

India
January 25, 2024 - 11:14 PM

REDUCE (no change)

Consensus ratings*: Buy 10 Hold 5 Sell 11

Current price:	Rs2,527
Target price:	Rs2,160
Previous target:	Rs2,160
Up/downside:	-14.5%
InCred Research / Consensus:	-9.4%
Reuters:	BLKI.NS
Bloomberg:	BIL IN
Market cap:	US\$5,877m Rs488,513m
Average daily turnover:	US\$8.6m Rs714.8m
Current shares o/s:	193.3m
Free float:	41.7%

*Source: Bloomberg

Key financial forecast

	Mar-24F	Mar-25F	Mar-26F
Net Profit (Rsm)	12,870	15,513	17,149
Core EPS (Rs)	66.58	80.25	88.72
Core EPS Growth	15.3%	20.5%	10.5%
FD Core P/E	37.95	31.49	28.48
Recurring ROE	16.0%	17.2%	16.9%
P/BV (x)	5.75	5.11	4.57
DPS (Rs)	20.00	25.00	30.00
Dividend Yield	0.79%	0.99%	1.19%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	0.5	(1.1)	12.8
Relative (%)	1.4	(11.7)	(3.9)

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

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Balkrishna Industries Ltd

Global supply challenges come to haunt

- 3QFY24 PBT was in line with our estimate, as slow volume growth and high interest cost took away the EBITDA margin expansion benefit.
- Management gave guidance of flat volume & margin pressure qoq on rising near-term geopolitical tensions. Retain 4% qoq EBITDA dip estimate for 4Q.
- The stock price rally on hopes of accelerating the recovery on a low base takes a hit. Retain REDUCE for rich valuation at +1SD above five-year mean.

Financial highlights

- Net sales rose 3% qoq and 4% yoy to Rs23bn, 2% below our estimate but in line with Bloomberg consensus estimate.
- EBITDA at Rs5.9bn grew by 75% yoy and 7% qoq, which was 5% above our/Bloomberg consensus estimates. The EBITDA margin at 25.3% was up 98bp qoq, aided by lower other expenses, while gross margin was flat qoq.
- PAT at Rs.3.09bn was up 210% yoy and down 8% qoq, which was 1% above our estimate but 11% below Bloomberg consensus estimate of Rs3.48bn.

Management commentary

- **Outlook:** In 4QFY24F, volume growth to be flattish yoy as delayed dispatches due to the ongoing Red Sea problems will impact the margins from the current level in the short term because of higher freight costs. The international market is likely to witness a stable-to-gradual recovery going ahead. It's early to predict the FY25F volume. The market share is at 5-6% globally, and the company is aiming to achieve 10% share in the next few years led by good demand.
- **Costs front:** The fall in crude oil prices has been offset by an increase in rubber prices. Shipping costs are 3-4% of the total costs in 9MFY24 and the current spike may require two-to-three quarters for passing it on to the end-users.
- **Inventory level:** On the retail front, the inventory level is at a comfortable level of around 45 days' sales while delayed dispatches are likely to reduce it to 30 days.
- **Carbon black and mould manufacturing facility:** Carbon black contributed 7.5% to the total revenue and is likely to contribute 9% next year. The existing carbon capacity is 170,000t (post expansion 200,000t), with capacity utilization at 85-90%.
- **Debt and finance costs:** Gross debt stood at Rs28.8bn and net debt during the quarter was at Rs3.3bn, 65% of which relates to working capital. Interest costs remain elevated as a part of them relates to the mark-to-market impact on the borrowing, which is in Euros.

Valuation and outlook

- The stock price rally in recent months, on hopes of a sustained volume and margin recovery from the Dec 2023 quarter onwards, has taken a hit. The Red Sea disruption will test the patience of investors. We retain our REDUCE rating on the stock and will look for triggers in the form of European agri demand recovery or mining sector outlook, for a better risk-reward price point.

