

Company update and
earnings revision

Automobiles

Target price: Rs1,671

Earnings revision

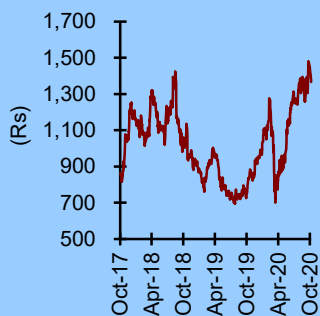
(%)	FY21E	FY22E	FY23E
Sales	↓ 0.5	-	
EBITDA	↓ 1.4	↓ 0.1	↓ 0.1
EPS	↓ 1.6	↓ 0.1	↑ 0.1

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	58.3	58.3	58.3
Institutional investors	29.7	30.8	30.5
MFs and other	17.7	17.7	19.0
FIs/Banks/Ins	0.1	0.1	0.0
FIIIs	11.9	13.0	11.5
Others	12.0	10.9	11.2

Source: BSE

Price chart



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Balkrishna Industries

Quarter ends on a strong note

BUY

Maintained

Rs1,382

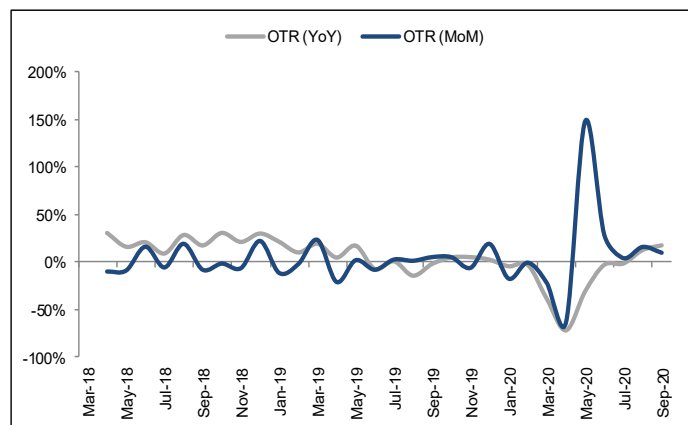
Balkrishna Industries (BIL) key export markets continue to recover smartly (Q2FY21 exports grew: 32% YoY). We believe BIL provides superior risk-reward vis-à-vis peers due to its standout earnings resilience. The latest industry export data (Sep'20) remains strong with both segments (agri, OTR) on firm growth path with combined exports rising 45%. The latest monthly export data continues to support a strong V-shaped demand rebound across agri tyres at 63% YoY and off-the-road (OTR) tyres at 18% YoY. On a regional basis, the growth for Sep'20 was led by EU region (up 66%). Continued improvement in growth remains the key catalyst for the stock. Input costs increases remains a key risk. Factoring-in volume and EPS CAGRs of ~8% and 17% respectively over FY20-FY23E, we maintain our target price at Rs1,671. Reiterate BUY.

- **Overall export rebound continues as both agri and OTR segments shine:** Agri tyre and OTR tyre segments combined grew at a healthy 45% YoY / 10% MoM in Sep'20 on solid base of the prior year. On an end-product basis, sharp growth acceleration (up 63% YoY) was witnessed in agri tyres (~67% of total exports). On the OTR side, growth momentum picked up to 18% YoY / ~10% MoM in Sep'20.
- **EU growth surges:** On regional basis, the EU continues to deliver strong growth at ~66% YoY / 10% MoM while the US grew ~23% YoY / 11% MoM. The two regions together represent ~71% of Sep'20 exports. Growth in EU exports was driven by France, Italy and Netherlands (together up ~52% YoY). These three countries contributed ~20% and ~33% to the overall exports and exports to EU respectively. In rest of the world (RoW), Australia and Canada reported strong growth. On a sub-segment basis, OTR growth was driven by EU region (up ~37% YoY / ~35% contribution) while US growth was ~13% (~25% contribution). However, on the agri side, both EU and US regions grew rapidly (up ~77% and 32% respectively).
- **Q2 industry exports growth covers up the covid shock in Q1:** After a 23% decline in Q1FY21, exports increased 32% YoY in Q2FY21. Thus H1FY21 exports have clocked ~3% growth. The pace of recovery has been quite sharp. On an end-product basis, the agri tyre segment led exports for Q2 with 45% rise while OTR grew 10%. On a regional basis, the EU continued to grow rapidly (up 46%) followed by US which also grew ~22%. BIL is expected to benefit from the improving demand traction due to its superior product offerings across segments and rising brand recognition.
- **Maintain BUY:** We expect FCF generation to be strong at ~Rs15bn (~5.8% FCF yield) in FY23E. We value the stock at an unchanged multiple of 22x Sep'22E EPS of Rs75.9 to arrive at our target price of Rs1,671. Maintain BUY.

