

India

**ADD** (no change)

Consensus ratings*:	Buy 9	Hold 6	Sell 9
Current price:	Rs2,920		
Target price:	Rs3,517		
Previous target:	Rs3,542		
Up/downside:	20.4%		
InCred Research / Consensus:	20.7%		
Reuters:			
Bloomberg:	BIL IN		
Market cap:	US\$7,774m		
	Rs564,496m		
Average daily turnover:	US\$14.3m		
	Rs1041.0m		
Current shares o/s:	193.3m		
Free float:	41.7%		
*Source: Bloomberg			

**Key changes in this note**

- Sales volume cut by 2-3% for FY25F-27F.
- Only FY25F EBITDA cut by 2.6%.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(4.0)	(11.0)	12.3
Relative (%)	2.6	(9.5)	(10.4)

<b>Major shareholders</b>	% held
Promoter Family	58.3
LIC	3.7
HDFC Mutual Fund	1.1

**Research Analyst(s)**



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# Balkrishna Industries Ltd

## Demand blues to continue for some time

- 2Q EPS grew by just 4% yoy, below our estimate but in line with the Bloomberg consensus estimate. Weak global demand limited the volume growth to 4%.
- Management remains cautious on demand recovery. Improvement in net debt and commissioning of the specialty carbon black project provide comfort.
- With forward P/E & P/BV valuations easing to just above the 5-year mean, we retain ADD as cyclical demand recovery and new products provide comfort.

### EBITDA marginally below our estimate but in line with consensus

Balkrishna Industries' 2QFY25 net sales grew 4% yoy and declined by 12% qoq to Rs24.7bn, missing our estimate (-4%), but in line with the Bloomberg or BB consensus estimate. The EBITDA margin grew by 64bp to 25%, leading to a 13% qoq decline in EBITDA to Rs6bn, a miss vs. our estimate (4%) but in line with the BB consensus estimate. PAT witnessed a fall of 27% qoq but rose by 4% yoy to Rs3.5bn, missing our estimate (12%) due to higher interest costs. Net debt declined by 24% qoq to Rs680m at the end of Sep 2024, and dividend per share or DPS was flat at Rs4.

### Management remains cautious on the demand trend

Management gave guidance of minor revenue growth and ~25% EBITDA margin for the full year, as European geopolitical tensions and fears of a recession in America are likely to persist. During the quarter, the company took a price hike of ~1%, which will reflect in 3QFY25F ASP. Revenue contribution from the carbon black business is currently below 10% of total income. Advanced carbon black production commenced in Sep 2024. Capex was Rs5bn in 1HFY25, and the full-year capex guidance at Rs8-10bn. The new European regulation on deforestation-free products (EUDR), the approval for which is still pending, will be delayed by one year and will be effective by Dec 2025F, as per the company.

### Cut FY25F but maintain FY26F-27F estimates

The slowdown in 2Q sales disappointed us and management's guidance of a gradual recovery in 2HFY25F led us to go for a 3% cut in the sales volume for FY25F. However, stronger pricing power and the delay in EUDR policy provide comfort, thereby helping us limit FY26F-27F sales estimate reduction. Easing crude oil prices and rubber costs help us to marginally raise the EBITDA margin by 20bp, leading to retention of FY26F-27F EPS.

### New product capacity expansion benefit provides hope; retain ADD

The global volatility, we feel, is partially reflected in the recent stock price correction of 10% from its peak. Considering its long experience in the European agri-tyre market to handle cyclicality (Fig. 6) and benefits from capacity expansion in the OTR (off the road) segment and specialty carbon black, we reiterate our ADD rating on the stock. We have set our P/E-based target price at Rs3,517, slightly below the previous target price of Rs3,542. The key downside risks are slower-than-expected agri-tyre demand recovery and global economic recession impacting the demand for OTR tyres.

### Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	100,725	93,747	106,770	125,632	139,816
Operating EBITDA (Rsm)	19,777	22,800	27,049	31,198	35,070
Net Profit (Rsm)	11,166	13,976	16,580	19,368	21,494
Core EPS (Rs)	57.8	72.3	85.8	100.2	111.2
Core EPS Growth	(24.2%)	25.2%	18.6%	16.8%	11.0%
FD Core P/E (x)	50.55	40.39	34.04	29.14	26.26
DPS (Rs)	16.0	16.0	18.0	22.0	26.0
Dividend Yield	0.55%	0.55%	0.62%	0.75%	0.89%
EV/EBITDA (x)	30.17	26.06	21.75	18.75	16.52
P/FCFE (x)	181.02	174.07	123.82	129.61	98.48
Net Gearing	42.4%	33.7%	23.4%	17.7%	11.2%
P/BV (x)	7.44	6.37	5.55	4.83	4.23
ROE	15.4%	17.0%	17.4%	17.7%	17.2%
% Change In Core EPS Estimates			(3.20%)	(0.72%)	1.24%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Demand blues to continue for some time

### Management conference-call highlights ►

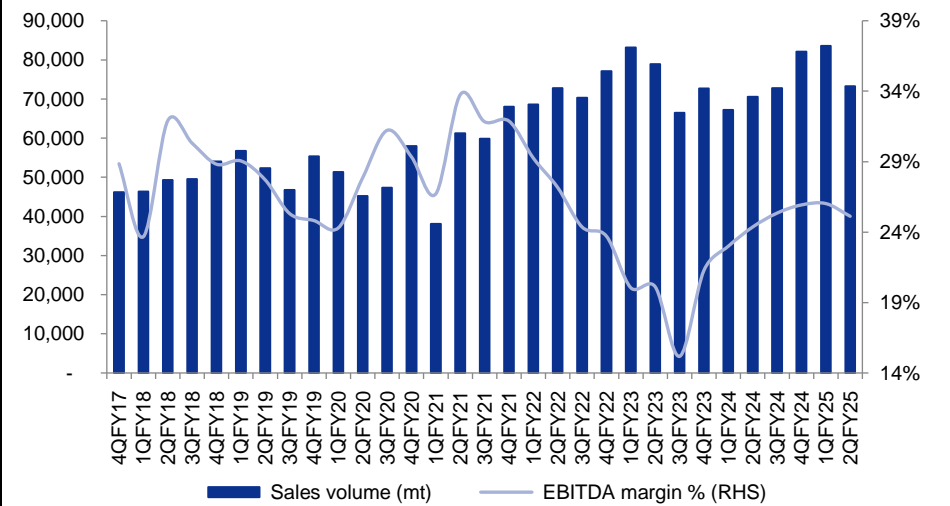
- **Demand outlook:** Management expects a minor yoy growth in FY25F, as Europe and America regions continue to witness economic challenges.
- **EUDTR regulation:** EU Deforestation Regulation (EUDR) is likely to get postponed for one year, but the company is well prepared even if it is implemented soon.
- **Financial performance:** Average selling price or ASP improved sequentially led by product mix & better hedge rates; the company took ~1% price hike during the quarter, which will get reflected next quarter. Management gave EBITDA margin guidance for the full year at close to 25%.
- **International market:** International business continues to face demand challenges, as European geopolitical tensions and fears of a recession in America are likely to persist for the full year.
- **Carbon black:** Revenue contribution from the carbon black business is currently below 10% of total income, 50% used in-house and 50% sold outside. Advanced carbon black production commenced in Sep 2024, and the revenue is likely to commence in the next quarter.
- **Costs front:** The growth in raw material costs is likely to be flat next quarter. Other expenses saw a sequential decline due to promotional expenses for the Indian Premier League or IPL cricket matches last quarter. Freight costs are likely to see a marginal reduction next quarter.
- **Capex:** Incurred a capex of Rs5bn in 1HFY25. The full-year capex guidance stands at Rs8-10bn.
- **Forex:** Forex gains stood at Rs800m during the quarter. The Euro-INR average currency rate was Rs91 in 2QFY25 vs. Rs92 expected for the rest of the year.

