

India

REDUCE (no change)

Consensus ratings*: Buy 11 Hold 7 Sell 9

Current price:	Rs2,370
Target price: ▲	Rs1,790
Previous target:	Rs1,730
Up/downside:	-24.5%
InCred Research / Consensus:	-22.9%
Reuters:	
Bloomberg:	BIL IN
Market cap:	US\$6,310m Rs458,229m
Average daily turnover:	US\$9.7m Rs701.9m
Current shares o/s:	193.3m
Free float:	41.7%

*Source: Bloomberg

Key changes in this note

- Sales cut by 5-6% for FY24F-25F.
- EBITDA cut by 6-7% for FY24F-25F.
- EPS cut by 4-5% for FY24F-25F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.8)	10.8	9.6
Relative (%)	(1.8)	3.8	(2.2)

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

Analyst(s)



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Balkrishna Industries Ltd

Concerns on sales dip across export mkts

- 1Q sales weakness was overcome by EBITDA margin growth and higher other income, leading to EPS beat. Net debt falling from its peak provides comfort.
- Sales volume weakness across regions, barring India, is an area of concern, leading to our EPS cut of 4-5% 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.

Concerns over sales fall; EBITDA margin recovery provides cushion

Balkrishna Industries' 1QFY24 EBITDA dipped by 11% yoy and 2% qoq to Rs4.86bn, 6% below our estimate but in line with Bloomberg consensus estimate. Net sales decline of 9% qoq to Rs21.2bn led to the disappointment, while EBITDA margin growth of 170bp qoq to 23% beat our estimate by 80bp. Sustained fall in raw material cost from the 3QFY23 peak and manufacturing expenses declining from their 1QFY23 peak have been the key drivers of EBITDA margin from its 3Q low (Fig. 2). Interest cost easing 17% qoq to Rs.208m comes as a surprise. With other income spiking 230% qoq to Rs987m aided by forex gains, PAT recorded a 21% qoq rise to Rs3.1bn, beating our/Bloomberg consensus estimates.

Management conference-call highlights

Management stated that Jun 2023 cyclone impacted production tonnage by 5 days and dispatches for 10 days, which it feels should help overcome seasonal demand weakness in the Sep 2023 quarter. It gave guidance that the benefit of lower raw material cost has been entirely captured in 1Q and will be stable around the current levels. It also gave guidance that easing freight rates and pricing pressure in Europe will lead to ASP falling to Rs305/kg by the Mar 2024F quarter vs. Rs314/kg in 1Q. Management stated that its 10% market share guidance will be achieved in the next four years, for which it may require another big capex upcycle. Halving of net debt qoq to Rs6.2bn provides comfort (Fig. 5).

Cut EBITDA estimates by around 6% for FY24-25F

The sales volume dip across regions (both yoy & qoq), barring India, is an area of concern. Management feels the channel inventory normalization will help a gradual improvement in dispatches post Sep 2023F quarter. We cut sales volume estimate by 3%, which still builds in a 22% yoy volume growth in 2HFY24F. We retain EBITDA margin expansion estimates for FY24F-25F. Lower interest cost and higher other income caps EPS cut to just 4-5%.

