

India

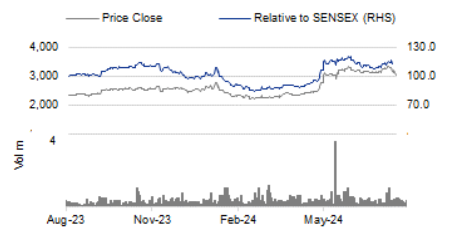
ADD (no change)

Consensus ratings*:	Buy 9	Hold 6	Sell 9
Current price:	Rs3,059		
Target price:	Rs3,542 ▲		
Previous target:	Rs3,087		
Up/downside:	15.8%		
InCred Research / Consensus:	23.7%		
Reuters:			
Bloomberg:	BIL IN		
Market cap:	US\$8,144m	Rs591,348m	
Average daily turnover:	US\$14.4m	Rs1047.9m	
Current shares o/s:	193.3m		
Free float:	41.7%		

*Source: Bloomberg

Key changes in this note

- FY25F-26F sales volume upgraded by 1-2%.
- FY25F-26F EBITDA raised by 1%.
- Maintain FY25F-26F EPS.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.0)	25.3	29.9
Relative (%)	(3.1)	14.2	6.5

Major shareholders	% held
Promoter Family	58.3
LIC	3.7
HDFC Mutual Fund	1.1

Research Analyst(s)



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Balkrishna Industries Ltd

Strong 1Q overshadowed by challenges

- 1Q EPS growth of 53% yoy was on a small base but flat qoq. However, it is still a big beat vs. our estimate (24%) & Bloomberg consensus estimate (22%).
- Management’s caution about volume recovery, we feel, limits the EPS upgrade currently, despite good 1Q. However, cyclicality turnaround & uptrend remains.
- We retain our ADD rating by raising the P/E to +1SD level of 34x, as it is well-placed to overcome short-term demand volatility and regulation challenges.

Sales growth acceleration in 1Q is impressive

Balkrishna Industries’ 1QFY25 net sales grew 30% yoy and 2% qoq to Rs27.4bn, a big beat vs. our estimate (12%) and Bloomberg or BB consensus estimate (5%). The third successive quarter in a row qoq improvement in sales tonnage (12% beat) provides comfort. The EBITDA margin was flat qoq at 26%, leading to a 2% qoq rise in EBITDA to Rs.7.1bn, a big beat vs. our estimate (17%) and BB consensus estimate (7%). PAT was flat qoq and 53% yoy at Rs4.8bn, a big beat vs. our estimate (24%) and BB consensus estimate (22%). Gross debt stood at Rs27bn at the end of 1Q, and dividend/share at Rs4.

Management remains cautious on demand trend

Considering the short-term uncertainty from geopolitical tensions, likely US recession and system inventory, management gave marginal volume growth guidance for FY25F. Management announced a new capex program of Rs13bn towards the OTR tyre capacity of 35,000t, to be commissioned gradually. The new European regulation on deforestation-free products (EUDR), announced in Jun 2023, will be effective from Dec 2024. Considering such inputs are 15% costlier than the current usage inputs, management expects some challenges in early CY25F.

Maintain EPS estimates despite challenges

The Europe agri tyre replacement market, after two years of a cyclical downturn, we believe, is on an uptrend, barring short-term challenges. With a strong start to the year, despite building in short-term challenges as guided by management, we feel the 13% sales growth is possible in the rest of FY25F. We expect a 80bp impact from EUDR regulation, a part of which may be passed on to the consumers, leading to a 40bp cut in our margin estimate for FY26F. We maintain our EPS estimates for FY25F-27F.