Figure 1: Quarterly results highlights

Y/E Mar (Rs m)	2QFY25	2QFY24	yoy % chg	1QFY25	qoq % chg	1HFY25	1HFY24	yoy % chg	Comments for the quarter
Revenue	24,652	22,468	9.7	27,415	(10.1)	52,067	43,619	19.4	4% below our estimate.
Raw material costs	11,697	10,814	8.2	12,859	(9.0)	24,556	21,037	16.7	
RM costs as a % of revenue	47.4	48.1	(68.0)	46.9	54.7	47.2	48.2	(106.6)	45bp above our estimate.
<b>EBITDA</b>	<b>6,163</b>	<b>5,474</b>	<b>12.6</b>	<b>7,134</b>	<b>(13.6)</b>	<b>13,298</b>	<b>10,338</b>	<b>28.6</b>	<b>4% below our estimate.</b>
<b>EBITDA margin (%)</b>	<b>25.0</b>	<b>24.4</b>	<b>63.8</b>	<b>26.0</b>	<b>(102.2)</b>	<b>25.5</b>	<b>23.7</b>	<b>183.9</b>	-
Depreciation & amortization	1,647	1,586	3.8	1,617	1.8	3,264	3,124	4.5	6% below our estimate.
EBIT	4,517	3,888	16.2	5,518	(18.1)	10,034	7,214	39.1	
Interest expenses	404	229	76.4	210	92.4	613	437	40.4	47% above our estimate.
Other income	540	780	(30.7)	958	(43.7)	1,498	1,766	(15.2)	40% below our estimate.
Pre-tax profit	4,653	4,438	4.8	6,266	(25.7)	10,919	8,544	27.8	
Tax	1,157	1,085	6.7	1,493	(22.5)	2,650	2,067	28.2	
Tax rate (%)	24.9	24.4	43	23.8	104	24.3	24.2	8	
<b>Normalized net profit</b>	<b>3,496</b>	<b>3,354</b>	<b>4.2</b>	<b>4,773</b>	<b>(26.8)</b>	<b>8,269</b>	<b>6,477</b>	<b>27.7</b>	<b>12% below our estimate.</b>
Exceptional items	-	-	nm	-	nm	3	3	nm	
Reported net profit	3,496	3,354	4.2	4,773	(26.8)	8,272	6,480	27.7	
Normalized EPS (Rs)	18.1	17.4	4.2	24.7	(26.8)	42.6	33.3	27.7	
Volume (mt)	73,298	70,585	3.8	83,570	(12.3)	1,56,867	1,37,794	13.8	6% below our estimate.
Realization (Rs/kg)	336	318	5.7	328	2.5	332	317	4.9	-

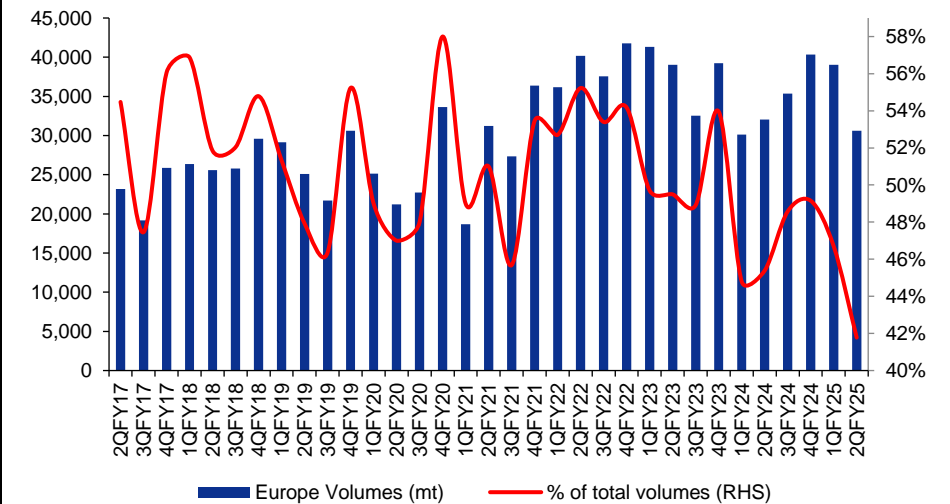
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: The EBITDA margin was steady despite volume growth slowdown**



