

Superlative growth justifies premium valuations...

Balkrishna Industries (BIL) reported robust Q4FY21 numbers. Standalone revenue came in at ₹ 1,746 crore (up 28.6% YoY) tracking 17.3% YoY growth in tonnage to best ever level of 68,002 MT. EBITDA margins at 31.0% were down a mere 63 bps QoQ amid 120 bps lower gross margins amid sequential savings in employee costs and other expenses (as percentage of sales). Consequent PAT in Q4FY21 came in at ₹ 372 crore, up 44.6% YoY, aided partly by higher other income (includes forex gains of ₹ 38 crore). The company declared a final dividend of ₹ 5/share for FY21, with total dividend declared for FY21 including interim dividend standing at ₹ 17/share.

Conducive macroeconomics, double-digit growth on the anvil

In FY21, BIL posted record performance in volumes (up 12.6% YoY to 2.27 lakh MT), net sales (up 20.4% YoY to 5,758 crore), EBITDA (up 42.9% YoY to ₹ 1,786 crore) and PAT (up 22.3% YoY to ₹ 1,155 crore) despite the impact of Covid in key geographies such as India and the US. The market leader in the niche off-highway tyre (OHT) exports enjoyed good traction, particularly in the agri segment. The OTR segment is witnessing an uptick in recent times on the back of higher commodity prices and pickup in infrastructure creation and economic activity. Management commentary is bullish on demand scenario, with volume guidance for FY22E at 2.50-2.65 lakh MT, YoY growth of ~10-17%. With present capacity of ~2.85 lakh MT per annum, there is enough headroom to service the expected demand. Enhanced production capacity post de-bottlenecking & brownfield expansion at 3.35 lakh MT per annum is set to be completed by H2FY23E. Going forward, Americas are seen as a growth driver (currently form 15% of overall mix). OTR segment is seen outpacing agri segment thereby leading to higher share in product mix from 32% currently to ~45-50%. BIL commands global market share of ~5-6% currently and intends to grow it to ~10% down the line. We build 11.9%, 15.9% volume, revenue CAGR over FY21-23E.

Margin tailwinds in place, operating leverage to rescue...

BIL has undertaken price hikes of ~3-4% thus far in CY21 to pass on rise in commodity costs (~2-3% in Q4FY21). Its carbon black backward integration (present capacity of 1.15 lakh MT per annum) makes it stand apart from peers by providing an inherent cost hedge. This, coupled with higher operating leverage from expanded production base, brownfield nature of capacity expansion and currency depreciation benefits, we expect BIL to post 30%, 31.5% margins in FY22E, FY23E, respectively. The management reiterated long term margin guidance of 28-30%, going forward.

Valuation & Outlook

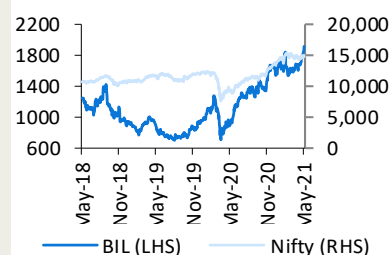
We expect 16% sales, PAT CAGR for BIL in FY21-23E. BIL continues to deliver on growth parameters without straying from its anti-commodity behaviour characteristics (high profitability, lean B/S and healthy return ratios). We maintain our **BUY** rating on the stock, valuing it at ₹ 2,250 i.e., 28x on FY23E EPS of ₹ 80.5/share (earlier target price ₹ 2,100).



