

India

**REDUCE** (no change)

Consensus ratings\*: Buy 12 Hold 8 Sell 9

Current price:	Rs2,052
Target price:	Rs1,620
Previous target:	Rs1,776
Up/downside:	-21.1%
InCred Research / Consensus:	-22.0%
Reuters:	BLKI.NS
Bloomberg:	BIL IN
Market cap:	US\$4,796m Rs396,735m
Average daily turnover:	US\$8.8m Rs731.7m
Current shares o/s:	193.3m
Free float:	41.7%

\*Source: Bloomberg

**Key changes in this note**

- FY23-25F sales cut by 6-9%.
- FY23-25F EBITDA cut by 7-14%.
- FY23-25F EPS cut by 12-20%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.1)	8.6	(5.2)
Relative (%)	(8.4)	10.8	(11.6)

Major shareholders	% held
Promoter Family	58.3
LIC	4.1
HDFC Mutual Fund	2.7

**Analyst(s)**



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# Balkrishna Industries Ltd

## Excess capacity overhang yet to play out

- 3QFY23 EPS dipped 75% qoq to Rs5.2, sharply below our estimate, due to lower volume, average selling price or ASP and currency impact.
- We cut our EPS estimates by 12-20% for FY23F-25F because of weak volume and excess capacity overhang impact.
- Sharp stock price rally in recent quarters undermines the weakness in end-markets and challenges for the company at +1SD P/E. Retain REDUCE rating.

### Profitability collapse in 3QFY23 is disappointing

Balkrishna Industries' 3QFY23 EBITDA plunged 40% qoq to Rs3.36bn, a big miss to our estimate (40%) and Bloomberg consensus estimate (34%), led by a 16% qoq dip in volume, and a 258 qoq fall in gross margin. India sales volume growth of 9% qoq was impressive. Higher interest cost, lower other income and a higher tax rate led to a 75% qoq fall in PAT to Rs.996m, missing our estimate by 72% and Bloomberg consensus estimate by 69%. Net debt rose 37% qoq to Rs13.5bn. Dividend per share remained flat qoq at Rs4.

### Management conference-call highlights

Management indicated that the 6% qoq dip in ASP was entirely due to the withdrawal of freight surcharge which led freight rates to ease sharply. It expects no major impact on a qoq basis. Management indicated that dealer inventory eased to 2.5 months of sales vs. its comfort level of two months, and thus inventory correction to continue. It indicated that Rs13bn capex was incurred in 9MFY23 and gave capex guidance of only Rs3bn for FY24F.

### EPS cut by a sharp 12-20% for FY23F-25F

Considering the sharp demand weakness in Europe agri tyre replacement demand (Fig. 3) and recession possibility, we have cut our sales volume estimates by 4-5% for FY23F-25F. Taking a cue from management's guidance of 300bp EBITDA margin recovery because of easing raw material cost, we build in EBITDA margin of 21.7% for FY23F and 22.9% for FY24F. The increase in the proportion of carbon black, from 5% of sales currently, by commissioning the special carbon black plant in the Mar 2023F quarter, could lead to a further upside.

### Capacity overhang yet to play out; maintain REDUCE rating

The sales volume concerns from a sharp correction in the European agri tyre replacement market is playing out and may take a few quarters to stabilize, as witnessed in CY19. Also, considering the new capacity addition in recent quarters, by 1HFY24F we feel the pain of new capacity overheads and debt funding will impact the EPS estimate. Following a sharp stock outperformance in the last three months lifting the forward P/E valuation to +1SD above five-year mean (Fig. 21), we retain REDUCE rating on the stock with a lower P/E-based target price of Rs1,620 (Rs1,776 earlier), at 19x. Key upside risk is lower raw material cost or INR depreciation helping in lifting the profit margin.

### Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	57,399	84,188	102,092	109,988	124,669
Operating EBITDA (Rsm)	17,645	21,825	19,342	23,855	28,585
Net Profit (Rsm)	11,099	14,722	11,291	13,875	16,855
Core EPS (Rs)	57.4	76.2	58.4	71.8	87.2
Core EPS Growth	17.5%	32.6%	(23.3%)	22.9%	21.5%
FD Core P/E (x)	35.74	26.95	35.13	28.59	23.54
DPS (Rs)	17.0	28.0	20.0	26.0	30.0
Dividend Yield	0.83%	1.36%	0.97%	1.27%	1.46%
EV/EBITDA (x)	22.96	19.28	21.91	17.55	14.46
P/FCFE (x)	112.64	76.38	62.31	41.63	55.98
Net Gearing	13.9%	34.8%	35.3%	25.8%	17.4%
P/BV (x)	6.60	5.73	5.17	4.64	4.11
ROE	20.1%	22.8%	15.5%	17.1%	18.5%
% Change In Core EPS Estimates			(20.42%)	(15.27%)	(11.64%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Excess capacity overhang yet to play out 3QFY23 earnings-call highlights

**Business and outlook:** Management indicated that it expects low single-digit growth in 4QFY23F. It mentioned that end-demand is holding up, but the dealers continue to destock inventory. Dealer inventory level stands at 2.5 months and destocking will continue till it reaches the level of 45-60 days, but management indicated that the pace of destocking should reduce month-over-month going ahead. It expects lower raw material cost, freight cost, better hedge rate, and better end-market situation to aid margin recovery in FY24F. It expects a 300bp EBITDA margin improvement from lower raw material and freight cost in FY24F. Management mentioned that the pricing delta with MNC tyre makers has been in the 12-15% range.

**Margins take a hit:** Management stated that lower operating leverage and high-cost inventory have hit the margins in 3QFY23. Going ahead, it expects a slight recovery in 4QFY23F and a meaningful recovery in FY24F. It mentioned that the average selling price was down by 6% qoq only due to lower freight surcharge and not because of any adverse product mix. It indicated that the freight surcharge has become zero from 1 Jan 2023, and that the cost benefit should fully reflect from 1QFY24F. Management mentioned that marketing expenses had gone up in other expenses during the quarter. Besides this, unrealized losses (net loss of Rs880m) was also recorded in other expenses.