Profit margin recovery discounted at +1SD valuation

The EBITDA margin recovery in the last two 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. We raise target P/E to 21x from 20x to reflect improved profitability, leading to a slight raise in our target price to Rs1,790 from Rs1,730 earlier. With around 25% downside, we retain REDUCE rating on the stock due to recession fears in developed markets. Sharp volume and pricing recovery are key upside risks.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	84,188	100,725	95,316	108,273	118,625
Operating EBITDA (Rsm)	21,825	19,421	22,468	26,542	30,598
Net Profit (Rsm)	14,722	10,811	12,732	15,518	18,225
Core EPS (Rs)	76.2	55.9	65.9	80.3	94.3
Core EPS Growth	32.6%	(26.6%)	17.8%	21.9%	17.4%
FD Core P/E (x)	31.12	42.38	35.99	29.53	25.14
DPS (Rs)	28.0	16.0	22.0	26.0	32.0
Dividend Yield	1.18%	0.68%	0.93%	1.10%	1.35%
EV/EBITDA (x)	22.10	25.25	21.32	17.87	15.45
P/FCFE (x)	88.22	146.94	43.38	68.75	80.19
Net Gearing	34.8%	42.4%	24.7%	17.1%	13.7%
P/BV (x)	6.62	6.04	5.43	4.83	4.29
ROE	22.8%	14.9%	15.9%	17.3%	18.1%
% Change In Core EPS Estimates			(8.24%)	(7.93%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Concerns on volume dip across export mkts

Management conference-call highlights ►

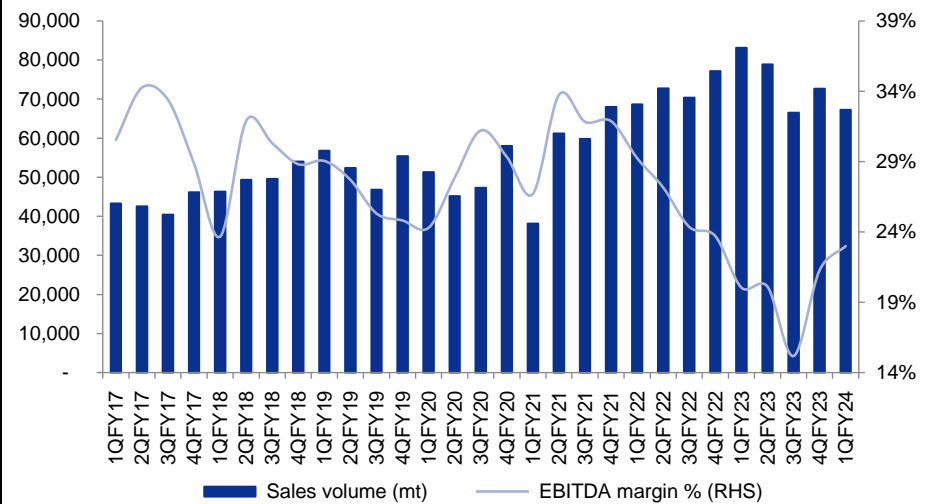
- Global inventory has come down to the near-normal level but end-customer demand remains weak. Demand challenges are expected to continue, led by a heat wave and recession fears.
- Towards the end of the year, ASP is expected to be around Rs300-305 per kg due to passing off lower freight rates to customers and increased competitive pressure.
- Raw material prices are expected to be stable going ahead. During the quarter, high-cost inventory has been absorbed.
- The EBITDA margin of 23% in 1QFY24 is expected to improve further led by volume growth, better currency hedging rates and product mix benefits.
- The company informed that about five days' production was lost (4,000-5,000 MT or metric tonne) and 10 days' dispatches due to Mundra port problems.
- Domestic sales growth of 19% yoy was through new order wins in India, where the tonnage volume is expected to be in a similar range going ahead as well.

