

## Balkrishna Industries Limited

Demand headwinds to remain for the year

In Q1 FY25, Balkrishna Industries Limited (BKT) reported a strong 26% growth in its topline with ~24% growth in volume on a YoY basis. This high growth was mainly due to a lower base. The Company's EBITDA margins improved by ~125 Bps on a YoY basis. Domestically, the Company achieved a notable 17% volume growth on a YoY basis. However, BKT is facing demand headwinds in Europe, and the Middle East due to global sanctions and supply chain disruptions. As a result, the Company plans not to pass on price increases to customers in the near term.

### Tepid volume growth anticipated for full year

The Company's volume grew by ~24% on a lower base of Q1 FY24, impacted by cyclone in the Western India. Overall, the management observes the demand headwinds due to the geopolitical environment tension in Europe and Middle East and recessionary environment in the USA. Amidst the sensitivity, management perceives the freight cost to increase to ~8-9% in the next quarter from ~6% in this quarter. On the other hand, the COGS is also expected to rise by ~2-3%, intensifying the struggles. However, the management has guided to strive for an EBITDA margin of ~24% for the full year.

### Announcement of new capex

The management has approved a capex of ~Rs. 13 Bn to lay a capacity of 35,000 MTPA of mining tyres. This comes on the back of success observed in the OTR category. The segment's average realization is marginally higher than the agricultural segment. Further, the average capex per kg seems higher than the previous capex of Rs. 9 Bn for 50,000 MTPA capacity in Bhuj. This attributes to the utilities required at the facility, to be useful in the future. The management expects the execution of the specialty carbon capacity to come online in H1FY25 as guided earlier.

### View & Valuation

We have revised our estimates and maintain a NEUTRAL rating on BKT with a target price of Rs. 3,024 (36x FY25 earnings), suggesting an upside of ~9%. We believe the challenging demand environment will remain in the near term, making the pursuit of topline growth difficult. However, we believe the Company shall keep its costs under control and maintain profitability.

14<sup>th</sup> August 2024

**NEUTRAL**

CMP Rs. 2,779

TARGET Rs. 3,024 (+8.8%)

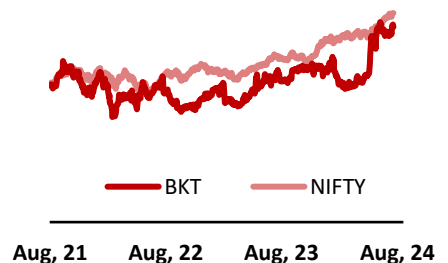
### Company Data

Bloomberg Code	BIL IN
MCAP (Rs. Mn)	5,36,347
O/S Shares (Mn)	193
52w High/Low	3,378/2,194
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	1,239

### Shareholding Pattern %

	Jun-24	Mar-24	Dec-23
Promoters	58.29	58.29	58.29
FIIs	12.61	12.24	12.69
DIIIs	22.44	22.09	21.42
Non-Institutional	6.66	7.39	7.60

### BKT vs Nifty



Source: Company, Keynote Capitals Ltd.

### Key Financial Data

(Rs Bn)	FY24	FY25E	FY26E
Revenue	94	100	113
EBITDA	23	24	27
Net Profit	15	16	18
Total Assets	137	149	163
ROCE (%)	14%	14%	14%
ROE (%)	18%	17%	17%

Source: Company, Keynote Capitals Ltd.

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Q1 FY25 Result Update

Result Highlights (Rs. Mn)

