

SELL

TP: Rs 1,550 | ▼ 37%

**BALKRISHNA
INDUSTRIES**

| Auto Components

| 06 August 2021

Valuations rich, maintain SELL

- Q1 revenue beat our estimate at Rs 18.1bn but EBITDA margin dropped to 28.3% on lower gross margin and higher other expense
- Expect 350bps YoY gross margin hit for FY22-FY23 and bake in EBITDA margin at 28.2% vs. guidance of 28-30%
- Maintain TP of Rs 1,550 based on 22x FY23E EPS. Valuations expensive at 36x FY23E; SELL

 Mayur Milak | Nishant Chowhan, CFA
 researchreport@bobcaps.in

Healthy Q1FY22: BIL's Q1FY22 revenue was ahead of our expectations at Rs 18.1bn (Rs 15.7bn est.), rising 4% QoQ on a combination of higher volumes and better realisations. Despite this, gross margin slipped 180bps QoQ to 56.9%, reflecting the upswing in rubber and crude oil prices. Higher other expenses further weakened EBITDA margin to 28.3% (28.5% est.), down 275bps QoQ. Other income of Rs 782mn included a forex gain of Rs 384mn. Adj. PAT stood at Rs 3.3bn (vs. Rs 2.9bn est.) with EPS at Rs 17.1. The board has declared an interim dividend of Rs 4/sh, leading to a total cash outgo of Rs 773mn.

RM cost pressures to continue: Management is seeing strong demand tailwinds across geographies and segments. However, the company cautioned on rising input costs and believes margins may continue to witness pressure in the near term. The increase in logistic costs have also impacted profitability. Management has guided for EBITDA margin in the range of 28-30% in the near term.

Newer capex planned: BIL plans to add ~50,000mtpa of capacity to its existing 285,000mtpa through brownfield expansion at the Bhuj facility by end-FY23 at an estimated capex of Rs 8bn. It also intends to increase carbon black capacity from the current 115,000mtpa to 200,000mtpa by end-FY23 at an estimated Rs 6.5bn. Further capex of Rs 4.5bn is planned toward modernisation, automation and technology upgrades at its existing facilities at Rajasthan and Bhuj. Overall, we raise our cumulative capex outflow assumptions for FY22 and FY23 from Rs 15bn to Rs 19bn.

Maintain SELL: We maintain our FY22/FY23 revenue and earnings estimates and introduce forecasts for FY24, projecting a revenue/EBITDA /adj. PAT CAGR of +11%/+8%/+9% over FY21-FY24. Our FY22/FY23 EPS estimates are at Rs 64/ Rs 68. We continue to value BIL at 22x FY23E EPS – at par with the five-year average, for our Mar'22 TP of Rs 1,550. Valuations look rich at 36x FY23E – SELL.

Key changes

Target	Rating
◀ ▶	◀ ▶

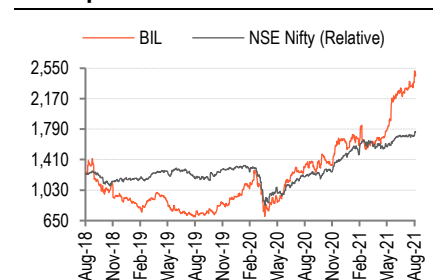
Ticker/Price	BIL IN/Rs 2,449
Market cap	US\$ 6.4bn
Free float	42%
3M ADV	US\$ 15.0mn
52wk high/low	Rs 2,559/Rs 1,238
Promoter/FPI/DII	58%/12%/18%

