

India

REDUCE (no change)

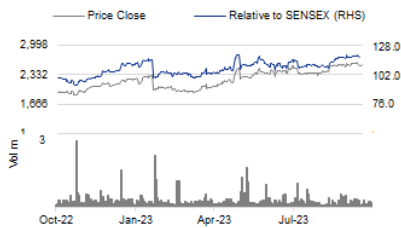
Consensus ratings*: Buy 12 Hold 6 Sell 10

Current price:	Rs2,567
Target price:	Rs2,160
Previous target:	Rs1,790
Up/downside:	-15.9%
InCred Research / Consensus:	-6.7%
Reuters:	BLKI.NS
Bloomberg:	BIL IN
Market cap:	US\$5,965m Rs496,226m
Average daily turnover:	US\$8.1m Rs675.5m
Current shares o/s:	193.3m
Free float:	41.7%

*Source: Bloomberg

Key changes in this note

- Sales cut by 3% for FY24F-25F each.
- EBITDA cut by 3-4% for FY24F-25F.
- EPS raised by 1% for FY24F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	0.8	6.3	32.9
Relative (%)	3.0	9.2	23.1

Major shareholders	% held
Promoter Family	58.3
LIC	4.3
HDFC Mutual Fund	2.7

Analyst(s)



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Balkrishna Industries Ltd

Geopolitical tensions can put volume at risk

- 2QFY24 EBITDA growth of 13% qoq is impressive, beating our/Bloomberg consensus estimates, with the major beat coming from flattish other expenses.
- Sales volume weakness across regions, barring India, is an area of concern, leading to our volume/EBITDA cut of 6/3%, respectively, for FY24F-25F.
- The rise in stock price has driven forward P/E and P/BV valuation to +1SD, while volume recovery still provides hope. Retain REDUCE rating on the stock.

2QFY24 EBITDA marginally above expectations

Balkrishna Industries' 2QFY24 EBITDA was down 3% yoy and up 12.5% qoq at Rs5.5bn, 3.7% above our estimate and 1.8% above Bloomberg consensus estimate. Aided by higher other income, EPS rose by 7% qoq, beating our estimate (20%) and Bloomberg consensus estimate (5%). Net sales declined by 19.9% yoy and rose by 6.2% yoy, in line with our estimates. The EBITDA margin at 24.4% was up 425bp YoY and 137bp qoq, 66bp above our estimate, led by easing raw material prices. Interest expenses rose by 10% qoq to Rs229m, 14% above our estimate.

Management conference-call highlights

Indian market remains robust whereas Europe is likely to face challenges because of geopolitical tensions, leading to management's guidance of a marginal volume decline in FY24F. 1HFY24 working capital requirement improved by Rs3.4bn led by normalization of inventory level at two-to-three months. Management gave EBITDA margin guidance in the range of 23-25% for FY24F and then improve gradually to 26-28%. Raw material prices increased during the quarter and the company expects them to be stable or increase from the current levels. Capex increased by 50% to Rs9bn for a mould-making facility in FY24F.

Cut in our volume estimates by 6% for FY24F-25F

Due to geopolitical tensions across the globe, we have cut sales volume estimates for FY24F-25F by 6%, which led to a fall in our revenue estimates by 3% for FY24F-25F, but marginally aided by flat qoq realization estimates. We have cut EBITDA estimates by 3-4% for FY24F-25F. Higher other income helps to overcome EBIT cut, leading us to retain our EPS estimates.