Figure 1: Results comparison

FYE Mar (Rs m)	1QFY24	1QFY23	yoy % chg	4QFY23	qoq % chg	Comments for the quarter
Revenue	21,150	27,263	(22.4)	23,246	(9.0)	9% below our estimate.
Raw material cost	10,223	12,692	(19.5)	11,796	(13.3)	
RM as % of revenue	48.3	46.6	177.9	50.7	(240.9)	67bp below our estimate.
EBITDA	4,864	5,465	(11.0)	4,948	(1.7)	6% below our estimate.
EBITDA margin (%)	23.0	20.0	295.2	21.3	171.1	80bp above our estimate.
Depn & amort.	1,537	1,262	21.8	1,515	1.5	2% below our estimate.
EBIT	3,327	4,203	(20.8)	3,434	(3.1)	
Interest expense	208	27	659.1	250	(16.8)	25% below our estimate.
Other income	987	113	771.7	300	229.0	300% above our estimate.
Pretax profit	4,106	4,288	(4.3)	3,484	17.9	
Tax	983	1,091	(9.9)	906	8.5	
Tax rate (%)	23.9	25.4	(150)	26.0	(206)	
Normalised Net profit	3,123	3,197	(2.3)	2,578	21.1	17% above our estimate.
Exceptionals	-	-	nm	(23)	nm	
Reported net profit	3,123	3,197	(2.3)	2,556	22.2	
Normalised EPS (Rs)	16.2	16.5	(2.3)	13.3	21.1	
Volumes (mt)	67,209	83,153	(19.2)	72,676	(7.5)	9% below our estimate.
Realisation (Rs/kg)	315	328	(4.0)	320	(1.6)	-

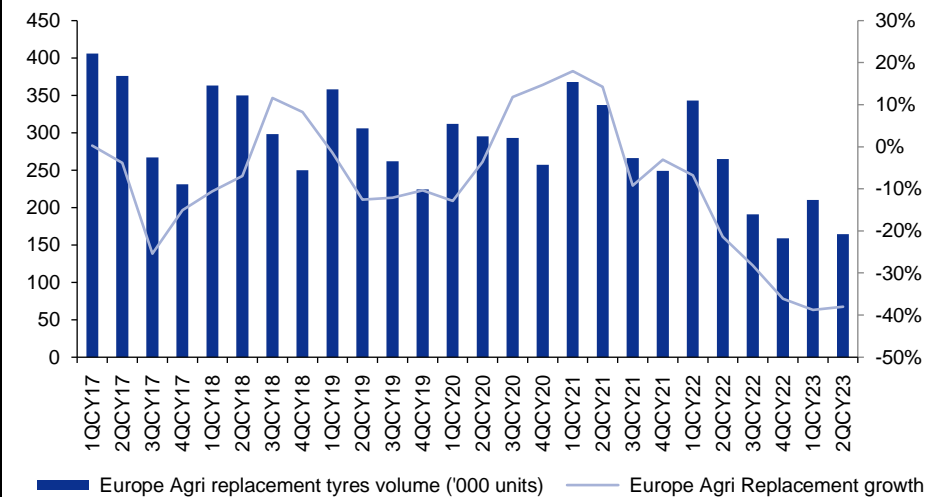
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Sales volume vs. EBITDA margin trend



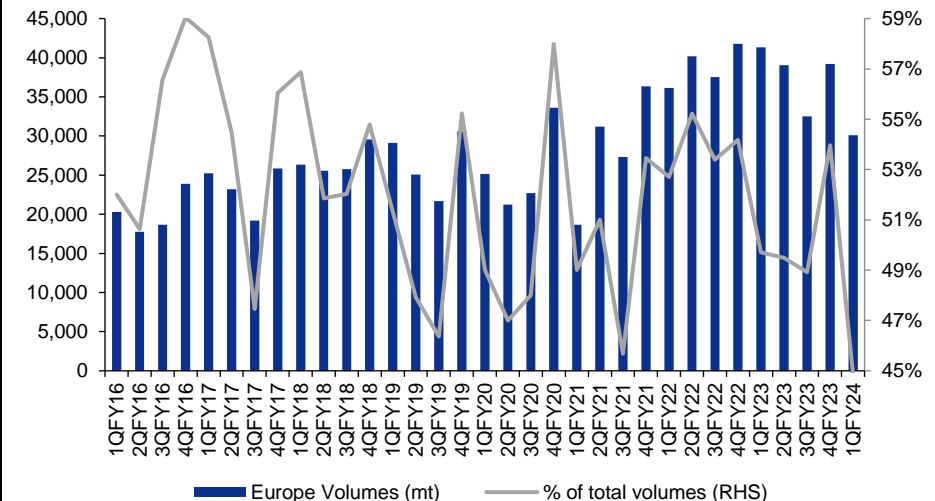
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Europe agri tyre replacement industry's volume decline continues