Market Cap	Rs267bn/US\$3.6bn	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	9,968	13,283	16,058
52-week Range (Rs)	1395/701	Rec. EPS (Rs)	52.2	51.6	68.7	83.1
Free Float (%)	41.7	% Chg YoY	29.0	(1.2)	33.3	20.9
FII (%)	11.5	P/E (x)	25.7	26.0	19.5	16.1
Daily Volume (US\$/'000)	14,146	CEPS (Rs)	71.2	75.2	95.1	112.2
Absolute Return 3m (%)	10.3	EV/E (x)	18.3	15.8	12.2	9.9
Absolute Return 12m (%)	65.0	Dividend Yield (%)	1.2	1.1	1.3	1.6
Sensex Return 3m (%)	8.5	RoCE (%)	19.1	18.5	22.6	24.7
Sensex Return 12m (%)	4.3	RoE (%)	20.1	17.0	19.6	20.4

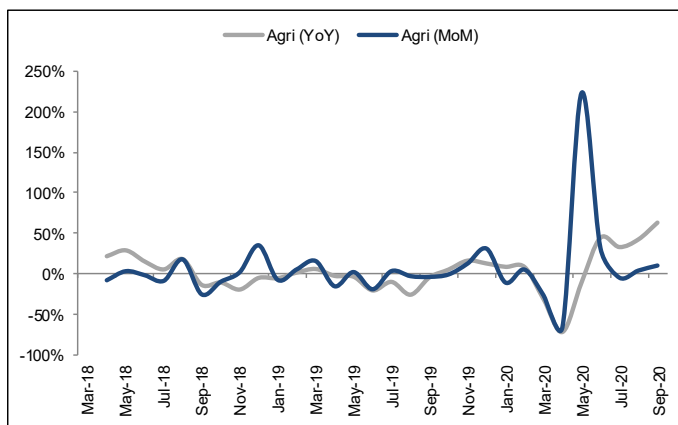
Please refer to important disclosures at the end of this report

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's total exports (agri and OTR combined)

(US\$ mn)

Region	Sep'19	Sep'20	%Growth	Q2FY20	Q2FY21	%Growth	YTD FY20	YTDFY21	%Growth
EU	35.2	58.4	66%	109.1	159.3	46%	231.9	272.0	17%
Share of total (%)	44.6	51.1					46.7	53.0	
US	18.7	23.0	23%	52.6	63.9	22%	107.7	98.6	-8%
Share of total (%)	23.7	20.2					21.7	19.2	
RoW	25.0	32.7	31%	76.4	90.6	18%	157.4	142.4	-10%
Share of total (%)	31.6	28.7					31.7	27.8	
Total	78.8	114.1	45%	238.1	313.8	32%	497.0	513.1	3%

Source: Commerce ministry, I-Sec research

Table 2: Agri tyre exports

(US\$ mn)

Region	Sep'19	Sep'20	%Growth	Q2FY20	Q2FY21	%Growth	YTD FY20	YTDFY21	%Growth
EU	25.5	45.1	77%	80.2	124.3	55%	172.6	214.3	24%
Share of total (%)	54.0	58.8					54.9	60.6	
US	10.3	13.6	32%	29.3	39.1	34%	62.0	61.1	-1%
Share of total (%)	21.8	17.7					19.7	17.3	
RoW	11.4	18.1	59%	37.3	49.7	33%	80.1	78.1	-2%
Share of total (%)	24.1	23.5					25.4	22.1	
Total	47.2	76.7	63%	146.8	213.1	45%	314.6	353.4	12%

Source: Commerce ministry, I-Sec research

Table 3: OTR tyre exports

(US\$ mn)

Region	Sep'19	Sep'20	%Growth	Q2FY20	Q2FY21	%Growth	YTD FY20	YTDFY21	%Growth
EU	9.7	13.3	37%	29.0	35.0	21%	59.3	57.7	-3%
Share of total (%)	30.6	35.5					32.5	36.2	
US	8.4	9.5	13%	23.3	24.8	7%	45.7	37.5	-18%
Share of total (%)	26.6	25.4					25.1	23.5	
RoW	13.6	14.6	8%	39.1	40.9	4%	77.4	64.4	-17%
Share of total (%)	42.9	39.2					42.4	40.3	
Total	31.7	37.4	18%	91.4	100.7	10%	182.3	159.6	-12%

