

India

**REDUCE** (no change)

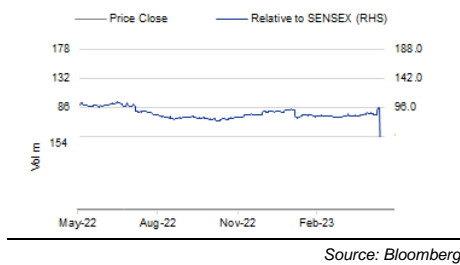
Consensus ratings\*: Buy 13 Hold 6 Sell 8

Current price:	Rs2,226
Target price:	Rs1,730
Previous target:	Rs1,620
Up/downside:	-22.3%
InCred Research / Consensus:	-21.3%
Reuters:	
Bloomberg:	BIL IN
Market cap:	US\$5,925m Rs430,237m
Average daily turnover:	US\$9.1m Rs662.4m
Current shares o/s:	193.3m
Free float:	41.7%

\*Source: Bloomberg

**Key changes in this note**

- FY24F-25F net sales cut by 8%.
- EBITDA margin upgrade led us to retain our EBITDA estimates for FY24F-25F.
- High interest cost led to EPS cut of 4%.



Price performance	1M	3M	12M
Absolute (%)	6.8	10.5	(2.6)
Relative (%)	3.6	3.5	(14.1)

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

**Analyst(s)**

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# Balkrishna Industries Ltd

## Sustaining margin regain over sales difficult

- 4Q EPS rose by 160% qoq to Rs13.3 but missed our/Bloomberg consensus estimates as interest cost spike (+84% qoq) overshadowed EBITDA growth.
- Continued channel inventory correction, pricing pressure and a spike in interest cost led to our 4% EPS cut for FY24F-25F.
- With the recent stock price rally pushing the P/E valuation to +1SD, we retain REDUCE rating on it as the risks to volume and margin recovery are high.

### Quarterly improvement in profits fails to impress

The 4QFY23 EBITDA of Balkrishna Industries rose by 47% qoq but fell by 14% yoy to Rs4.9bn, 5% above InCred estimate and 8% above Bloomberg consensus estimate. The EBITDA margin rose by 611bp qoq to 21.3%, driven by a 13% qoq drop in other expenses (500bp down qoq to 23.9%). However, the spike in interest cost by 84% qoq and 10x yoy to Rs250m led to PAT estimate miss, at Rs2.58bn. Net debt was flatish qoq at Rs13bn.

### Management conference-call highlights

Management expects the channel inventory correction - to 45 days of sales - to be completed by Jul 2023F. Management stated that high-cost raw material inventory and a sharp reduction in freight delivery time led to slower benefits - by way of raw material cost reduction flowing through to profits. Management gave guidance of further ASP pressure in the coming quarters, while lower raw material cost to help expand EBITDA margin by 200-300bp from 4Q level. Management also gave guidance of Rs6bn capex for FY24F, of which Rs2.5bn is for maintenance capex while the commissioning of the high-grade carbon production project of 30,000t capacity has been postponed to 2HFY24F.

### Maintains EBITDA via 4% FY24F-25F EPS cut

The sharp correction in average selling price or ASP/t in 2HFY23 disappointed us as the lower freight cost was passed on to end-customers. Considering the gradual volume recovery and the delay in high-grade carbon capacity, we have cut FY24F-25F net sales by a sharp 8%. Considering management's guidance of the scope for a sharp EBITDA margin improvement of 200-300bp from 4Q level, we raise our EBITDA margin by ~200+bp for FY24F-25F, thereby leading us to retain our EBITDA estimates. However, with the high interest cost witnessed in 2HFY23 being projected to sustain for some time, we have cut our EPS estimates by 4% for FY24F-25F.

### Retain REDUCE rating with a higher target price of Rs1,730

Considering the food price index easing from its peak, we expect agri tyre demand recovery to be gradual from its bottom and can result in price cuts. The recent rally in the stock price on hopes of industry demand revival pushed the P/E valuation to near +1 SD above the five-year mean level. Retain REDUCE rating on the stock with a higher TP of Rs1,730 (Rs1,620 earlier) as end-market challenges & interest cost pressure are areas of concern. Upside risk: Sharp demand recovery helping to scale peak margins sooner than expected.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	84,188	100,725	101,150	113,770	124,598
Operating EBITDA (Rsm)	21,825	19,421	24,120	28,153	33,051
Net Profit (Rsm)	14,722	10,811	13,387	16,177	19,481
Core EPS (Rs)	76.2	55.9	69.3	83.7	100.8
Core EPS Growth	32.6%	(26.6%)	23.8%	20.8%	20.4%
FD Core P/E (x)	29.22	39.79	32.14	26.59	22.08
DPS (Rs)	28.0	16.0	22.0	26.0	32.0
Dividend Yield	1.26%	0.72%	0.99%	1.17%	1.44%
EV/EBITDA (x)	20.81	23.81	18.73	15.85	13.42
P/FCFE (x)	82.83	137.97	43.71	57.53	62.98
Net Gearing	34.8%	42.4%	25.4%	16.8%	12.3%
P/BV (x)	6.21	5.67	5.06	4.47	3.93
ROE	22.8%	14.9%	16.6%	17.9%	18.9%
% Change In Core EPS Estimates			(3.52%)	(4.02%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