Particulars	Q1 FY25	Q1 FY24	Change % (Y-o-Y)	Q4 FY24	Change % (Q-o-Q)	FY24
Revenue from Operation	27,145	21,594	26%	26,819	1%	93,689
Gross Profit	14,194	11,193	27%	14,265	0%	48,775
<b>Gross Profit %</b>	<b>52.3%</b>	<b>51.8%</b>	<b>45 Bps</b>	<b>53.2%</b>	<b>-90 Bps</b>	<b>52.1%</b>
Employee Cost	1,294	1,186	9%	1,304	-1%	4,995
Other Expenses	6,263	4,997	25%	6,150	2%	21,226
EBITDA	6,636	5,009	32%	6,811	-3%	22,554
<b>EBITDA %</b>	<b>24.4%</b>	<b>23.2%</b>	<b>125 Bps</b>	<b>25.4%</b>	<b>-95 Bps</b>	<b>24.1%</b>
Depreciation	1,634	1,553	5%	1,742	-6%	6,507
EBIT	5,002	3,457	45%	5,070	-1%	16,047
<b>EBIT %</b>	<b>18.4%</b>	<b>16.0%</b>	<b>242 Bps</b>	<b>18.9%</b>	<b>-48 Bps</b>	<b>17.1%</b>
Finance Cost	219	217	1%	309	-29%	1,129
Other Income	1,616	1,058	53%	1,707	-5%	4,492
PBT	6,399	4,297	49%	6,468	-1%	19,410
Tax Expenses	1,499	978	53%	1,601	-6%	4,695
PAT	4,900	3,319	48%	4,868	1%	14,715
<b>EPS</b>	<b>25.35</b>	<b>17.17</b>		<b>25.18</b>		<b>76.12</b>

Source: Company, Keynote Capitals Ltd.

Unit Economics (Rs/KG)

Particulars	Q1 FY25	Q1 FY24	Change % (Y-o-Y)	Q4 FY24	Change % (Q-o-Q)	FY24
Volume Sold (MT)	83,570	67,209	24%	82,085	2%	2,92,628
Revenue from Operation	325	321	1%	327	-1%	320
Gross Profit	170	167	2%	174	-2%	167
Employee Cost	15	18	-12%	16	-2%	17
Other Expenses	75	74	1%	75	0%	73
EBITDA	79	75	7%	83	-4%	77
EBIT	60	51	16%	62	-3%	55
PBT	77	64	20%	79	-3%	66
Tax Expenses	18	15	23%	20	-8%	16
PAT	59	49	19%	59	-1%	50

Source: Company, Keynote Capitals Ltd.

Volume Sales (MT)

Particulars	Q1 FY25	Q1 FY24	Change % (Y-o-Y)	Q4 FY24	Change % (Q-o-Q)	FY24
<b>Geography-wise</b>						
Europe	39,027	30,110	30%	40,346	-3%	1,37,828
US	11,951	10,307	16%	14,504	-18%	49,454
India	24,570	21,012	17%	20,314	21%	78,424
RoW	8,023	5,780	39%	6,920	16%	26,922
<b>Segment-wise</b>						
Agriculture	50,393	39,317	28%	53,030	-5%	1,77,040
OTR & Others	30,336	27,892	9%	29,055	4%	1,15,588
<b>Channel-wise</b>						
OEM	20,725	17,474	19%	23,216	-11%	79,010
Replacement	61,424	48,222	27%	57,310	7%	2,08,059
Others	1,421	1,512	-6%	1,560	-9%	5,560

Source: Company, Keynote Capitals Ltd.

## Balkrishna Industries Limited | Quarterly Update

### Q1 FY25 Conference Call Takeaways

#### General Highlights

- The forex INR/Euro for the quarter was Rs. 92 and the hedging for the next quarter is at a similar level of Rs. 92.5.
- The European market seems to continue to be impacted by geopolitical dynamics, resulting in weak demand sentiments. Consequently, the channel inventory also increased.
- Given the sensitive demand scenario, the management is not anticipating passing on price increases in the near term.
- The EPR obligation had been provided for the previous years on an assumptive basis. However, post negotiations with vendors, the Company has made recoveries, reversing the provision. The net provision for the quarter was ~ Rs. 30-40 Mn.
- The EU regulation approved rubber is ~\$200-300/ton costlier compared to the Natural Rubber available at \$1,800/ton. The management is procuring this rubber from Malaysia, Indonesia, Thailand, Africa, etc., wherever the favorable deal can be made.
- The ASP for super giant tires is higher, but overall, the difference is marginal. The mining project will be spread across the range, so the ASP impact is expected to be minimal.

#### Guidance

- On a lower base, the volume grew by ~24% on a YoY basis, impacted by the cyclone in Western India. However, for the full year, the management anticipates only a minor growth in volume.
- The freight cost for the quarter was ~6.4% of the sales due to prior negotiations. However, the management expects the cost to rise to 8-9% of the sales for the next quarter.
- The management expects raw material prices to increase by ~2-3%, from the current 47.7% as a percentage of sales. However, the management expects to maintain an EBITDA margin of ~24% for the full year, in line with the quarter.

