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Company update and
earnings revision

Automobiles

Target price: Rs1,671

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 0.5	-
EBITDA	↓ 1.3	-
EPS	↓ 1.5	-

Target price revision

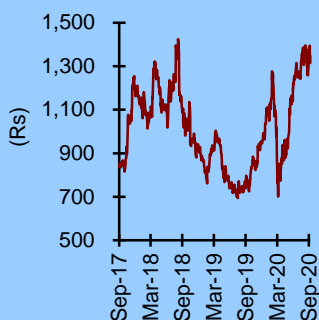
Rs1,671 from Rs1,514

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	58.3	58.3	58.3
Institutional investors	29.2	29.7	30.8
MFs and other	17.3	17.7	17.7
FIs/Banks/Ins	0.2	0.1	0.1
FIs	11.7	11.9	13.0
Others	12.5	12.0	10.9

Source: BSE

Price chart



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INDIA

Balkrishna Industries

BUY

Maintained

Rs1,306

Growth momentum continues

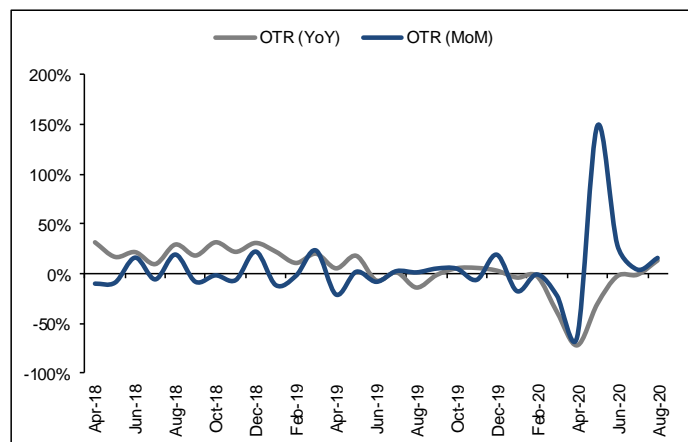
Balkrishna Industries (BIL) remains one of our top ideas under our coverage universe. We believe it continues to provide superior risk-reward vis-à-vis peers due to its standout earnings resilience. The latest industry export data continues to remain strong with both segments (agri, OTR) returning to growth path together for the first time since Dec'19. The latest monthly (Aug'20) industry export data continues to support V-shaped demand rebound across agri tyres at 42% YoY and off-the-road (OTR) tyres at 13% YoY. We had mentioned in our previous monthly note continued improvement in data points and higher visibility on growth would remain the key catalyst for the stock. Input costs rise remains a key monitorable. We introduce FY23, factor-in volume and EPS CAGR of ~8%/17% respectively over FY20-23E, upgrade our target price to Rs1,671(earlier: Rs1,514). Maintain BUY.

- **Overall export rebound continues as both agri and OTR segments shine:** Agri tyre and OTR tyre segments combined grew at a healthy 31% YoY / 8% MoM in Aug'20 on solid base of the prior year. On an end-product basis, sharp growth acceleration (up 42% YoY) was witnessed in the agri tyre segment (accounts for ~67% of total exports). On the OTR side, growth momentum picked up at 13% YoY / 16% MoM in Aug'20.
- **EU leads the recovery:** On regional basis, the EU grew fastest at ~48% YoY / 10% MoM while the US grew ~18% YoY / 3% MoM. The two regions together represent ~71% of Aug'20 exports. Growth in EU exports was driven by Germany, France and Italy (together up ~52% YoY). These three countries contributed ~26% and ~43% to the overall exports and exports to EU respectively in Aug'20. In rest of the world (RoW), Australian and Canada reported strong growth. On a sub-segment basis, OTR growth was also driven by EU region (grew ~28% YoY/ ~35% contribution) while US region growth was modest at ~3% (~25% contribution). However, on the Agri side both EU and US regions grew rapidly (up ~55%/31% respectively).
- **Q2FY21 industry exports gain steam as economic activity resumes:** Q1FY21 had closed with an overall export decline of ~23% YoY. However, in Jul-Aug'20, exports increased 26% YoY. On an end-product basis, agri tyre segment led exports with 37% rise while OTR grew 6%. BIL could also benefit from the improving demand traction due to its superior product offerings across segment and rising brand recognition.
- **Maintain BUY:** We expect FCF generation to be strong at ~Rs14bn (5.3% FCF yield) in FY22E. We value the stock at an unchanged multiple of 22x Sep'22E EPS of Rs76 to arrive at our target price of Rs1,671 (earlier:1,514). Maintain BUY.

