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Q4FY21 result review  
and earnings revision

## Automobiles

Target price: Rs2,269

### Earnings revision

(%)	FY22E	FY23E
Sales	↑ 4.6	↑ 5.9
EBITDA	↑ 1.8	↑ 6.0
EPS	↑ 2.2	↑ 7.4

### Target price revision

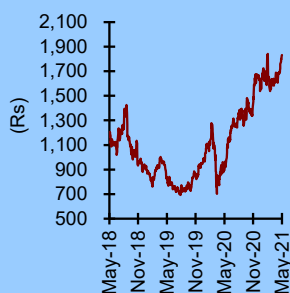
Rs2,269 from Rs1,937

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	58.3	58.3	58.3
Institutional investors	30.5	30.5	29.0
MFs and other	19.0	15.0	14.6
FIs/Banks/Ins	0.0	0.0	0.0
FII	11.5	15.5	14.4
Others	11.2	11.2	12.7

Source: BSE

### Price chart



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## INDIA

# Balkrishna Industries

**BUY**

Maintained

**Rs1,896**

## Growth momentum accelerates

Balkrishna Industries' (BIL) result was above consensus estimates as revenue growth surprised (up 26%) while EBITDA margins (~32%/flat QoQ) remained resilient even as domestic peers reported 350-600bps contraction. Volume guidance for FY22 at 250-265k MT (growth of 12-18%) is reflective of the growth momentum across segments. Industry export growth remained strong at 16% YoY in FY21 (agri: up 24% YoY driven by strong demand from EU). Agri demand outlook remains robust on the back of multi-year high crop prices (e.g. Corn, Soyabean). We expect OTR segment to lead growth in FY22 driven by improving global outlook on mining, construction (US infra led). Timely tire capacity expansion (~50k MT) is likely to aid volume growth in FY23. BIL remains a brand led export market oriented play, with improving RoCEs ~27%. **Maintain BUY.**

- **Highlights of the quarter:** Overall topline improved ~26% YoY to Rs17.5bn as volumes grew 17% and ASP improved 7.3% (driven by pricing/mix/FX). Gross margins came in at 58.8% (down only 90bps QoQ) even as commodity pressures continued to rise (up 2-3%). EBITDA margin stood at 31.8% (flat QoQ) even as higher freight costs (due to rise global container costs) ate into operating leverage. BIL posted PAT growth of ~44%YoY/ 16%QoQ, also declared an interim dividend of Rs5/share (FY21 total dividend: Rs17/share / 28% payout ratio).
- **Key highlights of earnings call:** Management indicated: a) raw material cost increased ~2-3% in 4Q and further are likely to rise 4-5% in Q1FY22 (BIL has taken 3-4% price hike YTD, further increases are likely); b) company has continued to invest in direct marketing spends to improving customer recall and witnessed ~29% YoY increase in spends (FY21/FY22:Rs1bn/Rs1.25bn respectively); current market share in India stands at 4-5%; c) growth outlook remains strong across both OEM / replacement segments c) in North America, BIL has developed specialised products and increased its distribution network to capture 10% market share in the long term (market size is equivalent to Europe); d) Rs8bn capex in Bhuj plant is expected for undertaking debottlenecking and capacity expansion by 50k MT; it is estimated to be complete by H2FY23; e) new OTR line for large (51"/57") tyres has been completed at Bhuj; product trials are being conducted and the same should start to contribute to revenues in FY22; and f) EUR/INR rate for 4Q : Rs87.4 (FY22E hedges: Rs89).
- **Maintain BUY:** BIL is likely to benefit from growth tailwinds across both agri and OTR segments, we expect sales/EPS CAGR ~21%/26% FY21-FY23E. We upgrade our earnings estimates by 2.2%/7.4% for FY22E/FY23E respectively. We estimate FCF to remain healthy at ~Rs22.8bn (cumulative FY22-23E) even post accounting for Rs19bn of growth capex. Top-quartile RoCE's (~27%), attractive FCF yield (~3.4%) in FY23E aids our positive stance. We raise our target multiple to 24x (earlier:22x) FY23E EPS due to the improving outlook and arrive at a target price of Rs2,269/share (earlier: Rs1,937). **Maintain BUY.**