Better placed to overcome short-term challenges; retain ADD rating

The global volatility, we feel, is partially reflected in the recent month stock price correction. Considering its long experience in the global agri tyre market and low market share in the segment, we feel it is well-placed to handle these challenges and emerge stronger. We reiterate our ADD rating on the stock, raising our target P/E to 34x from 30x, leading to new TP of Rs3,542 from Rs3,087. The key downside risk is a weak pricing scenario hurting short-term profitability.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	100,725	93,747	109,595	126,855	139,665
Operating EBITDA (Rsm)	19,777	22,800	27,785	31,301	34,746
Net Profit (Rsm)	11,166	13,976	17,129	19,510	21,230
Core EPS (Rs)	57.8	72.3	88.6	100.9	109.8
Core EPS Growth	(24.2%)	25.2%	22.6%	13.9%	8.8%
FD Core P/E (x)	52.95	42.31	34.52	30.31	27.85
DPS (Rs)	16.0	16.0	20.0	25.0	30.0
Dividend Yield	0.52%	0.52%	0.65%	0.82%	0.98%
EV/EBITDA (x)	31.53	27.24	22.15	19.56	17.47
P/FCFE (x)	189.63	182.35	128.12	119.99	98.00
Net Gearing	42.4%	33.7%	23.6%	18.0%	11.9%
P/BV (x)	7.79	6.67	5.80	5.07	4.48
ROE	15.4%	17.0%	18.0%	17.9%	17.1%
% Change In Core EPS Estimates			(0.88%)	(0.50%)	(2.18%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Strong 1Q overshadowed by challenges

Management conference-call highlights >

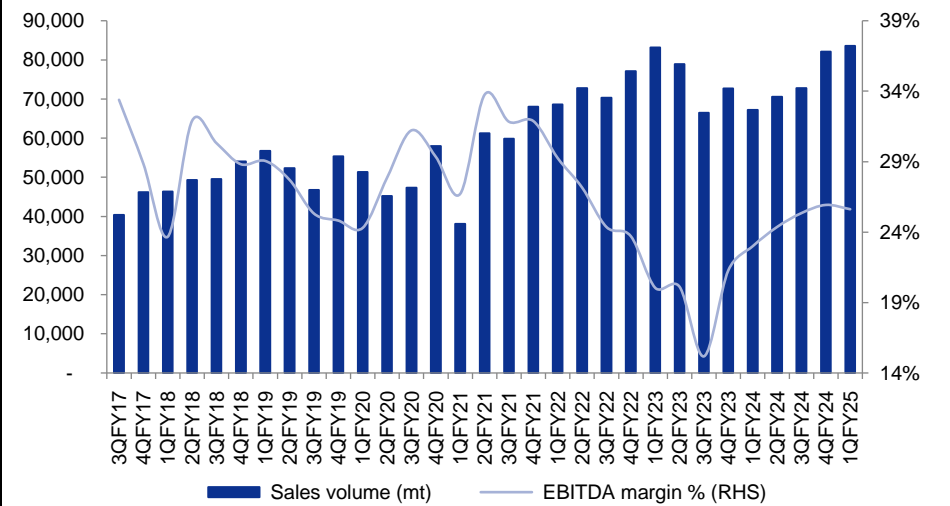
- **Demand:** Management expects a minor volume growth in FY25F due to macroeconomic challenges accentuated by recessionary fears in the US and geopolitical sanctions, and inflationary raw material scenario coupled with high freight costs in Europe, while management sees a positive trend in India and other regions. During the quarter, volume improved by 24% yoy on a low base, as 1QFY24 had cyclonic storms in western India.
- **Costs front:** During the quarter, freight costs, as a proportion of revenue, were on the lower side (~6%) as the company negotiated with its customers, but they are likely to touch 8-9% in the coming quarters due to unavailability of containers. Raw material prices witnessed an uptick during the quarter and they are likely to see a further 3-4% rise in the next quarter. In 1QFY25, they had a net impact of Rs40m due to the extended producer responsibility or EPR.
- **EBITDA margin:** For the quarter, it stood at 26%, up 300bp yoy, and for FY25F management expects it to be at the level it touched in FY24.
- **European Union Deforestation Regulation:** Management stated that sourcing of rubber for the European region will become costlier, as from 30 Dec 2024, tyre deliveries to Europe must not come from deforested land.
- **Capex:** The company incurred Rs2bn capex in 1QFY25, and for FY25F it plans to incur Rs6-7bn. Witnessing acceptance and growth in the OTR space, the company plans to add a capacity of 35,000mtpa or metric tonne per annum at its Bhuj plant at a cost of Rs13bn.
- **Other:**
 - Market share in India agri space is in the range of 6-7%.
 - The company did not go for any price hike during the quarter.
 - The inventory level during the quarter remained at an elevated level, which is likely to sustain.
 - Carbon black revenue share to a third party was 6-7% of its total revenue.

