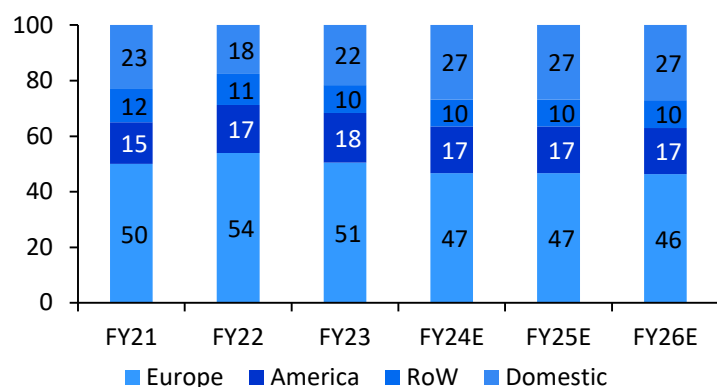
Particulars	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	FY24E
Net sales (Rs mn)	18,131	20,498	20,300	23,739	26,463	27,043	21,423	23,176	21,200	22,258	22,798	90,757
% yoy	95.22	29.84	34.92	35.97	45.96	31.93	5.53	(2.37)	(20)	(18)	6	(7.5)
% QoQ	4	13	(1)	17	11	(3)	(21)	8	(9)	5	2	
Materials	7,823	9,277	9,659	11,028	12,692	13,690	11,380	11,796	10,223	10,814	11,113	44,017
% sales	43.1	45.3	47.6	46.5	48.0	50.6	53.1	50.9	48.2	48.6	48.7	48.5
Employee cost	944	994	967	899	1,071	1,022	999	949	1,055	1,115	1,137	4,447
% sales	5.2	4.9	4.8	3.8	4.0	3.8	4.7	4.1	5.0	5.0	5.0	4.9
Other op cost	4,237	5,028	5,240	6,817	8,145	7,885	6,472	5,724	5,109	5,146	5,158	21,509
% sales	23.4	24.5	25.8	28.7	30.8	29.2	30.2	24.7	24.1	23.1	22.6	23.7
EBITDA (Rs mn)	5,127	5,199	4,434	4,995	4,555	4,445	2,572	4,708	4,814	5,184	5,390	20,783
% yoy	122.3	(3.1)	(6.9)	(7.8)	(11.2)	(14.5)	(42.0)	(5.7)	6	17	110	21.1
Margin (%)	28.3	25.4	21.8	21.0	17.2	16.4	12.0	20.3	22.7	23.3	23.6	22.9

Source: Company, DART

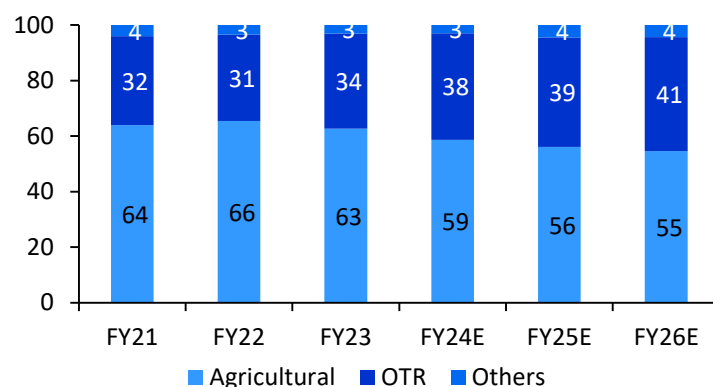
Exhibit 4: Assumption table

(in units)	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Volumes (MT)							
Europe	102,898	113,566	155,661	152,096	133,845	153,922	169,314
% YoY	(4.5)	10.4	37.1	(2.3)	(12.0)	15.0	10.0
USA	34,299	34,070	49,962	53,911	47,981	55,178	60,696
% YoY	(4.5)	(0.7)	46.6	7.9	(11.0)	15.0	10.0
India	40,352	52,240	50,828	65,055	76,765	88,280	98,873
% YoY	6.1	29.5	(2.7)	28.0	18.0	15.0	12.0
RoW	24,211	27,256	32,345	30,118	27,709	31,865	36,645
% YoY	(18.1)	12.6	18.7	(6.9)	(8.0)	15.0	15.0
Total	201,760	227,131	288,795	301,181	286,300	329,245	365,528
% YoY	(4.5)	12.6	27.1	4.3	(4.9)	15.0	11.0