Source: NSE | Price as of 6 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	57,579	68,594	72,709
EBITDA (Rs mn)	17,855	19,332	20,492
Adj. net profit (Rs mn)	11,554	12,373	13,138
Adj. EPS (Rs)	59.8	64.0	68.0
Consensus EPS (Rs)	59.8	72.9	83.8
Adj. ROAE (%)	19.2	17.7	16.3
Adj. P/E (x)	41.0	38.3	36.0
EV/EBITDA (x)	27.0	24.9	23.5
Adj. EPS growth (%)	22.3	7.1	6.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Fig 1 – Quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	FY21	FY20	YoY (%)
Volumes (MT)	68,608	38,096	80.1	68,002	0.9	227,132	201,760	12.6
ASP (Rs)	264,265	243,784	8.4	256,741	2.9	253,505	237,038	6.9
Net Revenues	18,131	9,287	95.2	17,459	3.8	57,579	47,825	20.4
Total Income (A)	18,131	9,287	95.2	17,459	3.8	57,579	47,825	20.4
Operating Expenses:								
Raw materials consumed	7,823	3,665	113.4	7,213	8.4	23,028	21,268	8.3
Employee Expenses	944	701	34.7	883	7.0	3,259	2,858	14.0
Other Expenses	4,237	2,615	62.0	3,945	7.4	13,437	11,205	19.9
Total Expenditure (B)	13,004	6,981	86.3	12,041	8.0	39,724	35,331	12.4
EBITDA (A-B)	5,127	2,306	122.3	5,418	(5.4)	17,855	12,493	42.9
Other Income	782	333	134.9	584	33.9	1,615	2,488	-35.1
Depreciation	1,041	996	4.5	1,034	0.6	4,062	3,680	10.4
EBIT	4,868	1,643	196.3	4,968	(2.0)	15,408	11,301	36.3
Finance Costs	21	24	(12.0)	23	(7.8)	98	73	34.9
PBT after excep items	3,806	623	511.1	3,911	(2.7)	15,310	11,228	36.4
Tax expense	1,535	401	283.2	1,223	25.5	3,756	1,779	111.2
Reported PAT	2,271	222	922.0	2,688	(15.5)	11,554	9,450	22.3
Adjusted PAT	3,312	1,218	171.9	3,722	(11.0)	11,554	9,450	22.3
Adj EPS (Rs)	17.1	6.3	171.9	19.3	(11.0)	60	49	22.3

Source: Company, BOBCAPS Research

Fig 2 – Key parameters

(%)	Q1FY22	Q1FY21	YoY (bps)	Q4FY21	QoQ (bps)	FY21	FY20	YoY (bps)
Gross margin	56.9	60.5	(368)	58.7	(183)	60.0	55.5	448
EBITDA margin	28.3	24.8	345	31.0	(276)	31.0	26.1	489
EBIT margin	26.8	17.7	916	28.5	(161)	26.8	23.6	313
PBT margin	26.7	17.4	930	28.3	(159)	26.6	23.5	311
Tax rate	40.3	64.3	(2,399)	31.3	905	24.5	15.8	869
Adj PAT margin	18.3	13.1	515	21.3	(305)	20.1	19.8	31

Source: Company, BOBCAPS Research

Valuation methodology

We maintain our FY22/FY23 revenue and earnings estimates and introduce forecasts for FY24, projecting a revenue/EBITDA /adj. PAT CAGR of +11%/+8%/+9% for BIL over FY21-FY24. Our FY22/FY23 EPS estimates are at Rs 64/Rs 68, which is 12-18% below consensus largely due to lower gross margin assumptions.

We expect BIL's gross margin to remain under pressure considering the steep increase in input cost and lag in price hikes taken by tyre companies. We continue to value BIL at 22x FY23E EPS – at par with the stock's five-year average, for our Mar'22 TP of Rs 1,550. Valuations look rich at 36x FY23E EPS – maintain SELL.

Fig 3 – Key assumptions

(Rs mn)	FY21	FY22E	FY23E	FY24E
Volume (mt)	227,131	258,929	274,465	290,933
Revenues	57,579	68,594	72,709	77,843
EBITDA	17,855	19,332	20,492	22,369
OPM (%)	31.0	28.2	28.2	28.7
Adj. PAT	11,554	12,373	13,138	14,848
EPS (Rs)	59.8	64.0	68.0	76.8

Source: Company, BOBCAPS Research

Fig 4 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
CEAT	CEAT IN	SELL	840	15.7	57.5	59.9	7.0	6.8	14
Apollo Tyres	APTY IN	SELL	140	11.3	7.9	9.0	4.0	4.2	16
Balkrishna Industries	BIL IN	SELL	1,550	12.4	64.8	70.3	17.9	16.8	22
MRF	MRF IN	SELL	67,000	15.9	2,769.2	3,080.1	7.7	7.9	22
TVS Srichakra	SRTY IN	SELL	1,200	15.2	78.3	85.2	6.8	7.1	14
JK Tyres	JKI IN	SELL	90	12.8	8.0	12.6	6.6	9.6	7