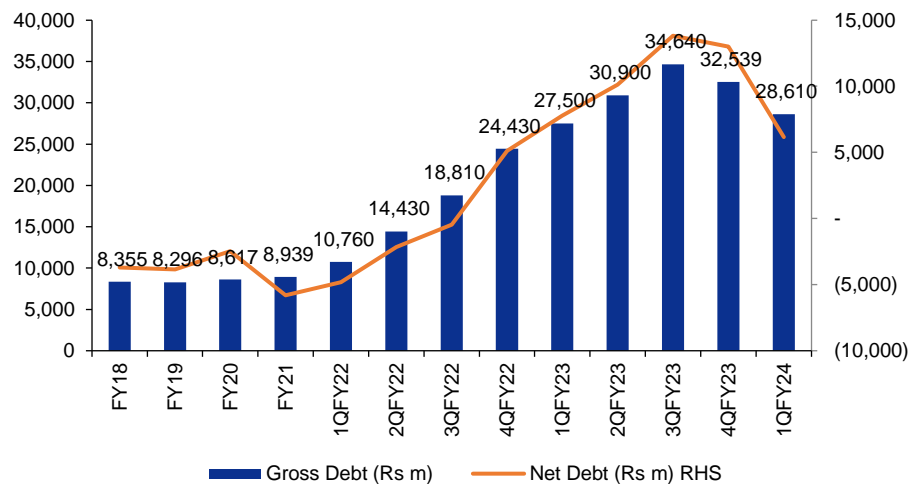
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Balkrishna Industries' Europe volume slips to CY20 low



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Sharp reduction in net debt is impressive



SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 6: EPS revision highlights

Rs m	FY24F		FY25F	
	Old	New	Old	New
Sales Volume (nos)	3,17,442	3,07,828	3,42,902	3,32,554
% change		-3.0%		-3.0%
Net Sales	1,01,149	95,316	1,13,770	1,08,273
% change		-5.8%		-4.8%
EBITDA	24,120	22,468	28,153	26,542
% change		-6.8%		-5.7%
EBITDA margin	23.8%	23.6%	24.7%	24.5%
bp change		(23)		(19)
PAT	13,387	12,732	16,177	15,518
% change		-4.9%		-4.1%
EPS (Rs)	69.3	65.9	83.7	80.3
% change		-5.0%		-4.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Key assumptions

	FY22A	FY23A	FY24F	FY25F	FY26F
Sales volume (mt)	2,88,795	3,01,181	3,07,828	3,32,554	3,54,805
Growth yoy %	27.1%	4.3%	2.2%	8.0%	6.7%
ASP (Rs per kg)	277	314	295	307	313
Growth yoy %	9.7%	13.4%	-6.0%	4.0%	2.0%
Net sales (Rs m)	84,188	1,00,725	95,316	1,08,273	1,18,625
Growth yoy %	46.7%	19.6%	-5.4%	13.6%	9.6%
EBITDA (Rs m)	21,825	19,421	22,468	26,542	30,598
EBITDA margin %	25.9%	19.3%	23.6%	24.5%	25.8%
PAT (Rs m)	14,722	10,811	12,732	15,518	18,225
Growth yoy %	32.6%	-26.6%	17.8%	21.9%	17.4%
EPS (Rs)	76.2	55.9	65.9	80.3	94.3
Volume mix %					
Europe	53.9%	50.5%	46.9%	46.5%	46.6%
North America	17.3%	17.9%	16.3%	17.0%	18.0%
India	17.6%	21.6%	28.5%	29.6%	31.0%
Others	11.2%	10.0%	8.2%	6.9%	4.3%