Market Cap	Rs252bn/US\$3.4bn	Year to Mar (Std)	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	BLKI.BO/BIL IN	Revenue (Rs mn)	49,637	51,918	62,964	72,262
Shares Outstanding (mn)	193.3	Rec. Net Income (Rs mn)	10,092	9,979	13,296	16,073
52-week Range (Rs)	1395/701	Rec. EPS (Rs)	52.2	51.6	68.8	83.1
Free Float (%)	41.7	% Chg YoY	29.0	(1.1)	33.2	20.9
FII (%)	13.0	P/E (x)	25.0	25.3	19.0	15.7
Daily Volume (US\$/'000)	12,853	CEPS (Rs)	71.2	75.3	95.2	112.3
Absolute Return 3m (%)	4.2	EV/E (x)	17.9	15.4	11.9	9.6
Absolute Return 12m (%)	68.3	Dividend Yield (%)	1.2	1.1	1.3	1.6
Sensex Return 3m (%)	5.4	RoCE (%)	19.1	18.6	22.6	24.7
Sensex Return 12m (%)	(5.5)	RoE (%)	20.1	17.0	19.6	20.4

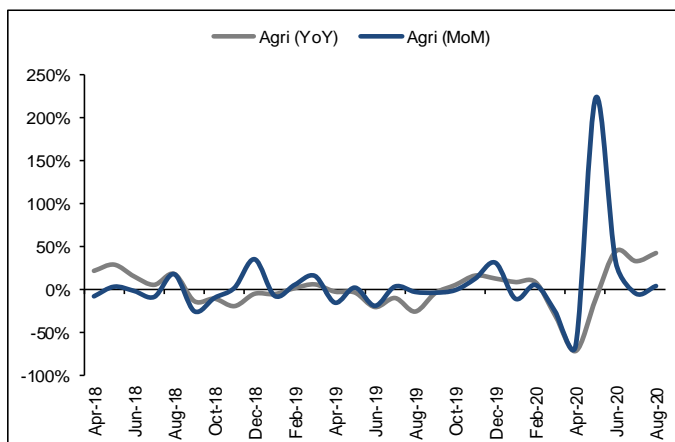
Please refer to important disclosures at the end of this report

Chart 1: India OTR tyre export growth trends



Source: Commerce ministry, I-Sec research

Chart 2: India agri tyre export growth trends



Source: Commerce ministry, I-Sec research

Table 1: Tyre industry total exports (agri and OTR combined)

(US\$ mn)

Region	Aug'19	Aug'20	%Growth	YTD FY20	YTDFY21	%Growth
EU	35.8	53.0	48%	196.7	213.6	9%
Share of total (%)	45.3	51.1		47.0	53.5	
US	17.6	20.8	18%	89.0	75.6	-15%
Share of total (%)	22.2	20.1		21.3	18.9	
RoW	25.7	29.9	16%	132.5	109.7	-17%
Share of total (%)	32.4	28.8		31.7	27.5	
Total	79.1	103.6	31%	418.1	399.0	-5%

Source: Commerce ministry, I-Sec research

Table 2: Agri tyre exports

(US\$ mn)

Region	Aug'19	Aug'20	%Growth	YTD FY20	YTDFY21	%Growth
EU	26.6	41.2	55%	147.1	169.2	15%
Share of total (%)	54.3	59.2		55.0	61.1	
US	9.5	12.4	31%	51.7	47.6	-8%
Share of total (%)	19.3	17.8		19.3	17.2	
RoW	12.9	16.0	24%	68.7	60.0	-13%
Share of total (%)	26.3	22.9		25.7	21.7	
Total	49.0	69.6	42%	267.4	276.7	3%

Source: Commerce ministry, I-Sec research

Table 3: OTR tyre exports

(US\$ mn)

Region	Aug'19	Aug'20	%Growth	YTD FY20	YTDFY21	%Growth
EU	9.2	11.7	28%	49.6	44.5	-10%
Share of total(%)	30.6	34.5		32.9	36.4	
US	8.1	8.4	3%	37.3	28.0	-25%
Share of total(%)	27.0	24.6		24.8	22.9	
RoW	12.8	13.9	9%	63.8	49.7	-22%
Share of total(%)	42.4	40.9		42.3	40.7	
Total	30.1	34.0	13%	150.7	122.2	-19%

Source: Commerce ministry, I-Sec research

Table 4: Earnings revision

	FY21E			FY22E			FY23E
	Previous	New	Chg (%)	Previous	New	Chg (%)	Introduced
Sales	52,193	51,918	(0.5)	62,964	62,964	0.0	72,262
EBITDA	16,570	16,350	(1.3)	20,358	20,358	0.0	24,109
PAT	10,131	9,979	(1.5)	13,296	13,296	0.0	16,073
EPS (Rs)	52.4	51.6	(1.5)	68.8	68.8	0.0	83

Source: Company data, I-Sec research

Financial summary (standalone)

Table 5: Profit and loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Total Op. Income (Sales)	49,637	51,918	62,964	72,262
Operating Expenses	35,168	35,568	42,607	48,153
EBITDA	14,469	16,350	20,358	24,109
% margins	29.1%	31.5%	32.3%	33.4%
Depreciation & Amortisation	3,680	4,569	5,100	5,636
EBIT	10,789	11,781	15,258	18,473
Other Income	1,174	1,420	2,181	2,801
Gross Interest	92	82	58	68
PBT	11,870	13,119	17,381	21,205
Less: Exceptionals	-	-	-	-
PBT after Exceptionals	11,870	13,119	17,381	21,205
Less: Taxes	1,779	3,140	4,084	5,132
Net Income (Reported)	10,092	9,979	13,296	16,073
Net Income (Adjusted)	10,092	9,979	13,296	16,073

