

SELL

TP: Rs 1,340 | ▼ 19%

**BALKRISHNA
INDUSTRIES**

| Auto Components

| 09 February 2021

Healthy Q3 but margin headwinds ahead – maintain SELL

Balkrishna Industries (BIL) posted healthy volume growth of 17% YoY to 59.8k MT in Q3FY21, 8% ahead of our projections. Revenue increased 30% YoY and EBITDA margin stood at 31.7% (+220bps YoY), beating estimates. We expect rising RM costs to depress margins in coming quarters. Thus, despite increasing our FY21 volume forecast to align with management guidance, our FY22-FY23 earnings estimates remain intact. BIL has announced a Rs 19bn capex drive spread over the next 2-3 years. Maintain SELL; Mar'22 TP Rs 1,340.

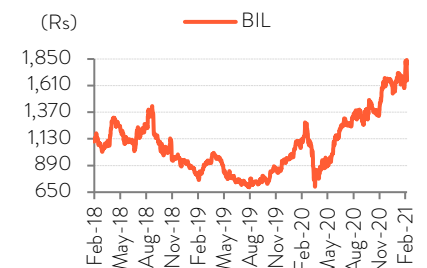
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Operational beat in Q3: Buoyed by 17% YoY volume growth and 8% improvement in ASP, revenue came in at Rs 15bn (+26% YoY) – ahead of our estimate. An above-expected gross margin further supported operating performance, leading to 220bps YoY EBITDA margin expansion to 31.7% (28.8% est.). EBITDA was up 40% YoY to Rs 4.8bn and adj. PAT increased 46% YoY to Rs 3.2bn. Management has raised its volume guidance for FY21 from flattish YoY growth to 6-9% growth over FY20.

Ticker/Price	BIL IN/Rs 1,657
Market cap	US\$ 4.4bn
Shares o/s	193mn
3M ADV	US\$ 25.8mn
52wk high/low	Rs 1,875/Rs 679
Promoter/FPI/DII	58%/12%/18%

Source: NSE

New capex drive: BIL has drawn up a new Rs 19bn capex programme to be spread over the next 2-3 years. The outlay is planned for (1) debottlenecking and brownfield expansion of the Bhuj facility which would add 50,000mtpa capacity by H2FY23 at a projected cost of Rs 8bn, (2) increase in carbon black manufacturing capacity to 200,000mtpa by H1FY23 (from 115,000mtpa currently) at a projected cost of Rs 6.5bn, and (3) modernisation, automation and technology upgrades of certain existing equipment and installation of automated material handling systems at a cost of Rs 4.5bn.

STOCK PERFORMANCE

Source: NSE

Maintain SELL: We expect the rising cost of rubber and crude derivatives to weigh on profitability, compressing operating margins by ~200bps over FY21-FY23. Our Mar'22 TP remains at Rs 1,340, based on 22x Mar'23E EPS.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	52,445	47,825	54,243	61,457	68,033
EBITDA (Rs mn)	13,125	12,494	16,192	17,190	19,089
Adj. net profit (Rs mn)	7,820	9,450	9,896	10,283	11,760
Adj. EPS (Rs)	40.5	48.9	51.2	53.2	60.8
Adj. EPS growth (%)	5.8	20.8	4.7	3.9	14.4
Adj. ROAE (%)	16.7	18.8	16.7	15.3	15.3
Adj. P/E (x)	40.9	33.9	32.4	31.1	27.2
EV/EBITDA (x)	25.2	26.3	20.3	19.0	17.0

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Volumes (MT)	59,810	47,321	16.6	61,224	(2.3)	159,130	143,794	10.7
ASP (Rs)	251,555	245,240	8.1	257,866	(2.4)	252,123	238,200	5.8
Net Revenues	15,046	11,605	26.1	15,788	(4.7)	40,120	34,252	17.1
Total Income (A)	15,046	11,605	26.1	15,788	(4.7)	40,120	34,252	17.1
Operating Expenses:								
Raw materials consumed	6,035	4,791	5.0	6,115	(1.3)	15,815	15,219	3.9
Employee Expenses	831	708	19.5	844	(1.5)	2,377	2,104	13.0
Other Expenses	3,415	2,692	21.5	3,462	(1.3)	9,492	8,161	16.3
Total Expenditure (B)	10,282	8,190	11.1	10,421	(1.3)	27,684	25,484	8.6
EBITDA (A-B)	4,764	3,415	77.9	5,367	(11.2)	12,437	8,768	41.8
Other Income	514	301	(28.3)	184	179.5	1,030	1,824	(43.5)
Depreciation	1,019	949	21.2	1,012	0.7	3,027	2,698	12.2
EBIT	4,258	2,767	66.8	4,539	(6.2)	10,440	7,895	32.2
Finance Costs	17	19	(4.5)	34	(49.6)	75	54	39.6
PBT after excep items	4,241	2,748	67.3	4,505	(5.9)	10,365	7,841	32.2
Tax expense	1,022	542	31.8	1,110	(7.9)	2,533	964	162.8
Reported PAT	3,219	2,207	82.9	3,395	(5.2)	7,832	6,877	13.9
Adjusted PAT	3,219	2,207	82.9	3,395	(5.2)	7,832	6,877	13.9
Adj EPS (Rs)	16.7	11.4	82.9	17.6	(5.2)	40.5	35.6	13.9

