

**BALKRISHNA INDUSTRIES LIMITED** | Auto Component**LKP**

Balkrishna Industries (BKT) posted a strong set of numbers in Q4 FY22 especially at the topline which grew by 36% yoy and 17% qoq at ₹23.8 bn on the back of 13.4% yoy and 9.7% growth in volumes. Second lever for this solid topline growth were the ASPs which expanded by 22.8% and 9.2% yoy and qoq respectively. This growth came on the price hikes taken in Q3 & Q4 and the product mix tilted towards replacement segment. However, increased RM basket costs and supply constraints restricted margin growth, as EBITDA margins came in at 21%, down 80 bps qoq and 1000 bps yoy on high base of last year. Apart from RM costs hike, other expenses too zoomed up on higher freight and power costs in the quarter. These impacted profitability. Below the operating levels, depreciation costs went up by 13% yoy as the new capacities are in ramping up stage. Net profits remained almost flat yoy while growing by 13.7% qoq to ₹3.73 bn. During FY22, topline grew by 43.6%, while margins came in at 23.9% as RM costs hike and supply side constraints impacted business throughout the year. PAT grew by 22% yoy to ₹14.1 bn.

**Volume growth remains buoyant across geographies, segments and channels.**

Volumes during the quarter expanded by 13% yoy and 10% qoq to 77,119 MT. This growth mainly came from the agriculture and mining sectors as offtake increased and BKT continued to inch up their market share (5% now globally). During the full year, the company reported volumes of 288,795 MT, which was a growth of 27%. This growth came despite Covid-19 remaining strong across the globe. Contribution from Europe grew to 54% from 51% a year ago, while India (17.6% of FY22 volumes) reduced a bit on the back of two Covid waves in the year. However, in absolute terms India also has grown. Americas (17.3% of volumes) and ROW markets (11.2% of volumes) are equally going strong despite the war between Russia and Ukraine. As far as the verticals are concerned, agriculture remained the highest contributor at 66%, up from 63% a year ago. The company is gung-ho about the prospects for agriculture, construction and mining segments in India considering the good monsoons, mining proliferation and infrastructure development in the country. We believe the strong growth which was seen in FY22 should continue in the ensuing years with the supply constraints easing and volume profile remaining intact. Also the company has become very aggressive in their marketing endeavors as they have tied up with various sporting events across geographies. Replacement demand (69% of volumes in FY22) is also getting stronger as OEMs face supply issues, thus helping margins.

Key Financials	FY 21	FY 22	FY 23E	FY 24E
Total sales (₹ bn)	57.6	82.7	104.5	125.2
EBITDA margins (%)	31.0%	23.9%	25.5%	27.1%
PAT margins (%)	20.1%	17.1%	17.5%	18.6%
EPS (₹)	59.9	73.1	94.7	120.9
P/E (x)	35.7	29.2	22.6	17.7
P/BV (x)	6.9	6.0	5.0	4.2
EV/EBITDA (x)	36.4	37.6	31.6	33.1
ROE (%)	19.2%	20.4%	22.3%	23.7%
ROC (%)	22.0%	19.8%	24.1%	27.3%
Dividend yield (%)	0.6%	1.4%	1.3%	1.7%

Rating	BUY
Current Market Price (₹)	2,135
12 M Price Target (₹)	2,539
Potential upside (%)	19

**Stock Data**

FV (₹) :	2
Total Market Cap (₹ bn) :	413
Free Float Market Cap (₹ bn) :	166
52-Week High / Low (₹) :	2,724 / 1,691
2-Year High / Low (₹) :	2,724 / 915
1 Yr Avg. Dly Traded Volume (in lakh)	4
BSE Code / NSE Symbol	502355 / BALKRISIND
Bloomberg :	BIL IN

**Shareholding Pattern**

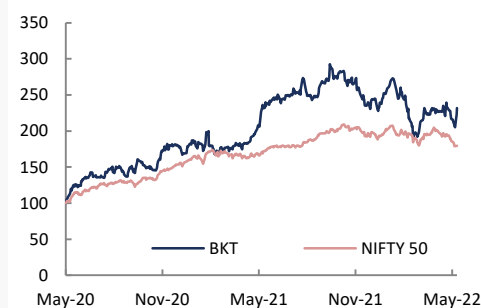
(%)	Mar-22	Dec-21	Sep-21	Jun-21
Promoter	58.29	58.29	58.30	58.30
FPIs	14.05	15.07	15.42	15.18
MFs	11.64	11.48	12.54	14.09
Insurance	5.38	5.05	3.94	3.37
Others	10.64	10.11	9.80	9.06