Market Cap	Rs367bn/US\$5bn	Year to Mar (Std)	FY20	FY21P	FY22E	FY23E
Reuters/Bloomberg	BLKI.BO/BIL IN	Revenue (Rs mn)	48,984	57,395	72,452	84,609
Shares Outstanding (mn)	193.3	Rec. Net Income (Rs mn)	9,445	11,559	14,710	18,274
52-week Range (Rs)	1918/921	Rec. EPS (Rs)	48.9	59.8	76.1	94.5
Free Float (%)	41.7	% Chg YoY	20.8	22.4	27.3	24.2
FII (%)	14.4	P/E (x)	38.5	31.4	24.7	19.9
Daily Volume (US\$/'000)	21,013	CEPS (Rs)	67.9	80.8	102.7	126.0
Absolute Return 3m (%)	14.9	EV/E (x)	26.8	20.4	15.8	12.5
Absolute Return 12m (%)	97.9	Dividend Yield (%)	0.9	0.7	1.0	1.2
Sensex Return 3m (%)	(5.3)	RoCE (%)	18.1	21.4	24.4	26.8
Sensex Return 12m (%)	58.3	RoE (%)	18.8	19.2	21.0	22.0

Please refer to important disclosures at the end of this report

**Table 1: Q4FY21 result review***(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
<b>Net sales</b>	<b>17,459</b>	<b>13,573</b>	<b>28.6</b>	<b>15,046</b>	<b>16.0</b>
Volumes (MT)	68,002	57,966	17.3	59,810	13.7
Realization (Rs/kg)	257	240	7.3	250	2.8
<b>Total operating income</b>	<b>17,499</b>	<b>13,897</b>	<b>25.9</b>	<b>14,966</b>	<b>16.9</b>
Raw material costs	7,213	6,049	19.2	6,035	19.5
Employee costs	883	754	17.0	831	6.1
Other expenditures	3,830	3,020	26.8	3,330	15.0
Total operating expenses	<b>11,926</b>	<b>9,824</b>	<b>21.4</b>	<b>10,197</b>	<b>17.0</b>
<b>EBITDA</b>	<b>5,573</b>	<b>4,074</b>	<b>36.8</b>	<b>4,769</b>	<b>16.9</b>
<b>EBITDA margin (%)</b>	<b>31.8</b>	<b>29.3</b>	<b>254 bps</b>	<b>31.9</b>	<b>-2 bps</b>
Depreciation & amortisation	1,034	983	5.3	1,019	1.5
Other income	430	320	34.4	514	-16.3
Interest costs	23	19	21.7	17	34.5
<b>PBT</b>	<b>4,946</b>	<b>3,392</b>	<b>45.8</b>	<b>4,246</b>	<b>16.5</b>
Exceptional Items	-	-	-	-	-
Taxes	1,223	815	50.1	1,022	19.7
<b>PAT</b>	<b>3,723</b>	<b>2,577</b>	<b>44.4</b>	<b>3,224</b>	<b>15.5</b>
<b>Adjusted PAT</b>	<b>3,723</b>	<b>2,577</b>	<b>44.4</b>	<b>3,224</b>	<b>15.5</b>

Source: Company data, I-Sec research

**Table 2: Key assumptions**

Rs mn	FY18	FY19	FY20	FY21	FY22E	FY23E
Volumes (MT)	1,99,213	2,11,261	2,01,759	2,24,017	2,65,642	3,02,218
Net sales	46,855	53,345	48,984	57,395	72,452	84,609
% growth (YoY)	22%	14%	-8%	17%	26%	17%
EBITDA	13,519	14,305	13,816	18,088	22,979	28,357
Margin (%)	28.9%	26.8%	28.2%	31.5%	31.7%	33.5%
EBITDA/Kg	68	68	68	81	87	94
PAT	7,635	7,821	9,445	11,559	14,710	18,274
Margin (%)	16%	15%	19%	20%	20%	22%

**Table 3: Trends of regional mix**

Region contribution	FY16	FY17	FY18	FY19	FY20	FY21
Europe	53%	54%	52%	50%	52%	50%
Americas	15%	16%	17%	18%	19%	15%
India/ Asia	16%	16%	18%	19%	19%	23%
Others	16%	14%	13%	14%	11%	12%

**Table 3: Earnings revision***(Rs mn)*

	FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	69,249	72,452	4.6	79,885	84,609	5.9
EBITDA	22,583	22,979	1.8	26,762	28,357	6.0
PAT	14,388	14,710	2.2	17,019	18,274	7.4
EPS (Rs)	74.4	76.1	2.2	88.0	94.5	7.4