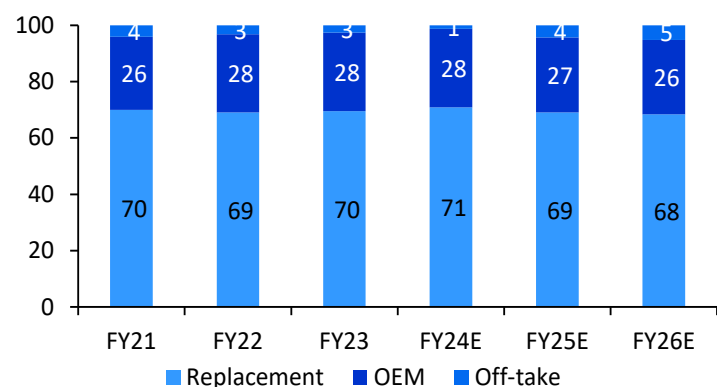
Source: Company, DART

Exhibit 5: Geography wise Revenue


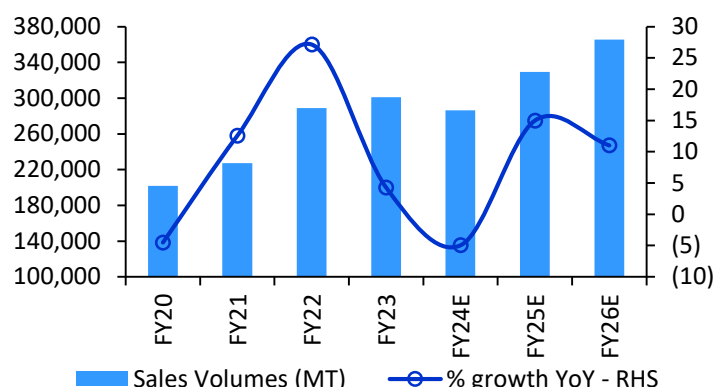
Source: Company, DART

Exhibit 6: Product wise Revenue


Source: Company, DART

Exhibit 7: Channel wise Revenue


Source: Company, DART

Exhibit 8: Volume to rise ahead


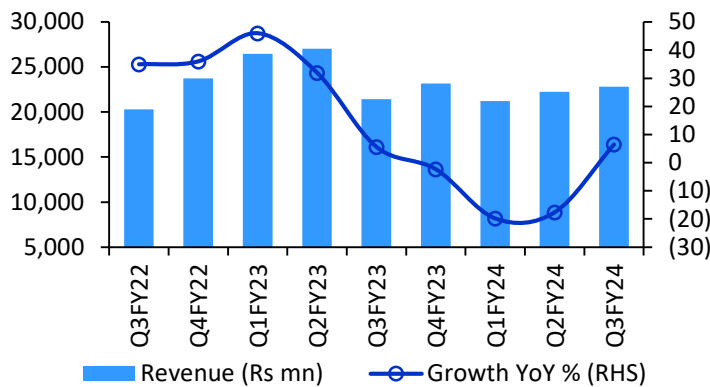
Source: Company, DART

Earnings call KTAs

- Business outlook-** BKT gained market share in 3Q. BKT 4Q volume numbers are to be flat due to geopolitical issues and Red Sea disruption, margin is 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. The inventory level has come down and is at a reduced level. If the shipping scenario continues it will further go down at a comfortable level. Capex plans are as per schedule along with the mould manufacturing unit.
- Operating margin-** Q3 EBITDA margin improved on the back of favorable RM prices and operating leverage. Margin is under pressure due to an increase in freight rate led by the Red Sea issue, Company 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 on 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 forward hedge** rate stands at Rs.88-90/ Euro in 3Q and the net year it would be at Rs91-92/ Euro