Source: BSE

**Price Performance**

(%)	1M	3M	6M	1YR
BKT	1.9%	6.4%	-8.1%	2.5%
Nifty 50	-9.3%	-8.5%	-11.5%	6.2%

\* To date / current date : May 17, 2022

**BKT vs Nifty 50**

### Capacity expansion remains the key for future growth

The company is on track to expand its capacity and taking it up to 360K MT from 285K MT currently, by the end of FY23. The company has continued with its old Waluj plant which produces 25K MT and new Waluj plant which commissioned in September 2021 is now adding 30k MT. The capex program of ₹19 bn (out of which ₹10 bn is spent in FY22) shall add 50k MT at Bhuj brownfield plant. This exhaustive capacity expansion plan should lead the company to be poised for next leg of growth in the OHT sector especially in the developing markets of India and ROW. The company also stands a good chance to further expand in the European and American markets as well with their strategic pricing (10-15% lower than the leaders) initiative. Therefore we believe that as the ramp up completes by end of FY23, we may witness a strong volume growth in all of its verticals and geographies. Management has given a volume target of 330K-340K MT for FY23E, while we expect volumes to grow at 17%/12% in FY 23E/24E.

### Quarterly Financial Snapshot

YE Mar (₹ mn)	Q4 FY22	Q3 FY22	% qoq	Q4 FY21	% yoy
Net sales	23,738	20,300	16.9%	17,459	36.0%
RM cost	11,028	9,659	14.2%	7,213	52.9%
Employee cost	899	967	-7.1%	883	1.8%
Other expenses	6,817	5,240	30.1%	3,945	72.8%
EBITDA	4,994	4,434	12.6%	5,418	-7.8%
EBITDA Margins %	21.0%	21.8%	(80 bps)	31.0%	(1000 bps)
Other income	1,077	1,116	-3.5%	584	84.4%
Depreciation	1,167	1,145	1.9%	1,034	12.8%
Interest	21	18	19.6%	23	-7.0%
PBT	4,883	4,387	11.3%	4,945	-1.2%
Tax	1,147	1,101	4.1%	1,223	-6.2%
Adj PAT	3,736	3,286	13.7%	3,722	0.4%
Adj PAT Margins%	15.7%	16.2%	(50 bps)	21.3%	(560 bps)
Exceptional items	-		N/A		N/A
Reported PAT	3,736	3,286	13.7%	3,722	0.4%

Source: Company, LKP Research

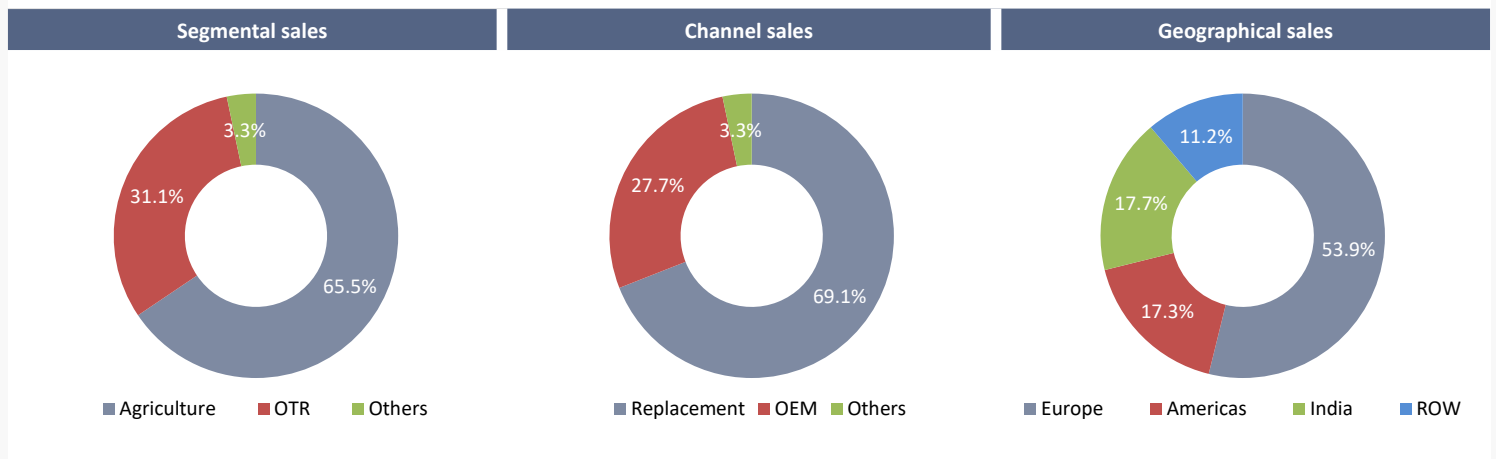
### Margin growth should follow volume growth