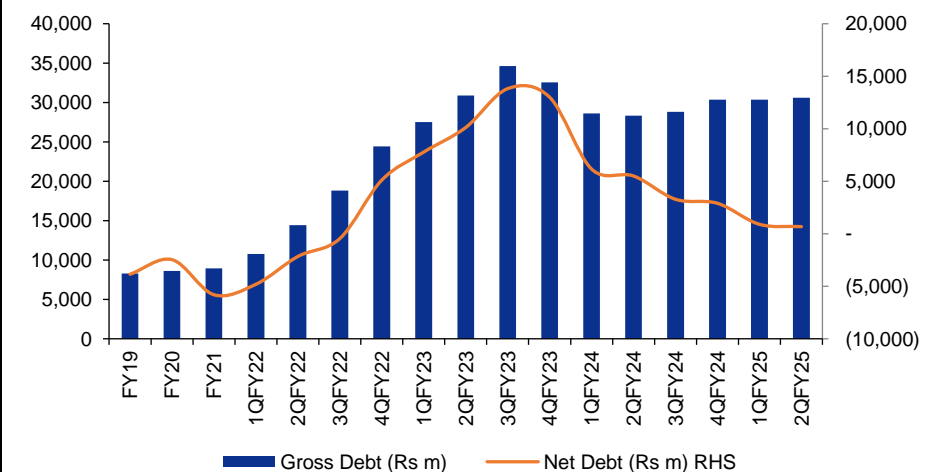
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 3: Balkrishna Industries' Europe volume corrects sequentially**



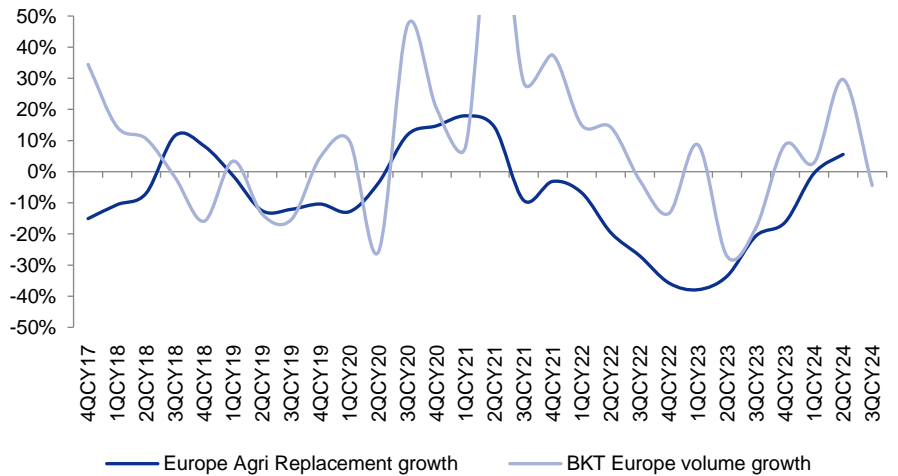
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 4: The sustained net debt reduction trend provides comfort**



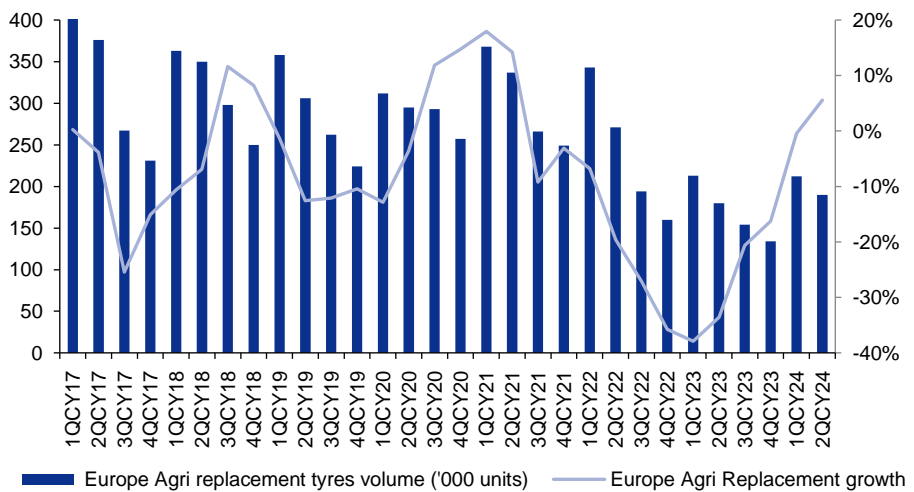
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Europe agri-tyre replacement market growth vs. Balkrishna Industries' Europe volume growth**