Figure 1: Quarterly results highlights

Y/E Mar (Rs m)	1QFY25	1QFY24	yoy % chg	4QFY24	qoq % chg quarter	Comments for the
Revenue	27,415	21,150	29.6	26,971	1.6	12% above our estimate.
Raw material costs	12,859	10,223	25.8	12,595	2.1	
RM costs as a % of revenue	46.9	48.3	(143.0)	46.7	20.6	30bp above our estimate.
EBITDA	7,024	4,864	44.4	6,993	0.5	15% above our estimate.
EBITDA margin (%)	25.6	23.0	262.6	25.9	(30.5)	82bp above our estimate.
Depreciation & amortization	1,617	1,537	5.2	1,724	(6.2)	5% below our estimate.
EBIT	5,408	3,327	62.5	5,269	2.6	
Interest expenses	210	208	0.8	299	(29.8)	24% above our estimate.
Other income	1,068	987	8.3	1,366	(21.8)	7% above our estimate.
Pre-tax profit	6,266	4,106	52.6	6,336	(1.1)	
Tax	1,493	983	51.9	1,528	(2.3)	
Tax rate (%)	23.8	23.9	(11)	24.1	(28)	
Normalized net profit	4,773	3,123	52.8	4,809	(0.7)	24% above our estimate.
Exceptional items	-	-	nm	-	nm	
Reported net profit	4,773	3,123	52.8	4,809	(0.7)	
Normalized EPS (Rs)	24.7	16.2	52.8	24.9	(0.7)	
Volume (mt)	83,570	67,209	24.3	82,085	1.8	13% above our estimate.
Realization (Rs/kg)	328	315	4.2	329	(0.2)	-

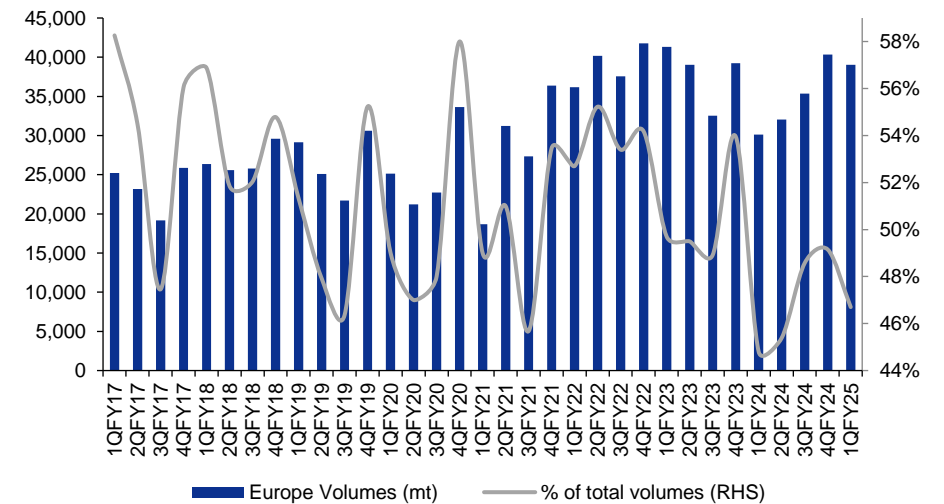
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Sales volume vs. EBITDA margin trend