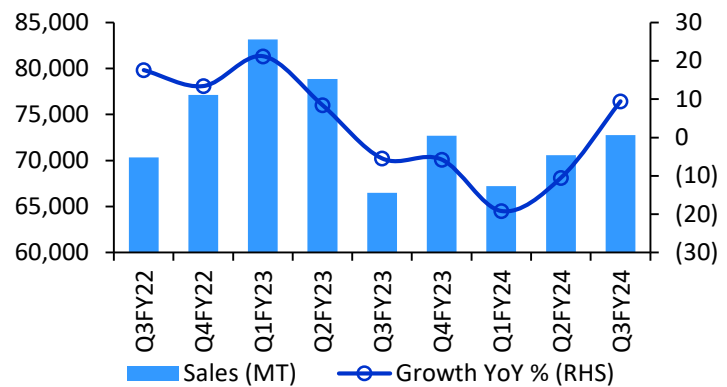
- **Net Forex items**- In Q3FY24, the company witnessed a forex loss of Rs 30 mn, and in 9MFY24 a forex gain of RS 890 mn. Part of the Interest cost is due to negative M2M cost.
- **Cash**- In Q3FY24, Gross Cash and Cash equivalents stood at Rs 25.52 bn vs Rs 22.83 bn in Q2FY24.
- **Gross debt**- Gross debt stood at Rs. 28.81 bn in Q3 Vs 28.33bn in Q2 (65% of which is related to working capital debt Net debt stands at Rs 3.30bn)
- **Sales mix** for 9MFY24- :
Channel mix- OEM – 26.5%; Replacement – 71.6%; others – 1.9%
Segmental mix- Agriculture – 58.9%; OTR – 37.9%; others – 3.3%
Geographical mix- Europe – 46.3%; USA – 16.6%; India – 27.6 %; Row – 9.5%
- **Sales volume** for Q3FY24 stood at 72,749 MT (+9.4 % YoY, + 3.1% QoQ) while in 9MFY24 stood at 210,543 MT (-7.9% YoY).
- **Carbon black**- The revenue from carbon black sales to third parties will be 7.5% of revenue. It may go to 8-9% in next year.
- **Capacity**- The current achievable capacity is 360,000MTPA post-commissioning of the Waluj brownfield project.
- **SKUs**- Company has over 3200 SKUs in OHT market.
- **Dividend**- The Board has declared an interim dividend of Rs 4 per share, totalling it to Rs 12/ share in 9MFY24
- Capacity utilization at 75-80%.

