

India

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**REDUCE** (no change)

Consensus ratings\*: Buy 12 Hold 9 Sell 8

Current price:	Rs2,053
Target price:	Rs1,620
Previous target:	Rs1,620
Up/downside:	-21.1%
InCred Research / Consensus:	-21.9%
Reuters:	
Bloomberg:	BIL IN
Market cap:	US\$5,466m Rs396,890m
Average daily turnover:	US\$10.5m Rs762.7m
Current shares o/s:	193.3m
Free float:	41.7%

\*Source: Bloomberg

**Key financial forecast**

	Mar-23F	Mar-24F	Mar-25F
Net Profit (Rsm)	11,291	13,875	16,855
Core EPS (Rs)	58.41	71.78	87.19
Core EPS Growth	(23.3%)	22.9%	21.5%
FD Core P/E	35.15	28.60	23.55
Recurring ROE	15.5%	17.1%	18.5%
P/BV (x)	5.18	4.64	4.11
DPS (Rs)	20.00	26.00	30.00
Dividend Yield	0.97%	1.27%	1.46%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	(7.7)	5.3	8.1
Relative (%)	(7.8)	6.6	2.1

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

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# Balkrishna Industries Ltd

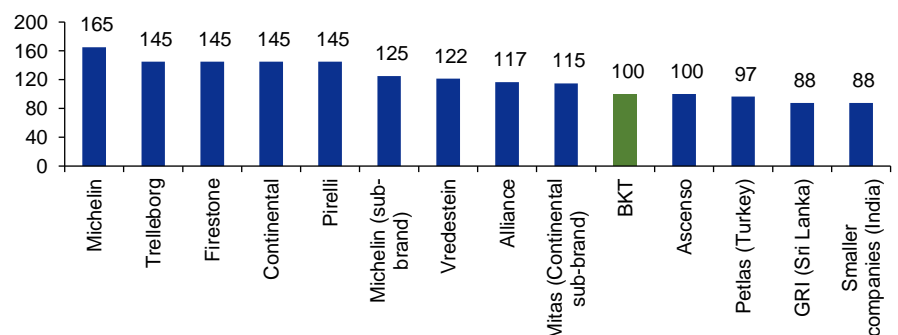
## Highlights from tyre expert NDR meetings

- The expert feels short-term Europe agri tyre demand challenges will prevail for another 2-3 quarters as retail sales are very weak due to high inflation.
- The medium-term opportunity is still big considering the US\$17bn global tyre industry size and growing at 5%. Competition from China is less in agri tyres.
- Retain REDUCE rating as the short-term EPS risks from low demand, new capacity cost and rising debt/interest cost are high vs. +1SD P/E valuation.

**Key highlights**

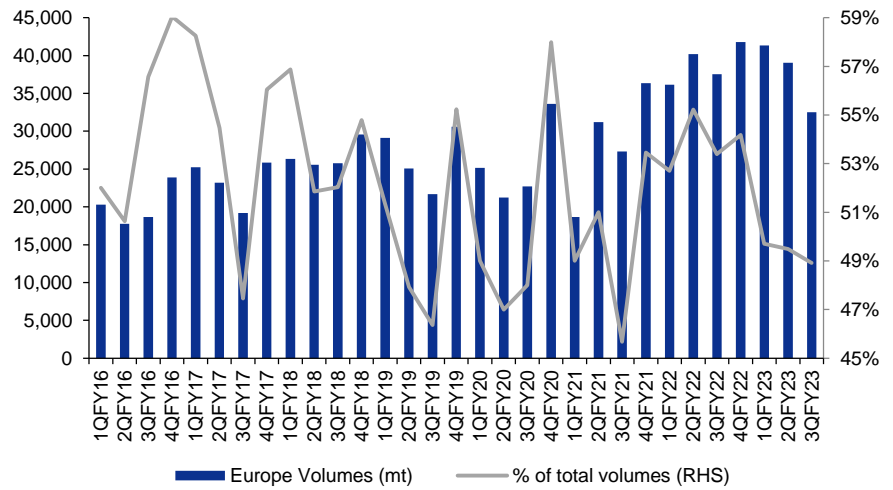
- **Market size:** We hosted an agri and mining tyre marketing expert instrumental in developing these segments for Indian tyre companies globally since the last 25 years. He feels global OHT tyre market size of the agri segment stands at US\$7bn, and in case of mining/construction segments it is US\$10bn. Of this total US\$17bn, Balkrishna Industries or BKT does a business of US\$1bn which gives it ~6% market share. By 2030F, as per the expert, the total market size could grow to US\$20bn, while BKT's business could increase to US\$2bn which would then give it a market share of ~10%.
- **Growth drivers and the advantage for BKT:** Growth to be driven by product range expansion, distribution channel expansion and geographical expansion to America & Australia. BKT's advantage is the wide number of SKUs it has developed over the years.
- **Europe agri tyre replacement demand:** It has been down over the last three-to-four quarters (see Fig. 3), with the war in Ukraine impacting demand and increasing cost inflation. The distributors are still sitting on inventory carried forward from the last spring season. The expert feels the situation should start easing in a couple of quarters because of the pent-up demand from the end-users to replace tyres.
- **R&D:** The R&D capabilities of BKT stand reduced to reverse engineering in which it is strong as compared to the fundamental research done by bigger companies globally.
- **Carbon black strategy:** Carbon black or CB is a highly integral part of tyres and different tyres require different grades of CB for better quality. There are times when the availability or the quality of CB becomes an issue and CB manufacturers then inflate the prices. BKT producing CB is a step in the right direction and it can get a total cost advantage of Rs20-25/kg. The free steam could be used to cure tyres.
- **North America (NA) challenges:** The NA farms are huge (~10,000 acres) as compared to European farms (~1,000 acres). Huge tractors (500-700HP size) are used and hence, the original equipment manufacturers or OEMs prefer premium brands. However, BKT is getting popular in the NA replacement tyre market gradually. Considering the superior ASP and capacity shortage, BKT had preferred Europe over NA in the past.
- **Pricing strategy of BKT's rivals:** Premium tyre brands like Michelin/Yokohama/Continental/Bridgestone are priced at a 40-50% premium to BKT, while their sub-brands (Firestone/Alliance/Mitas) are priced at just 15-20% premium to BKT.
- **Rich valuation:** BKT's valuation at +1SD above mean vs. short-term earnings risk from weak Europe agri tyre demand, easing capacity utilization and rising interest cost (from rising net debt and moving from capitalization to P&L) lead us to retain REDUCE rating.