Particulars

Particular	₹ crore
Market Capitalization	36,653
Total Debt (FY21P)	893
Cash & Inv (FY21P)	1,475
EV (₹ Crore)	36,071
52 week H/L (₹)	1966 / 915
Equity capital (₹ crore)	38.7
Face value (₹)	2.0

Price Chart



Key highlights

- Q4FY21 revenue growth of 28.6% YoY tracked 17.3% rise in tonnage. Margin dip limited to 63 bps QoQ
- Healthy demand traction expected across geographies, margins seen retaining strength, going forward

Key risks to our call

- More than estimated increase in RM costs, impacting margins
- Longer than expected payback on new capex impacting return ratios

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Jaimin Desai
jaimin.desai@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21P	FY22E	FY23E	CAGR (FY21P-23E)
Net Sales	5,244.5	4,782.5	5,757.9	6,903.7	7,737.6	15.9%
EBITDA	1,311.1	1,249.3	1,785.5	2,072.3	2,436.5	16.8%
EBITDA Margins (%)	25.0	26.1	31.0	30.0	31.5	
Net Profit	782.0	945.0	1,155.4	1,318.8	1,556.0	16.0%
EPS (₹)	40.5	48.9	59.8	68.2	80.5	
P/E	46.9	38.8	31.7	27.8	23.6	
RoNW (%)	16.7	18.8	19.2	19.0	19.4	
RoCE (%)	16.7	14.4	19.3	20.4	21.6	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Total Operating Income	1,745.9	1,640.8	1,357.3	28.6	1,504.6	16.0	Topline came in much ahead of estimates tracking health double digit sequential growth in volumes
Raw Material Expenses	721.3	694.8	604.9	19.2	603.5	19.5	
Employee Expenses	88.3	86.1	75.4	17.0	83.1	6.1	Employee costs were contained at 5.1% of sales
Other expenses	394.5	377.4	304.4	29.6	341.5	15.5	
EBITDA	541.8	482.5	372.6	45.4	476.4	13.7	
EBITDA Margin (%)	31.0	29.4	27.4	359 bps	31.7	-63 bps	EBITDA margins at 31% for Q4FY21 came in ahead of estimates tracking limited decline in RM costs at 120 bps
Other Income	58.4	24.2	66.4	-12.0	51.4	13.7	
Depreciation	103.4	107.1	98.3	5.3	101.9	1.5	Depreciation came in on expected lines
Interest	2.3	1.8	1.9	21.7	1.7	34.5	
Tax	122.3	100.2	81.5	50.1	102.2	19.6	
PAT	372.2	297.6	257.3	44.6	321.9	15.6	PAT came in much ahead of estimates tracking robust volumes, beat on margins and higher than anticipated other income which includes forex gains amounting to ~₹ 38 crore
EPS	19.3	15.4	13.3	44.6	16.7	15.6	
Key Metrics							
Volume (MT)	68,002	64,922	57,966	17.3	59,810	13.7	Sales volume for Q4FY21 was at 68,002 tonne up 13.7% QoQ

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	6,529	6,904	5.7	7,452	7,738	3.8	We upgrade our sales estimates tracking upbeat management commentary. We expect sales at BIL to grow at a CAGR of 15.9% over FY21-23E
EBITDA	2,058	2,072	0.7	2,424	2,436	0.5	
EBITDA Margin (%)	31.5	30.0	-150 bps	32.5	31.5	-101 bps	Lower our margin estimates for FY22E-23E amid rise in key commodity prices namely natural rubber and crude derivatives
PAT	1,269	1,319	3.9	1,500.0	1,556	3.7	
EPS (₹)	65.6	68.2	3.9	77.6	80.5	3.7	Upgrade in sales estimates with marginal moderation in margin profile leads to single digit upgrade in our forward earnings. We expect PAT to grow at a CAGR of 16% over FY21-23E

Source: ICICI Direct Research

Exhibit 3: Assumptions

	FY18	FY19	FY20	FY21P	FY22E	FY23E	Comments
Capacity (MT)	300,000	300,000	300,000	280,000	285,000	285,000	
Sales volume (MT)	199,213	211,261	201,760	227,132	260,040	284,615	Going forward, we expect sales volume to grow at a CAGR of 11.9% over FY21-23E to 2.85 lakh tonne by FY23E. It includes a sales growth assumption of 14% YoY in FY22E amid management guidance of ~10-17% growth. For FY23E, we expect sales volume to grow 9% YoY
Volume growth (% YoY)		6%	-4%	13%	14%	9%	
Average realisation (₹/kg)	222	246	237	254	265	272	