As we expect capacity build up in the current year, we also believe operating leverage to come into play. Demand is robust across the globe which is not an issue at this point in time or in near future. Additionally we believe supply constraints to ease out by H2 FY23. Therefore margins should see an expansion by then. The company has taken 2-3% price hikes in Q4, while further 3-4% hike shall be taken in June, which should take care of the rising RM costs. The captive Carbon Black plant is yielding 8-10% cost savings in RM costs, while the captive power plant of 20MW at Bhuj should save the power costs as well. Higher replacement business should further add to margin growth. Management has given a long term margin target of 28-30%.

**Outlook and Valuation**

BKT reported good set of numbers especially at the topline. Volume expansion was seen across all the geographies, verticals and channels. Realizations grew on price hikes taken and good product mix. Going forward, India is expected to join the bandwagon with good monsoons and pick up in the farm sector. As the supply constraints settle down, we expect volumes to rise further supported by capacity expansion at its various plants. Higher dependence on Replacement segment should keep the demand buoyant as OEMs are facing supply issues. It will help margins as well. Price hikes taken and to be taken, should further assist margins as RM costs are on rise. Captive Carbon black and Power plants should help saving costs. Capex outlay of ₹11 bn (₹9 bn for capex expansion and ₹2 bn for maintenance capex) for FY23 is not very high and is quite manageable with rich cash reserves. Despite this expense, the management doled out rich dividends of ₹28/share this year which gives comfort to the investors. With raised debt this year for capex expansion, the leverage ratio is still comfortable at 0.28x which we believe to reduce going forward with strong operations. Higher capex outlay in FY22 led to negative FCF, but we believe that the bulk of the capex is behind us, so in FY23, with stronger demand and business, we expect FCF to come back in the green. We therefore value BKT at 21x on FY24E earnings as compared to 17.7x current PE. We maintain a BUY rating on the stock with a target of ₹2,539.

**Volume Profile - FY22**



Source: Company, LKP Research

## Income Statement

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
<b>Total Revenues</b>	<b>57,579</b>	<b>82,667</b>	<b>1,04,462</b>	<b>1,25,187</b>
Raw Material Cost	23,028	37,785	47,008	55,082
Employee Cost	3,259	3,804	5,223	6,134
Other Exp	13,436	21,322	25,593	30,045
<b>EBITDA</b>	<b>17,856</b>	<b>19,755</b>	<b>26,638</b>	<b>33,926</b>
<i>EBITDA Margin(%)</i>	<i>31.0%</i>	<i>23.9%</i>	<i>25.5%</i>	<i>27.1%</i>
Depreciation	4,062	4,438	5,140	5,368
<b>EBIT</b>	<b>13,794</b>	<b>15,317</b>	<b>21,497</b>	<b>28,557</b>
<i>EBIT Margin(%)</i>	<i>24.0%</i>	<i>18.5%</i>	<i>20.6%</i>	<i>22.8%</i>
Other Income	1,615	4,306	4,000	4,000
Interest	98	79	120	150
<b>PBT</b>	<b>15,310</b>	<b>19,545</b>	<b>25,377</b>	<b>32,407</b>
<i>PBT Margin(%)</i>	<i>26.6%</i>	<i>23.6%</i>	<i>24.3%</i>	<i>25.9%</i>
Tax	3,756	5,437	7,106	9,074
<b>Adjusted PAT</b>	<b>11,554</b>	<b>14,108</b>	<b>18,272</b>	<b>23,333</b>
<i>APAT Margins (%)</i>	<i>20.1%</i>	<i>17.1%</i>	<i>17.5%</i>	<i>18.6%</i>
Exceptional items	0	0	0	0
<b>PAT</b>	<b>11,554</b>	<b>14,108</b>	<b>18,272</b>	<b>23,333</b>
<i>PAT Margins (%)</i>	<i>20.1%</i>	<i>17.1%</i>	<i>17.5%</i>	<i>18.6%</i>