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- above-expected volume growth, and
- a fall in natural rubber and crude derivative prices, which could take margins ahead of estimates.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Tyres	APTY IN	1.7	223	140	SELL
Balkrishna Industries	BIL IN	6.4	2,449	1,550	SELL
Ceat	CEAT IN	0.7	1,342	840	SELL
Eicher Motors	EIM IN	10.1	2,747	2,200	SELL
Escorts	ESC IN	2.0	1,200	1,350	BUY
GNA Axles	GNA IN	0.1	745	540	HOLD
JK Tyre & Industries	JKI IN	0.5	161	90	SELL
Minda Corporation	MDA IN	0.4	133	140	BUY
MRF	MRF IN	4.5	79,160	67,000	SELL
Swaraj Engines	SWE IN	0.3	1,777	1,600	SELL
TVS Srichakra	SRTY IN	0.2	2,177	1,200	SELL

Source: BOBCAPS Research, NSE | Price as of 6 Aug 2021

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	47,825	57,579	68,594	72,709	77,843
EBITDA	12,494	17,855	19,332	20,492	22,369
Depreciation	3,680	4,062	4,665	5,425	5,985
EBIT	11,301	15,408	16,669	17,668	19,946
Net interest inc./(exp.)	(73)	(98)	(127)	(104)	(97)
Other inc./(exp.)	2,488	1,615	2,002	2,602	3,562
Exceptional items	0	0	0	0	0
EBT	11,228	15,310	16,542	17,564	19,850
Income taxes	1,779	3,756	4,169	4,426	5,002
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	5	6	7	8	9
Reported net profit	9,450	11,554	12,373	13,138	14,848
Adjustments	0	0	0	0	0
Adjusted net profit	9,450	11,554	12,373	13,138	14,848

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	3,610	6,334	6,540	6,499	6,878
Other current liabilities	2,404	2,401	2,633	2,954	3,182
Provisions	278	326	275	275	275
Debt funds	8,612	8,934	7,933	6,933	5,933
Other liabilities	344	327	327	327	327
Equity capital	387	387	387	387	387
Reserves & surplus	49,894	59,686	69,585	80,095	91,973
Shareholders' fund	50,281	60,072	69,971	80,482	92,360
Total liab. and equities	65,529	78,394	87,679	97,470	108,955
Cash and cash eq.	455	780	935	741	608
Accounts receivables	6,492	7,301	8,645	9,163	9,810
Inventories	5,803	9,093	9,396	9,562	10,237
Other current assets	2,508	3,056	3,759	3,984	4,265
Investments	10,631	14,182	19,182	24,182	35,182
Net fixed assets	32,771	33,342	38,677	42,251	41,266
CWIP	5,856	8,555	5,000	5,500	5,500
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(1,783)	(2,035)	(2,035)	(2,035)	(2,035)
Other assets	2,796	4,121	4,121	4,121	4,121
Total assets	65,529	78,394	87,679	97,470	108,955

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	12,988	10,881	13,199	15,437	16,371
Capital expenditures	(8,591)	(7,332)	(6,445)	(9,500)	(5,000)
Change in investments	200	(3,552)	(5,000)	(5,000)	(11,000)
Other investing cash flows	2,488	1,615	2,002	2,602	3,562
Cash flow from investing	(5,904)	(9,269)	(9,443)	(11,898)	(12,438)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	316	321	(1,000)	(1,000)	(1,000)
Interest expenses	(73)	(98)	(127)	(104)	(97)
Dividends paid	(5,127)	(2,320)	(2,475)	(2,628)	(2,970)
Other financing cash flows	(2,301)	809	0	0	0
Cash flow from financing	(7,185)	(1,288)	(3,601)	(3,732)	(4,066)
Chg in cash & cash eq.	(101)	324	155	(193)	(134)
Closing cash & cash eq.	455	780	935	741	608

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	48.9	59.8	64.0	68.0	76.8
Adjusted EPS	48.9	59.8	64.0	68.0	76.8
Dividend per share	22.0	12.0	12.8	13.6	15.4
Book value per share	260.1	310.8	362.0	416.4	477.8