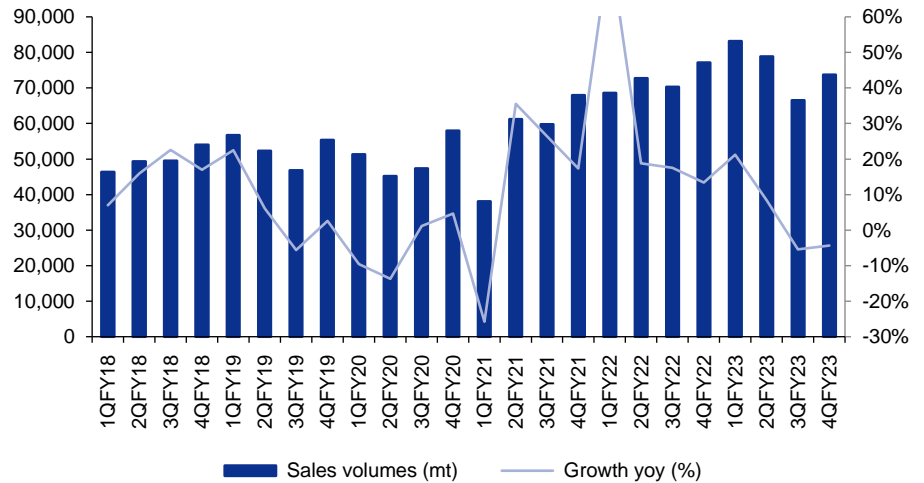
## Sustaining margin regain over sales difficult

Figure 1: Results comparison

FYE Mar (Rs m)	4QFY23	4QFY22	yoy % chg	3QFY23	qoq % chg	FY23	FY22	yoy % chg	Comments for the quarter
Revenue	23,246	24,319	(4.4)	22,153	4.9	1,00,725	84,188	19.6	6% below our estimate.
Raw material cost	11,796	11,028	7.0	11,380	3.7	49,558	37,786	31.2	
RM as % of revenue	50.7	45.3	539.7	51.4	(62.5)	49.2	44.9	431.8	31bp above our estimate.
<b>EBITDA</b>	<b>4,948</b>	<b>5,765</b>	<b>(14.2)</b>	<b>3,363</b>	<b>47.2</b>	<b>19,421</b>	<b>21,825</b>	<b>(11.0)</b>	<b>5% below our estimate.</b>
<b>EBITDA margin (%)</b>	<b>21.3</b>	<b>23.7</b>	<b>(242.1)</b>	<b>15.2</b>	<b>610.7</b>	<b>19.3</b>	<b>25.9</b>	<b>(664.3)</b>	<b>211bp above our estimate.</b>
Deprn & amort.	1,515	1,167	29.8	1,449	4.5	5,566	4,438	25.4	2% below our estimate.
EBIT	3,434	4,598	(25.3)	1,913	79.5	13,855	17,387	(20.3)	
Interest expense	250	21	1,067.8	136	83.8	456	79	477.2	475% above our estimate.
Other income	300	307	(2.4)	(359)	183.6	1,114	2,236	(50.2)	60% below our estimate.
Pretax profit	3,484	4,884	(28.7)	1,418	145.6	14,513	19,544	(25.7)	
Tax	906	1,187	(23.7)	422	114.5	3,702	4,822	(23.2)	
Tax rate (%)	26.0	24.3	169	29.8	(377)	25.5	24.7	83	
<b>Normalised Net profit</b>	<b>2,578</b>	<b>3,697</b>	<b>(30.3)</b>	<b>996</b>	<b>158.8</b>	<b>10,811</b>	<b>14,722</b>	<b>(26.6)</b>	<b>11% below our estimate.</b>
Exceptionals	(23)	40	nm	-	nm	(23)	(615)	nm	
Reported net profit	2,556	3,737	(31.6)	996	156.5	10,788	14,107	(23.5)	
Normalised EPS (Rs)	13.3	19.1	(30.3)	5.2	158.8	55.9	76.2	(26.6)	
Volumes (mt)	72,676	77,119	(5.8)	66,480	9.3	3,01,181	2,88,795	4.3	2% below our estimate.
Realisation (Rs/kg)	320	315	1.4	333	(4.0)	334	292	14.7	4% below our estimate.

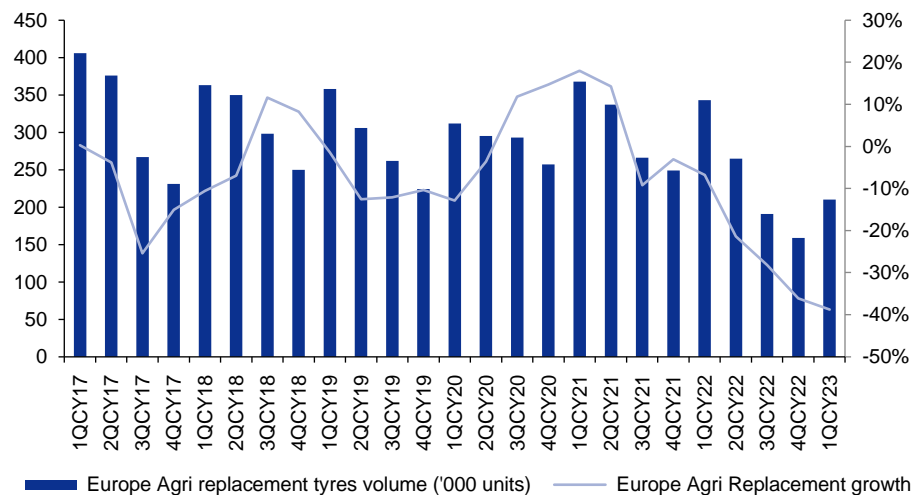
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Sales volume recovery qoq



SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Europe agri tyre replacement industry's volume recovers from its bottom**



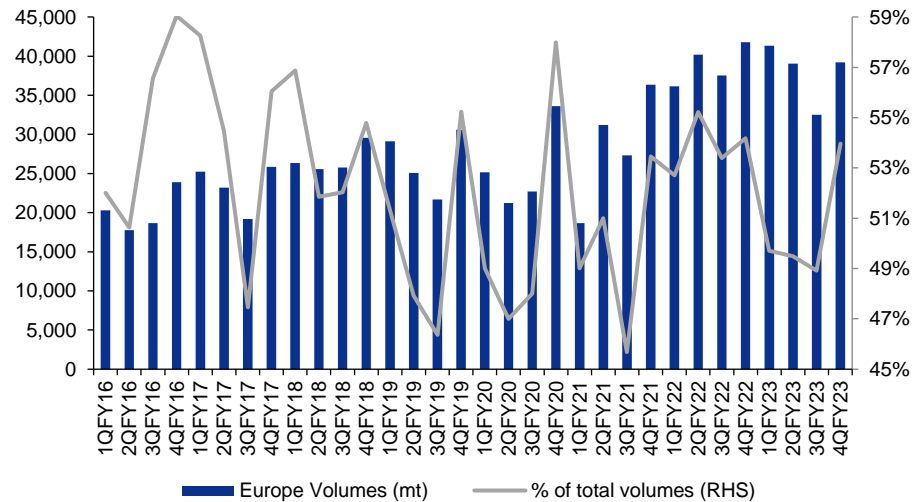
SOURCE: EUROPEAN TYRE & RUBBER MANUFACTURERS' ASSOCIATION (ETRMA), INCRED RESEARCH, COMPANY REPORTS

**Figure 4: BKT Europe's sales volume recovery is slower than Europe agri tyre replacement industry's volume recovery on a qoq basis**

	4QFY23	yoy %	qoq %	FY23	yoy %
Europe Agri replacement tyres volume ('000 units)	210	-39%	32%	825	-31%
BKT Europe sales volume (mt)	39,215	-6%	21%	1,52,096	-2%

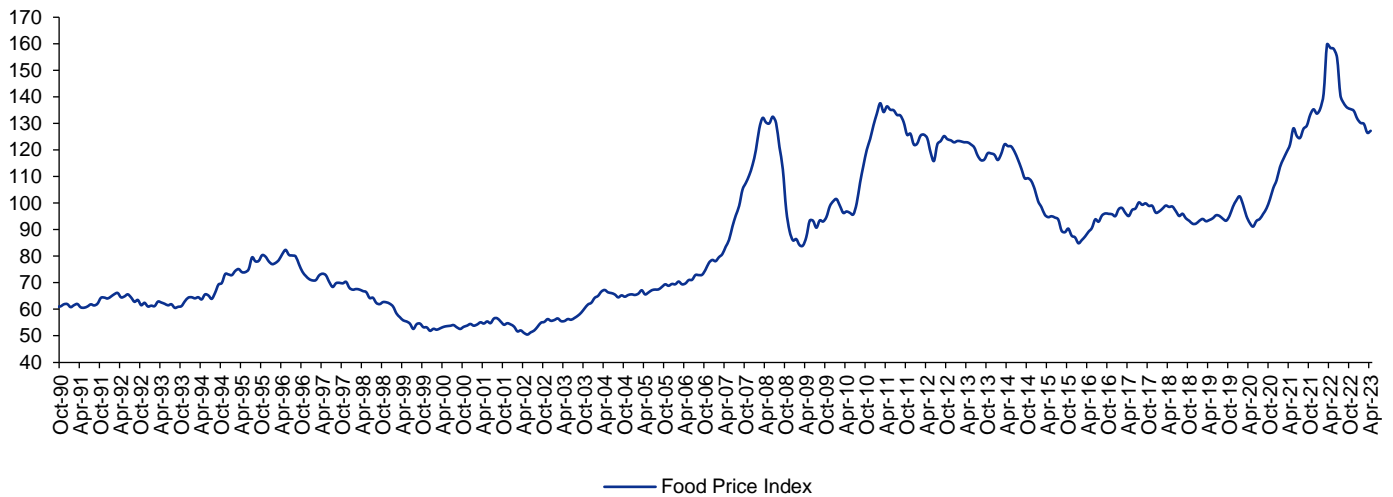
SOURCE: ACEA, INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Europe's share in total revenue recovers after a decline for four sequential quarters**



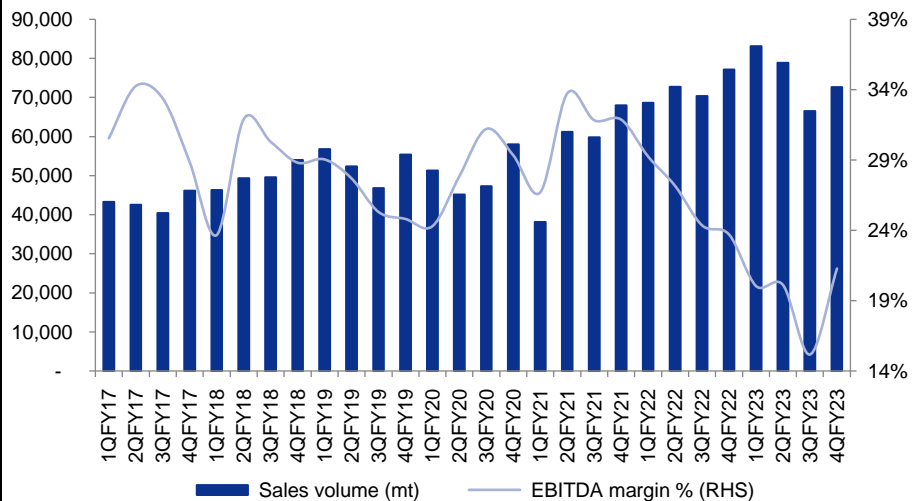
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Food and Agriculture Organization or FAO's food price index easing from its peak level