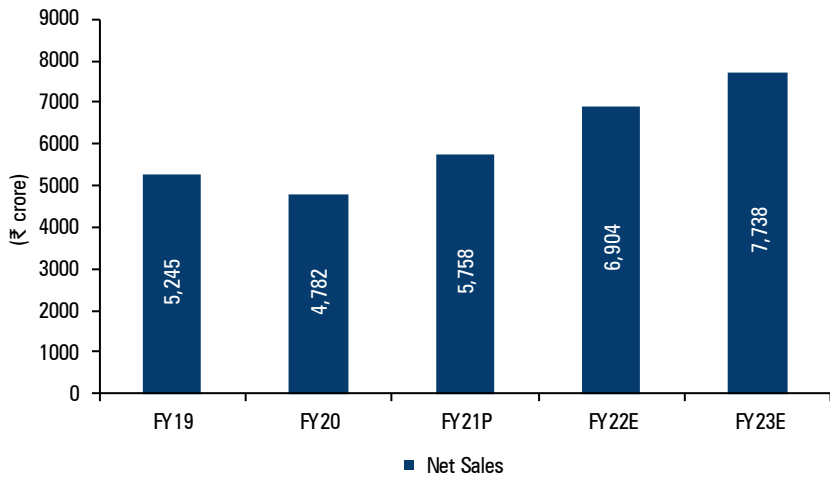
Source: ICICI Direct Research

Q4FY21 earnings conference call highlights

- The management said that demand traction is strong in the agri segment across geographies and recently there has been a pickup for OTR due to higher commodity prices and economic activity. Over the short term, Covid could impact offtake but **for full year FY22E, BIL is expected to post volumes of 2.50-2.65 lakh MT, an increase of ~10-17% YoY**
- For FY21, Europe formed 50% of sales while India and Americas constituted 23% and 15%, respectively. In terms of channel mix, replacement was at 70% with sales to OEMs at 26%. India market share was at 4-5% currently following 29% YoY growth in volume terms for FY21
- American market is seen as one of the growth drivers, going forward. Here the company expects past actions such as specific product introduction, higher marketing spends and dealer expansion to start bearing fruits soon
- **The company wants to increase share of OTR within overall mix to 45-50% over the coming four to five years from 32% as of FY21**
- **BIL reiterated margin guidance of 28-30%, going forward. Raw material price increase amounted to ~2-3% in Q4FY21. They are seen rising by another 5-6% in Q1FY22E.** BIL has over the past five months taken price hikes to the tune of ~3-4% to mitigate this inflation. In Q4FY21, cost of natural & synthetic rubber was at ~₹ 130/kg, which is seen increasing to ~₹ 145/kg in Q1FY22E
- **BIL currently has ~20% price gap vs. competitors and seeks to reduce it to ~12-15% in coming years**
- FY21 capex spends was at ₹ 911 crore. **Capex outlay for FY22E is pegged at ₹ 800-850 crore including maintenance capex**
- For Q4FY21, other expenses were higher due to higher logistics costs. Freight costs rose 3-4% YoY. The company does not expect an immediate softening in this aspect