### Other key data:

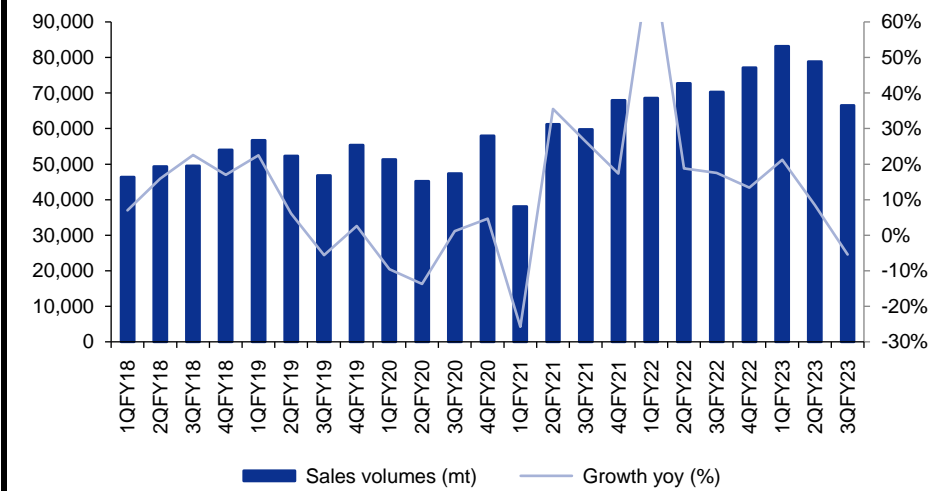
- Management expects capacity expansion to 360,000mt p.a. by the end of 1HFY24F.
- Gross debt stood at Rs34,640m (of which 75% is working capital debt) and net debt stood at 13,820m at the end of Dec 2022.
- Euro hedge rate in 3QFY23 was at Rs85, which for FY23F stands at Rs86 and for FY24F at Rs87.
- Overall interest rate on debt (long-term as well as working capital) stood at 3.5-4%.
- 9MFY23 capex stood at Rs13bn, and management gave FY24F capex guidance of Rs3-4bn.
- Carbon black contributed 5% to the topline.

Figure 1: Results comparison

FYE Mar (Rs m)	3QFY23	3QFY22	yoy % chg	2QFY23	qoq % chg	9MFY23	9MFY22	yoy % chg	Comments for the quarter
Revenue	22,153	20,790	6.6	28,063	(21.1)	77,479	59,868	29.4	17% below our estimate.
Raw material cost	11,380	9,659	17.8	13,690	(16.9)	37,762	26,758	41.1	
RM as % of revenue	51.4	46.5	490.8	48.8	258.3	48.7	44.7	404.4	387bp above our estimate.
<b>EBITDA</b>	<b>3,363</b>	<b>5,064</b>	<b>(33.6)</b>	<b>5,645</b>	<b>(40.4)</b>	<b>14,473</b>	<b>16,060</b>	<b>(9.9)</b>	<b>40% below our estimate.</b>
<b>EBITDA margin (%)</b>	<b>15.2</b>	<b>24.4</b>	<b>(918.1)</b>	<b>20.1</b>	<b>(493.9)</b>	<b>18.7</b>	<b>26.8</b>	<b>(814.6)</b>	<b>572bp below our estimate.</b>
Deprn & amort.	1,449	1,145	26.6	1,341	8.1	4,052	3,271	23.9	2% below our estimate.
EBIT	1,913	3,919	(51.2)	4,305	(55.6)	10,421	12,789	(18.5)	
Interest expense	136	18	659.8	43	215.5	207	57	261.0	81% above our estimate.
Other income	(359)	486	(173.8)	1,060	(133.9)	814	1,929	(57.8)	Negative vs our estimate of Rs.650m.
Pretax profit	1,418	4,387	(67.7)	5,321	(73.3)	11,028	14,661	(24.8)	
Tax	422	1,101	(61.7)	1,283	(67.1)	2,797	3,635	(23.1)	
Tax rate (%)	29.8	25.1	466	24.1	565	25.4	24.8	56	
<b>Normalised Net profit</b>	<b>996</b>	<b>3,286</b>	<b>(69.7)</b>	<b>4,038</b>	<b>(75.3)</b>	<b>8,232</b>	<b>11,025</b>	<b>(25.3)</b>	<b>72% below our estimate: negative other income &amp; higher tax rate.</b>
Exceptionals	-	-	nm	-	nm	-	(655)	nm	
Reported net profit	996	3,286	(69.7)	4,038	(75.3)	8,232	10,370	(20.6)	
Normalised EPS (Rs)	5.2	17.0	(69.7)	20.9	(75.3)	41.9	56.5	(25.7)	
Volumes (mt)	66,480	70,320	(5.5)	78,872	(15.7)	2,28,505	2,11,676	8.0	12% below our estimate.
Realisation (Rs/kg)	333	296	12.7	356	(6.3)	339	283	19.9	5% below our estimate.

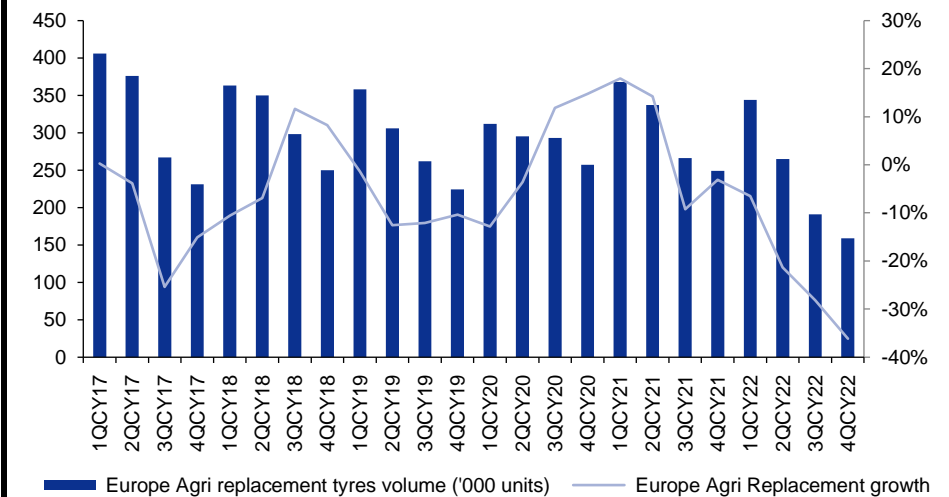
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Sales volume tapers off**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Europe's agri tyre replacement industry's volume continues its downtrend**