Exhibit 9: Revenue grew QoQ/YoY



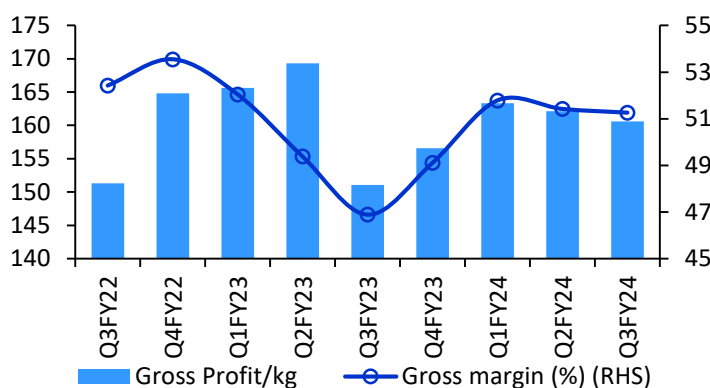
Source: Company, DART

Exhibit 10: Volume grew QoQ/YoY



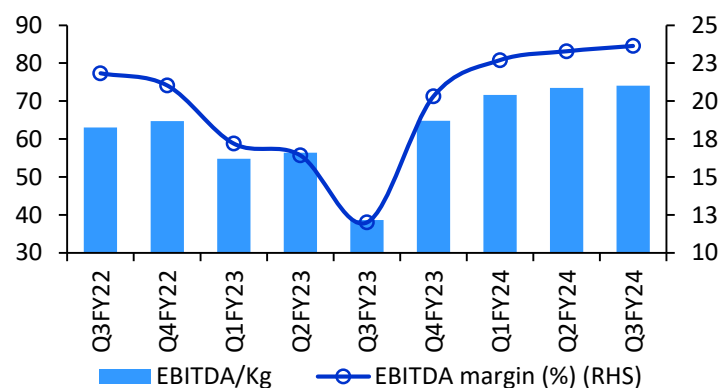
Source: Company, DART

Exhibit 11: Gross Margin contracted QoQ

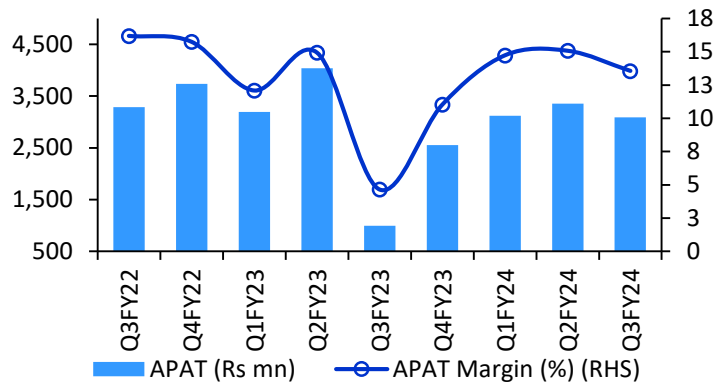


Source: Company, DART

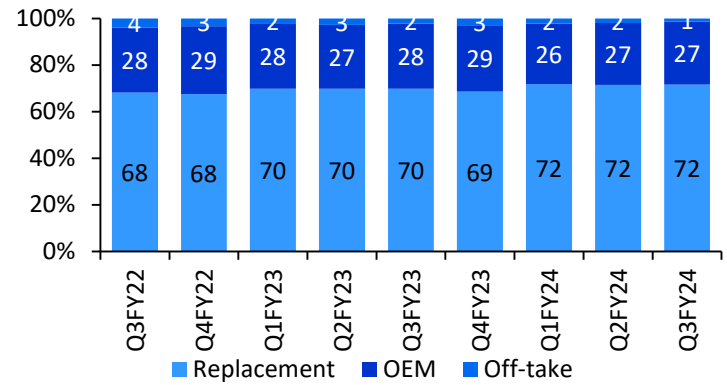
Exhibit 12: EBITDA margin expanded QoQ/YoY



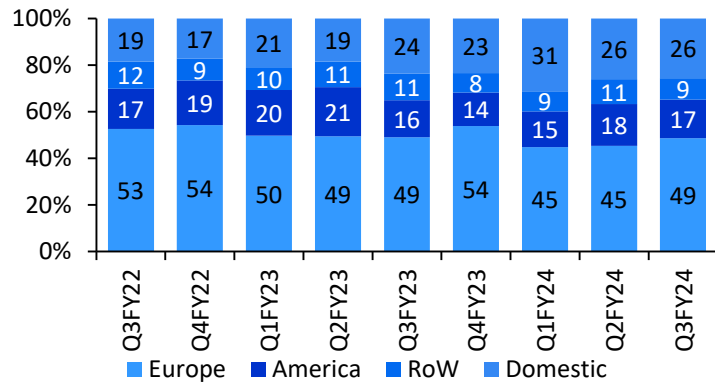
Source: Company, DART

Exhibit 13: APAT (Rs mn) and APAT Margin (%)