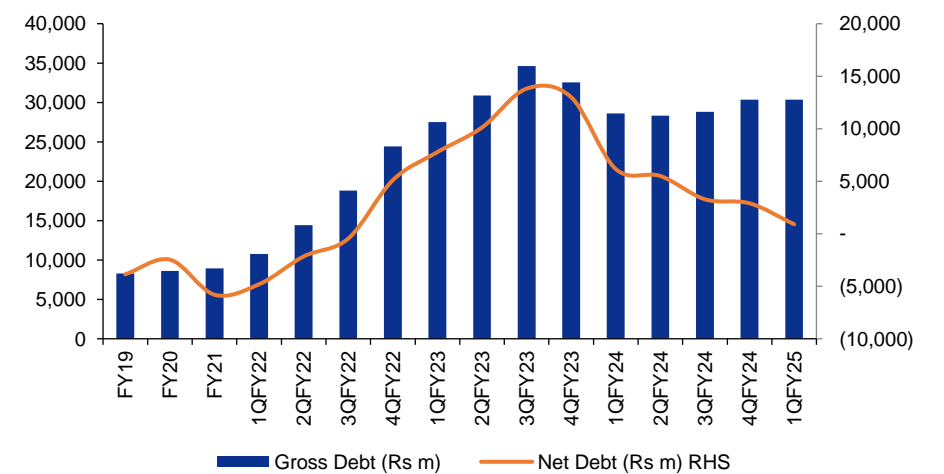
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Balkrishna Industries' Europe volume eases sequentially



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Net debt reduction trend sustains



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Earnings revision summary

Rs m	FY25F		FY26F	
	Old	New	Old	New
Sales volume (nos.)	3,21,505	3,25,045	3,46,918	3,55,055
% change		1.1%		2.3%
Net sales	1,09,473	1,09,595	1,23,377	1,26,855
% change		0.1%		2.8%
EBITDA	27,551	27,785	30,912	31,301
% change		0.8%		1.3%
EBITDA margin	25.2%	25.4%	25.1%	24.7%
bp change		19		(38)
PAT	17,055	17,129	19,608	19,510
% change		0.4%		-0.5%
EPS (Rs)	88.2	88.6	101.4	100.9
% change		0.4%		-0.5%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Key assumptions

	FY22A	FY23A	FY24F	FY25F	FY26F	FY27F
Sales volume (mt)	2,88,795	3,01,181	2,92,628	3,25,045	3,55,055	3,79,989
Growth yoy %	27.1%	4.3%	-2.8%	11.1%	9.2%	7.0%
ASP (Rs per kg)	277	314	281	290	304	313
Growth yoy %	9.7%	13.4%	-10.6%	3.0%	5.0%	3.0%
Net sales (Rs m)	84,188	1,00,725	93,747	1,09,595	1,26,855	1,39,665
Growth yoy %	46.7%	19.6%	-6.9%	16.9%	15.7%	10.1%
EBITDA (Rs m)	21,825	19,777	22,800	27,785	31,301	34,746
EBITDA margin %	25.9%	19.6%	24.3%	25.4%	24.7%	24.9%
PAT (Rs m)	14,722	11,166	13,976	17,129	19,510	21,230
Growth yoy %	32.6%	-24.2%	25.2%	22.6%	13.9%	8.8%
EPS (Rs)	76.2	57.8	72.3	88.6	100.9	109.8

Volume mix %

	FY22A	FY23A	FY24F	FY25F	FY26F	FY27F
Europe	53.9%	50.5%	47.1%	45.4%	44.9%	44.4%
North America	17.3%	17.9%	16.9%	17.2%	17.0%	17.0%
India	17.6%	21.6%	26.8%	27.7%	27.9%	28.2%
Others	11.2%	10.0%	9.2%	9.7%	10.2%	10.4%