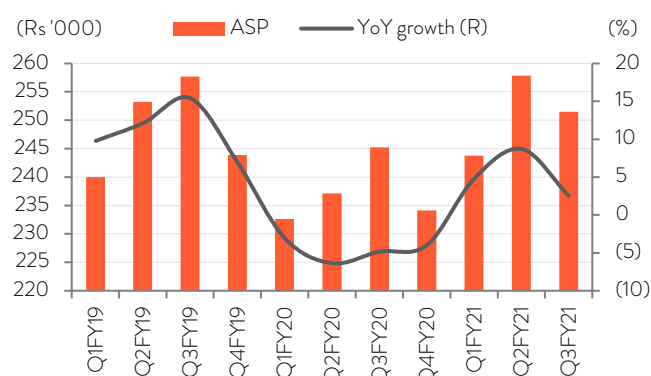
Source: Company, BOBCAPS Research

FIG 2 – KEY PARAMETERS

(Rs mn)	Q3FY21	Q3FY20	YoY (bps)	Q2FY21	QoQ (bps)	9MFY21	9MFY20	YoY (bps)
Gross margin	59.9	58.7	807	61.3	(138)	60.6	55.6	501
EBITDA margin	31.7	29.4	922	34.0	(233)	31.0	25.6	540
EBIT margin	28.3	23.8	691	28.8	(45)	26.0	23.0	297
PBT margin	28.2	23.7	694	28.5	(35)	25.8	22.9	294
Tax rate	24.1	19.7	(648)	24.6	(54)	24.4	12.3	1,214
Adj PAT margin	21.4	19.0	665	21.5	(11)	19.5	20.1	(56)