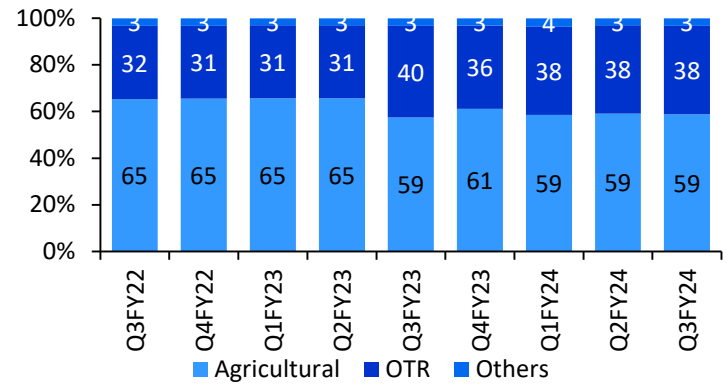
Source: Company, DART

Exhibit 14: Channel wise Revenue


Source: Company, DART

Exhibit 15: Geography wise revenue


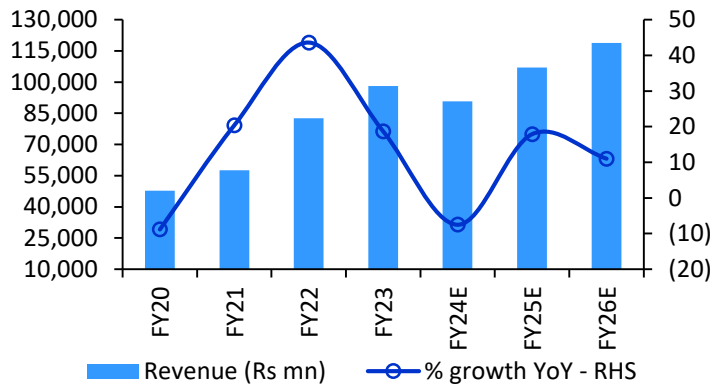
Source: Company, DART

Exhibit 16: Product wise revenue


Source: Company, DART

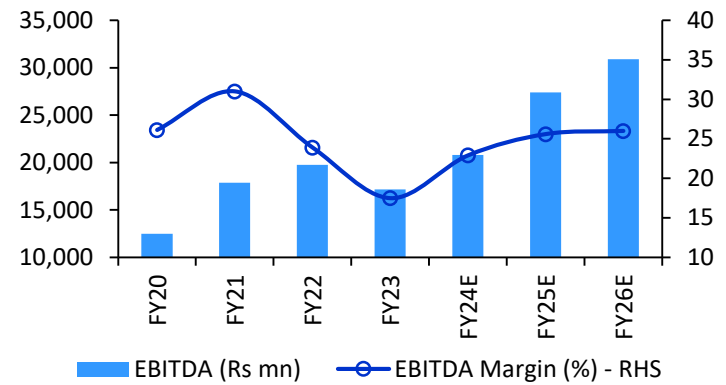
Yearly charts

Exhibit 17: Revenue to witness sharp improvement from FY25E



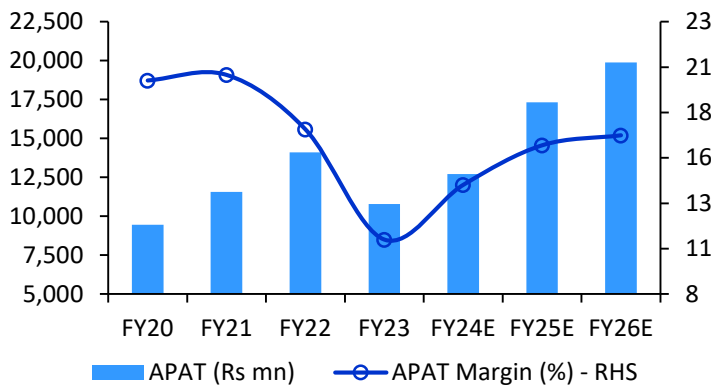
Source: Company, DART

Exhibit 18: EBITDA & EBITDA Margin



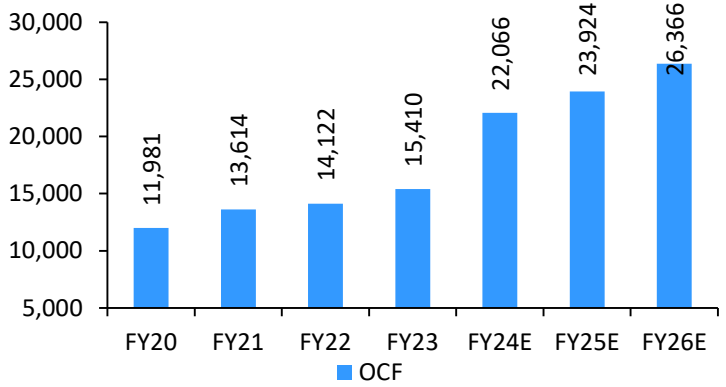
Source: Company, DART

Exhibit 19: APAT & APAT Margin



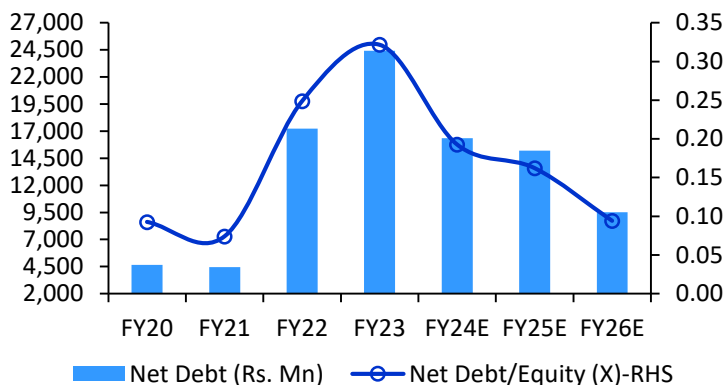
Source: Company, DART

Exhibit 20: OCF performance



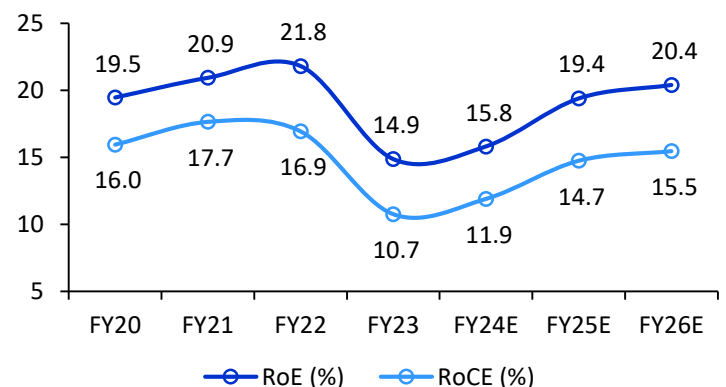
Source: Company, DART

Exhibit 21: Debt reduction on way ahead



Source: Company, DART

Exhibit 22: RoE & RoCe Trend



Source: Company, DART

Financial Performance

Profit and Loss Account

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Revenue	98,105	90,757	107,004	118,797
Total Expense	80,949	69,974	79,611	87,909
COGS	49,558	44,017	50,827	56,428
Employees Cost	4,042	4,447	4,708	4,989
Other expenses	27,350	21,509	24,076	26,492
EBIDTA	17,156	20,783	27,393	30,887
Depreciation	5,566	6,349	7,177	7,798
EBIT	11,590	14,434	20,216	23,089