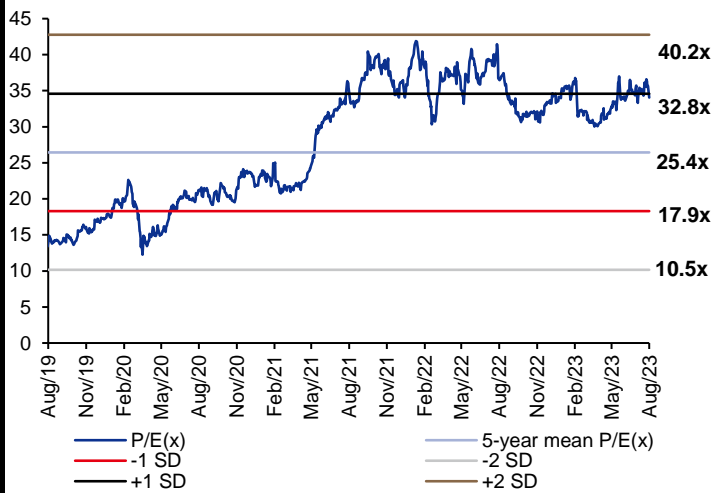
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: P/E-based target price

1-year forward EPS (Rs)	85.2
P/E Multiple (x)	21.0
Target price (Rs/share)	1,790

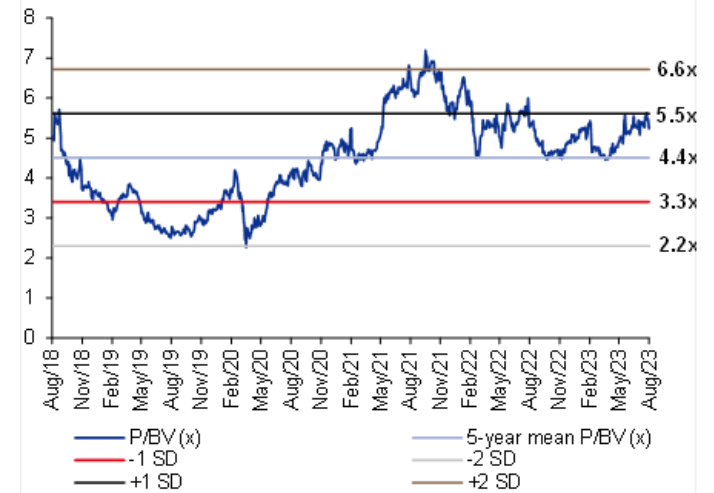
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Forward P/E valuation



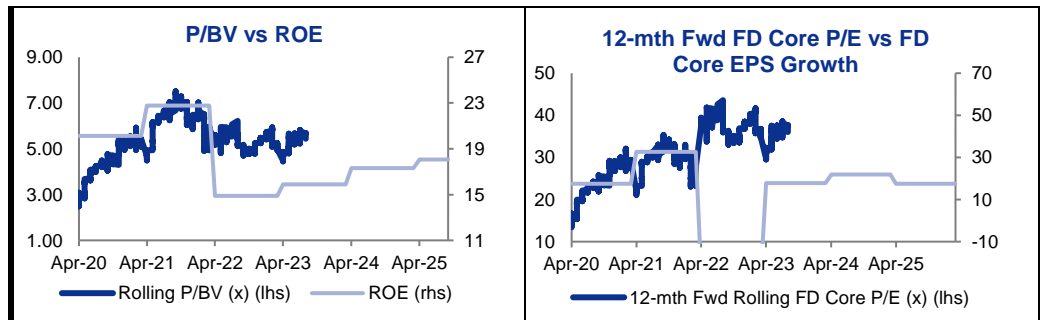
SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 10: Forward P/BV valuation