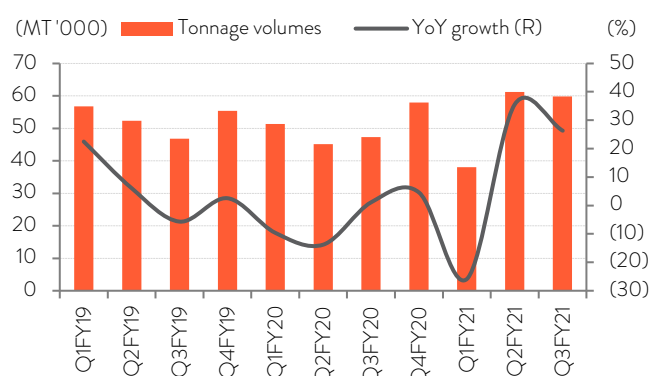
Source: Company, BOBCAPS Research

FIG 3 – AVERAGE SELLING PRICE PER MT



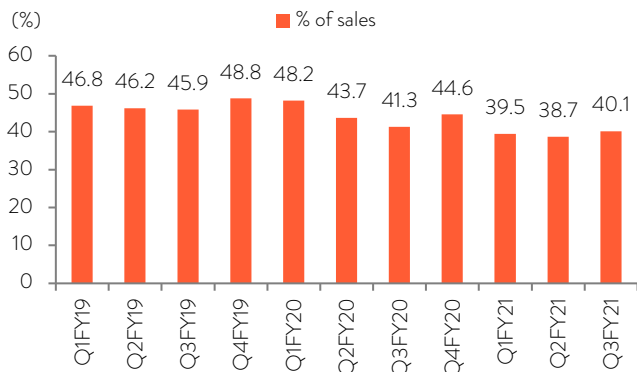
Source: Company, BOBCAPS Research

FIG 4 – TOTAL VOLUMES



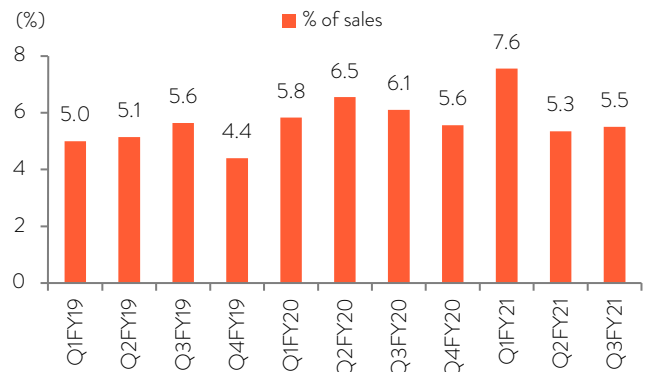
Source: Company, BOBCAPS Research

FIG 5 – RM COST/SALES TREND



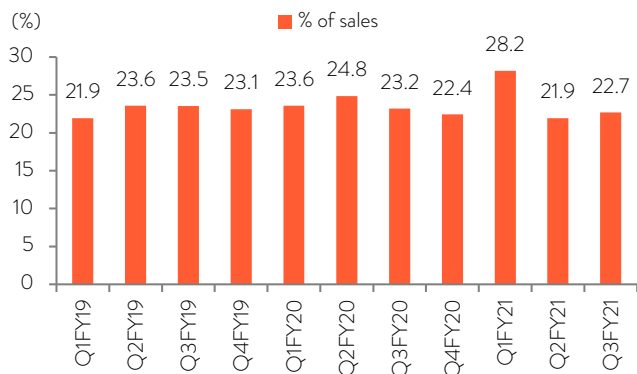
Source: Company, BOBCAPS Research

FIG 6 – STAFF COST/SALES TREND



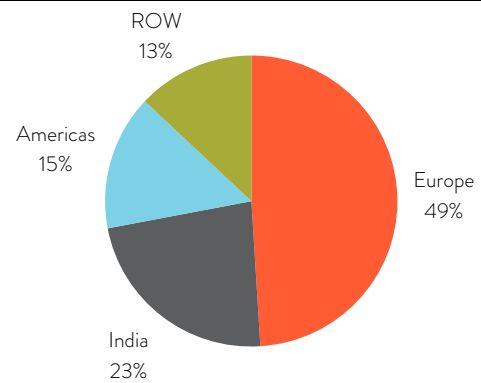
Source: Company, BOBCAPS Research

FIG 7 – OTHER EXPENSES/SALES TREND



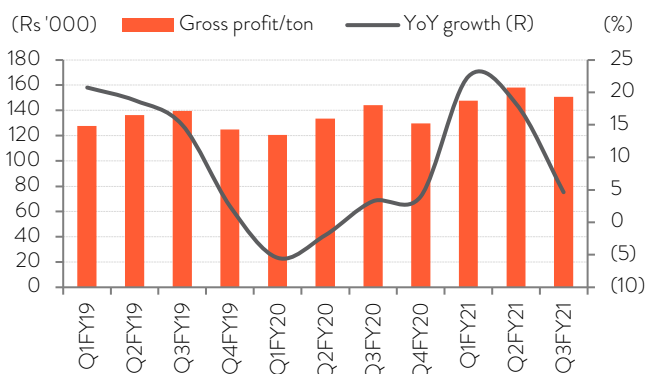
Source: Company, BOBCAPS Research

FIG 8 – GEOGRAPHICAL SALES MIX (9MFY21)