Interest	456	1,116	1,151	1,209
Other Income	3,378	3,783	4,237	4,873
Exc. / E.O. items	0	0	0	0
EBT	14,512	17,102	23,302	26,753
Tax	3,725	4,389	5,981	6,866
RPAT	10,787	12,712	17,322	19,886
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	10,787	12,712	17,322	19,886

Balance Sheet

(Rs Mn)	FY23A	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	387	387	387	387
Minority Interest	0	0	0	0
Reserves & Surplus	75,505	84,506	93,322	100,837
Net Worth	75,891	84,892	93,709	101,224
Total Debt	32,540	29,540	33,540	35,540
Net Deferred Tax Liability	2,413	2,413	2,413	2,413
Total Capital Employed	110,844	116,845	129,661	139,177

Applications of Funds

Net Block	53,492	64,142	63,965	67,166
CWIP	13,916	6,000	12,000	8,000
Investments	20,373	23,429	26,943	30,985
Current Assets, Loans & Advances	34,943	34,904	41,670	49,429
Inventories	15,924	14,173	16,710	18,552
Receivables	12,535	11,438	13,192	14,646
Cash and Bank Balances	378	2,375	4,025	7,663
Loans and Advances	3,857	3,969	4,093	4,219
Other Current Assets	2,249	2,949	3,649	4,349
Less: Current Liabilities & Provisions	11,879	11,630	14,916	16,403
Payables	4,866	4,973	7,329	8,137
Other Current Liabilities	7,014	6,657	7,587	8,267
<i>sub total</i>				
Net Current Assets	23,063	23,274	26,754	33,026
Total Assets	110,844	116,845	129,661	139,177

