

**BALKRISHNA INDUSTRIES LIMITED** | Auto Component

...weak numbers expected in H1, H2 to witness strong growth

**LKP**

Balkrishna Industries (BKT) posted a tepid set of numbers in Q1 FY23 at the margins and bottomline despite topline expanding by 40% yoy and 11% qoq at ₹ 26.4 bn on the back of 21.2% yoy and 7.8% qoq growths in volumes at 83,153 MT. Second lever for the good topline growth were the ASPs which expanded by 20.4% and 1% yoy and qoq respectively. This growth came on the back of price hikes taken in Q1 and the product mix tilting towards replacement segment. However, increased RM basket, power costs, freight and logistics costs restricted margin growth, as EBITDA margins were at 6 year low of 17.2%. Other expenses apart from freight costs too zoomed up on higher promotional expenses related with IPL sponsorship. Below the operating levels, depreciation costs went up by 21% yoy as the new capacities are in ramping up stage. Net profits declined by 3.5% and 14.4% yoy and qoq respectively.

**Volume growth may suffer in Q2, long term outlook remains healthy**

Volumes during the quarter expanded by 21.2% yoy and 7.8% qoq to 83,153 MT. This growth mainly came from the Agriculture and mining sectors in the Americas, ROW and India as off-take increased and BKT continued to inch up their market share (6% now globally). Contribution from India (21.2% v/s 17.2% in FY22) increased strongly as the domestic market for OHT remains buoyant. As far as the verticals are concerned, Agriculture remained the highest contributor at 64%, up from 63% a year ago. The company is quite 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. While in Europe, the management expects sluggish demand in Q2 on the back of macro challenges and heat wave affecting major part of the continent. As a result of this, the distributors are currently cutting down on their inventories citing demand pressure in the short term. We believe this to be a temporary phenomenon and shall revive in Q3 with the advent of winter over there. Also, BKT has become aggressive in their marketing endeavours as they have tied up with various sporting events across geographies. Replacement demand (70% of volumes in Q1 FY23) is also getting stronger along with OEMs as supply situation eases, thus helping margins. With things expected to get back on track Q3 onwards, management has maintained their volume guidance of 320,000-330,000 MT for FY23 (despite expecting a weak Q2) as Q1 volumes boosted the confidence.

Key Financials	FY 21	FY 22	FY 23E	FY 24E
Total sales( ₹ bn)	57.6	82.7	100.9	118.7
EBITDA margins( %)	31.0%	23.9%	21.8%	25.5%
PAT margins (%)	20.1%	17.1%	15.5%	18.1%
EPS (₹)	59.9	73.1	80.9	111.4
P/E (x)	35.9	29.4	26.6	19.3
P/BV (x)	6.9	6.0	5.2	4.4
EV/EBITDA (x)	36.6	37.9	31.9	33.2
ROE (%)	19.2%	20.4%	19.5%	22.6%
ROCE (%)	22.0%	19.8%	19.6%	24.7%
Dividend yield (%)	0.6%	1.4%	1.1%	1.6%

Rating	BUY
Entry Range (₹)	2,050 -2,100
12 M Price Target (₹)	2,452
Potential upside (%)	20

**Stock Data**

FV (₹) :	2
Total Market Cap (₹ bn) :	418
Free Float Market Cap (₹ bn) :	176
52-Week High / Low (₹) :	2,724 / 1,691
2-Year High / Low (₹) :	2,724 / 1,238
1 Yr Avg. Dly Traded Volume (in lakh):	3
BSE Code / NSE Symbol :	502355 / BALKRISIND
Bloomberg :	BIL IN

**Shareholding Pattern**

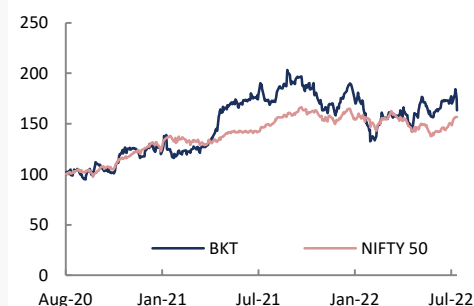
(%)	Jun-22	Mar-22	Dec-21	Sep-21
Promoter	58.29	58.29	58.29	58.30
FPIs	14.30	14.05	15.07	15.42
MFs	11.01	11.64	11.48	12.54
Insurance	5.27	5.38	5.05	3.94
Others	11.13	10.64	10.11	9.80

Source: BSE

**Price Performance**

(%)	1M	3M	6M	1YR
BKT	-1.5%	5.3%	-5.6%	-13.4%
Nifty 50	10.0%	4.3%	-0.7%	6.8%

\* To date / current date : August 5, 2022

**BKT vs Nifty 50**

### Capacity expansion remains the key for future growth

The company is on track to expand its capacity, taking it up to 360K MT from 285K MT last fiscal, 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) has already added 50k MT at Bhuj brownfield plant. This exhaustive capacity expansion plan should lead the company towards its 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) initiatives. 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 guided for a capex of ₹9 bn for FY23.