EBITDA margin recovery discounted at +1SD valuation

The EBITDA margin recovery in the last three quarters, despite a weak volume, is impressive but we feel it's captured in the recent market rally, which makes the stock richly valued at +1SD above the five-year mean level. We have raised target P/E to 25.4x (near the five-year mean) from 21x to reflect the improved margin, leading to a rise in our target price to Rs2,160 from Rs1,790 earlier. With around 15% downside, we have retained REDUCE rating on the stock due to recession fears in developed markets. Easing of raw material prices and demand recovery are key upside risks.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	84,188	100,725	92,461	105,128	115,247
Operating EBITDA (Rsm)	21,825	19,777	21,845	25,514	28,066
Net Profit (Rsm)	14,722	11,167	12,870	15,513	17,149
Core EPS (Rs)	76.2	57.8	66.6	80.3	88.7
Core EPS Growth	32.6%	(24.2%)	15.3%	20.5%	10.5%
FD Core P/E (x)	33.70	44.43	38.55	31.98	28.93
DPS (Rs)	28.0	16.0	20.0	25.0	30.0
Dividend Yield	1.09%	0.62%	0.78%	0.97%	1.17%
EV/EBITDA (x)	23.84	26.72	23.75	20.13	18.26
P/FCFE (x)	95.54	159.13	58.42	71.65	100.28
Net Gearing	34.8%	42.4%	26.5%	18.2%	15.2%
P/BV (x)	7.17	6.54	5.84	5.19	4.64
ROE	22.8%	15.4%	16.0%	17.2%	16.9%
% Change In Core EPS Estimates			(7.24%)	(7.96%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Geopolitical tensions can put volume at risk

Management conference-call highlights ►

- Management believes that Balkrishna Industries holds a 4-6% market share in India as well as globally and it aims to achieve 10% in the near term, led by new stock-keeping units or SKUs and government spending on infrastructure.
- Balkrishna Industries is witnessing strong demand recovery in the Indian market whereas the global market remains under pressure due to a new war that has developed in the Middle East. The company expects FY24F volume to decline marginally.
- During the quarter, the company experienced normalization in the inventory level to two-to-three months, and it expects this level to continue in the medium term.
- ASP realization saw an improvement on account of better hedge rate and product mix, and it's likely to remain at a similar level.
- The EBITDA margin stood at 23% and is likely to be in the range of 23-25% in the remaining quarters of FY24F. Management targets to achieve EBITDA margin of 26-28% in the medium term.
- Mould manufacturing facility, to be set up at Bhuj plant, will cater to all the segments and it will give the company control over quality.
- Raw material and crude oil prices inched up during 2Q, and management expects them to be stable or increase from the current levels.
- Carbon black sales to third parties contributes 6-7% to sales. The advanced carbon black project is likely to be commissioned in 2HFY25F and it will indulge in 100% third-party sales amounting to Rs4-6bn.

Figure 1: Results comparison

Y/E Sep (Rs m)	2QFY24	2QFY23	yoy % chg	1QFY24	qoq % chg	Comments for the quarter
Revenue	22,468	28,063	(19.9)	21,150	6.2	In line with our estimate.
Raw material costs	10,814	13,690	(21.0)	10,223	5.8	
Raw material costs as a % of revenue	48.1	48.8	(65.4)	48.3	(20.3)	83bp above our estimate.
EBITDA	5,474	5,645	(3.0)	4,864	12.5	3.7% above our estimate.
EBITDA margin (%)	24.4	20.1	424.6	23.0	136.7	66bp below our estimate.
Depreciation & amortization	1,586	1,341	18.3	1,537	3.2	3.9% below our estimate.
EBIT	3,888	4,305	(9.7)	3,327	16.9	
Interest expenses	229	43	430.9	208	10.0	14.4% below our estimate.
Other income	780	1,060	(26.4)	987	(21.0)	160% above our estimate.
Pre-tax profit	4,438	5,321	(16.6)	4,106	8.1	
Tax	1,085	1,283	(15.5)	983	10.4	
Tax rate (%)	24.4	24.1	32	23.9	50	
Normalized net profit	3,354	4,038	(16.9)	3,123	7.4	20% above our estimate.
Exceptional items	-	-	nm	-	nm	
Reported net profit	3,354	4,038	(16.9)	3,123	7.4	
Normalized EPS (Rs)	17.4	20.9	(16.9)	16.2	7.4	
Volumes (mt)	70,585	78,872	(10.5)	67,209	5.0	1.3% below our estimate.
Realization (Rs/kg)	318	356	(10.5)	315	1.2	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Sales volume vs. EBITDA margin trend