E – Estimates

Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
(A) Margins (%)				
Gross Profit Margin	49.5	51.5	52.5	52.5
EBIDTA Margin	17.5	22.9	25.6	26.0
EBIT Margin	11.8	15.9	18.9	19.4
Tax rate	25.7	25.7	25.7	25.7
Net Profit Margin	11.0	14.0	16.2	16.7
(B) As Percentage of Net Sales (%)				
COGS	50.5	48.5	47.5	47.5
Employee	4.1	4.9	4.4	4.2
Other	27.9	23.7	22.5	22.3
(C) Measure of Financial Status				
Gross Debt / Equity	0.4	0.3	0.4	0.4
Interest Coverage	25.4	12.9	17.6	19.1
Inventory days	59	57	57	57
Debtors days	47	46	45	45
Average Cost of Debt	1.6	3.6	3.6	3.5
Payable days	18	20	25	25
Working Capital days	86	94	91	101
FA T/O	1.8	1.4	1.7	1.8
(D) Measures of Investment				
AEPS (Rs)	55.8	65.8	89.6	102.9
CEPS (Rs)	84.6	98.6	126.7	143.2
DPS (Rs)	16.0	16.0	20.0	20.0
Dividend Payout (%)	28.7	24.3	22.3	19.4
BVPS (Rs)	392.6	439.1	484.7	523.6
RoANW (%)	14.9	15.8	19.4	20.4
RoACE (%)	10.9	12.1	15.0	15.7
RoAIC (%)	11.2	12.8	16.8	18.0
(E) Valuation Ratios				
CMP (Rs)	2527	2527	2527	2527
P/E	45.3	38.4	28.2	24.6
Mcap (Rs Mn)	488,512	488,512	488,512	488,512
MCap/ Sales	5.0	5.4	4.6	4.1
EV	520,674	515,676	518,027	516,389
EV/Sales	5.3	5.7	4.8	4.3
EV/EBITDA	30.3	24.8	18.9	16.7
P/BV	6.4	5.8	5.2	4.8
Dividend Yield (%)	0.6	0.6	0.8	0.8
(F) Growth Rate (%)				
Revenue	18.7	(7.5)	17.9	11.0
EBITDA	(13.2)	21.1	31.8	12.8
EBIT	(24.3)	24.5	40.1	14.2
PBT	(25.8)	17.8	36.3	14.8
APAT	(23.5)	17.8	36.3	14.8
EPS	(23.5)	17.8	36.3	14.8

E – Estimates

Cash Flow

Particulars	FY23A	FY24E	FY25E	FY26E
Profit before tax	14,512	17,102	23,302	26,753
Depreciation & w.o.	5,566	6,349	7,177	7,798
Net Interest Exp	456	1,116	1,151	1,209
Direct taxes paid	(3,725)	(4,389)	(5,981)	(6,866)
Change in Working Capital	(1,400)	1,889	(1,726)	(2,527)
Non Cash	0	0	0	0
(A) CF from Operating Activities	15,410	22,066	23,924	26,366
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(20,530)	(9,084)	(13,000)	(7,000)
Free Cash Flow	(5,120)	12,982	10,924	19,366
(Inc.)/ Dec. in Investments	(1,400)	(3,056)	(3,514)	(4,041)
Other	2,600	(101)	(104)	(107)
(B) CF from Investing Activities	(19,330)	(12,241)	(16,618)	(11,148)
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	8,113	(3,000)	4,000	2,000
Interest exp net	(456)	(1,116)	(1,151)	(1,209)
Dividend Paid (Incl. Tax)	(3,711)	(3,711)	(8,505)	(12,371)
Other	0	0	0	0
(C) CF from Financing	3,945	(7,827)	(5,656)	(11,580)
Net Change in Cash	25	1,998	1,650	3,638
Opening Cash balances	352	377	2,375	4,025
Closing Cash balances	377	2,375	4,025	7,663

E – Estimates

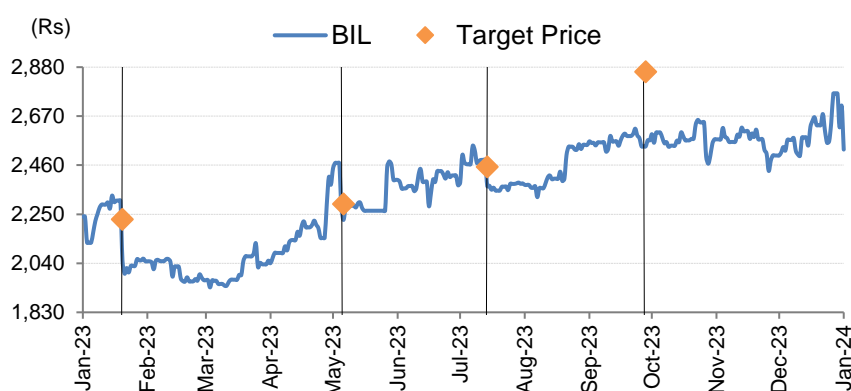
Notes

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Feb-23	Accumulate	2,227	2,052
May-23	Reduce	2,293	2,226
Aug-23	Reduce	2,452	2,370
Oct-23	Accumulate	2,860	2,541

*Price as on recommendation date

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