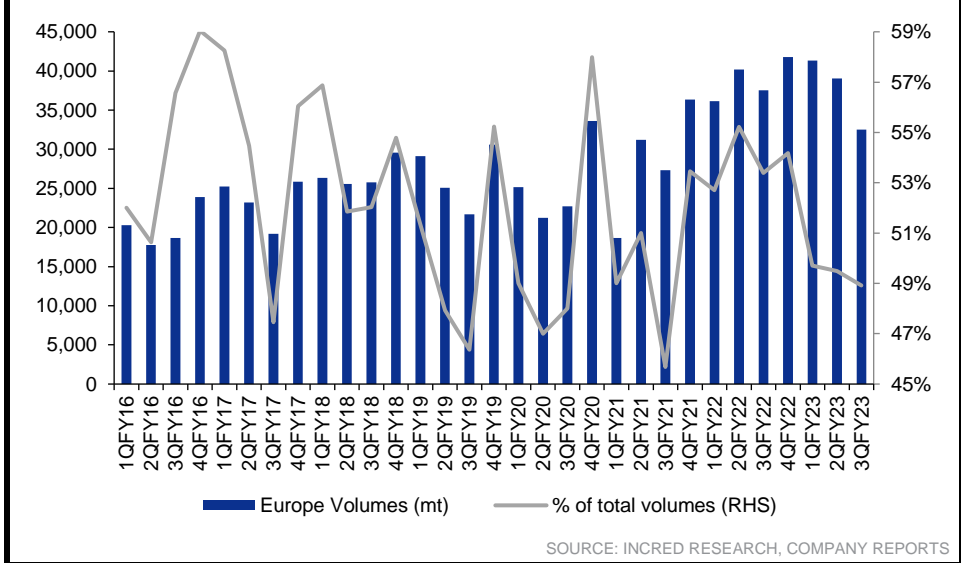
SOURCE: EUROPEAN TYRE & RUBBER MANUFACTURERS' ASSOCIATION (ETRMA), INCRED RESEARCH, COMPANY REPORTS

**Figure 4: BKT Europe's sales finally catch up with Europe agri tyre replacement industry slowdown**

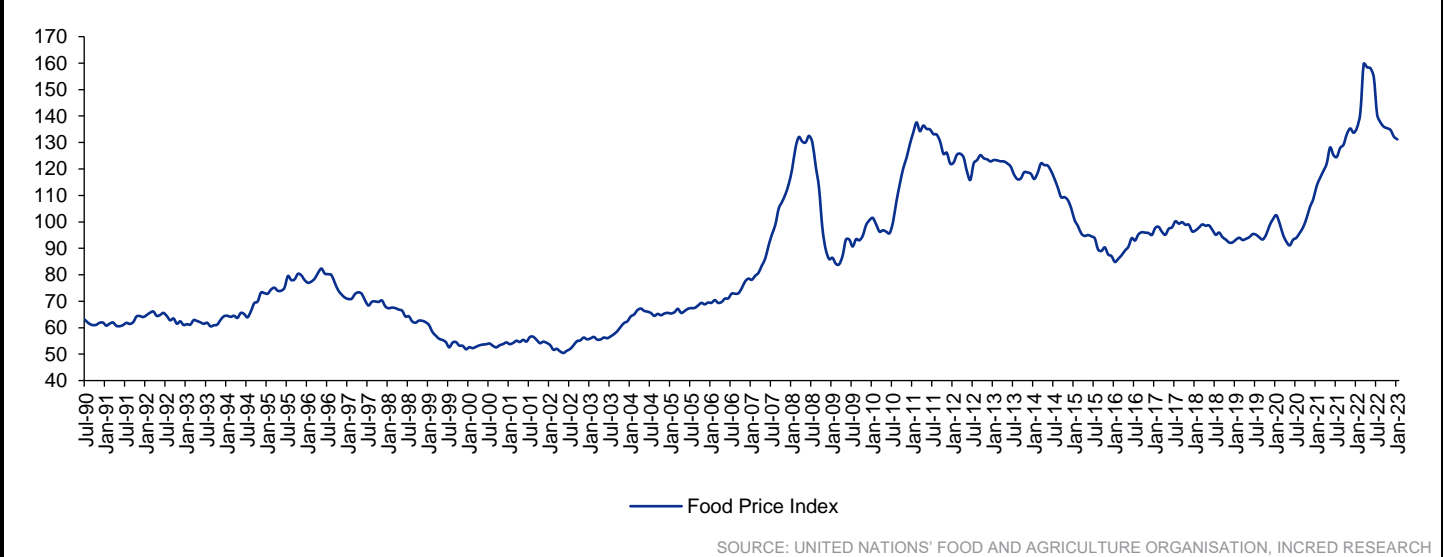
	3QFY23	yoy %	qoq %	9MFY23	yoy %
Europe Agri replacement tyres volume ('000 units)	159	-36%	-17%	615	-28%
BKT Europe sales volume (mt)	32,517	-13%	-17%	1,12,881	-1%

NOTE: BKT REFERS TO BALKRISHNA INDUSTRIES  
SOURCE: ETRMA, INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Europe's share in total revenue has been declining over the past few quarters**



**Figure 6: Food and Agriculture Organization or FAO's food price index**



Higher cost raw material inventory, lower operating leverage and mark-to-market forex losses led 3QFY23 margins to dip further.