Source: Commerce ministry, I-Sec research

Table 4: Earnings revision

	FY21E			FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	52,193	51,918	(0.5)	62,964	62,964	0.0	72,262	72,262	-
EBITDA	16,570	16,335	(1.4)	20,358	20,342	(0.1)	24,109	24,092	(0.1)
PAT	10,131	9,968	(1.6)	13,296	13,283	(0.1)	16,073	16,058	(0.1)
EPS (Rs)	52.4	51.6	(1.6)	68.8	68.7	(0.1)	83.0	83	0.1

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	35,582	42,623	48,170
EBITDA	14,469	16,335	20,342	24,092
<i>% margins</i>	<i>29.1%</i>	<i>31.5%</i>	<i>32.3%</i>	<i>33.3%</i>
Depreciation & Amortisation	3,680	4,569	5,100	5,636
EBIT	10,789	11,767	15,242	18,455
Other Income	1,174	1,419	2,179	2,797
Gross Interest	92	82	58	68
PBT	11,870	13,104	17,363	21,184
Less: Exceptionals	-	-	-	-
PBT after Exceptionals	11,870	13,104	17,363	21,184
Less: Taxes	1,779	3,136	4,080	5,127
Net Income (Reported)	10,092	9,968	13,283	16,058
Net Income (Adjusted)	10,092	9,968	13,283	16,058

Source: Company data, I-Sec research

Table 6: Balance sheet
(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
ASSETS				
Current Assets	15,025	16,643	21,586	24,117
<i>Cash & cash eqv.</i>	<i>230</i>	<i>1,439</i>	<i>3,681</i>	<i>4,630</i>
Current Liabilities & Provisions	4,406	4,530	5,843	6,706
Net Current Assets	10,619	12,113	15,743	17,411
Investments	10,996	16,996	21,496	28,496
Total Fixed Assets	38,610	39,541	37,441	37,805
<i>Capital Work-in-Progress</i>	<i>5,860</i>	<i>5,860</i>	<i>5,860</i>	<i>5,860</i>
Other non-current asset	2,686	2,686	2,686	2,686
Total Assets	62,911	71,336	77,366	86,398
LIABILITIES				
Borrowings	10,262	10,262	7,262	5,262
<i>long-term borrowings</i>	<i>22</i>	<i>22</i>	<i>22</i>	<i>22</i>
<i>short-term borrowings</i>	<i>10,240</i>	<i>10,240</i>	<i>7,240</i>	<i>5,240</i>
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	58,319	67,349	78,381
Net Worth	50,281	58,706	67,736	78,767
Total Liabilities	62,911	71,336	77,366	86,397

Source: Company data, I-Sec research

Table 7: 5-stage DuPont analysis
(year ending March 31)

<i>All figures in %</i>	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	14,536	18,383	21,694
Net Working Capital Changes	782	(285)	(1,388)	(719)
Operating Cashflow	14,554	14,252	16,995	20,975
Capital Commitments	(8,598)	(5,500)	(3,000)	(6,000)
Free Cashflow	5,956	8,752	13,995	14,975
Cashflow from Investing Activities	(9,433)	(11,500)	(7,500)	(13,000)
Inc/(Dec) in Borrowings	-	-	-	-
Dividend paid	-	-	-	-
Interest paid	1,335	-	(3,000)	(2,000)
Others	(4,661)	(3,480)	(4,253)	(5,026)
Cashflow from Financing Activities	(92)	(82)	(58)	(68)
Net Cashflow	92	93	58	68
Opening Cash & Bank balance	(3,326)	(3,469)	(7,253)	(7,026)
Closing Cash & Bank balance	179	(717)	2,242	949
Increase / (Decrease) in Cash & cash equivalents	362	2,156	1,439	3,681

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	68.7	83.1
EPS (Adjusted)	52.2	51.6	68.7	83.1
Cash EPS	71.2	75.2	95.1	112.2
Dividend per share (DPS)	20.0	18.0	22.0	26.0
CDPS (Adjusted)	260.1	303.7	350.4	407.5
Growth Ratios (%)				
Total Op. Income (Sales)	-7.0	4.6	21.3	14.8
EBITDA	1.1	12.9	24.5	18.4
Net Income (Adjusted)	29.0	-1.2	33.3	20.9
EPS (Adjusted)	29.0	-1.2	33.3	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)	25.7	26.0	19.5	16.1
P/CD (Adjusted)	5.2	4.4	3.8	3.3
EV/EBITDA	18.3	15.8	12.2	9.9
EV/Sales	5.3	5.0	3.9	3.3
Return/Profitability Ratio (%)				
EBITDA Margin	29.1	31.5	32.3	33.3
Net Income Margin (Adjusted)	20.3	19.2	21.1	22.2
RoCE	19.1	18.5	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	143.3	262.3	269.8
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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