

Industry  
Bloomberg  
BSE CODE

Auto Ancillary  
BIL  
517168

## Weaker operating leverage and increasing promotional expenses to dampen profitability

RATING	NEUTRAL
CMP	735
Price Target	764
Potential Upside	4%
Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	1467/690
Mkt Capital (Rs Cr)	14219
Free float (%)	42%
Avg. Vol 1M (,000)	578
No. of Shares (Crs)	19
Promoters Pledged %	0%

### 1QFY20 Result Update

- BALKRISIND reported a revenue de-growth of 12% YoY to Rs. 1193 crores (vs our estimate of Rs. 1405 crores) largely driven by decline in volumes and realization of around 10% and 2% YoY respectively.
- The volumes declined by 10%YoY to 51304 MT because of deteriorating overseas volumes. Moreover the decline was in the Agriculture tyre during the quarter.
- Realization has declined due to pass on of benefits of decrease in raw material prices to end customers and the favourable foreign exchange during the quarter.
- Gross margins expanded by 60bps QoQ due to reduction in commodity prices.
- EBITDA margins contracted by 120 bps QoQ to 22.4% due to an increase in the branding expense during the quarter. However it is expected to go up at a range of Rs. 70-72 crores for 2-3 years down the line (from currently Rs.40-45 crores).
- PAT during the quarter stood at Rs. 176 crores with a decline of 24%YoY. PAT margin improved by 100 bps QoQ to 14.7% based on higher other income of Rs. 72 crores because of net forex gain and income from investments of Rs. 42 and 29 crores respectively.

### View and Valuation

EBITDA margin has contracted by 125 bps to 22.4% on a sequential basis due to increase in the branding expense and weaker operating leverage. We expect that the margin will deteriorate based on higher branding expenses, challenging global macroeconomic environment and new plants. The expansion at USA green field plant is on hold looking at the sluggish demand scenario in the US market. The carbon black plant has also commenced production which will further put pressure on the bottom-line. However the management expects margins to improve by 100bps due to backward integration once the plant reaches the full capacity. Factoring the decline in share of overseas business, higher branding expenses and higher start up cost on new plant we reduce FY20/21 EPS estimates by 11%/8%. We value the stock at 18x FY21e EPS to arrive at a target price of Rs.764 and maintain Neutral.

### Key Risks to our rating and target

- Agri OTR tyre mix.
- EURO:INR exchange rate.

### RESEARCH ANALYST

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Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3788	4464	5245	5021	5541
EBITDA	1132	1107	1311	1203	1372
EBIT	828	795	979	864	1000
PAT	715	739	782	722	818
EPS (Rs)	37	38	40	38	42
EPS growth (%)	61	3	5	-5	12
ROE (%)	20	18	17	14	14
ROCE (%)	22	19	21	17	17
BV	183	211	241	267	297
P/B (X)	3.9	5.2	3.2	2.8	2.5
P/E (x)	19.2	28.8	19.5	19.4	17.3

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## Revenue below estimate

### 1QFY20 Results

Fig in Rs Cr

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,362	1,325	1,206	1,351	1,193	-12%	-12%	4,464	5,245	17%
Other Income	82	91	1	40	72	-13%	78%	336	214	-36%
Total Income	1,445	1,416	1,207	1,391	1,265	-12%	-9%	4,801	5,459	14%
COGS	638	612	553	660	575	-10%	-13%	2,150	2,463	15%
Staff Cost	68	68	68	59	70	2%	17%	249	264	6%
Other Exp.	298	313	284	312	281	-6%	-10%	959	1,207	26%
Expenditure	1,005	993	905	1,031	926	-8%	-10%	3,358	3,933	17%
EBITDA	358	333	301	320	268	-25%	-16%	1,107	1,311	18%
Depreciation	84	83	83	82	84	0%	2%	311	333	7%
EBIT	274	250	218	238	184	-33%	-23%	795	979	23%
Interest	3	2	2	2	2	-46%	-12%	13	10	-25%
PBT	352	338	217	276	254	-28%	-8%	1,118	1,183	6%
Excpt. Item	-	-	-	-	-	-	-	369	401	9%
Tax	122	116	72	91	78	-37%	-15%	379	401	6%
PAT	230	222	145	185	176	-24%	-5%	739	782	6%

#### Revenue de-grew by 12% YoY due to decline in volume and realization

Net sales decline by 12% YoY to Rs. 1193 crores largely on account of decline in volumes and realization of around 10% and 3% YoY respectively. Decline in the volumes of Agriculture tyres was more than 10% which contributes around 60% of revenue. However, OTR tyres volume grew by 10% QoQ which is 36% of total revenue. Across geographies volumes are bifurcated as 49%, 22%, 17% and 12% between Europe, India, US and other parts of the world respectively. However management expects to increase the share of India business to around 28% within 2-3 year time frame.