Financial story in charts

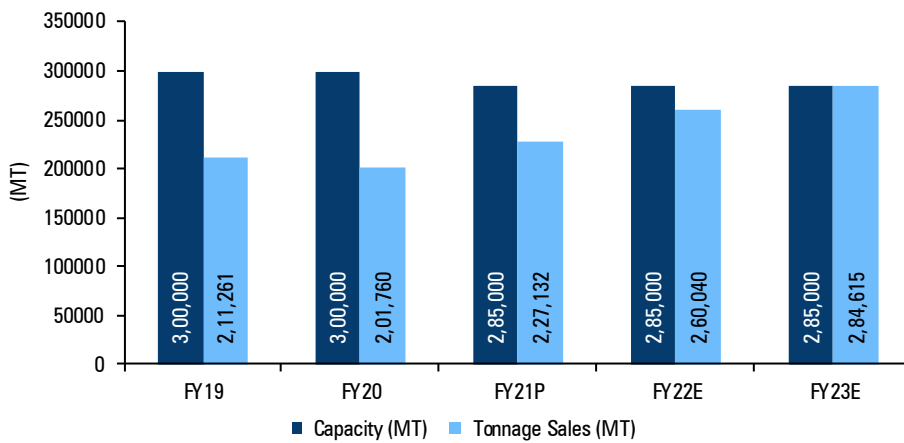
Exhibit 4: Topline trend



We expect sales to grow at a CAGR of 15.9% over FY21P-23E to ₹ 7738 crore in FY23E

Source: Company, ICICI Direct Research

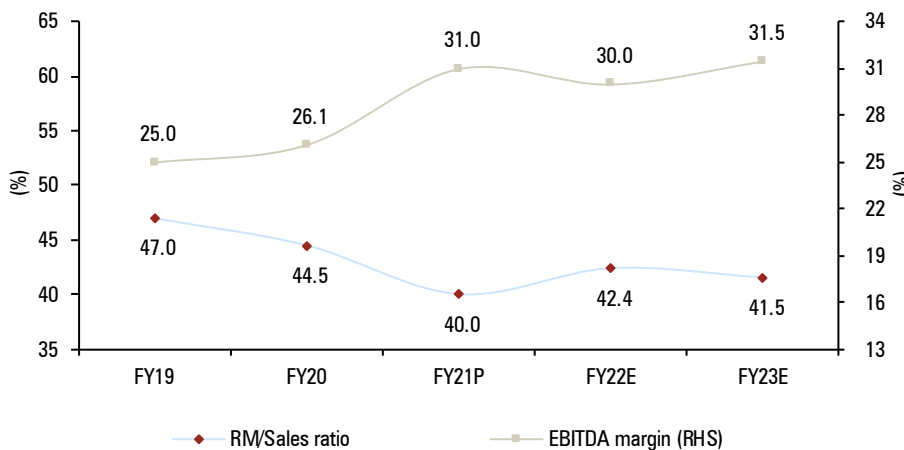
Exhibit 5: Capacity and volume trend



We expect tonnage volumes to grow at 11.9% CAGR over FY21P-23E to 2.85 lakh MT

Source: Company, ICICI Direct Research

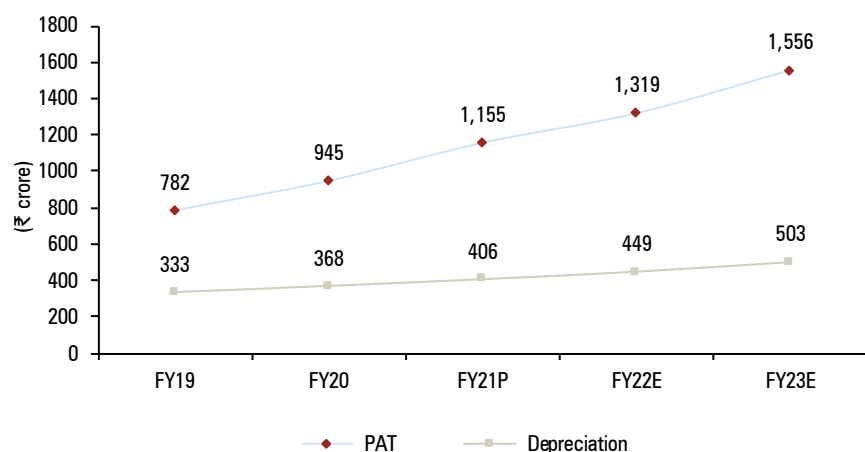
Exhibit 6: Trend in EBITDA margins



Margins are seen improving to 31.5% by FY23E amid backward integration benefits and better operating leverage