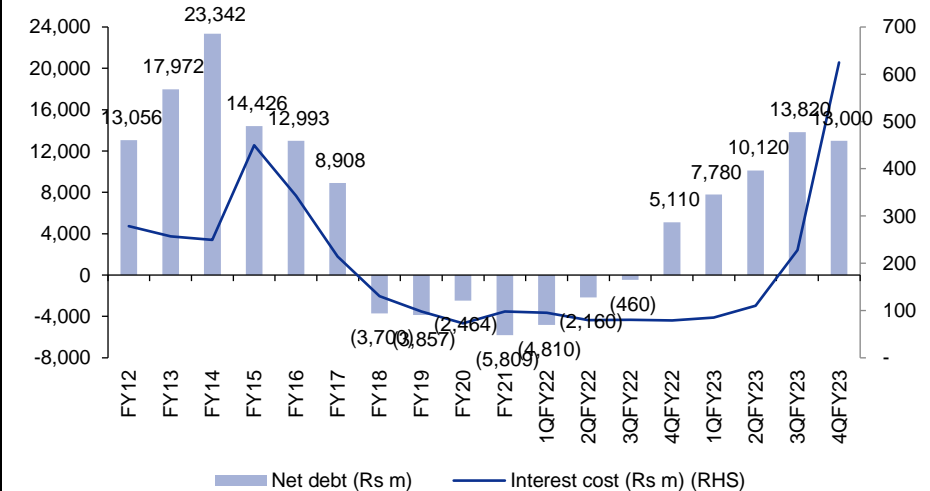
SOURCE: UNITED NATIONS' FOOD AND AGRICULTURE ORGANISATION, INCRED RESEARCH

Figure 7: EBITDA margin recovers after nine quarters of sequential decline



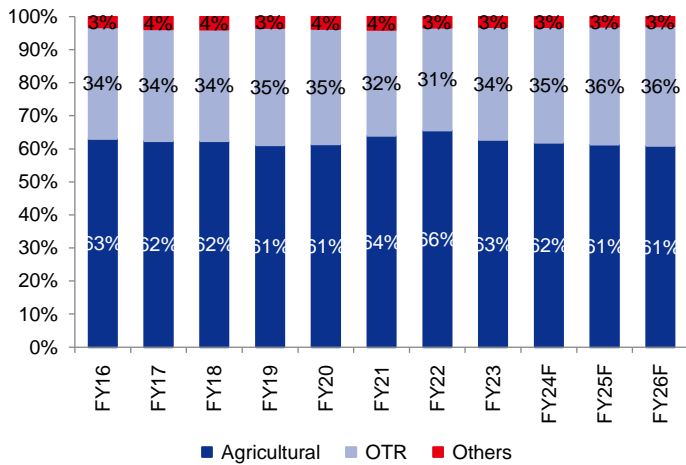
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Interest cost spike continues while net debt flattens qoq



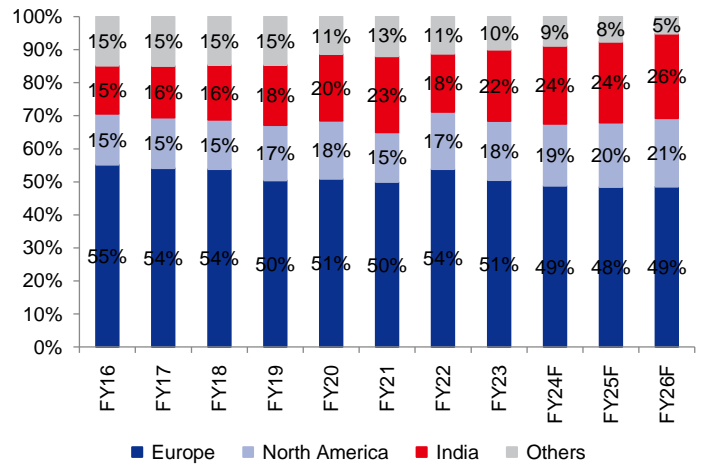
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Balkrishna Industries' sales mix trend