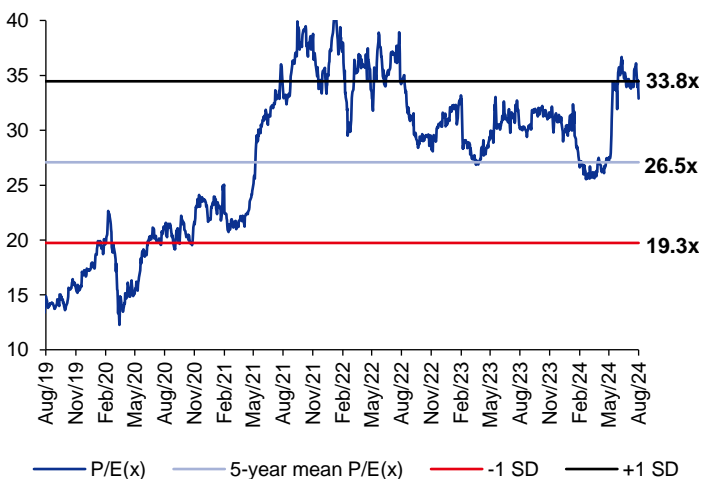
SOURCES: INCRED RESEARCH, COMPANY REPORTS

Figure 7: P/E-based target price

One-year forward EPS (Rs)	104.2
P/E multiple (x)	34.0
Target price (Rs/share)	3,542

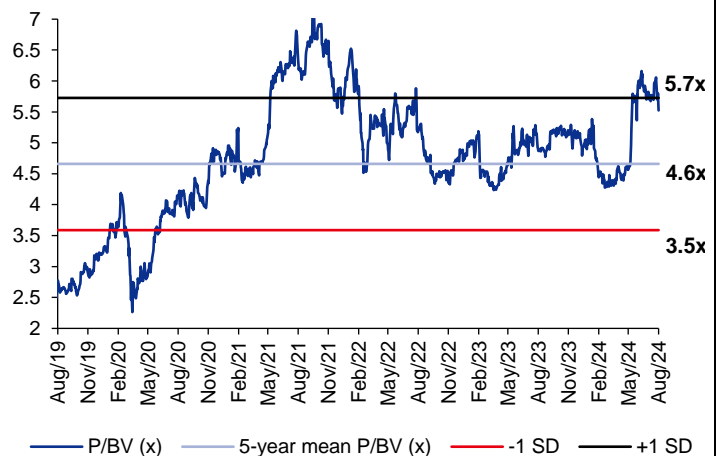
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Figure 8: Forward P/E valuation near +1 SD level



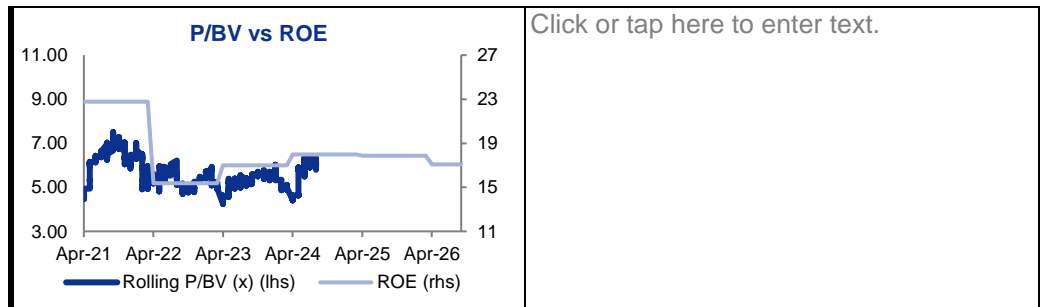
SOURCE: INCRED RESEARCH, COMPANY REPORTS

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



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	100,725	93,747	109,595	126,855	139,665
Gross Profit	51,168	49,003	58,085	65,965	74,023
Operating EBITDA	19,777	22,800	27,785	31,301	34,746
Depreciation And Amortisation	(5,566)	(6,438)	(7,562)	(8,575)	(10,147)
Operating EBIT	14,211	16,363	20,223	22,726	24,599
Financial Income/(Expense)	(456)	(1,089)	(1,100)	(800)	(625)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,114	3,317	3,715	4,087	4,332
Profit Before Tax (pre-EI)	14,869	18,591	22,839	26,013	28,307
Exceptional Items					
Pre-tax Profit	14,869	18,591	22,839	26,013	28,307
Taxation	(3,702)	(4,615)	(5,710)	(6,503)	(7,077)
Exceptional Income - post-tax					
Profit After Tax	11,166	13,976	17,129	19,510	21,230
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	11,166	13,976	17,129	19,510	21,230
Recurring Net Profit	11,166	13,976	17,129	19,510	21,230
Fully Diluted Recurring Net Profit	11,166	13,976	17,129	19,510	21,230