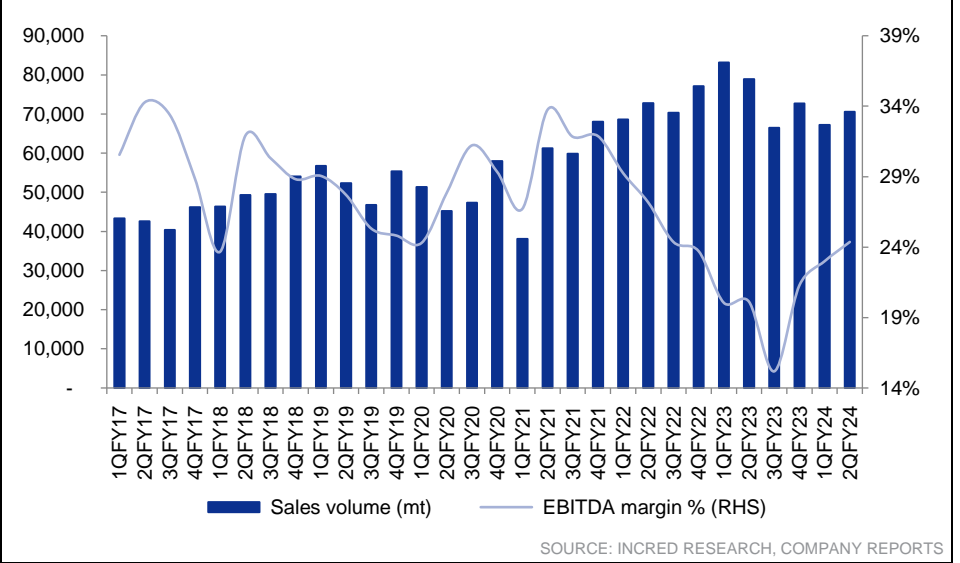


Figure 3: Balkrishna Industries' Europe volume recovers from recent low

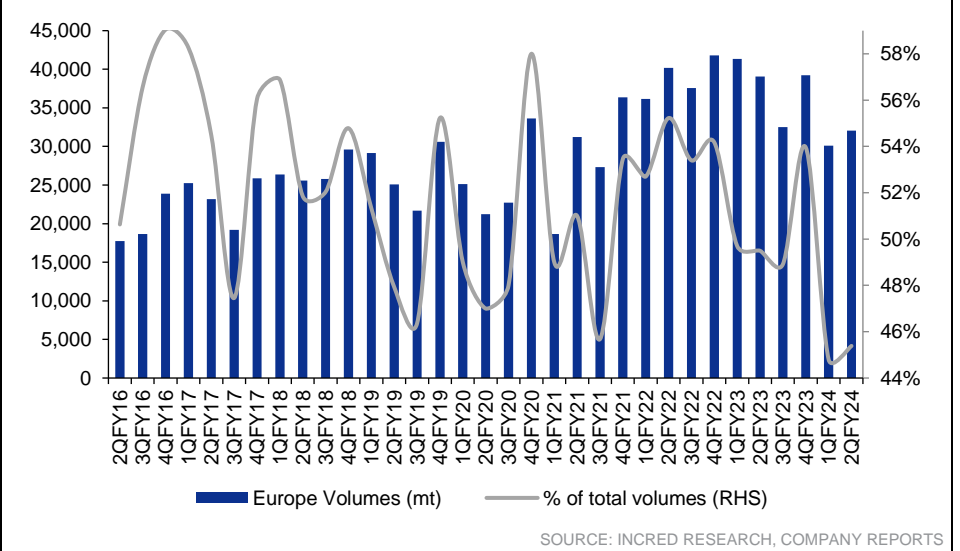


Figure 4: Net debt stabilizes

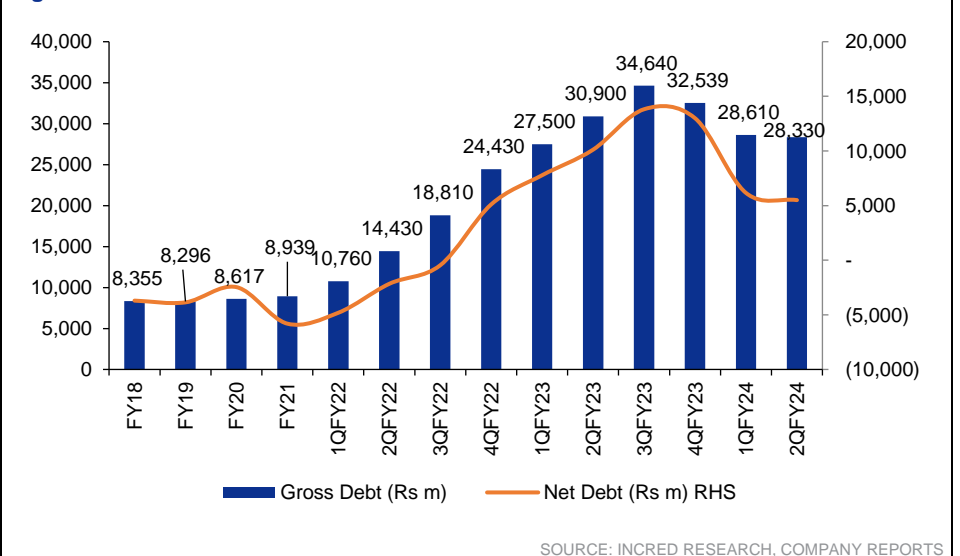


Figure 5: EPS revision highlights

Rs m	FY24F		FY25F	
	Old	New	Old	New
Sales volume (nos.)	307,828	288,944	332,554	312,348
% change		-6.1%		-6.1%
Net Sales	95,316	92,461	108,273	105,128
% change		-3.0%		-2.9%
EBITDA	22,468	21,845	26,542	25,514
% change		-2.8%		-3.9%
EBITDA margin	23.6%	23.6%	24.5%	24.3%
bp change		3		(24)
PAT	12,732	12,870	15,518	15,513
% change		1.1%		0.0%
EPS (Rs)	65.9	66.6	80.3	80.3
% change		1.0%		-0.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Key assumptions

	FY22A	FY23A	FY24F	FY25F	FY26F
Sales volume (mt)	288,795	301,181	288,944	312,348	333,387
Growth yoy %	27.1%	4.3%	-4.1%	8.1%	6.7%
ASP (Rs per kg)	277	314	305	317	323
Growth yoy %	9.7%	13.4%	-3.0%	4.0%	2.0%
Net sales (Rs m)	84,188	100,725	92,461	105,128	115,247
Growth yoy %	46.7%	19.6%	-8.2%	13.7%	9.6%
EBITDA (Rs m)	21,825	19,777	21,845	25,514	28,066
EBITDA margin %	25.9%	19.6%	23.6%	24.3%	24.4%
PAT (Rs m)	14,722	11,167	12,870	15,513	17,149
Growth yoy %	32.6%	-24.2%	15.3%	20.5%	10.5%
EPS (Rs)	76.2	57.8	66.6	80.3	88.7
Volume mix %					
Europe	53.9%	50.5%	44.7%	44.3%	44.4%
North America	17.3%	17.9%	17.4%	18.1%	19.2%
India	17.6%	21.6%	28.6%	29.6%	31.1%
Others	11.2%	10.0%	9.3%	7.9%	5.3%