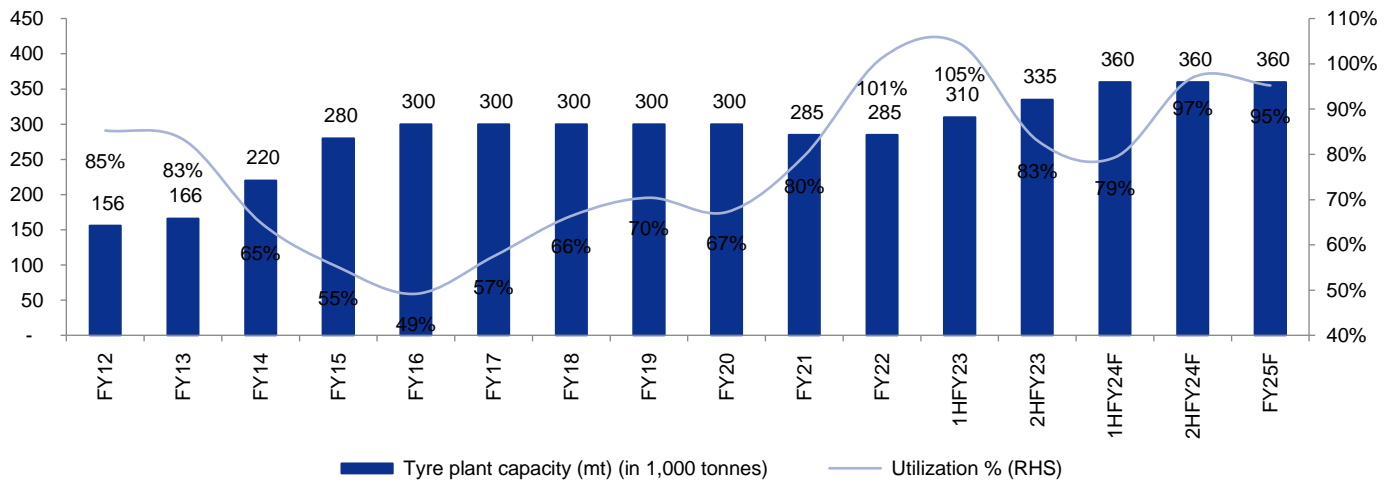
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Sales mix trend by region



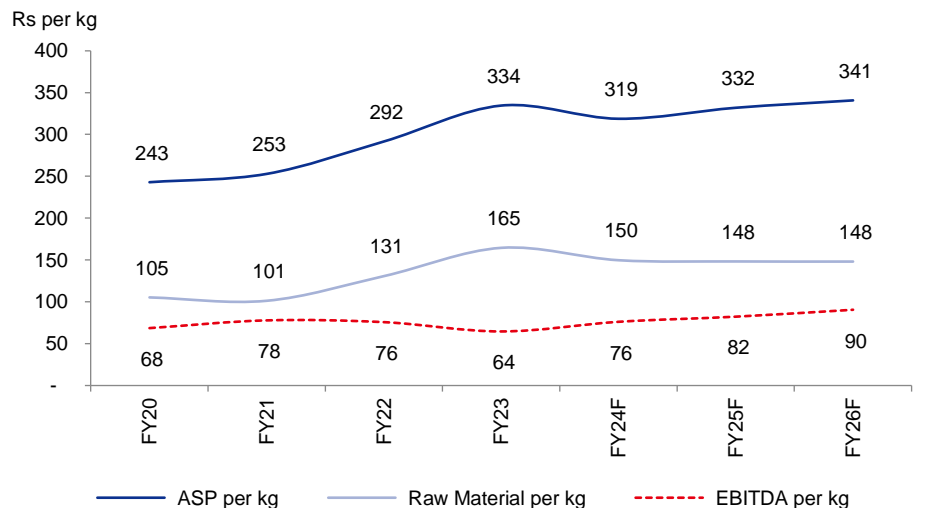
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: Balkrishna Industries' capacity addition



SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 12: Average selling price or ASP growth momentum to slow down considering the correction in freight and raw material costs



SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 13: Balkrishna Industries' focus is on brand building

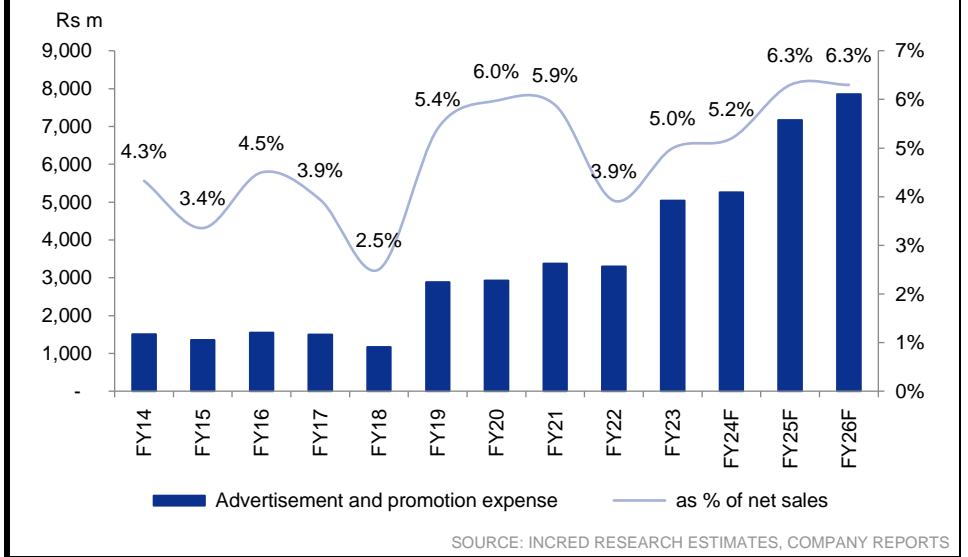


Figure 14: Gross debt level rising since the past few quarters is a cause of concern