**Figure 7: EBITDA margin has deteriorated over the past several quarters**

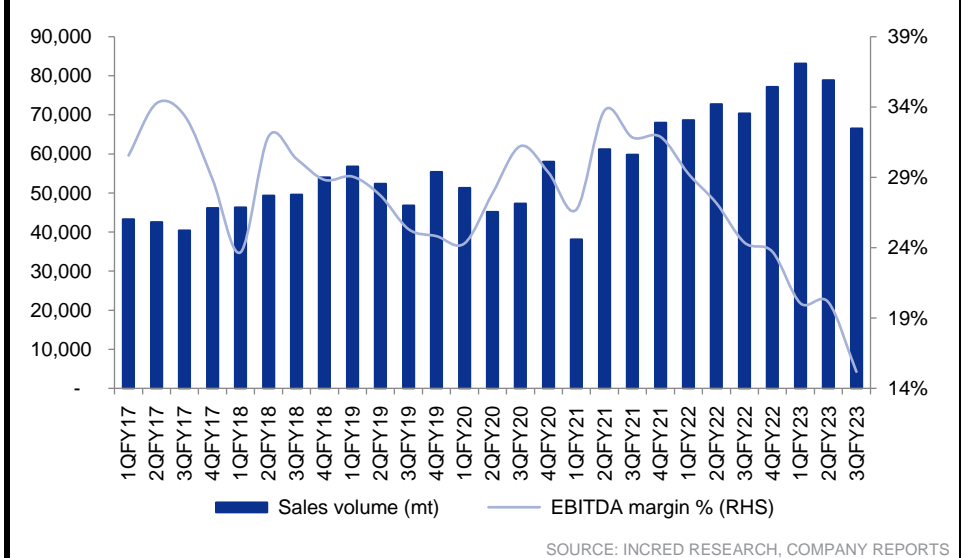
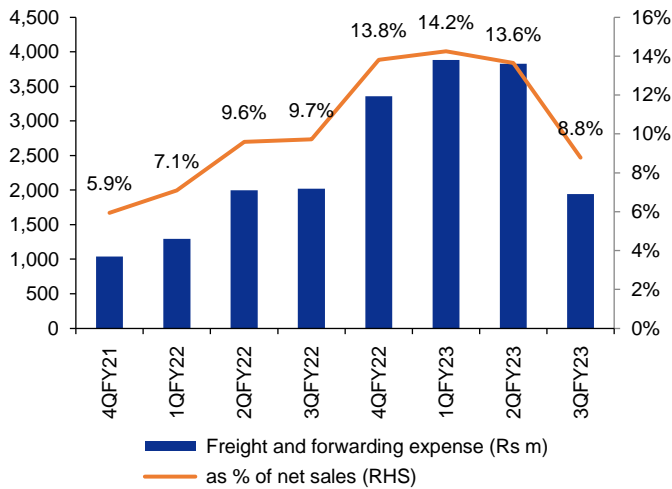
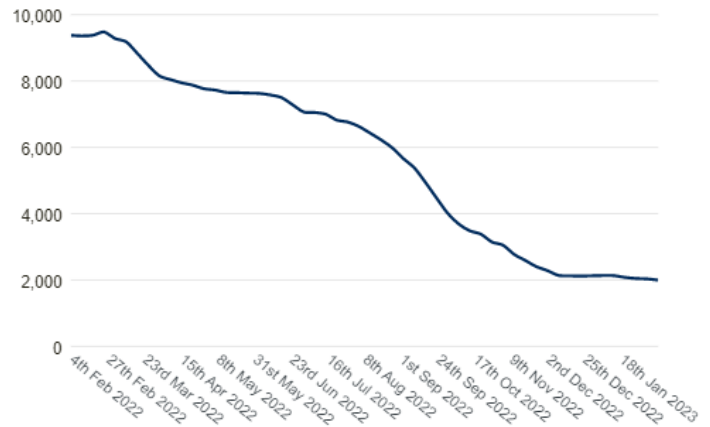


Figure 8: Freight and forwarding expenses trend



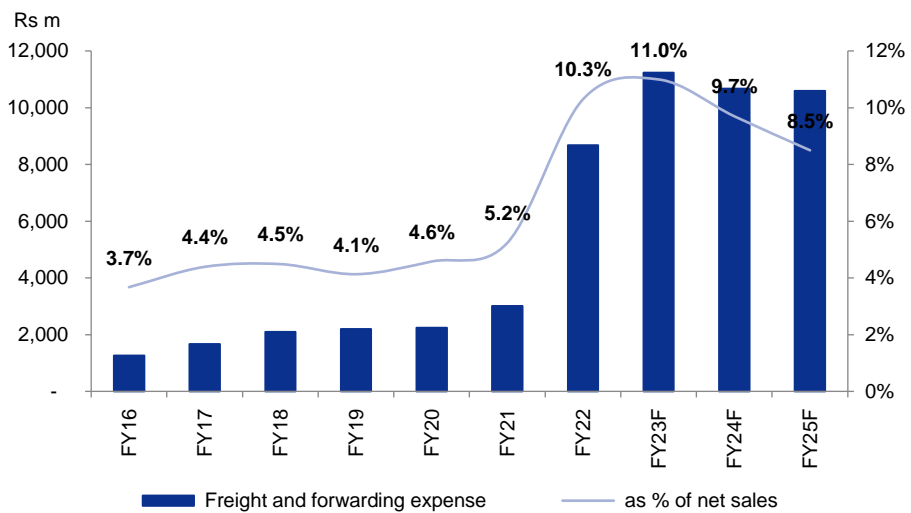
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: World Container Index – US\$ per 40 feet container (as assessed by Drewry, US\$1,997 per 40ft container as on 9 Feb 2023)