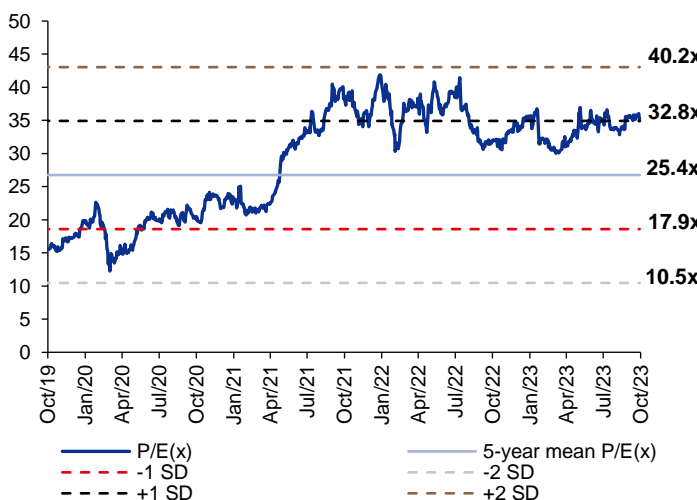
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: P/E-based target price

1-year forward EPS (Rs)	85.0
P/E multiple (x)	25.4
Target price (Rs/share)	2,160

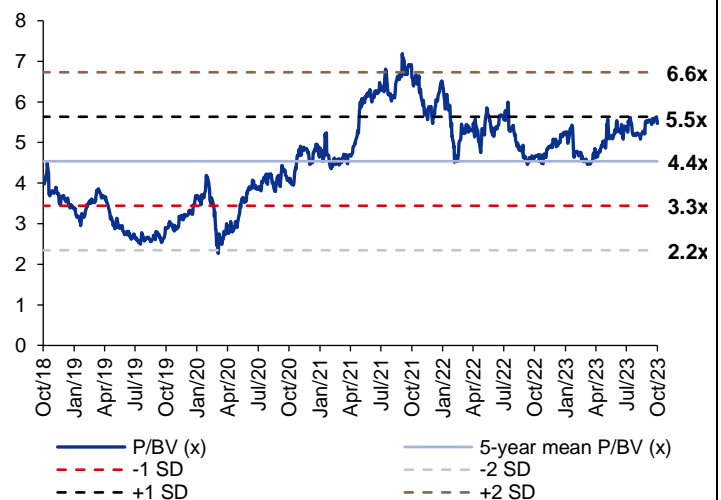
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Forward P/E valuation near +1 SD



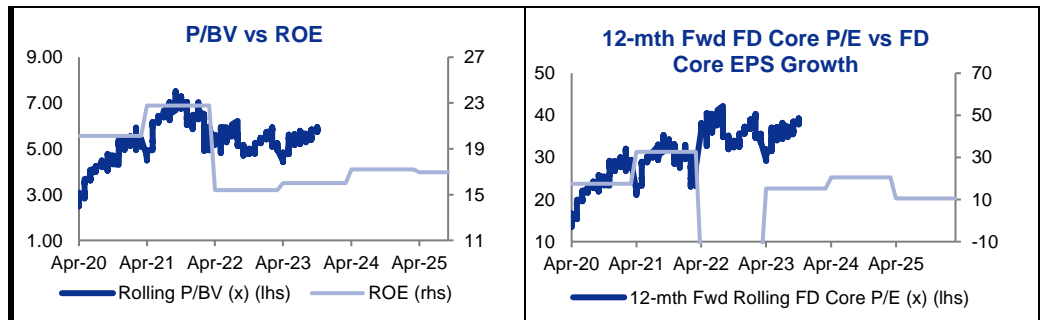
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 9: Forward P/BV valuation near +1 SD



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	84,188	100,725	92,461	105,128	115,247
Gross Profit	46,402	51,168	48,542	57,189	63,386
Operating EBITDA	21,825	19,777	21,845	25,514	28,066
Depreciation And Amortisation	(4,438)	(5,566)	(6,706)	(7,386)	(8,106)
Operating EBIT	17,387	14,211	15,139	18,128	19,960
Financial Income/(Expense)	(79)	(456)	(875)	(775)	(625)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,236	1,114	2,896	3,331	3,531
Profit Before Tax (pre-EI)	19,544	14,869	17,160	20,684	22,866
Exceptional Items					
Pre-tax Profit	19,544	14,869	17,160	20,684	22,866
Taxation	(4,822)	(3,702)	(4,290)	(5,171)	(5,716)
Exceptional Income - post-tax					
Profit After Tax	14,722	11,167	12,870	15,513	17,149
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	14,722	11,167	12,870	15,513	17,149
Recurring Net Profit	14,722	11,167	12,870	15,513	17,149
Fully Diluted Recurring Net Profit	14,722	11,167	12,870	15,513	17,149