SOURCE: EUROPEAN TYRE & RUBBER MANUFACTURERS ASSOCIATION, INCRED RESEARCH, COMPANY REPORTS

**Figure 6: Europe's agri tyre replacement volume returns to the growth path**



SOURCE: EUROPEAN TYRE & RUBBER MANUFACTURERS ASSOCIATION, INCRED RESEARCH, COMPANY REPORTS

**Figure 7: Earnings revision summary**

Rs m	FY25F		FY26F		FY27F	
	Old	New	Old	New	Old	New
Sales volume (nos)	3,25,045	3,15,292	3,55,055	3,47,719	3,79,989	3,73,257
% change		-3.0%		-2.1%		-1.8%
Net sales	1,09,595	1,06,770	1,26,855	1,25,632	1,39,665	1,39,816
% change		-2.6%		-1.0%		0.1%
EBITDA	27,785	27,049	31,301	31,198	34,746	35,070
% change		-2.6%		-0.3%		0.9%
EBITDA margin	25.4%	25.3%	24.7%	24.8%	24.9%	25.1%
bp change		(2)		16		20
PAT	17,129	16,580	19,510	19,368	21,230	21,494
% change		-3.2%		-0.7%		1.2%
EPS (Rs)	88.6	85.8	100.9	100.2	109.8	111.2
% change		-3.2%		-0.7%		1.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Key assumptions

	FY22A	FY23A	FY24A	FY25F	FY26F	FY27F
Sales volume (mt)	2,88,795	3,01,181	2,92,628	3,15,292	3,47,719	3,73,257
Growth yoy %	27.1%	4.3%	-2.8%	7.7%	10.3%	7.3%
ASP (Rs per kg)	277	314	281	290	307	319
Growth yoy %	9.7%	13.4%	-10.6%	3.0%	6.0%	4.0%
<b>Net sales (Rs m)</b>	<b>84,188</b>	<b>1,00,725</b>	<b>93,747</b>	<b>1,06,770</b>	<b>1,25,632</b>	<b>1,39,816</b>
Growth yoy %	46.7%	19.6%	-6.9%	13.9%	17.7%	11.3%
EBITDA (Rs m)	21,825	19,777	22,800	27,049	31,198	35,070
<b>EBITDA margin %</b>	<b>25.9%</b>	<b>19.6%</b>	<b>24.3%</b>	<b>25.3%</b>	<b>24.8%</b>	<b>25.1%</b>
PAT (Rs m)	14,722	11,166	13,976	16,580	19,368	21,494
Growth yoy %	32.6%	-24.2%	25.2%	18.6%	16.8%	11.0%
<b>EPS (Rs)</b>	<b>76.2</b>	<b>57.8</b>	<b>72.3</b>	<b>85.8</b>	<b>100.2</b>	<b>111.2</b>
<b>Volume mix %</b>						
Europe	53.9%	50.5%	47.1%	46.3%	45.4%	44.8%
North America	17.3%	17.9%	16.9%	16.8%	16.4%	16.4%
India	17.6%	21.6%	26.8%	28.6%	28.5%	28.7%
Others	11.2%	10.0%	9.2%	8.3%	9.7%	10.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: P/E-based target price

1-year forward EPS (Rs)	106.6
P/E multiple (x)	33.0
<b>Target price (Rs/share)</b>	<b>3,517</b>