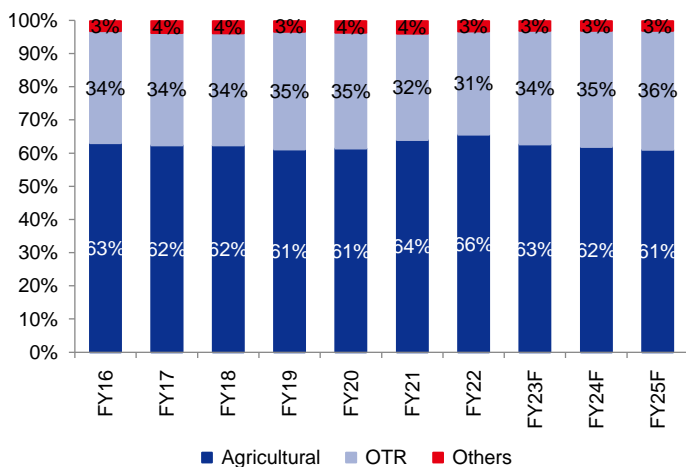
SOURCE: DREWRY, INCRED RESEARCH

Figure 10: Freight and forwarding expenses



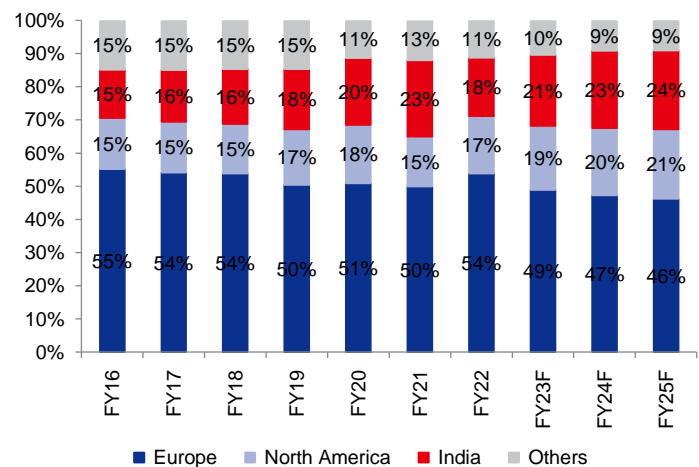
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Balkrishna Industries' sales mix trend



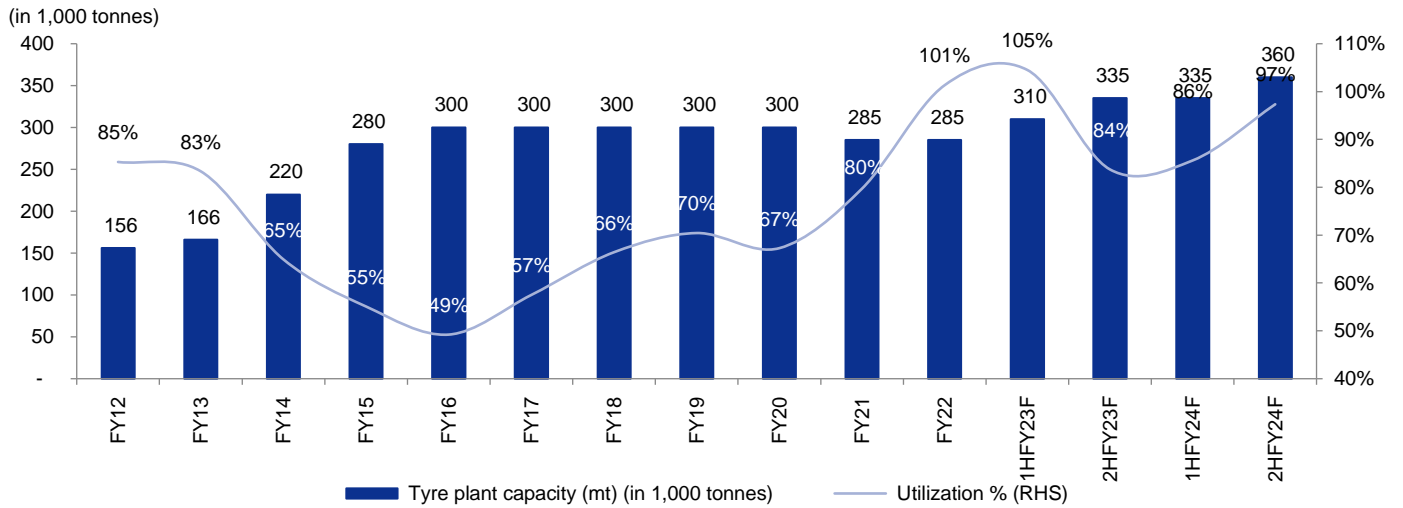
NOTE: OTR REFERS TO OFF-THE-ROAD  
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: Sales mix trend by region



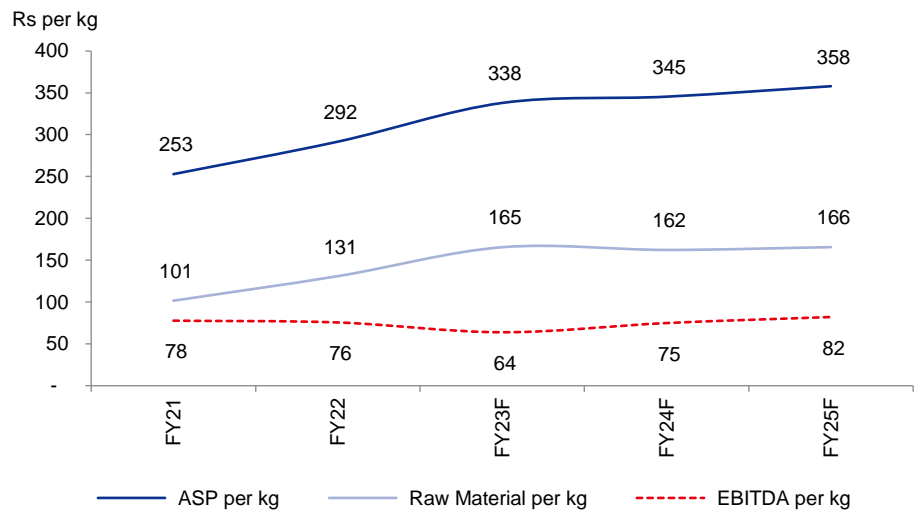
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 13: Balkrishna Industries' capacity addition



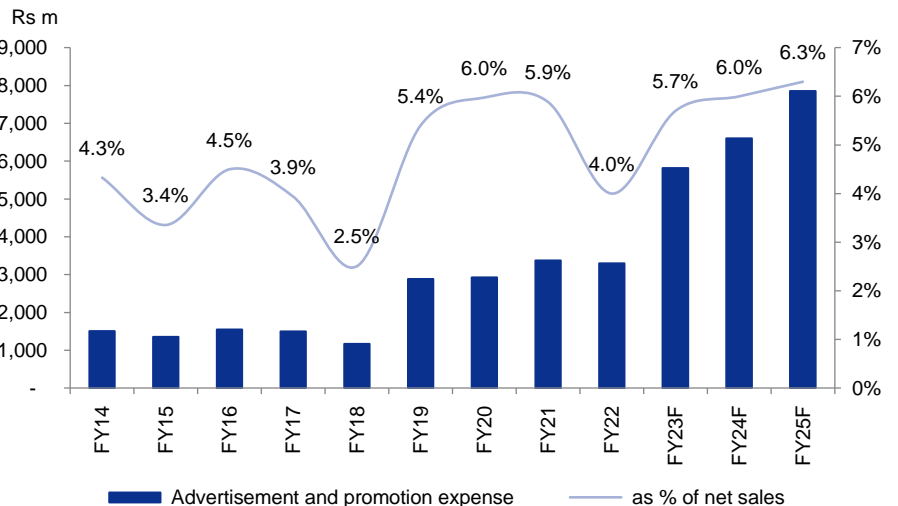
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 14: Average selling price or ASP growth momentum to slowdown considering correcting freight and raw material costs