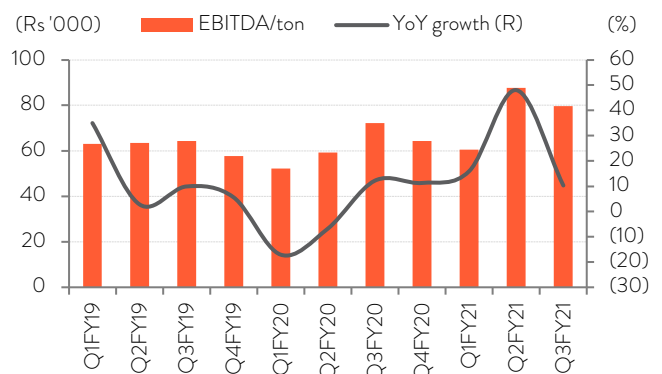
Source: Company, BOBCAPS Research

FIG 9 – GROSS PROFIT/TONNE TREND



Source: Company, BOBCAPS Research

FIG 10 – EBITDA/TONNE TREND

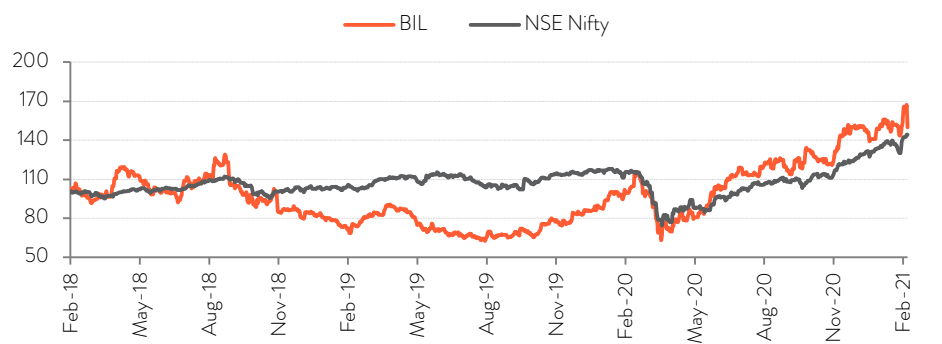


Source: Company, BOBCAPS Research

Valuation methodology

We expect the rising cost of rubber and crude derivatives to weigh on profitability, compressing operating margins by ~200bps over FY21-FY23. Our Mar'22 target price remains at Rs 1,340, based on 22x Mar'23E EPS. Maintain SELL.

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- Above-expected volume growth
- Fall in natural rubber and crude derivative prices could take margins ahead of estimates

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	52,445	47,825	54,243	61,457	68,033
EBITDA	13,125	12,494	16,192	17,190	19,089
Depreciation	3,326	3,680	4,216	4,816	5,336
EBIT	11,941	11,302	13,252	13,829	15,749
Net interest income/(expenses)	(111)	(73)	(128)	(82)	(26)
Other income/(expenses)	2,142	2,488	1,276	1,456	1,996
Exceptional items	(428)	0	0	0	0
EBT	11,402	11,229	13,124	13,747	15,722
Income taxes	4,010	1,779	3,229	3,464	3,962
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	4	5	6	7	8
Reported net profit	7,392	9,450	9,896	10,283	11,760
Adjustments	428	0	0	0	0
Adjusted net profit	7,820	9,450	9,896	10,283	11,760

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	4,094	3,610	4,265	4,634	5,130
Other current liabilities	1,377	2,404	2,797	2,893	3,217
Provisions	77	278	235	235	235
Debt funds	8,296	8,612	5,612	2,612	22
Other liabilities	410	344	344	344	344
Equity capital	387	387	387	387	387
Reserves & surplus	46,400	49,895	58,801	67,027	76,435
Shareholders' fund	46,787	50,281	59,187	67,414	76,822
Total liabilities and equities	61,042	65,530	72,441	78,132	85,770
Cash and cash eq.	556	455	369	718	602
Accounts receivables	5,681	6,492	7,728	7,745	8,574
Inventories	7,130	5,804	6,836	7,409	8,201
Other current assets	3,351	2,508	4,310	4,378	4,846
Investments	10,831	10,631	10,631	13,631	19,631
Net fixed assets	27,861	32,771	36,555	38,739	39,403
CWIP	5,854	5,856	5,000	4,500	3,500
Intangible assets	0	0	0	0	0
Deferred tax assets, net	(3,255)	(1,783)	(1,783)	(1,783)	(1,783)
Other assets	3,033	2,796	2,796	2,796	2,796
Total assets	61,042	65,529	72,441	78,132	85,770

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	10,717	13,130	14,112	15,099	17,096
Interest expenses	111	73	128	82	26
Non-cash adjustments	(2,142)	(2,488)	(1,276)	(1,456)	(1,996)
Changes in working capital	(1,592)	2,273	(3,064)	(193)	(1,270)
Other operating cash flows	(60)	0	0	0	0
Cash flow from operations	7,034	12,988	9,900	13,532	13,857
Capital expenditures	(7,367)	(8,591)	(7,144)	(6,500)	(5,000)
Change in investments	202	200	0	(3,000)	(6,000)
Other investing cash flows	2,142	2,488	1,276	1,456	1,996
Cash flow from investing	(5,023)	(5,904)	(5,869)	(8,044)	(9,004)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(59)	316	(3,000)	(3,000)	(2,590)
Interest expenses	(111)	(73)	(128)	(82)	(26)
Dividends paid	(1,688)	(5,127)	(990)	(2,057)	(2,352)
Other financing cash flows	(272)	(2,301)	0	0	0
Cash flow from financing	(2,129)	(7,185)	(4,118)	(5,139)	(4,968)
Changes in cash and cash eq.	(118)	(101)	(87)	349	(116)
Closing cash and cash eq.	556	455	369	718	602