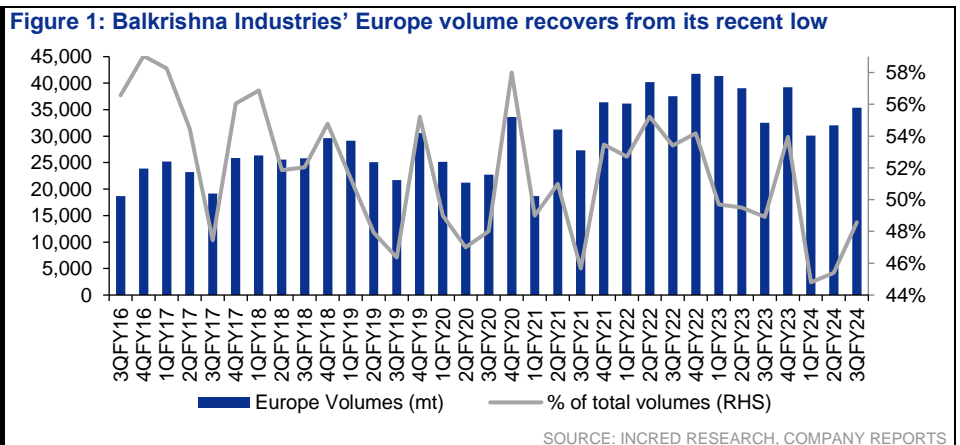
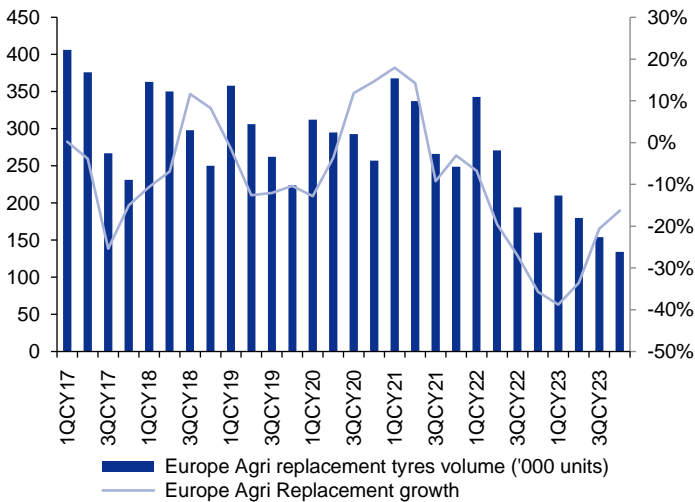


Figure 2: Quarterly results comparison

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy % chg	2QFY24	qoq % chg	9MFY24	9MFY23	yoy % chg	Comments for the quarter
Revenue	23,158	22,153	4.5	22,468	3.1	66,776	77,479	(13.8)	2% below our estimate.
Raw material costs	11,113	11,380	(2.3)	10,814	2.8	32,149	37,762	(14.9)	
RM as a % of revenue	48.0	51.4	(338.0)	48.1	(14.3)	48.1	48.7	(59.3)	49bp above our estimate.
EBITDA	5,870	3,363	74.6	5,474	7.2	16,208	14,473	12.0	5.2% above our estimate.
EBITDA margin (%)	25.3	15.2	1,017.0	24.4	98.5	24.3	18.7	559.3	175bp above our estimate.
Depreciation & amortization	1,591	1,449	9.8	1,586	0.3	4,714	4,052	16.3	5% below our estimate.
EBIT	4,279	1,913	123.7	3,888	10.1	11,494	10,421	10.3	
Interest expenses	354	136	160.1	229	54.6	791	207	282.8	47% above our estimate.
Other income	185	(359)	151.5	780	(76.3)	1,951	814	139.7	54% below our estimate.
Pre-tax profit	4,111	1,418	189.8	4,438	(7.4)	12,655	11,028	14.7	
Tax	1,020	422	141.5	1,085	(6.0)	3,087	2,797	10.4	
Tax rate (%)	24.8	29.8	(496)	24.4	37	24.4	25.4	(96)	
Normalized net profit	3,091	996	210.3	3,354	(7.8)	9,568	8,232	16.2	20% above our estimate.
Exceptional items	-	-	nm	-	nm	-	-	nm	
Reported net profit	3,091	996	210.3	3,354	(7.8)	9,568	8,232	16.2	
Normalized EPS (Rs)	16.0	5.2	210.3	17.4	(7.8)	48.7	41.9	16.2	
Volume (mt)	72,749	66,480	9.4	70,585	3.1	2,10,543	2,28,505	(7.9)	3.5% below our estimate.
Realization (Rs/kg)	318	333	(4.5)	318	0.0	317	339	(6.5)	