### Margin growth should follow volume growth, the captive plants to save costs.

As we expect capacity build up in the current year, we also believe operating leverage to come into play. Retail demand remains robust across the globe (except for the Q2 glitch in Europe). Additionally, we believe supply constraints to ease out by H2 FY23. Therefore margins should see an expansion by then given the impact of input costs deceleration expected to be seen from Q3 onwards. The captive Carbon Black plant is yielding 8-10% cost savings in RM costs, while the captive power plant of 20MW at Bhuj coming up shortly should save the power costs as well to a good extent which impacted the margins in the near past. Increasing replacement business should further add to margin growth. Management has given a long term margin target of 28-30%. We believe margins to improve from Q3 onwards and thus report 21.8%/25.5% margins in FY23E/24E respectively.

### Quarterly Financial Snapshot

YE Mar (₹ mn)	Q1 FY23	Q4 FY22	% qoq	Q1 FY22	% yoy
Net sales	26,463	23,738	11.5%	18,131	46.0%
RM cost	12,692	11,028	15.1%	7,823	62.2%
Employee cost	1,071	899	19.2%	944	13.4%
Other expenses	8,145	6,817	19.5%	4,237	92.2%
EBITDA	4,555	4,994	-8.8%	5,127	-11.2%
EBITDA Margins %	17.2%	21.0%	(380 bps)	28.3%	(1110 bps)
Other income	1,023	1,077	-5.0%	782	30.8%
Depreciation	1,262	1,167	8.1%	1,041	21.2%
Interest	27	21	28.0%	21	29.2%
PBT	4,288	4,883	-12.2%	4,847	-11.5%
Tax	1,091	1,147	-4.9%	1,535	-28.9%
Adj PAT	3,197	3,736	-14.4%	3,312	-3.5%
Adj PAT Margins %	12.1%	15.7%	(360 bps)	18.3%	(620 bps)
Exceptional items	-	-	-	-	-
Reported PAT	3,197	3,736	-14.4%	3,312	-3.5%

Source: Company, LKP Research

### Outlook and Valuation

BKT reported weak profitability in Q1 on high input costs, logistics costs and power costs. Volume expansion was very strong despite the weak macros in Europe as the retail demand for agri and OTR remained strong in other markets like India. Realizations grew on price hikes taken and good product mix. Going forward, India is expected to remain strongest with good monsoons and pick up in the farm sector. As the supply constraints settle down, we expect volumes to rise from Q3 FY23 supported by capacity expansion at its various plants. Q2 will be weak in Europe due to the current heat wave and weak macros. Replacement and OEMs are then expected to move in tandem thus resulting into good volume performance. Softening of input costs will have a positive impact with a lag of one quarter. Captive carbon black and power plants should help saving costs. Capex outlay of ₹9 bn for FY23 is not very high and is quite manageable with rich cash reserves. Post the capex expansion in FY23, FY24E shall see low capex intensity thus pushing up the cash flows northwards. Despite this expense, the management doled out dividend of ₹4/share this quarter which should give comfort to the investors. Despite debt raised this year for capex expansion, the financial leverage is still comfortable at 0.28x which we believe will reduce going forward with strong operations. We have however reduced our estimates on sluggish near term volume concerns. We maintain a BUY rating on the stock with a trimmed down target of ₹2,452.

## Income Statement

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
<b>Total Revenues</b>	<b>57,579</b>	<b>82,667</b>	<b>1,00,890</b>	<b>1,18,748</b>
Raw Material Cost	23,028	37,785	46,410	52,249
Employee Cost	3,259	3,804	4,237	5,344
Other Exp	13,436	21,322	28,249	30,875
<b>EBITDA</b>	<b>17,856</b>	<b>19,755</b>	<b>21,994</b>	<b>30,281</b>
<i>EBITDA Margin(%)</i>	<i>31.0%</i>	<i>23.9%</i>	<i>21.8%</i>	<i>25.5%</i>
Depreciation	4,062	4,438	4,935	5,295
<b>EBIT</b>	<b>13,794</b>	<b>15,317</b>	<b>17,059</b>	<b>24,986</b>
<i>EBIT Margin(%)</i>	<i>24.0%</i>	<i>18.5%</i>	<i>16.9%</i>	<i>21.0%</i>
Other Income	1,615	4,306	4,150	4,200
Interest	98	79	105	120
<b>PBT</b>	<b>15,310</b>	<b>19,545</b>	<b>21,104</b>	<b>29,066</b>
<i>PBT Margin(%)</i>	<i>26.6%</i>	<i>23.6%</i>	<i>20.9%</i>	<i>24.5%</i>
Tax	3,756	5,437	5,487	7,557
<b>Adjusted PAT</b>	<b>11,554</b>	<b>14,108</b>	<b>15,617</b>	<b>21,509</b>
<i>APAT Margins (%)</i>	<i>20.1%</i>	<i>17.1%</i>	<i>15.5%</i>	<i>18.1%</i>
Exceptional items	0	0	0	0
<b>PAT</b>	<b>11,554</b>	<b>14,108</b>	<b>15,617</b>	<b>21,509</b>
<i>PAT Margins (%)</i>	<i>20.1%</i>	<i>17.1%</i>	<i>15.5%</i>	<i>18.1%</i>