Source: Company data, I-Sec research

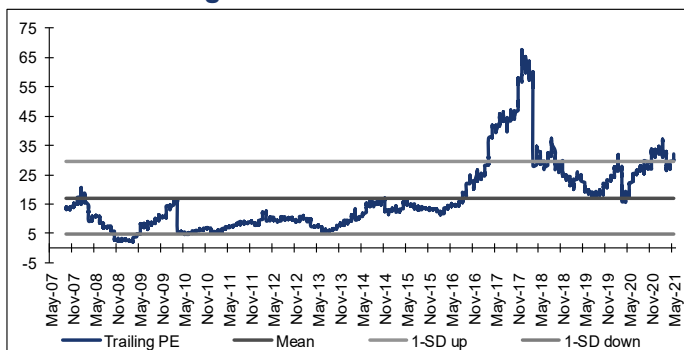
## Valuations

BIL is likely to benefit from growth tailwinds across both agri and OTR segments, we expect Sales/EPS CAGR ~21%/26% FY21-FY23E. We upgrade our earnings estimates by 2.2%/7.4% for FY22E/FY23E respectively. We estimate FCF to remain healthy at ~Rs22.8bn (cumulative FY22-23E) even post accounting for Rs19bn of growth capex. Top-quartile RoCE's (~27%), attractive FCF yield (~3.4%) in FY23E aids our positive stance. We raise our target multiple to 24x (earlier:22x) FY23E EPS due to the improving outlook and arrive at a target price of Rs2,269/share (earlier: Rs1,937). Maintain **BUY**.

**Upside risk:** Stronger pickup in demand in OTR and agri segments

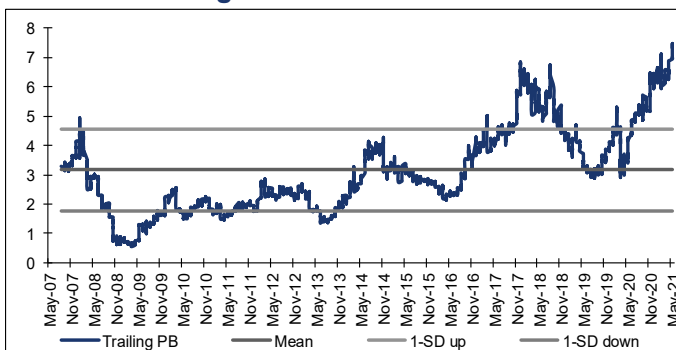
**Downside risks:** Lack of price pass-through in end-markets in the wake of commodity price inflation

Chart 1: Trailing P/E



Source: I-Sec research, 12m trailing data

Chart 2: Trailing P/B



Source: I-Sec research, 12m trailing data

## Financial summary (standalone)

**Table 2: Profit and Loss statement**
*(Rs mn, year ending March 31)*

	FY20	FY21P	FY22E	FY23E
Volumes (MT)	2,01,759	2,24,017	2,65,642	3,02,218
Total Op. Income (Sales)	48,984	57,395	72,452	84,609
Operating Expenses	35,168	39,308	49,472	56,251
EBITDA	13,816	18,088	22,979	28,357
% margins	28.2%	31.5%	31.7%	33.5%
Depreciation & Amortisation	3,680	4,066	5,144	6,092
EBIT	10,136	14,022	17,835	22,266
Other Income	1,180	1,379	1,447	1,903
Gross Interest	92	77	53	61
PBT	11,223	15,324	19,229	24,108
Less: Exceptionals	-	-	-	-
PBT after Exceptionals	11,223	15,324	19,229	24,108
Less: Taxes	1,779	3,765	4,519	5,834
Net Income (Reported)	9,445	11,559	14,710	18,274
Net Income (Adjusted)	9,445	11,559	14,710	18,274

Source: Company data, I-Sec research

**Table 3: Balance sheet**
*(Rs mn, year ending March 31)*

	FY20	FY21P	FY22E	FY23E
<b>ASSETS</b>				
<b>Current Assets</b>	15,025	19,763	25,484	27,424
Cash & cash eqv.	232	341	3,062	3,410
<b>Current Liabilities &amp; Provisions</b>	4,406	8,039	10,091	11,784
<b>Net Current Assets</b>	10,619	11,724	15,393	15,639
<b>Investments</b>	10,996	14,563	14,563	19,463
<b>Total Fixed Assets</b>	38,610	41,895	45,251	51,159
Capital Work-in-Progress	5,860	8,555	8,555	8,555
Other non-current asset	2,686	4,181	4,181	4,181
<b>Total Assets</b>	62,911	72,362	79,387	90,441
<b>LIABILITIES</b>				
<b>Borrowings</b>	10,262	9,682	6,682	4,682
long-term borrowings	22	14	14	14
short-term borrowings	10,240	9,668	6,668	4,668
Deferred Tax Liability Net	1,784	2,035	2,035	2,035
Other Non-current Liabilities	584	574	574	574
Equity Share Capital	387	387	387	387
Reserves & Surplus	49,894	59,686	69,710	82,764
<b>Net Worth</b>	50,281	60,072	70,097	83,151
<b>Total Liabilities</b>	62,911	72,362	79,387	90,441