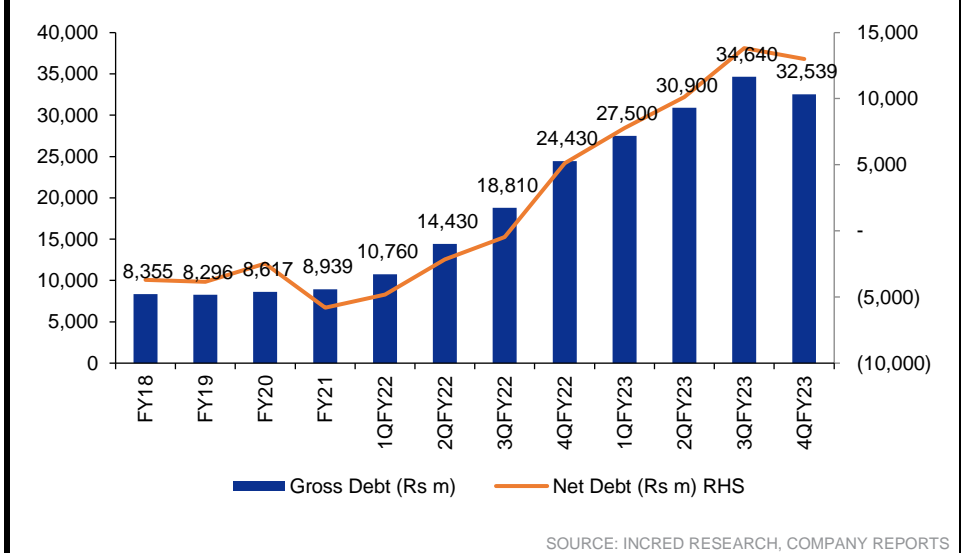


Figure 15: Free cash flow benefit expected, post capex benefit, from FY24F

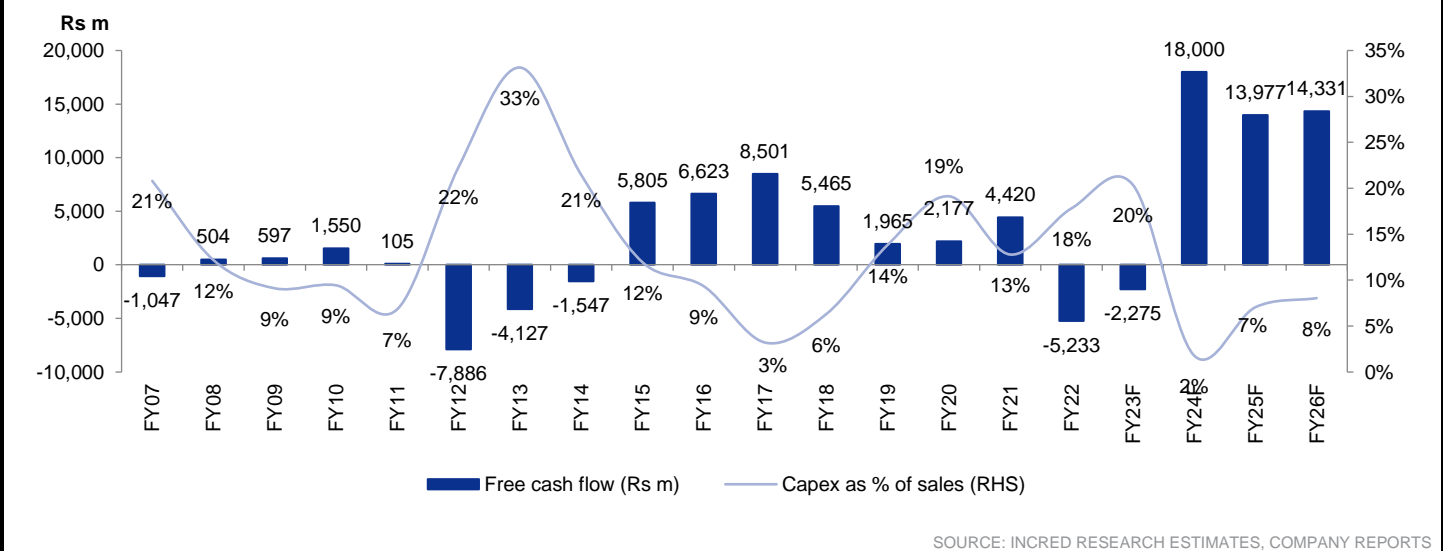


Figure 16: Our revised earnings estimates - summary

Rs m	FY24F		FY25F	
	Old	New	Old	New
Sales Volume (nos)	3,18,585	3,17,442	3,48,534	3,42,902
% change		-0.4%		-1.6%
Net Sales	1,09,988	1,01,149	1,24,669	1,13,770
% change		-8.0%		-8.7%
EBITDA	23,855	24,120	28,585	28,153
% change		1.1%		-1.5%
EBITDA margin	21.7%	23.8%	22.9%	24.7%
bp change		216		182
PAT	13,875	13,387	16,855	16,177
% change		-3.5%		-4.0%
EPS (Rs)	71.8	69.3	87.2	83.7
% change		-3.5%		-4.0%