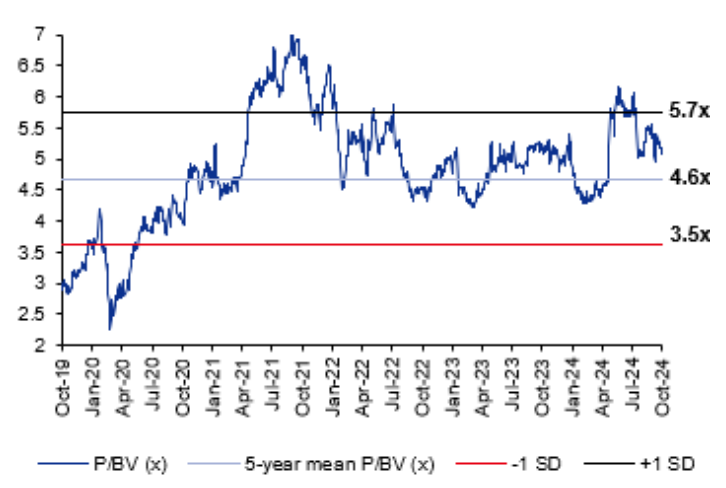
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 10: Forward P/E valuation below the +1 SD level



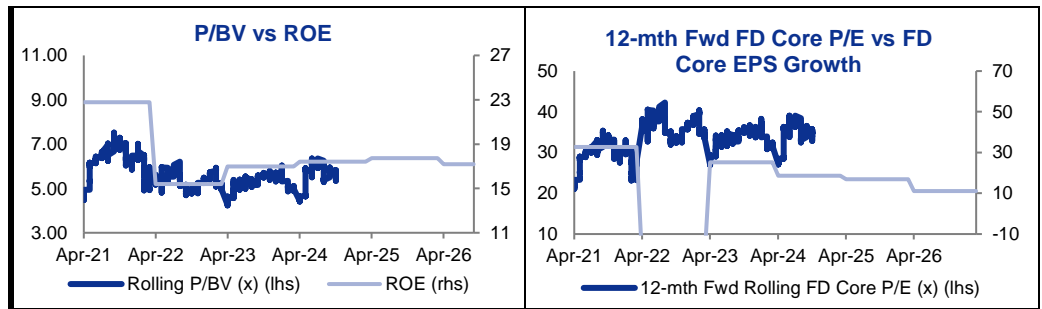
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 11: Forward P/BV valuation below the +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
<b>Total Net Revenues</b>	<b>100,725</b>	<b>93,747</b>	<b>106,770</b>	<b>125,632</b>	<b>139,816</b>
<b>Gross Profit</b>	<b>51,168</b>	<b>49,003</b>	<b>56,588</b>	<b>65,329</b>	<b>74,103</b>
<b>Operating EBITDA</b>	<b>19,777</b>	<b>22,800</b>	<b>27,049</b>	<b>31,198</b>	<b>35,070</b>
Depreciation And Amortisation	(5,566)	(6,438)	(7,458)	(8,461)	(9,893)
<b>Operating EBIT</b>	<b>14,211</b>	<b>16,363</b>	<b>19,591</b>	<b>22,737</b>	<b>25,177</b>
Financial Income/(Expense)	(456)	(1,089)	(1,200)	(1,000)	(850)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,114	3,317	3,715	4,087	4,332
<b>Profit Before Tax (pre-EI)</b>	<b>14,869</b>	<b>18,591</b>	<b>22,107</b>	<b>25,824</b>	<b>28,659</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>14,869</b>	<b>18,591</b>	<b>22,107</b>	<b>25,824</b>	<b>28,659</b>
Taxation	(3,702)	(4,615)	(5,527)	(6,456)	(7,165)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>11,166</b>	<b>13,976</b>	<b>16,580</b>	<b>19,368</b>	<b>21,494</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>11,166</b>	<b>13,976</b>	<b>16,580</b>	<b>19,368</b>	<b>21,494</b>
Recurring Net Profit	11,166	13,976	16,580	19,368	21,494
<b>Fully Diluted Recurring Net Profit</b>	<b>11,166</b>	<b>13,976</b>	<b>16,580</b>	<b>19,368</b>	<b>21,494</b>