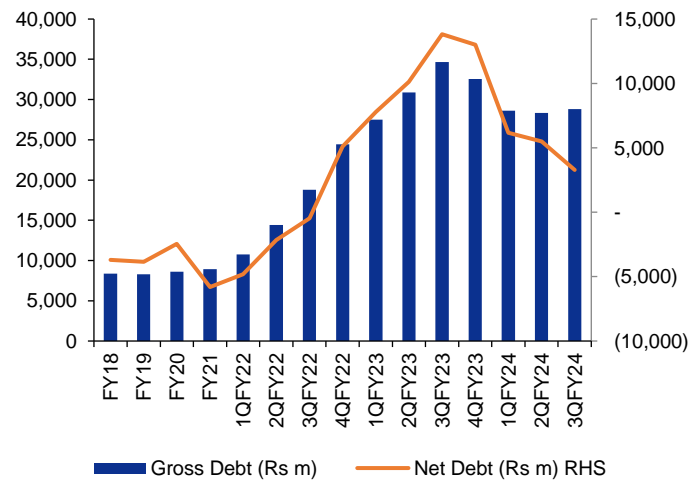
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



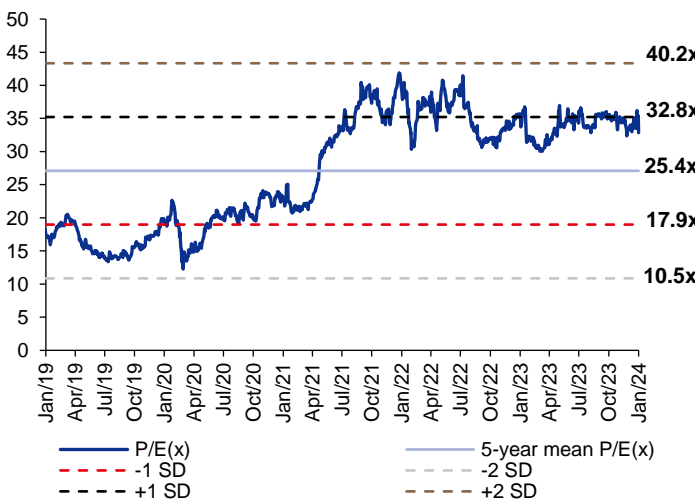
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Net debt stabilizes



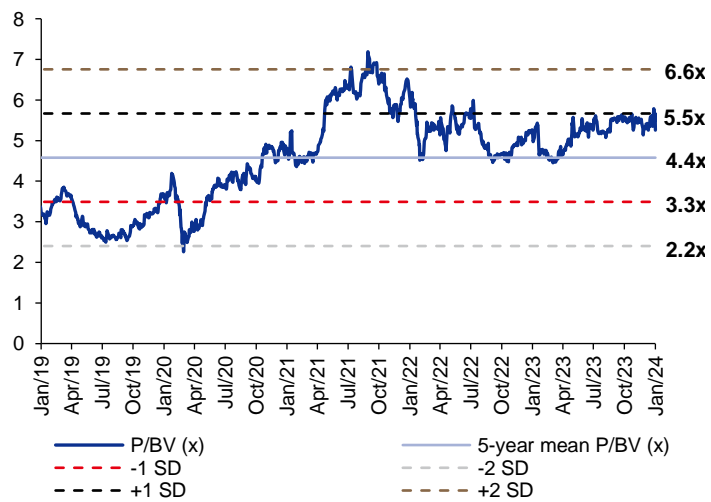
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Forward P/E valuation near +1 SD



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Figure 6: Forward P/BV valuation near +1 SD



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

Profit & Loss

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

Balance Sheet

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

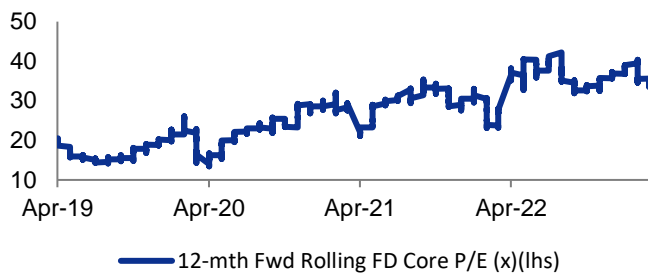
Cash Flow

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

Key Ratios

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

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



Key Drivers

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

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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