Source: Company, ICICI Direct Research

Exhibit 7: Trend in profitability



PAT seen growing at 16.0% CAGR in FY21P-23E

Source: Company, ICICI Direct Research

Exhibit 8: Details of fresh ₹ 1,900 crore capex programme

<p>Brownfield Tire Plant</p> <ul style="list-style-type: none"> Debottlenecking and Brownfield expansion along with addition of balancing and ancillary equipment at Bhuj Expansion to add ~50,000 MTPA capacity; expected completion by H2FY23 Capex cost of up to Rs. 800cr 	<ul style="list-style-type: none"> ✓ Rs. 1,900cr Capex to be funded by Internal Accrual and Debt, if required ✓ Post Brownfield capex achievable capacity of Tire Plant will stand at 335,000 MTPA ✓ Embarking on new capex in Carbon Black on back of Proven quality of product coupled with strong demand for captive consumption and 3rd parties. ✓ Modernization capex to lead to better efficiency
<p>Carbon Black and Captive Power Plant</p> <ul style="list-style-type: none"> Current achievable capacity at 115,000 MTPA. With successful addition of new customers, carbon black capacity is planned to be increased to 200,000 MTPA including 30,000 MTPA of high value advanced carbon material and Power Plant Facility will allow larger control over supply chain while fulfilling internal demand on expanded capacity of Tires and meeting increased demand from 3rd parties Capex cost of up to Rs. 650cr; expected completion by H1FY23 	
<p>Modernization, Automation and Technology Upgradation</p> <ul style="list-style-type: none"> Modernization, automation and technology upgradation of certain existing equipment and install automated material handling systems Capex to be undertaken at existing facilities at Rajasthan and Bhuj leading to improvement in quality and efficiency Capex cost of up to Rs. 450cr; expected to be completed by H1FY23 	

Source: Company, ICICI Direct Research

Exhibit 9: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY18	4,464	17.8	38.2	3.4	49.6	33.2	18.1	15.7
FY19	5,245	17.5	40.5	5.8	46.9	28.0	16.7	16.7
FY20	4,782	-8.8	48.9	20.8	38.8	29.7	18.8	14.4
FY21P	5,758	20.4	59.8	22.3	31.7	20.8	19.2	19.3
FY22E	6,904	19.9	68.2	14.2	27.8	17.9	19.0	20.4
FY23E	7,738	12.1	80.5	18.0	23.6	15.1	19.4	21.6

Source: Company, ICICI Direct Research

Exhibit 10: Shareholding pattern

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	58.3	58.3	58.3	58.3	58.3
FII	11.9	13.0	11.5	15.5	14.4
DII	17.8	17.8	19.0	15.0	14.6
Others	12.0	10.9	11.2	11.2	12.7

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Total operating Income	4,782.5	5,757.9	6,903.7	7,737.6
Growth (%)	-8.8	20.4	19.9	12.1
Raw Material Expenses	2,126.8	2,302.8	2,925.7	3,213.2
Employee Expenses	285.8	325.9	357.0	401.0
Other Expenses	1,120.5	1,343.7	1,548.6	1,687.0
Total Operating Expenditure	3,533.2	3,972.4	4,831.4	5,301.2
EBITDA	1249.3	1785.5	2072.3	2436.5
Growth (%)	-4.7	42.9	16.1	17.6
Depreciation	368.0	406.2	448.7	502.9
Interest	7.3	9.8	9.3	8.9
Other Income	248.8	161.5	148.9	155.5
PBT	1122.8	1531.0	1763.2	2080.2
Total Tax	177.9	375.6	444.3	524.2
Reported PAT	945.0	1155.4	1318.8	1556.0
Growth (%)	20.8	22.3	14.2	18.0
EPS (₹)	48.9	59.8	68.2	80.5