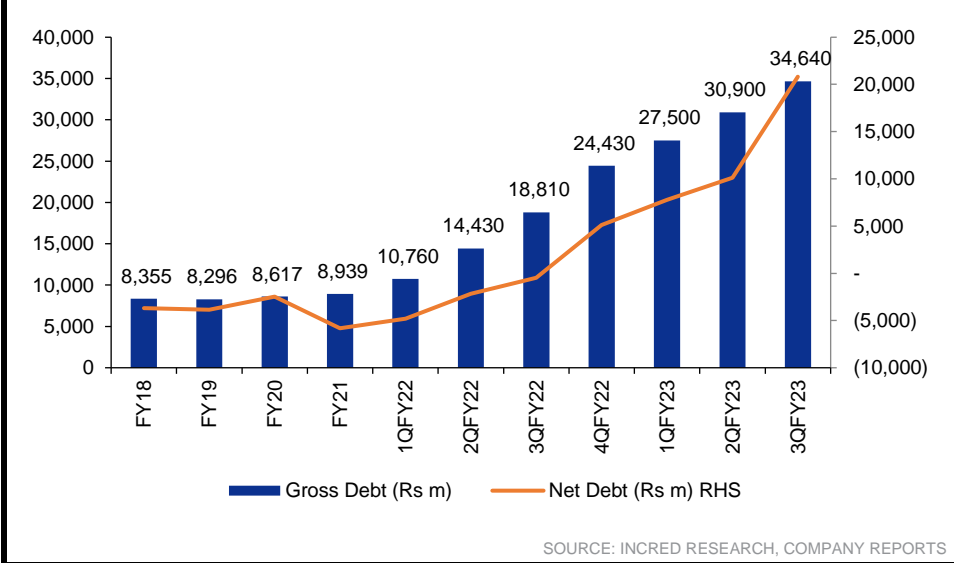
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 15: The company's focus is on brand building

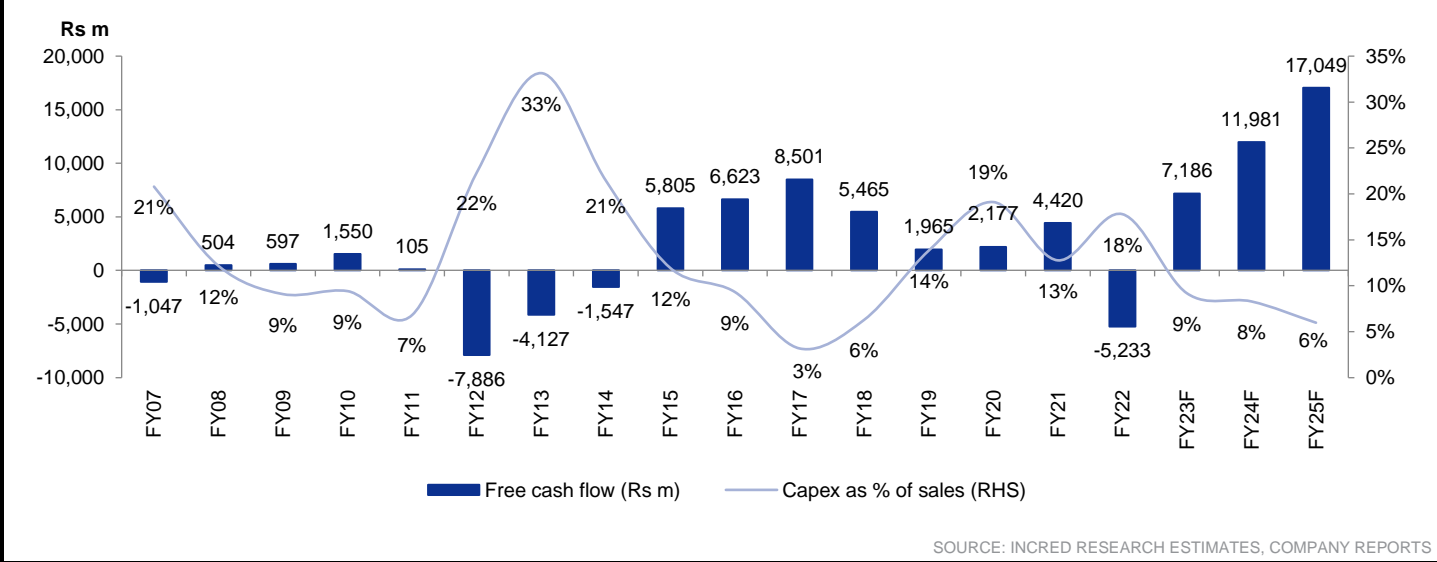


SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 16: Gross debt level rising since the past few quarters is a cause of concern**



**Figure 17: Free cash flow benefit expected post capex benefit in FY24F-25F**



**Figure 18: Our revised estimates - summary**

Rs m	FY23F		FY24F		FY25F	
	Old	New	Old	New	Old	New
Sales Volume (nos)	3,14,680	3,02,267	3,34,937	3,18,585	3,61,934	3,48,534
% change		-3.9%		-4.9%		-3.7%
Net Sales	1,08,771	1,02,092	1,20,454	1,09,988	1,33,613	1,24,669
% change		-6.1%		-8.7%		-6.7%
EBITDA	22,432	19,342	26,358	23,855	30,800	28,585
% change		-13.8%		-9.5%		-7.2%
EBITDA margin	20.6%	18.9%	21.9%	21.7%	23.1%	22.9%
bp change		(168)		(19)		(12)
PAT	14,188	11,291	16,375	13,875	19,074	16,855
% change		-20.4%		-15.3%		-11.6%
EPS (Rs)	73.4	58.4	84.7	71.8	98.7	87.2
% change		-20.4%		-15.3%		-11.6%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 19: Key assumptions