## Key Ratios

YE Mar	FY 21	FY 22	FY 23E	FY 24E
<b>Per Share Data (₹)</b>				
Adj. EPS	59.9	73.1	80.9	111.4
CEPS	80.9	96.1	106.5	138.9
BVPS	311.3	358.8	415.4	493.4
DPS	12.0	29.0	24.3	33.4
<b>Growth Ratios(%)</b>				
Total revenues	20.4%	43.6%	22.0%	17.7%
EBITDA	42.9%	10.6%	11.3%	37.7%
EBIT	56.5%	11.0%	11.4%	46.5%
PAT	22.3%	22.1%	10.7%	37.7%
<b>Valuation Ratios (X)</b>				
PE	35.9	29.4	26.6	19.3
P/CEPS	26.6	22.4	20.2	15.5
P/BV	6.9	6.0	5.2	4.4
EV/Sales	7.2	5.1	4.1	3.5
EV/EBITDA	36.6	37.9	31.9	33.2
<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	0.25	0.21
<b>Profitability Ratios (%)</b>				
ROCE	22.0%	19.8%	19.6%	24.7%
ROE	19.2%	20.4%	19.5%	22.6%
Dividend payout ratio (%)	20.0%	39.7%	30.0%	30.0%
Dividend yield(%)	0.6%	1.4%	1.1%	1.6%

## 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	79,791	94,847
<b>Total Network</b>	<b>60,072</b>	<b>69,246</b>	<b>80,178</b>	<b>95,234</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	10,227	12,363
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>33,908</b>	<b>36,543</b>
<b>Total Equity &amp; Liabilities</b>	<b>80,400</b>	<b>1,08,570</b>	<b>1,21,154</b>	<b>1,37,846</b>
<b>Assets</b>				
Net block	32,471	39,064	39,129	38,835
Capital WIP	8,555	12,584	16,584	19,584
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>78,607</b>	<b>86,313</b>
Cash and cash equivalents(i)	543	353	606	2,688
Inventories	9,093	16,394	17,690	21,472
Trade receivables	7,301	10,977	13,544	16,267
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>42,547</b>	<b>51,533</b>
<b>Total Assets</b>	<b>80,400</b>	<b>1,08,570</b>	<b>1,21,154</b>	<b>1,37,846</b>

## Cash Flow

(₹ mn)	FY 21	FY 22	FY 23E	FY 24E
PBT	15,310	19,545	21,104	29,066
Depreciation	4,062	4,438	4,935	5,295
Interest	98	79	105	120
Chng in working capital	-307	-198	0	0
Tax paid	-3,488	-4,572	-5,487	-7,557
Other operating activities	-1,480	-2,352	105	120
<b>Cash flow from operations (a)</b>	<b>17,118</b>	<b>13,385</b>	<b>23,890</b>	<b>29,512</b>
Capital expenditure	-9,083	-15,802	-9,000	-8,000
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>-12,800</b>	<b>-12,800</b>
<b>Free cash flow (a+b)</b>	<b>5,533</b>	<b>-5,503</b>	<b>11,090</b>	<b>16,712</b>
Inc/dec in borrowings	480	15,710	-500	-500
Dividend paid (incl. tax)	-2,316	-5,603	-4,685	-6,453
Interest paid	-98	-77	-105	-120
Other financing activities	-8	-1	0	0
<b>Cash flow from financing (c)</b>	<b>-1,942</b>	<b>10,028</b>	<b>-5,290</b>	<b>-7,073</b>
<b>Net chng in cash (a+b+c)</b>	<b>103</b>	<b>-47</b>	<b>313</b>	<b>2,082</b>
<b>Closing cash &amp; cash equivalents</b>	<b>341</b>	<b>293</b>	<b>606</b>	<b>2,688</b>

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