**Figure 1: Tyre pricing vs. peers with BKT at a base price index of 100**



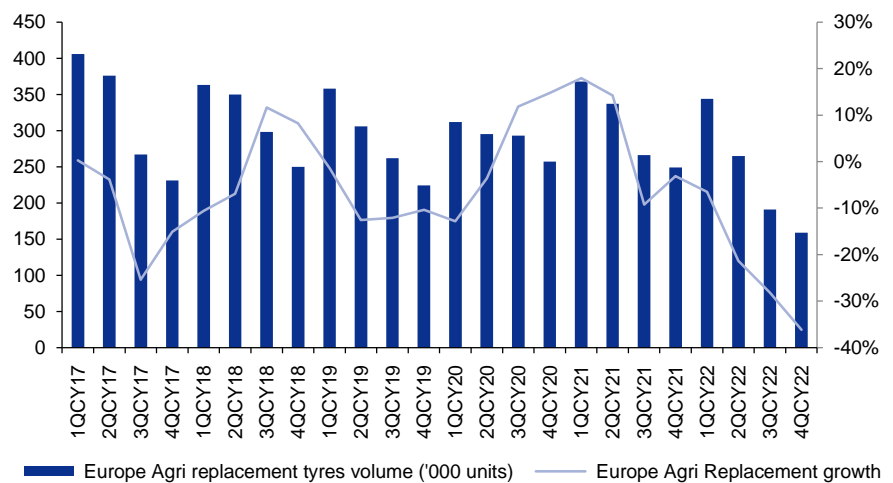
SOURCE: TYRE EXPERT ESTIMATES, INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Europe's share in BKT's total revenue has been declining over the past few quarters, but it's significant enough to drag down the overall performance**



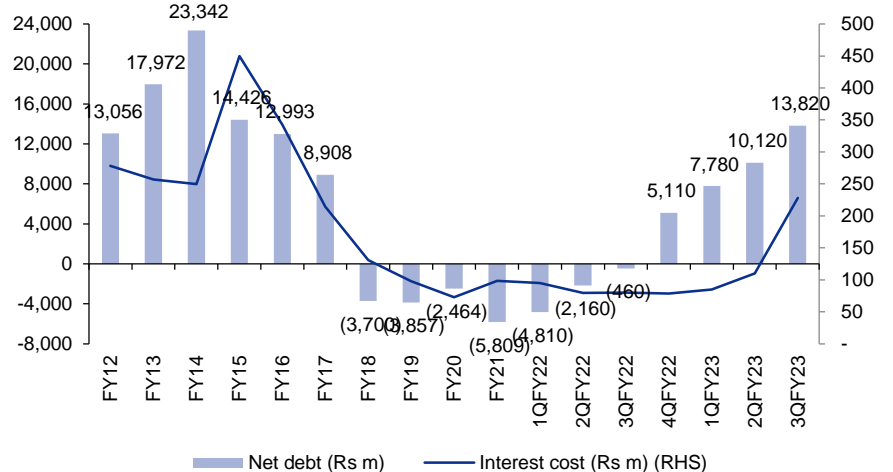
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**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: Interest costs could rise post capacity expansion, as we have seen in the past during FY15**



NOTE: THE INTEREST COST FIGURE FOR EACH QUARTER REPRESENTED ABOVE IS THE SUM OF INTEREST COST OF THE TRAILING FOUR QUARTERS

SOURCE: INCRED RESEARCH, COMPANY REPORTS

### Profit & Loss

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

### Balance Sheet

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

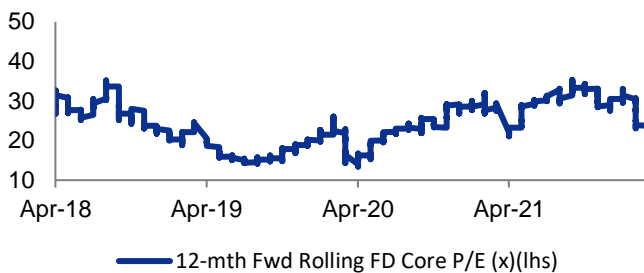
### Cash Flow

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

### Key Ratios

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

### 12-mth Fwd Rolling FD Core P/E (x)



### Key Drivers

	Mar-22A	Mar-23F	Mar-24F	Mar-25F
ASP (% chg, main prod./serv.)	15.4%	15.9%	2.2%	3.6%
Unit sales grth (%, main prod./serv.)	27.1%	4.7%	5.4%	9.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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