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	10.1	8.4	7.0	6.6	6.2
EV/EBITDA	38.5	27.0	24.9	23.5	21.5
Adjusted P/E	50.1	41.0	38.3	36.0	31.9
P/BV	9.4	7.9	6.8	5.9	5.1

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	84.2	75.5	74.8	74.8	74.8
Interest burden (PBT/EBIT)	99.4	99.4	99.2	99.4	99.5
EBIT margin (EBIT/Revenue)	23.6	26.8	24.3	24.3	25.6
Asset turnover (Rev./Avg TA)	83.4	89.6	93.0	87.6	83.5
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.1	1.1	1.1
Adjusted ROAE	19.5	20.9	19.0	17.5	17.2

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	(8.8)	20.4	19.1	6.0	7.1
EBITDA	(4.8)	42.9	8.3	6.0	9.2
Adjusted EPS	20.8	22.3	7.1	6.2	13.0
Profitability & Return ratios (%)					
EBITDA margin	26.1	31.0	28.2	28.2	28.7
EBIT margin	23.6	26.8	24.3	24.3	25.6
Adjusted profit margin	19.8	20.1	18.0	18.1	19.1
Adjusted ROAE	18.8	19.2	17.7	16.3	16.1
ROCE	16.6	18.1	16.9	15.9	16.0
Working capital days (days)					
Receivables	46	44	42	45	44
Inventory	49	47	49	48	46
Payables	66	79	79	75	73
Ratios (x)					
Gross asset turnover	1.0	0.9	0.9	1.0	1.0
Current ratio	2.4	2.2	2.4	2.4	2.4
Net interest coverage ratio	154.8	156.9	131.8	169.8	206.7
Adjusted debt/equity	0.2	0.1	0.1	0.1	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

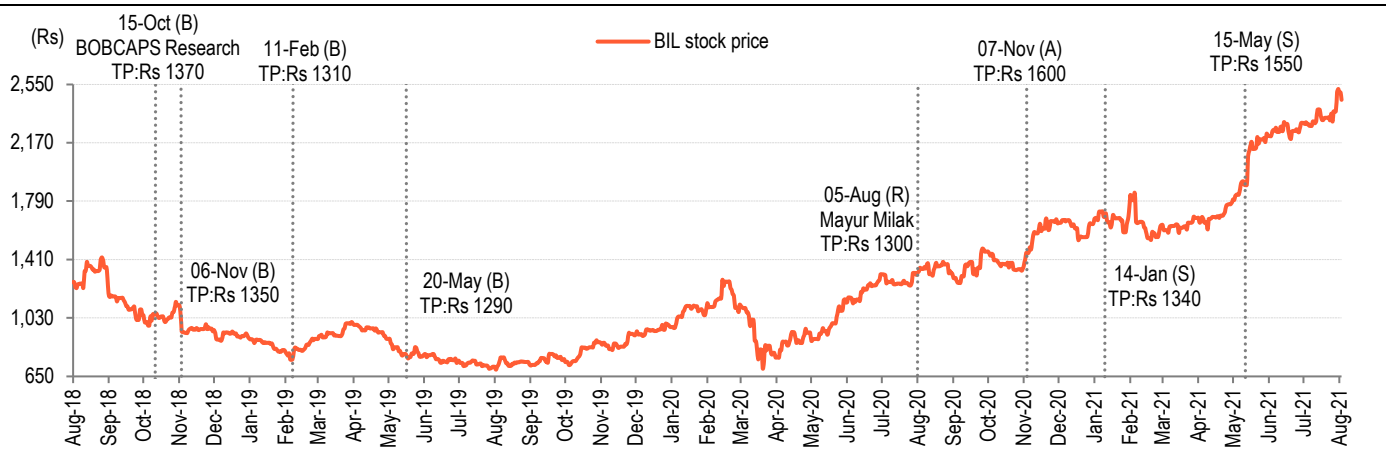
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): BALKRISHNA INDUSTRIES (BIL IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

Rating distribution

As of 31 July 2021, out of 98 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 41 have BUY ratings, 22 have HOLD ratings, 11 are rated ADD*, 2 are rated REDUCE* and 22 are rated SELL. None of these companies have been investment banking clients in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation

or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.