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Profit after Tax	945.0	1,155.4	1,318.8	1,556.0
Add: Depreciation	368.0	406.2	448.7	502.9
(Inc)/dec in Current Assets	135.9	-461.9	-312.3	-272.3
Inc/(dec) in CL and Provisions	42.2	273.7	-18.8	103.9
CF from operating activities	1491.1	1373.3	1436.5	1890.4
(Inc)/dec in Investments	412.4	-40.9	50.0	-25.0
(Inc)/dec in Fixed Assets	-848.8	-734.0	-850.0	-1,150.0
Others	-501.6	-442.7	-122.3	-102.6
CF from investing activities	-937.9	-1217.6	-922.3	-1277.6
Inc/(dec) in loan funds	31.6	32.1	-100.0	-100.0
Dividend paid & dividend tax	-465.5	-328.6	-386.6	-483.3
Others	-130.1	152.5	0.0	0.0
CF from financing activities	-564.0	-144.0	-486.6	-583.3
Net Cash flow	-10.9	11.7	27.6	29.5
Opening Cash	56.4	45.5	57.2	84.8
Closing Cash	45.5	57.2	84.8	114.3

Source: Company, ICICI Direct Research

Exhibit 13: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Liabilities				
Equity Capital	38.7	38.7	38.7	38.7
Reserve and Surplus	4,989.4	5,968.6	6,900.8	7,973.5
Total Shareholders funds	5028.1	6007.2	6939.4	8012.1
Total Debt	861.2	893.4	793.4	693.4
Deferred Tax Liability	178.3	203.5	203.5	203.5
Minority Interest / Others	0.0	0.0	0.0	0.0
Total Liabilities	6126.3	7161.6	7993.8	8966.5
Assets				
Gross Block	4,788.5	5,252.5	5,958.0	7,108.0
Less: Acc Depreciation	1,599.4	2,005.5	2,454.2	2,957.2
Net Block	3189.1	3247.0	3503.8	4150.8
Capital WIP	585.6	855.5	1,000.0	1,000.0
Total Fixed Assets	3,774.7	4,102.5	4,503.8	5,150.8
Investments	1,151.0	1,505.4	1,505.4	1,580.4
Inventory	580.4	909.3	945.7	1,059.9
Debtors	649.2	730.1	945.7	1,059.9
Loans and Advances	18.5	38.8	46.6	52.2
Cash	45.5	57.2	84.8	114.3
Other current assets	232.3	264.0	316.6	354.8
Total Current Assets	1,525.9	1,999.5	2,339.3	2,641.2
Creditors	361.0	633.5	567.4	636.0
Provisions	4.2	5.1	4.6	5.1
Other current liabilities	239.6	240.0	287.7	322.5
Total Current Liabilities	604.9	878.5	859.7	963.6
Net Current Assets	921.1	1120.9	1479.6	1677.6
Others	279.1	432.4	504.6	557.2
Application of Funds	6126.3	7161.6	7993.8	8966.5

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
(Year-end March)	FY20	FY21P	FY22E	FY23E
Per share data (₹)				
EPS	48.9	59.8	68.2	80.5
Cash EPS	67.9	80.8	91.4	106.5
BV	260.1	310.7	359.0	414.5
DPS	20.0	17.0	20.0	25.0
Cash Per Share	20.5	23.2	22.1	24.9
Operating Ratios (%)				
EBITDA Margin	26.1	31.0	30.0	31.5
PBT / Net sales	18.4	24.0	23.5	25.0
PAT Margin	19.8	20.1	19.1	19.5
Inventory days	44.3	57.6	50.0	50.0
Debtor days	49.6	46.3	50.0	50.0
Creditor days	27.6	40.2	30.0	30.0
Return Ratios (%)				
RoE	18.8	19.2	19.0	19.4
RoCE	14.4	19.3	20.4	21.6
RoIC	17.2	23.7	24.8	25.9
Valuation Ratios (x)				
P/E	38.8	31.7	27.8	23.6
EV / EBITDA	29.7	20.8	17.9	15.1
EV / Net Sales	7.8	6.4	5.4	4.8
Market Cap / Sales	7.7	6.4	5.3	4.7
Price to Book Value	7.3	6.1	5.3	4.6
Solvency Ratios				
Debt/EBITDA	0.7	0.5	0.4	0.3
Debt / Equity	0.2	0.1	0.1	0.1
Current Ratio	4.1	3.0	3.9	3.9
Quick Ratio	2.5	1.6	2.3	2.3