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
<b>EBITDA</b>	<b>19,777</b>	<b>22,800</b>	<b>27,049</b>	<b>31,198</b>	<b>35,070</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(4,298)	4,381	(3,311)	(6,044)	(3,225)
(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	2,515	3,087	3,482
Tax Paid	(3,446)	(4,020)	(5,527)	(6,456)	(7,165)
<b>Cashflow From Operations</b>	<b>18,609</b>	<b>21,712</b>	<b>20,797</b>	<b>21,855</b>	<b>28,232</b>
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)
<b>Cash Flow From Investing</b>	<b>(23,604)</b>	<b>(16,299)</b>	<b>(11,238)</b>	<b>(14,500)</b>	<b>(17,500)</b>
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)	(3,479)	(4,253)	(5,026)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	<b>5,021</b>	<b>(5,263)</b>	<b>(8,479)</b>	<b>(7,253)</b>	<b>(10,026)</b>
Total Cash Generated	25	150	1,079	102	706
<b>Free Cashflow To Equity</b>	<b>3,118</b>	<b>3,243</b>	<b>4,559</b>	<b>4,355</b>	<b>5,732</b>
<b>Free Cashflow To Firm</b>	<b>(4,539)</b>	<b>6,502</b>	<b>10,759</b>	<b>8,355</b>	<b>11,582</b>

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	1,607	1,709	2,415
Total Debtors	12,535	15,433	13,163	16,521	18,387
Inventories	15,924	12,705	16,966	20,652	22,983
Total Other Current Assets	6,106	8,235	8,885	9,535	10,185
<b>Total Current Assets</b>	<b>34,943</b>	<b>36,901</b>	<b>40,621</b>	<b>48,417</b>	<b>53,970</b>
Fixed Assets	67,408	72,280	74,322	77,861	80,968
Total Investments	20,373	26,868	27,868	29,868	33,868
Intangible Assets					
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>87,781</b>	<b>99,148</b>	<b>102,190</b>	<b>107,729</b>	<b>114,836</b>
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	7,606	8,605	9,576
Other Current Liabilities	6,707	4,295	4,495	4,695	4,895
<b>Total Current Liabilities</b>	<b>44,112</b>	<b>43,590</b>	<b>37,470</b>	<b>35,669</b>	<b>31,841</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>					
Total Provisions	2,720	3,840	3,622	3,642	3,662
<b>Total Liabilities</b>	<b>46,832</b>	<b>47,430</b>	<b>41,091</b>	<b>39,311</b>	<b>35,502</b>
Shareholders Equity	75,891	88,619	101,720	116,836	133,304
Minority Interests					
<b>Total Equity</b>	<b>75,891</b>	<b>88,619</b>	<b>101,720</b>	<b>116,836</b>	<b>133,304</b>

**Key Ratios**

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	19.6%	(6.9%)	13.9%	17.7%	11.3%
Operating EBITDA Growth	(9.4%)	15.3%	18.6%	15.3%	12.4%
Operating EBITDA Margin	19.6%	24.3%	25.3%	24.8%	25.1%
Net Cash Per Share (Rs)	(166.38)	(154.38)	(122.93)	(106.88)	(77.36)
BVPS (Rs)	392.61	458.45	526.23	604.43	689.62
Gross Interest Cover	31.16	15.02	16.33	22.74	29.62
Effective Tax Rate	24.9%	24.8%	25.0%	25.0%	25.0%
Net Dividend Payout Ratio	27.7%	22.1%	21.0%	22.0%	23.4%
Accounts Receivables Days	42.60	54.45	48.88	43.12	45.57
Inventory Days	119.01	116.77	107.91	113.85	121.18
Accounts Payables Days	47.66	56.25	60.12	49.06	50.49
ROIC (%)	13.8%	13.6%	15.4%	16.8%	17.0%
ROCE (%)	13.7%	14.0%	15.5%	16.7%	17.0%
Return On Average Assets	10.0%	11.4%	12.5%	13.5%	13.6%

**Key Drivers**

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
ASP (% chg, main prod./serv.)	14.7%	(4.2%)	5.7%	6.7%	3.7%
Unit sales grth (% , main prod./serv.)	4.3%	(2.8%)	7.7%	10.3%	7.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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##### Stock Ratings

Definition:

- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

*The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.*

##### Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

##### Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.