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	21,825	19,777	21,845	25,514	28,066
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(9,236)	(4,298)	1,808	(1,544)	(2,877)
(Incr)/Decr in Total Provisions	(419)	5,918	70	70	70
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	2,157	658	2,021	2,556	2,906
Tax Paid	(4,575)	(3,446)	(4,290)	(5,171)	(5,716)
Cashflow From Operations	9,753	18,609	21,454	21,425	22,448
Capex	(14,986)	(20,529)	(4,803)	(8,000)	(10,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(5,060)	(3,075)	(3,158)	(3,500)	(5,500)
Cash Flow From Investing	(20,046)	(23,604)	(7,961)	(11,500)	(15,500)
Debt Raised/(repaid)	15,487	8,114	(5,000)	(3,000)	(2,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(5,412)	(3,093)	(3,866)	(4,833)	(5,799)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	10,075	5,021	(8,866)	(7,833)	(7,799)
Total Cash Generated	(219)	25	4,627	2,092	(851)
Free Cashflow To Equity	5,194	3,118	8,493	6,925	4,948
Free Cashflow To Firm	(10,214)	(4,539)	14,368	10,700	7,573

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	353	378	5,005	7,097	6,246
Total Debtors	10,977	12,535	11,653	12,961	15,156
Inventories	16,394	15,924	16,466	17,857	18,945
Total Other Current Assets	9,430	6,106	6,756	7,406	8,056
Total Current Assets	37,153	34,943	39,879	45,321	48,402
Fixed Assets	52,445	63,211	65,505	66,119	68,014
Total Investments	18,973	20,373	23,873	26,873	31,873
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	71,418	83,584	89,378	92,992	99,886
Short-term Debt	24,426	32,539	27,539	24,539	22,539
Current Portion of Long-Term Debt					
Total Creditors	8,075	4,866	6,333	7,489	7,894
Other Current Liabilities	4,031	6,707	6,907	7,107	7,307
Total Current Liabilities	36,532	44,112	40,779	39,135	37,740
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions	2,793	2,720	3,583	3,603	3,623
Total Liabilities	39,325	46,832	44,362	42,737	41,363
Shareholders Equity	69,246	75,891	84,896	95,576	106,926
Minority Interests					
Total Equity	69,246	75,891	84,896	95,576	106,926

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	46.7%	19.6%	(8.2%)	13.7%	9.6%
Operating EBITDA Growth	23.7%	(9.4%)	10.5%	16.8%	10.0%
Operating EBITDA Margin	25.9%	19.6%	23.6%	24.3%	24.4%
Net Cash Per Share (Rs)	(124.54)	(166.38)	(116.58)	(90.23)	(84.29)
BVPS (Rs)	358.23	392.61	439.19	494.44	553.16
Gross Interest Cover	220.09	31.16	17.30	23.39	31.94
Effective Tax Rate	24.7%	24.9%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	36.8%	27.7%	30.0%	31.2%	33.8%
Accounts Receivables Days	39.62	42.60	47.74	42.73	44.52
Inventory Days	123.10	119.01	134.59	130.67	129.51
Accounts Payables Days	69.60	47.66	46.53	52.62	54.13
ROIC (%)	23.1%	13.8%	13.2%	15.6%	16.7%
ROCE (%)	20.8%	13.7%	13.4%	15.2%	15.6%
Return On Average Assets	15.6%	10.1%	10.9%	12.0%	12.3%

Key Drivers

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
ASP (% chg, main prod./serv.)	15.4%	14.7%	(4.3%)	5.2%	2.7%
Unit sales grth (%, main prod./serv.)	27.1%	4.3%	(4.1%)	8.1%	6.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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been engaged in market making activity for the subject company	NO	NO

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