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct coverage universe (auto and auto ancillary)

Sector / Company	CMP	TP	Rating	M Cap	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	(₹)		(₹ Cr)	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Apollo Tyre (APOTYR)	208	260	BUY	13,209	5.5	9.9	16.2	37.7	21.1	12.8	6.4	6.6	4.7	7.6	6.1	9.1	6.4	5.3	8.2
Ashok Leyland (ASHLEY)	112	150	Buy	32,784	-1.7	1.4	4.6	-65.1	80.5	24.6	112.5	23.2	12.5	-3.6	6.1	16.4	-6.9	5.9	17.5
Bajaj Auto (BAAUTO)	3,850	4,500	BUY	1,11,407	157.4	183.5	210.0	24.5	21.0	18.3	18.2	14.9	12.7	18.2	21.9	25.2	18.1	20.6	23.1
Balkrishna Ind. (BALIND)	1,896	2,250	Buy	36,653	59.8	68.2	80.5	31.7	27.8	23.6	20.8	17.9	15.1	19.3	20.4	21.6	19.2	19.0	19.4
Bharat Forge (BHAFOR)	650	670	Hold	30,262	-5.2	11.8	19.1	NM	55.3	34.1	44.9	24.0	17.4	1.2	7.1	11.1	3.7	10.2	14.9
Eicher Motors (EICMOT)	2,415	3,050	Hold	65,833	48.7	73.3	94.2	49.6	32.9	25.6	32.7	22.5	17.7	11.7	15.3	16.7	12.0	15.8	17.5
Escorts (ESCORT)	1,170	1,500	Hold	14,342	62.8	65.7	77.8	18.6	17.8	15.0	11.8	11.3	9.2	16.8	14.6	14.9	14.7	13.5	13.9
Exide Industries (EXIIND)	185	200	Hold	15,725	8.9	9.3	11.0	15.6	15.0	12.6	10.9	10.4	9.0	14.0	13.8	15.1	11.0	10.5	11.5
Hero Moto (HERHON)	2,810	3,440	Buy	56,116	148.4	170.8	196.5	18.9	16.4	14.3	12.0	10.1	8.7	20.8	23.1	24.5	19.5	20.7	21.7
M&M (MAHMAH)	742	1,000	Buy	92,245	10.8	36.0	44.8	68.6	20.6	16.6	14.2	12.7	10.3	9.6	9.6	11.4	7.7	11.1	12.5
Maruti Suzuki (MARUTI)	6,740	6,080	Reduce	2,03,602	140.0	172.9	225.1	48.1	39.0	29.9	30.0	22.3	16.6	4.3	6.6	9.1	8.2	9.5	11.4
Minda Industries (MININD)	510	625	Buy	13,867	5.8	11.6	17.9	87.6	43.8	28.5	21.5	14.9	11.6	8.7	14.2	19.1	8.7	15.9	19.5
Motherson (MOTSUM)	230	225	Hold	72,632	2.5	6.7	8.1	NM	34.5	28.5	16.9	9.8	8.3	6.0	16.3	18.9	7.1	16.1	17.4
Tata Motors (TATMOT)	312	375	Buy	1,12,248	-50.8	23.1	32.6	NM	13.5	9.6	6.1	4.2	3.4	4.7	11.6	13.8	-41.3	15.8	18.2

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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