## Key Ratios

YE Mar	FY 21	FY 22	FY 23E	FY 24E
<b>Per Share Data (Rs)</b>				
Adj. EPS	59.9	73.1	94.7	120.9
CEPS	80.9	96.1	121.3	148.7
BVPS	311.3	358.8	425.1	509.7
DPS	12.0	29.0	28.4	36.3
<b>Growth Ratios(%)</b>				
Total revenues	20.4%	43.6%	26.4%	19.8%
EBITDA	42.9%	10.6%	34.8%	27.4%
EBIT	56.5%	11.0%	40.3%	32.8%
PAT	22.3%	22.1%	29.5%	27.7%
<b>Valuation Ratios (X)</b>				
PE	35.7	29.2	22.6	17.7
P/CEPS	26.4	22.2	17.6	14.4
P/BV	6.9	6.0	5.0	4.2
EV/Sales	7.1	5.0	4.0	3.3
EV/EBITDA	36.4	37.6	31.6	33.1
<b>Operating Ratios (Days)</b>				
Inventory days	57.6	72.4	64.0	66.0
Receivable Days	46.3	48.5	49.0	50.0
Payables day	40.2	35.7	37.0	38.0
Net Debt/Equity (x)	0.15	0.28	0.24	0.21
<b>Profitability Ratios (%)</b>				
ROCE	22.0%	19.8%	24.1%	27.3%
ROE	19.2%	20.4%	22.3%	23.7%
Dividend payout ratio (%)	20.0%	39.7%	30.0%	30.0%
Dividend yield(%)	0.6%	1.4%	1.3%	1.7%

## Balance Sheet

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
<b>Equity and Liabilities</b>				
Equity Share Capital	387	387	387	387
Reserves & Surplus	59,686	68,859	81,649	97,983
<b>Total Network</b>	<b>60,072</b>	<b>69,246</b>	<b>82,036</b>	<b>98,369</b>
Total debt	13	5,008	4,008	3,008
Deferred tax assets/liabilities	2,035	2,509	2,509	2,509
Other current liabilities	574	552	552	552
<b>Total non-current liab &amp; provs</b>	<b>2,622</b>	<b>8,069</b>	<b>7,069</b>	<b>6,069</b>
<b>Current Liabilities</b>				
Trade payables	6,335	8,075	10,589	13,033
Short term provs+ borrowings	8,978	19,463	19,963	20,463
Other current liabilities	2,394	3,718	3,718	3,718
<b>Total current liab and provs</b>	<b>17,706</b>	<b>31,256</b>	<b>34,270</b>	<b>37,213</b>
<b>Total Equity &amp; Liabilities</b>	<b>80,400</b>	<b>1,08,570</b>	<b>1,23,374</b>	<b>1,41,652</b>
<b>Assets</b>				
Net block	32,471	39,064	38,924	38,556
Capital WIP	8,555	12,584	17,584	22,584
Other non current assets	15,490	18,894	22,894	27,894
<b>Total fixed assets</b>	<b>56,516</b>	<b>70,542</b>	<b>79,402</b>	<b>89,033</b>
Cash and cash equivalents(i)	543	353	926	1,727
Inventories	9,093	16,394	18,317	22,637
Trade receivables	7,301	10,977	14,024	17,149
Other current assets	3,028	3,460	3,660	3,860
<b>Total current Assets</b>	<b>23,886</b>	<b>38,029</b>	<b>43,972</b>	<b>52,618</b>
<b>Total Assets</b>	<b>80,400</b>	<b>1,08,570</b>	<b>1,23,374</b>	<b>1,41,652</b>

## Cash Flow

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
PBT	15,310	19,545	25,377	32,407
Depreciation	4,062	4,438	5,140	5,368
Interest	98	79	120	150
Chng in working capital	-307	-198	0	0
Tax paid	-3,488	-4,572	-7,106	-9,074
Other operating activities	-1,480	-2,352	120	150
<b>Cash flow from operations (a)</b>	<b>17,118</b>	<b>13,385</b>	<b>27,640</b>	<b>32,324</b>
Capital expenditure	-9,083	-15,802	-10,000	-10,000
Chng in investments	-2,891	-3,516	-3,800	-4,800
Other investing activities	388	423	0	0
<b>Cash flow from investing (b)</b>	<b>-11,585</b>	<b>-18,887</b>	<b>-13,800</b>	<b>-14,800</b>
<b>Free cash flow (a+b)</b>	<b>5,533</b>	<b>-5,503</b>	<b>13,840</b>	<b>17,524</b>
Inc/dec in borrowings	480	15,710	-500	-500
Dividend paid (incl. tax)	-2,316	-5,603	-5,482	-7,000
Interest paid	-98	-77	-120	-150
Other financing activities	-8	-1	0	0
<b>Cash flow from financing (c)</b>	<b>-1,942</b>	<b>10,028</b>	<b>-6,102</b>	<b>-7,650</b>
<b>Net chng in cash (a+b+c)</b>	<b>103</b>	<b>-47</b>	<b>633</b>	<b>800</b>
<b>Closing cash &amp; cash equivalents</b>	<b>341</b>	<b>293</b>	<b>926</b>	<b>1,727</b>

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