	FY20A	FY21A	FY22A	FY23F	FY24F	FY25F
Sales volume (mt)	2,01,760	2,27,131	2,88,795	3,02,267	3,18,585	3,48,534
Growth yoy %	-4.5%	12.6%	27.1%	4.7%	5.4%	9.4%
ASP (Rs per kg)	243	253	277	327	330	340
Growth yoy %	-3.9%	4.1%	9.7%	18.0%	1.0%	3.0%
<b>Net sales (Rs m)</b>	<b>48,975</b>	<b>57,399</b>	<b>84,188</b>	<b>1,02,092</b>	<b>1,09,988</b>	<b>1,24,669</b>
Growth yoy %	-8.2%	17.2%	46.7%	21.3%	7.7%	13.3%
EBITDA (Rs m)	13,814	17,645	21,825	19,342	23,855	28,585
<b>EBITDA margin %</b>	<b>28.2%</b>	<b>30.7%</b>	<b>25.9%</b>	<b>18.9%</b>	<b>21.7%</b>	<b>22.9%</b>
PAT (Rs m)	9,450	11,099	14,722	11,291	13,875	16,855
Growth yoy %	20.8%	17.5%	32.6%	-23.3%	22.9%	21.5%
<b>EPS (Rs)</b>	<b>48.9</b>	<b>57.4</b>	<b>76.2</b>	<b>58.4</b>	<b>71.8</b>	<b>87.2</b>
<b>Volume mix %</b>						
Europe	50.9%	50.0%	53.9%	48.9%	47.3%	46.3%
North America	17.6%	15.0%	17.3%	19.3%	20.2%	20.8%
India	20.2%	23.0%	17.6%	21.4%	23.3%	23.9%
Others	11.4%	13.0%	11.2%	10.4%	9.2%	9.0%

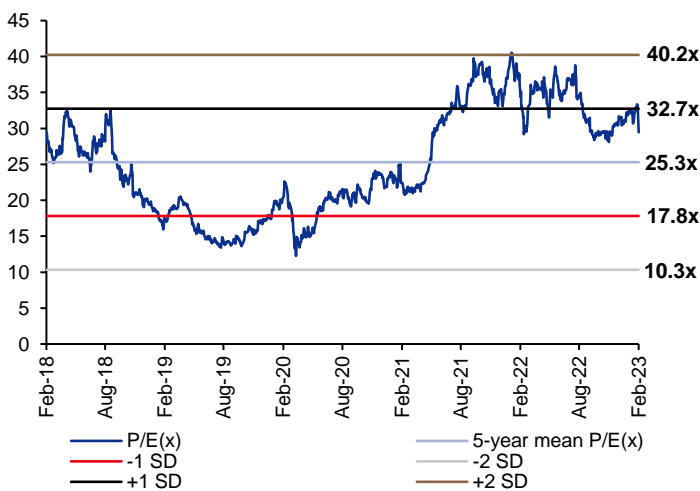
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 20: Target price calculation methodology

1-year forward EPS (Rs)	85.3
P/E Multiple (x)	19.0
<b>Target price (Rs/share)</b>	<b>1,620</b>

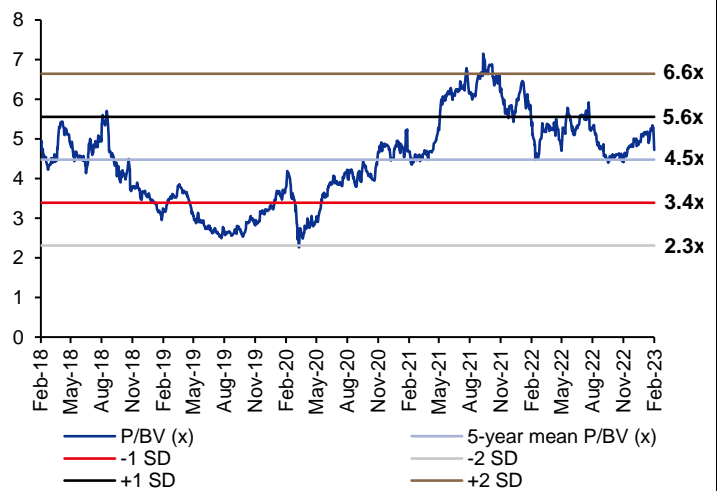
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 21: Forward P/E valuation above mean level



SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, COMPANY REPORTS

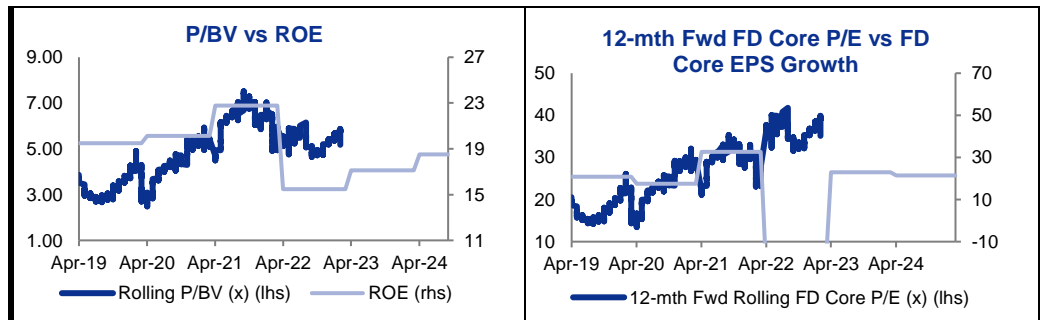
Figure 22: Forward P/BV valuation above mean level



SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, COMPANY REPORTS



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>57,399</b>	<b>84,188</b>	<b>102,092</b>	<b>109,988</b>	<b>124,669</b>
<b>Gross Profit</b>	<b>34,371</b>	<b>46,402</b>	<b>52,067</b>	<b>58,294</b>	<b>66,947</b>
<b>Operating EBITDA</b>	<b>17,645</b>	<b>21,825</b>	<b>19,342</b>	<b>23,855</b>	<b>28,585</b>
Depreciation And Amortisation	(4,062)	(4,438)	(5,602)	(6,546)	(7,154)
<b>Operating EBIT</b>	<b>13,583</b>	<b>17,387</b>	<b>13,739</b>	<b>17,309</b>	<b>21,431</b>
Financial Income/(Expense)	(98)	(79)	(250)	(500)	(750)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,375	2,236	1,565	1,690	1,792
<b>Profit Before Tax (pre-EI)</b>	<b>14,859</b>	<b>19,544</b>	<b>15,055</b>	<b>18,500</b>	<b>22,473</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>14,859</b>	<b>19,544</b>	<b>15,055</b>	<b>18,500</b>	<b>22,473</b>
Taxation	(3,760)	(4,822)	(3,764)	(4,625)	(5,618)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>11,099</b>	<b>14,722</b>	<b>11,291</b>	<b>13,875</b>	<b>16,855</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>11,099</b>	<b>14,722</b>	<b>11,291</b>	<b>13,875</b>	<b>16,855</b>
Recurring Net Profit	11,099	14,722	11,291	13,875	16,855
<b>Fully Diluted Recurring Net Profit</b>	<b>11,099</b>	<b>14,722</b>	<b>11,291</b>	<b>13,875</b>	<b>16,855</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>17,645</b>	<b>21,825</b>	<b>19,342</b>	<b>23,855</b>	<b>28,585</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,374)	(9,236)	(843)	(2,462)	(1,992)
(Incr)/Decr in Total Provisions	(2,035)	(419)	70	70	70
Other Non-Cash (Income)/Expense					
<b>Other Operating Cashflow</b>					
Net Interest (Paid)/Received	1,276	2,157	1,315	1,190	1,042
Tax Paid	(3,641)	(4,575)	(3,764)	(4,625)	(5,618)
<b>Cashflow From Operations</b>	<b>11,872</b>	<b>9,753</b>	<b>16,120</b>	<b>18,029</b>	<b>22,087</b>
Capex	(7,332)	(14,986)	(15,000)	(5,000)	(8,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(1,341)	(5,060)	(254)	(3,000)	(3,000)
<b>Cash Flow From Investing</b>	<b>(8,673)</b>	<b>(20,046)</b>	<b>(15,254)</b>	<b>(8,000)</b>	<b>(11,000)</b>
Debt Raised/(repaid)	322	15,487	5,500	(500)	(4,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,286)	(5,412)	(3,866)	(5,026)	(5,799)
Preferred Dividends					
Other Financing Cashflow		(615)			
<b>Cash Flow From Financing</b>	<b>(2,964)</b>	<b>9,460</b>	<b>1,634</b>	<b>(5,526)</b>	<b>(9,799)</b>
Total Cash Generated	236	(834)	2,500	4,503	1,288
<b>Free Cashflow To Equity</b>	<b>3,522</b>	<b>5,194</b>	<b>6,366</b>	<b>9,529</b>	<b>7,087</b>
<b>Free Cashflow To Firm</b>	<b>3,298</b>	<b>(10,214)</b>	<b>1,116</b>	<b>10,529</b>	<b>11,837</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	571	353	2,853	7,356	8,644
Total Debtors	7,301	10,977	12,866	13,560	15,370
Inventories	9,093	16,394	16,782	18,080	18,786
Total Other Current Assets	7,357	9,430	10,080	10,730	11,380
<b>Total Current Assets</b>	<b>24,322</b>	<b>37,153</b>	<b>42,581</b>	<b>49,726</b>	<b>54,180</b>
Fixed Assets	41,897	52,445	61,843	60,297	61,143
Total Investments	14,182	18,973	19,473	21,973	24,473
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>56,079</b>	<b>71,418</b>	<b>81,316</b>	<b>82,270</b>	<b>85,616</b>
Short-term Debt	8,939	24,426	29,926	29,426	25,426
Current Portion of Long-Term Debt					
Total Creditors	6,335	8,075	9,510	9,040	9,564
Other Current Liabilities	2,722	4,031	4,231	4,431	4,631
<b>Total Current Liabilities</b>	<b>17,995</b>	<b>36,532</b>	<b>43,667</b>	<b>42,897</b>	<b>39,620</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>					
Total Provisions	2,334	2,793	3,560	3,580	3,600
<b>Total Liabilities</b>	<b>20,330</b>	<b>39,325</b>	<b>47,226</b>	<b>46,477</b>	<b>43,220</b>
Shareholders Equity	60,072	69,246	76,670	85,519	96,575
Minority Interests					
<b>Total Equity</b>	<b>60,072</b>	<b>69,246</b>	<b>76,670</b>	<b>85,519</b>	<b>96,575</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	17.2%	46.7%	21.3%	7.7%	13.3%
Operating EBITDA Growth	27.7%	23.7%	(11.4%)	23.3%	19.8%
Operating EBITDA Margin	30.7%	25.9%	18.9%	21.7%	22.9%
Net Cash Per Share (Rs)	(43.29)	(124.54)	(140.06)	(114.17)	(86.82)
BVPS (Rs)	310.77	358.23	396.64	442.42	499.61
Gross Interest Cover	138.32	220.09	54.96	34.62	28.57
Effective Tax Rate	25.3%	24.7%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	29.6%	36.8%	34.2%	36.2%	34.4%
Accounts Receivables Days	43.86	39.62	42.62	43.85	42.35
Inventory Days	118.05	123.10	121.03	123.08	116.56
Accounts Payables Days	78.81	69.60	64.15	65.49	58.82
ROIC (%)	20.3%	23.1%	13.4%	14.8%	18.0%
ROCE (%)	20.6%	20.8%	13.3%	15.2%	17.6%
Return On Average Assets	15.1%	15.6%	9.9%	11.1%	12.8%

<b>Key Drivers</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23F</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
ASP (% chg, main prod./serv.)	4.1%	15.4%	15.9%	2.2%	3.6%
Unit sales grth (% , main prod./serv.)	12.6%	27.1%	4.7%	5.4%	9.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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