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 17: Key assumptions

	FY21A	FY22A	FY23A	FY24F	FY25F	FY26F
Sales volume (mt)	2,27,131	2,88,795	3,01,181	3,17,442	3,42,902	3,65,820
Growth yoy %	12.6%	27.1%	4.3%	5.4%	8.0%	6.7%
ASP (Rs per kg)	253	277	314	305	314	320
Growth yoy %	4.1%	9.7%	13.4%	-3.0%	3.0%	2.0%
<b>Net sales (Rs m)</b>	<b>57,399</b>	<b>84,188</b>	<b>1,00,725</b>	<b>1,01,149</b>	<b>1,13,770</b>	<b>1,24,598</b>
Growth yoy %	17.2%	46.7%	19.6%	0.4%	12.5%	9.5%
EBITDA (Rs m)	17,645	21,825	19,421	24,120	28,153	33,051
<b>EBITDA margin %</b>	<b>30.7%</b>	<b>25.9%</b>	<b>19.3%</b>	<b>23.8%</b>	<b>24.7%</b>	<b>26.5%</b>
PAT (Rs m)	11,099	14,722	10,811	13,387	16,177	19,481
Growth yoy %	17.5%	32.6%	-26.6%	23.8%	20.8%	20.4%
<b>EPS (Rs)</b>	<b>57.4</b>	<b>76.2</b>	<b>55.9</b>	<b>69.3</b>	<b>83.7</b>	<b>100.8</b>
<b>Volume mix %</b>						
Europe	50.0%	53.9%	50.5%	48.9%	48.4%	48.6%
North America	15.0%	17.3%	17.9%	18.7%	19.5%	20.7%
India	23.0%	17.6%	21.6%	23.6%	24.4%	25.7%
Others	13.0%	11.2%	10.0%	8.9%	7.6%	5.1%

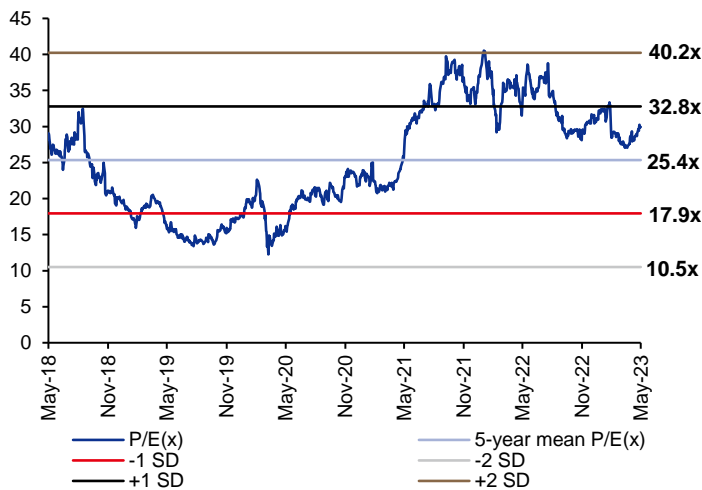
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 18: Target price calculation methodology

1-year forward EPS (Rs)	86.5
P/E Multiple (x)	20.0
<b>Target price (Rs/share)</b>	<b>1,730</b>

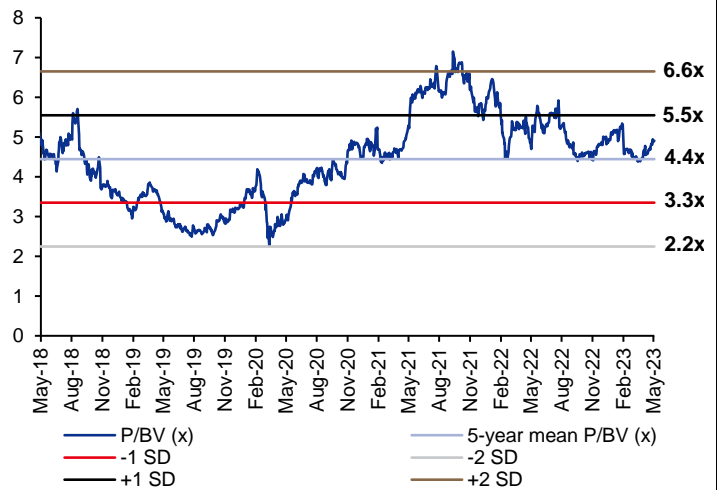
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 19: Forward P/E valuation



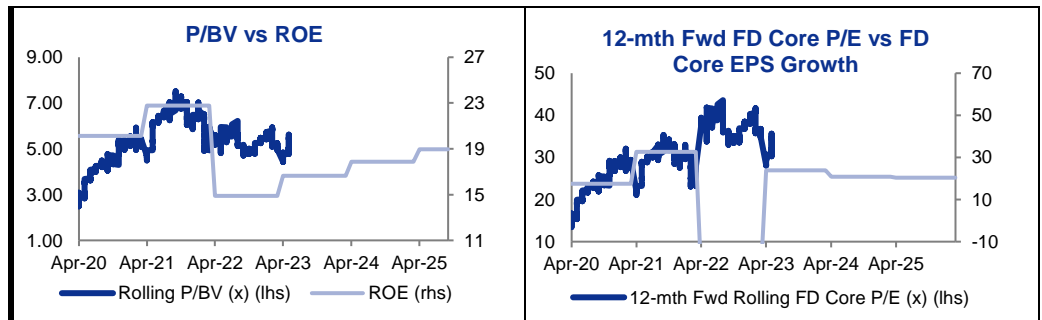
SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 20: Forward P/BV valuation