Cash Flow					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	19,777	22,800	27,785	31,301	34,746
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(4,298)	4,381	(3,907)	(5,727)	(2,913)
(Incr)/Decr in Total Provisions	5,918	(3,677)	70	70	70
Other Non-Cash (Income)/Expense					
Other Operating Cashflow					
Net Interest (Paid)/Received	658	2,228	2,615	3,287	3,707
Tax Paid	(3,446)	(4,020)	(5,710)	(6,503)	(7,077)
Cashflow From Operations	18,609	21,712	20,853	22,428	28,534
Capex	(20,529)	(11,310)	(9,500)	(12,000)	(13,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(3,075)	(4,989)	(1,738)	(2,500)	(4,500)
Cash Flow From Investing	(23,604)	(16,299)	(11,238)	(14,500)	(17,500)
Debt Raised/(repaid)	8,114	(2,170)	(5,000)	(3,000)	(5,000)
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(3,093)	(3,093)	(3,866)	(4,833)	(5,799)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	5,021	(5,263)	(8,866)	(7,833)	(10,799)
Total Cash Generated	25	150	749	95	235
Free Cashflow To Equity	3,118	3,243	4,615	4,928	6,034
Free Cashflow To Firm	(4,539)	6,502	10,715	8,728	11,659

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	378	528	1,277	1,372	1,607
Total Debtors	12,535	15,433	13,512	16,682	18,367
Inventories	15,924	12,705	17,415	20,853	22,959
Total Other Current Assets	6,106	8,235	8,885	9,535	10,185
Total Current Assets	34,943	36,901	41,089	48,443	53,118
Fixed Assets	67,408	72,280	74,218	77,643	80,497
Total Investments	20,373	26,868	27,868	29,868	33,868
Intangible Assets					
Total Other Non-Current Assets					
Total Non-current Assets	87,781	99,148	102,086	107,511	114,364
Short-term Debt	32,539	30,369	25,369	22,369	17,369
Current Portion of Long-Term Debt					
Total Creditors	4,866	8,926	7,807	8,689	9,566
Other Current Liabilities	6,707	4,295	4,495	4,695	4,895
Total Current Liabilities	44,112	43,590	37,671	35,753	31,830
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities					
Total Provisions	2,720	3,840	3,622	3,642	3,662
Total Liabilities	46,832	47,430	41,292	39,394	35,492
Shareholders Equity	75,891	88,619	101,882	116,559	131,990
Minority Interests					
Total Equity	75,891	88,619	101,882	116,559	131,990

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	19.6%	(6.9%)	16.9%	15.7%	10.1%
Operating EBITDA Growth	(9.4%)	15.3%	21.9%	12.7%	11.0%
Operating EBITDA Margin	19.6%	24.3%	25.4%	24.7%	24.9%
Net Cash Per Share (Rs)	(166.38)	(154.38)	(124.64)	(108.62)	(81.54)
BVPS (Rs)	392.61	458.45	527.07	603.00	682.83
Gross Interest Cover	31.16	15.02	18.38	28.41	39.36
Effective Tax Rate	24.9%	24.8%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	27.7%	22.1%	22.6%	24.8%	27.3%
Accounts Receivables Days	42.60	54.45	48.20	43.44	45.80
Inventory Days	119.01	116.77	106.72	114.70	121.81
Accounts Payables Days	47.66	56.25	59.28	49.44	50.75
ROIC (%)	13.8%	13.6%	15.9%	16.8%	16.6%
ROCE (%)	13.7%	14.0%	16.0%	16.7%	16.7%
Return On Average Assets	10.0%	11.4%	12.9%	13.4%	13.4%

Key Drivers					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
ASP (% chg, main prod./serv.)	14.7%	(4.2%)	5.2%	6.0%	2.9%
Unit sales grth (%, main prod./serv.)	4.3%	(2.8%)	11.1%	9.2%	7.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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