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
ASSETS				
Current Assets				
Cash & cash eqv.	15,025	16,655	21,611	24,157
Current Liabilities & Provisions	230	1,451	3,706	4,670
Net Current Assets	4,406	4,530	5,843	6,706
Investments	10,619	12,125	15,768	17,451
Total Fixed Assets	10,996	16,996	21,496	28,496
Capital Work-in-Progress	38,610	39,541	37,441	37,805
Other non-current asset	5,860	5,860	5,860	5,860
Total Assets	2,686	2,686	2,686	2,686
	62,911	71,348	77,391	86,438
LIABILITIES				
Borrowings				
long-term borrowings	10,262	10,262	7,262	5,262
short-term borrowings	10,240	10,240	7,240	5,240
Deferred Tax Liability Net	1,784	1,784	1,784	1,784
Other Non-current Liabilities	584	584	584	584
Equity Share Capital	387	387	387	387
Reserves & Surplus	49,894	58,331	67,374	78,421
Net Worth	50,281	58,717	67,761	78,807
Total Liabilities	62,911	71,348	77,391	86,438

Source: Company data, I-Sec research

Table 7: 5-stage DuPont analysis

(year ending March 31)

All figures in %	FY20	FY21E	FY22E	FY23E
Tax Burden	0.9	0.8	0.8	0.8
Interest Burden	1.1	1.1	1.1	1.1
EBIT Margin	0.2	0.2	0.2	0.3
Asset Turnover	0.8	0.7	0.8	0.8
Financial Leverage	1.3	1.2	1.1	1.1
ROE	20.1	17.0	19.6	20.4

Source: Company data, I-Sec research

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating cashflow before working capital changes	13,772	14,548	18,396	21,710
Net Working Capital Changes	782	(285)	(1,388)	(719)
Operating Cashflow	14,554	14,263	17,008	20,991
Capital Commitments	(8,598)	(5,500)	(3,000)	(6,000)
Free Cashflow	5,956	8,763	14,008	14,991
Cashflow from Investing Activities	(9,433)	(11,500)	(7,500)	(13,000)
Inc/(Dec) in Borrowings	1,335	-	(3,000)	(2,000)
Dividend paid	(4,661)	(3,480)	(4,253)	(5,026)
Interest paid	(92)	(82)	(58)	(68)
Others	92	93	58	68
Cashflow from Financing Activities	(3,326)	(3,469)	(7,253)	(7,026)
Net Cashflow	179	(705)	2,255	964
Opening Cash & Bank balance	362	2,156	1,451	3,706
Closing Cash & Bank balance	541	1,451	3,706	4,670
Increase / (Decrease) in Cash & cash equivalents	179	(705)	2,255	964

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (in Rs.)				
EPS (Basic)	52.2	51.6	68.8	83.1
EPS (Adjusted)	52.2	51.6	68.8	83.1
Cash EPS	71.2	75.3	95.2	112.3
Dividend per share (DPS)	20.0	18.0	22.0	26.0
CDPS (Adjusted)	260.1	303.7	350.5	407.7
Growth Ratios (%)				
Total Op. Income (Sales)	-7.0	4.6	21.3	14.8
EBITDA	1.1	13.0	24.5	18.4
Net Income (Adjusted)	29.0	-1.1	33.2	20.9
EPS (Adjusted)	29.0	-1.1	33.2	20.9
Cash EPS	23.6	5.6	26.5	18.0
CDPS (Adjusted)	7.5	16.8	15.4	16.3
Valuation Ratios (x)				
P/E (Adjusted)	25.0	25.3	19.0	15.7
P/CD (Adjusted)	5.0	4.3	3.7	3.2
EV/EBITDA	17.9	15.4	11.9	9.6
EV/Sales	5.2	4.8	3.8	3.2
Return/Profitability Ratio (%)				
EBITDA Margin	29.1	31.5	32.3	33.4
Net Income Margin (Adjusted)	20.3	19.2	21.1	22.2
RoCE	19.1	18.6	22.6	24.7
RoNW	20.1	17.0	19.6	20.4
Dividend Payout Ratio	38.3	34.9	32.0	31.3
Dividend Yield	1.2	1.1	1.3	1.6
Solvency/Wkg. Cap. Ratios (x)				
Net D/E	0.1	(0.0)	(0.2)	(0.3)
Gross Debt/EBITDA	0.4	(0.1)	(0.5)	(0.9)
EBIT/Interest	116.8	143.5	262.6	270.0
Current Ratio	4.1	4.1	3.7	3.5
Quick Ratio	2.5	2.4	2.2	2.0
Inventory (days)	43	43	42	42
Receivables (days)	49	48	47	42
Payables (days)	27	26	28	28

Source: Company data, I-Sec research

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