SOURCE: BLOOMBERG, INCRED RESEARCH ESTIMATES, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>84,188</b>	<b>100,725</b>	<b>101,150</b>	<b>113,770</b>	<b>124,598</b>
<b>Gross Profit</b>	<b>46,402</b>	<b>51,168</b>	<b>53,609</b>	<b>62,915</b>	<b>70,398</b>
<b>Operating EBITDA</b>	<b>21,825</b>	<b>19,421</b>	<b>24,120</b>	<b>28,153</b>	<b>33,051</b>
Depreciation And Amortisation	(4,438)	(5,566)	(6,586)	(7,146)	(7,866)
<b>Operating EBIT</b>	<b>17,387</b>	<b>13,855</b>	<b>17,535</b>	<b>21,008</b>	<b>25,185</b>
Financial Income/(Expense)	(79)	(456)	(900)	(750)	(600)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,236	1,114	1,214	1,311	1,390
<b>Profit Before Tax (pre-EI)</b>	<b>19,544</b>	<b>14,513</b>	<b>17,849</b>	<b>21,569</b>	<b>25,975</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>19,544</b>	<b>14,513</b>	<b>17,849</b>	<b>21,569</b>	<b>25,975</b>
Taxation	(4,822)	(3,702)	(4,462)	(5,392)	(6,494)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>14,722</b>	<b>10,811</b>	<b>13,387</b>	<b>16,177</b>	<b>19,481</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>14,722</b>	<b>10,811</b>	<b>13,387</b>	<b>16,177</b>	<b>19,481</b>
Recurring Net Profit	14,722	10,811	13,387	16,177	19,481
<b>Fully Diluted Recurring Net Profit</b>	<b>14,722</b>	<b>10,811</b>	<b>13,387</b>	<b>16,177</b>	<b>19,481</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>21,825</b>	<b>19,421</b>	<b>24,120</b>	<b>28,153</b>	<b>33,051</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(9,236)	(4,298)	(239)	(1,415)	(3,086)
(Incr)/Decr in Total Provisions	(419)	5,918	70	70	70
Other Non-Cash (Income)/Expense					
<b>Other Operating Cashflow</b>					
Net Interest (Paid)/Received	2,157	658	314	561	790
Tax Paid	(4,575)	(3,446)	(4,462)	(5,392)	(6,494)
<b>Cashflow From Operations</b>	<b>9,753</b>	<b>18,253</b>	<b>19,803</b>	<b>21,977</b>	<b>24,331</b>
Capex	(14,986)	(20,529)	(1,803)	(8,000)	(10,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/Investments					
Other Investing Cashflow	(5,060)	(2,720)	(3,158)	(3,500)	(5,500)
<b>Cash Flow From Investing</b>	<b>(20,046)</b>	<b>(23,249)</b>	<b>(4,961)</b>	<b>(11,500)</b>	<b>(15,500)</b>
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)	(4,253)	(5,026)	(6,186)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>10,075</b>	<b>5,021</b>	<b>(9,253)</b>	<b>(8,026)</b>	<b>(8,186)</b>
Total Cash Generated	(219)	25	5,590	2,452	646
<b>Free Cashflow To Equity</b>	<b>5,194</b>	<b>3,118</b>	<b>9,843</b>	<b>7,477</b>	<b>6,831</b>
<b>Free Cashflow To Firm</b>	<b>(10,214)</b>	<b>(4,539)</b>	<b>15,743</b>	<b>11,227</b>	<b>9,431</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS



**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	353	378	5,968	8,419	9,065
Total Debtors	10,977	12,535	12,748	14,026	16,386
Inventories	16,394	15,924	18,013	19,325	20,482
Total Other Current Assets	9,430	6,106	6,756	7,406	8,056
<b>Total Current Assets</b>	<b>37,153</b>	<b>34,943</b>	<b>43,484</b>	<b>49,177</b>	<b>53,988</b>
Fixed Assets	52,445	63,211	62,625	63,479	65,614
Total Investments	18,973	20,373	23,873	26,873	31,873
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>71,418</b>	<b>83,584</b>	<b>86,498</b>	<b>90,352</b>	<b>97,486</b>
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	6,928	8,104	8,534
Other Current Liabilities	4,031	6,707	6,907	7,107	7,307
<b>Total Current Liabilities</b>	<b>36,532</b>	<b>44,112</b>	<b>41,374</b>	<b>39,751</b>	<b>38,381</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>					
Total Provisions	2,793	2,720	3,583	3,603	3,623
<b>Total Liabilities</b>	<b>39,325</b>	<b>46,832</b>	<b>44,957</b>	<b>43,353</b>	<b>42,003</b>
Shareholders Equity	69,246	75,891	85,025	96,176	109,472
Minority Interests					
<b>Total Equity</b>	<b>69,246</b>	<b>75,891</b>	<b>85,025</b>	<b>96,176</b>	<b>109,472</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	46.7%	19.6%	0.4%	12.5%	9.5%
Operating EBITDA Growth	23.7%	(11.0%)	24.2%	16.7%	17.4%
Operating EBITDA Margin	25.9%	19.3%	23.8%	24.7%	26.5%
Net Cash Per Share (Rs)	(124.54)	(166.38)	(111.60)	(83.39)	(69.71)
BVPS (Rs)	358.23	392.61	439.86	497.55	566.33
Gross Interest Cover	220.09	30.38	19.48	28.01	41.97
Effective Tax Rate	24.7%	25.5%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	36.8%	28.6%	31.8%	31.1%	31.8%
Accounts Receivables Days	39.62	42.60	45.62	42.95	44.54
Inventory Days	123.10	119.01	130.28	133.99	134.04
Accounts Payables Days	69.60	47.66	45.27	53.94	56.02
ROIC (%)	23.1%	13.4%	15.3%	18.3%	21.2%
ROCE (%)	20.8%	13.4%	15.5%	17.5%	19.4%
Return On Average Assets	15.6%	9.8%	11.3%	12.4%	13.7%

<b>Key Drivers</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
ASP (% chg, main prod./serv.)	15.4%	14.7%	(4.7%)	4.1%	2.7%
Unit sales grth (% , main prod./serv.)	27.1%	4.3%	5.4%	8.0%	6.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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