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	40.5	48.9	51.2	53.2	60.8
Adjusted EPS	40.5	48.9	51.2	53.2	60.8
Dividend per share	7.5	22.0	5.1	10.6	12.2
Book value per share	242.0	260.1	306.2	348.8	397.4

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	6.3	6.9	6.0	5.3	4.8
EV/EBITDA	25.2	26.3	20.3	19.0	17.0
Adjusted P/E	40.9	33.9	32.4	31.1	27.2
P/BV	6.8	6.4	5.4	4.7	4.2

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	68.6	84.2	75.4	74.8	74.8
Interest burden (PBT/EBIT)	95.5	99.4	99.0	99.4	99.8
EBIT margin (EBIT/Revenue)	22.8	23.6	24.4	22.5	23.1
Asset turnover (Revenue/Avg TA)	99.8	83.4	87.2	90.7	92.2
Leverage (Avg TA/Avg Equity)	1.2	1.2	1.1	1.1	1.0
Adjusted ROAE	17.8	19.5	18.1	16.2	16.3

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	17.9	(8.8)	13.4	13.3	10.7
EBITDA	18.5	(4.8)	29.6	6.2	11.0
Adjusted EPS	5.8	20.8	4.7	3.9	14.4
Profitability & Return ratios (%)					
EBITDA margin	25.0	26.1	29.9	28.0	28.1
EBIT margin	22.8	23.6	24.4	22.5	23.1
Adjusted profit margin	14.9	19.8	18.2	16.7	17.3
Adjusted ROAE	16.7	18.8	16.7	15.3	15.3
ROCE	14.7	16.6	16.1	15.3	16.0
Working capital days (days)					
Receivables	37	46	48	46	44
Inventory	45	49	43	42	42
Payables	63	66	65	61	61
Ratios (x)					
Gross asset turnover	0.8	1.0	1.0	1.0	1.0
Current ratio	3.0	2.4	2.6	2.6	2.6
Net interest coverage ratio	107.6	154.8	103.5	168.2	597.9
Adjusted debt/equity	0.2	0.2	0.1	0.0	0.0

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

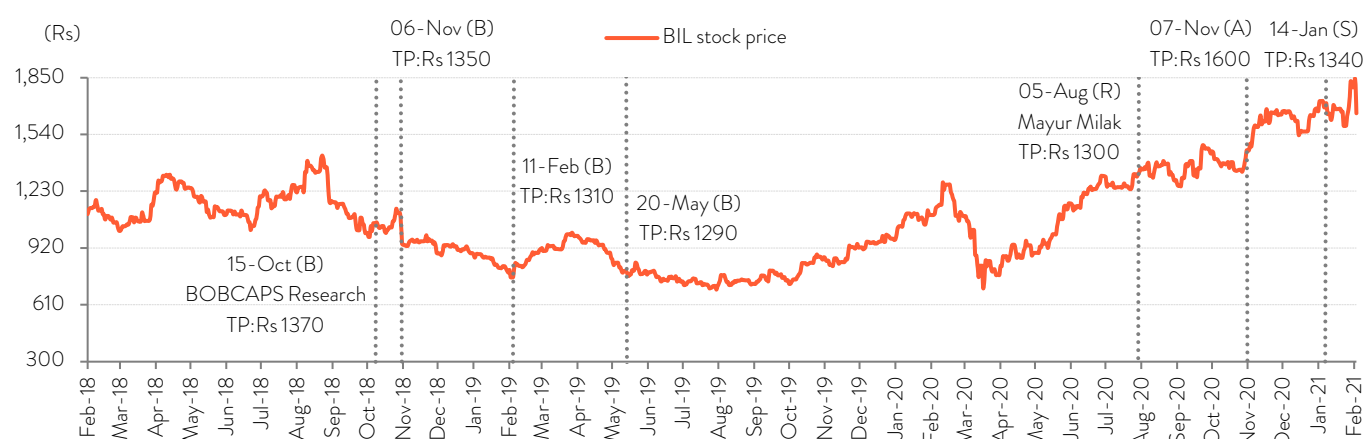
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): BALKRISHNA INDUSTRIES (BIL IN)



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

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