Source: Company data, I-Sec research

**Table 4: 5-stage DuPont analysis**
*(year ending March 31)*

All figures in %	FY20	FY21P	FY22E	FY23E
Tax Burden	0.8	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	0.8	0.9	0.9
Financial Leverage	1.3	1.2	1.1	1.1
ROE	18.8	19.2	21.0	22.0

Source: Company data, I-Sec research

**Table 5: Cashflow statement**
*(Rs mn, year ending March 31)*

	FY20	FY21P	FY22E	FY23E
<b>Operating cashflow before working capital changes</b>	13,125	15,625	19,854	24,366
Net Working Capital Changes	785	(997)	(948)	102
<b>Operating Cashflow</b>	13,910	14,627	18,907	24,467
Capital Commitments	(8,598)	(7,351)	(8,500)	(12,000)
<b>Free Cashflow</b>	5,312	7,276	10,407	12,467
<b>Cashflow from Investing Activities</b>	(9,433)	(12,182)	(8,500)	(16,900)
Inc/(Dec) in Borrowings	1,335	(581)	(3,000)	(2,000)
Dividend paid	(4,661)	(3,286)	(4,446)	(5,220)
Interest paid	(92)	(77)	(53)	(61)
Others	92	88	53	61
<b>Cashflow from Financing Activities</b>	(3,326)	(3,856)	(7,446)	(7,220)
<b>Net Cashflow</b>	115	(1,411)	2,960	348
<b>Opening Cash &amp; Bank balance</b>	362	1,512	101	3,062
<b>Closing Cash &amp; Bank balance</b>	477	101	3,062	3,410
<b>Increase / (Decrease) in Cash &amp; cash equivalents</b>	115	(1,411)	2,960	348

Source: Company data, I-Sec research

**Table 6: Key ratios**
*(Year ending March 31)*

	FY20	FY21P	FY22E	FY23E
<b>Per Share Data (in Rs.)</b>				
EPS (Basic)	48.9	59.8	76.1	94.5
EPS (Adjusted)	48.9	59.8	76.1	94.5
Cash EPS	67.9	80.8	102.7	126.0
Dividend per share (DPS)	20.0	17.0	23.0	27.0
CDPS (Adjusted)	260.1	310.7	362.6	430.1
<b>Growth Ratios (%)</b>				
Total Op. Income (Sales)	-8.2	17.2	26.2	16.8
EBITDA	-3.4	30.9	27.0	23.4
Net Income (Adjusted)	20.8	22.4	27.3	24.2
EPS (Adjusted)	20.8	22.4	27.3	24.2
Cash EPS	17.8	19.0	27.1	22.7
CDPS (Adjusted)	7.5	19.5	16.7	18.6
<b>Valuation Ratios (x)</b>				
P/E (Adjusted)	38.5	31.4	24.7	19.9
P/CD (Adjusted)	7.2	6.0	5.2	4.4
EV/EBITDA	26.8	20.4	15.8	12.5
EV/Sales	7.5	6.4	5.0	4.2
<b>Return/Profitability Ratios (%)</b>				
EBITDA Margin	28.2	31.5	31.7	33.5
Net Income Margin (Adjusted)	19.3	20.1	20.3	21.6
RoCE	18.1	21.4	24.4	26.8
RoNW	18.8	19.2	21.0	22.0
Dividend Payout Ratio	40.9	28.4	30.2	28.6
Dividend Yield	0.9	0.7	1.0	1.2
<b>Solvency/Wkg. Cap. Ratios (x)</b>				
Net D/E	0.1	0.1	(0.0)	(0.1)
Gross Debt/EBITDA	0.5	0.3	(0.0)	(0.3)
EBIT/Interest	109.7	181.0	333.7	365.9
Current Ratio	4.0	3.0	2.8	2.6
Quick Ratio	2.5	1.6	1.5	1.4
Inventory (days)	43	58	52	46
Receivables (days)	49	49	45	42
Payables (days)	27	40	40	40

Source: Company data, I-Sec research

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