#### Capacity Expansion

- With the success of OTR tyres, the management has approved a capex of ~Rs. 13 Bn to lay a capacity of 35,000 MTPA for mining tyres in Bhuj. The capex per kg is at Rs. 370/kg, higher than that of the previous ~Rs. 180/kg in Bhuj. The management has cited that this capacity shall add certain utilities that will be useful in future. The capex for the quarter was ~Rs. 2 Bn, while for the year is anticipated to be ~6-7 Bn.
- The capacity of specialty carbon black is expected to commence in H1FY25, in line with the management's plan.

#### Carbon Black

- The Company sold ~50% of its carbon black production to third parties during the quarter. This sale accounted for ~8% of the top line.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>97,595</b>	<b>93,689</b>	<b>1,00,303</b>	<b>1,12,540</b>	<b>1,29,196</b>
Growth %	18%	-4%	7%	12%	15%
Raw Material Expenses	49,153	44,914	48,145	54,019	62,014
Employee Expenses	4,594	4,995	5,216	5,852	6,718
Other Expenses	26,489	21,226	23,070	25,884	29,715
<b>EBITDA</b>	<b>17,359</b>	<b>22,554</b>	<b>23,872</b>	<b>26,785</b>	<b>30,749</b>
Growth %	-14%	30%	6%	12%	15%
Margin%	18%	24%	24%	24%	24%
Depreciation	5,708	6,507	7,195	7,685	8,245
<b>EBIT</b>	<b>11,651</b>	<b>16,047</b>	<b>16,677</b>	<b>19,099</b>	<b>22,503</b>
Growth %	-25%	38%	4%	15%	18%
Margin%	12%	17%	17%	17%	17%
Interest Paid	768	1,129	1,025	1,025	1,025
Other Income & exceptional	3,465	4,492	6,000	6,000	6,000
<b>PBT</b>	<b>14,348</b>	<b>19,410</b>	<b>21,652</b>	<b>24,074</b>	<b>27,479</b>
Tax	3,774	4,694	5,413	6,019	6,870
<b>Net Profit</b>	<b>10,574</b>	<b>14,715</b>	<b>16,239</b>	<b>18,056</b>	<b>20,609</b>
Growth %	-26%	39%	10%	11%	14%
Shares (Mn)	193.3	193.3	193.3	193.3	193.3
<b>EPS</b>	<b>54.70</b>	<b>76.12</b>	<b>84.00</b>	<b>93.40</b>	<b>106.61</b>

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	763	800	13,398	24,111	35,862
Current Investments	7,746	13,490	13,490	13,490	13,490
Debtors	11,153	14,454	14,042	15,193	17,441
Inventory	16,674	13,315	14,444	16,206	18,604
Short Term Loans & Advances	2,242	3,618	3,618	3,618	3,618
Other Current Assets	702	763	763	763	763
<b>Total Current Assets</b>	<b>39,280</b>	<b>46,441</b>	<b>59,755</b>	<b>73,381</b>	<b>89,778</b>
Net Block & CWIP	67,757	72,619	71,424	71,739	71,493
Long Term Investments	12,621	14,917	14,917	14,917	14,917
Other Non-current Assets	3,820	2,868	2,868	2,868	2,868
<b>Total Assets</b>	<b>1,23,477</b>	<b>1,36,845</b>	<b>1,48,964</b>	<b>1,62,905</b>	<b>1,79,057</b>
Creditors	4,921	9,102	9,855	11,156	12,883
Provision	67	44	44	44	44
Short Term Borrowings	23,033	24,040	24,040	24,040	24,040
Other Current Liabilities	5,471	3,418	3,418	3,418	3,418
<b>Total Current Liabilities</b>	<b>33,493</b>	<b>36,604</b>	<b>37,357</b>	<b>38,658</b>	<b>40,385</b>
Long Term Debt	10,381	6,914	6,914	6,914	6,914
Deferred Tax Liabilities	2,419	3,490	3,490	3,490	3,490
Other Long-Term Liabilities	1,615	1,298	1,298	1,298	1,298
<b>Total Non-Current Liabilities</b>	<b>14,415</b>	<b>11,702</b>	<b>11,702</b>	<b>11,702</b>	<b>11,702</b>
Paid-up Capital	387	387	387	387	387
Reserves & Surplus	75,183	88,152	99,519	1,12,158	1,26,584
Shareholders' Equity	75,569	88,538	99,906	1,12,545	1,26,971
Non-Controlling Interest	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>1,23,477</b>	<b>1,36,845</b>	<b>1,48,964</b>	<b>1,62,905</b>	<b>1,79,057</b>

Source: Company, Keynote Capitals Ltd.