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	95,316	108,273	118,625
Gross Profit	46,402	51,168	50,517	59,875	66,430
Operating EBITDA	21,825	19,421	22,468	26,542	30,598
Depreciation And Amortisation	(4,438)	(5,566)	(6,586)	(7,146)	(7,866)
Operating EBIT	17,387	13,855	15,882	19,396	22,733
Financial Income/(Expense)	(79)	(456)	(800)	(750)	(600)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	2,236	1,114	1,894	2,045	2,168
Profit Before Tax (pre-EI)	19,544	14,513	16,976	20,691	24,301
Exceptional Items					
Pre-tax Profit	19,544	14,513	16,976	20,691	24,301
Taxation	(4,822)	(3,702)	(4,244)	(5,173)	(6,075)
Exceptional Income - post-tax					
Profit After Tax	14,722	10,811	12,732	15,518	18,225
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	14,722	10,811	12,732	15,518	18,225
Recurring Net Profit	14,722	10,811	12,732	15,518	18,225
Fully Diluted Recurring Net Profit	14,722	10,811	12,732	15,518	18,225

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	21,825	19,421	22,468	26,542	30,598
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(9,236)	(4,298)	1,135	(1,570)	(2,947)
(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	1,094	1,295	1,568
Tax Paid	(4,575)	(3,446)	(4,244)	(5,173)	(6,075)
Cashflow From Operations	9,753	18,253	20,523	21,164	23,214
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)
Cash Flow From Investing	(20,046)	(23,249)	(4,961)	(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)	(4,253)	(5,026)	(6,186)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	10,075	5,021	(9,253)	(8,026)	(8,186)
Total Cash Generated	(219)	25	6,310	1,639	(472)
Free Cashflow To Equity	5,194	3,118	10,563	6,664	5,714
Free Cashflow To Firm	(10,214)	(4,539)	16,363	10,414	8,314

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	6,688	8,326	7,855
Total Debtors	10,977	12,535	12,012	13,349	15,600
Inventories	16,394	15,924	16,974	18,392	19,500
Total Other Current Assets	9,430	6,106	6,756	7,406	8,056
Total Current Assets	37,153	34,943	42,430	47,473	51,011
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					
Total Non-current Assets	71,418	83,584	86,498	90,352	97,486
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	6,528	7,713	8,125
Other Current Liabilities	4,031	6,707	6,907	7,107	7,307
Total Current Liabilities	36,532	44,112	40,975	39,359	37,971
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	44,557	42,962	41,594
Shareholders Equity	69,246	75,891	84,371	94,863	106,903
Minority Interests					
Total Equity	69,246	75,891	84,371	94,863	106,903

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	46.7%	19.6%	(5.4%)	13.6%	9.6%
Operating EBITDA Growth	23.7%	(11.0%)	15.7%	18.1%	15.3%
Operating EBITDA Margin	25.9%	19.3%	23.6%	24.5%	25.8%
Net Cash Per Share (Rs)	(124.54)	(166.38)	(107.87)	(83.87)	(75.97)
BVPS (Rs)	358.23	392.61	436.48	490.76	553.04
Gross Interest Cover	220.09	30.38	19.85	25.86	37.89
Effective Tax Rate	24.7%	25.5%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	36.8%	28.6%	33.4%	32.4%	33.9%
Accounts Receivables Days	39.62	42.60	47.00	42.75	44.54
Inventory Days	123.10	119.01	134.02	133.36	132.49
Accounts Payables Days	69.60	47.66	46.42	53.70	55.38
ROIC (%)	23.1%	13.4%	13.8%	17.1%	19.4%
ROCE (%)	20.8%	13.4%	14.1%	16.3%	17.8%
Return On Average Assets	15.6%	9.8%	10.8%	12.1%	13.0%

Key Drivers					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
ASP (% chg, main prod./serv.)	15.4%	14.7%	(7.4%)	5.1%	2.7%
Unit sales grth (% , main prod./serv.)	27.1%	4.3%	2.2%	8.0%	6.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
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