Cash Flow

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	14,348	19,410	21,652	24,074	27,479
Adjustments	5,426	4,115	2,220	2,710	3,270
Change in Working Capital	-1,865	1,536	36	-1,611	-2,921
Total Tax Paid	-3,429	-4,235	-5,413	-6,019	-6,870
<b>Cash flow from operating Activities</b>	<b>14,480</b>	<b>20,826</b>	<b>18,495</b>	<b>19,155</b>	<b>20,958</b>
Net Capital Expenditure	-17,523	-10,814	-6,000	-8,000	-8,000
Change in investments	-883	-4,574	0	0	0
Other investing activities	575	632	6,000	6,000	6,000
<b>Cash flow from investing activities</b>	<b>-17,831</b>	<b>-14,755</b>	<b>0</b>	<b>-2,000</b>	<b>-2,000</b>
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	7,097	-1,902	0	0	0
Dividend (incl. tax)	-3,091	-3,095	-4,872	-5,417	-6,183
Other financing activities	-421	-1,022	-1,025	-1,025	-1,025
<b>Cash flow from financing activities</b>	<b>3,585</b>	<b>-6,019</b>	<b>-5,897</b>	<b>-6,442</b>	<b>-7,208</b>
<b>Net Change in cash</b>	<b>234</b>	<b>52</b>	<b>12,599</b>	<b>10,713</b>	<b>11,751</b>

Valuation Ratios

	FY23	FY24	FY25E	FY26E	FY27E
<b>Per Share Data</b>					
EPS	55	76	84	93	107
Growth %	-26%	39%	10%	11%	14%
Book Value Per Share	391	458	517	582	657
<b>Return Ratios</b>					
Return on Assets (%)	9%	11%	11%	12%	12%
Return on Equity (%)	15%	18%	17%	17%	17%
Return on Capital Employed (%)	11%	14%	14%	14%	14%
<b>Turnover Ratios</b>					
Asset Turnover (x)	0.8	0.7	0.7	0.7	0.8
Sales / Gross Block (x)	1.3	1.0	1.0	1.0	1.1
Working Capital / Sales (x)	6%	8%	16%	25%	33%
Receivable Days	41	50	52	47	46
Inventory Days	124	122	105	104	102
Payable Days	49	62	70	69	68
Working Capital Days	116	110	87	82	80
<b>Liquidity Ratios</b>					
Current Ratio (x)	1.2	1.3	1.6	1.9	2.2
Interest Coverage Ratio (x)	19.7	18.2	22.1	24.5	27.8
Total Debt to Equity	0.4	0.3	0.3	0.3	0.2
Net Debt to Equity	0.4	0.3	0.2	0.1	0.0
<b>Valuation</b>					
PE (x)	35.7	30.4	33.9	30.5	26.7
Earnings Yield (%)	3%	3%	3%	3%	4%
Price to Sales (x)	5.6	5.9	5.5	4.9	4.3
Price to Book (x)	5.0	5.1	5.5	4.9	4.3
EV/EBITDA (x)	23.6	19.8	24.1	21.5	18.7
EV/Sales (x)	4.2	4.8	5.7	5.1	4.4

## KEYNOTE Rating History

Date	Rating	Market price at Recommendation	Upside/Downside
20 <sup>th</sup> January 2023	BUY	2,223	+12.4%
13 <sup>th</sup> February 2023	BUY	2,044	+14.5%
30 <sup>th</sup> May 2023	NEUTRAL	2,226	+4.7%
7 <sup>th</sup> August 2023	NEUTRAL	2371	+6.0%
23 <sup>rd</sup> October 2023	NEUTRAL	2,564	+5.6%
29 <sup>th</sup> January 2024	REDUCE	2,559	-7.2%
21 <sup>st</sup> May 2024	NEUTRAL	2,890	+3.6%
14 <sup>th</sup> August 2024	NEUTRAL	2,779	+8.8%

**Rating Methodology**

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd./Rating & Fair value under Review/Keynote Capitals Ltd. has suspended coverage

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