#### Increase in Branding expenses and weaker operating leverage contracted Margins

Gross margins expanded by 60bps QoQ due to reduced raw material prices for both crude as well as rubber prices. However, EBITDA margins contracted by 125 bps QoQ to 22.4% due to an increase in the branding expense (which is around 1% of revenue) during the quarter. However it's expected to go up at a range of Rs. 70-72 crores for 2-3 years down the line.

#### Higher other income increased PAT margin

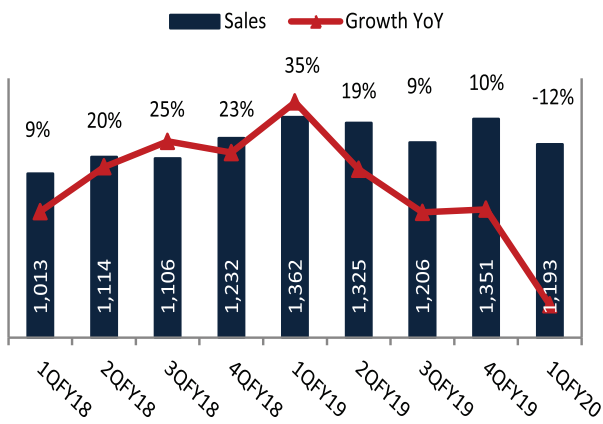
PAT during the quarter stood at Rs. 176 crores with an increase in the PAT margin by 100 bps to 14.7% based on higher other income of Rs. 72 crores because of net forex gain and income from investments of Rs. 42 and 29 crore respectively.

### Concall Highlights :

- Volume de-growth of around 10% YoY to 51304 MT during the quarter.
- Volume contribution through various segment stood as OTR -36% (grew by 10% QoQ), Agri – 60% and ATV and others -4%.
- Volume bifurcation across geographies are 49%,22% 17% 12% from Europe, India, US and Others respectively. However, OEM, replacement and other stood at 27%, 71% and 2% respectively.
- Decline in realization during the quarter is due to reduction in raw material prices the benefit was passed on to the customer and unfavourable currency (Euro was around 78 and for FY20 it's hedged at 81).
- Other income for the quarter stood at Rs. 72 crore which includes net forex gain of Rs. 42 crore (realized gain is Rs.28 crore and unrealized gain of Rs. 14 crore) and other income from investment of Rs. 29 crore.
- Branding expenses are expected to increase by the company as per the plan of management across geography to enhance the growth opportunity for the company. Branding expense through kabaddi league in India, cricket league in Australia, football league in Italy and France etc. is around 1% of revenue (Rs. 20 crore of incremental branding expense).
- Branding expenses is expected to go up going ahead for the next 2-3 Years.
- Manpower cost for the company is around 5-6% of the total revenue whereas for the peer it's around 27-28% of the revenue.
- Selling and distribution cost is around 4-5% due to no warehouse cost and the sale is from India while the same of the peer is around 15%.
- Capex for the year is expected to be Rs. 600 crore considering the halt in the US plant capex for the time being based on the market scenario.

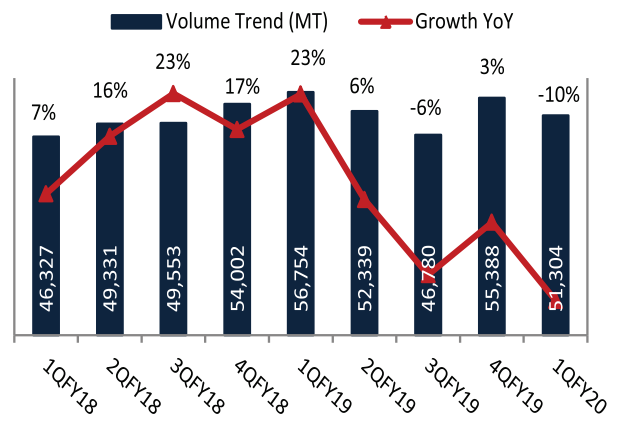
## Exhibit: Net sales (Rs. Crore) and Growth trend

Revenue de-growth of 12% YoY basis majorly driven by decline in volumes and realization



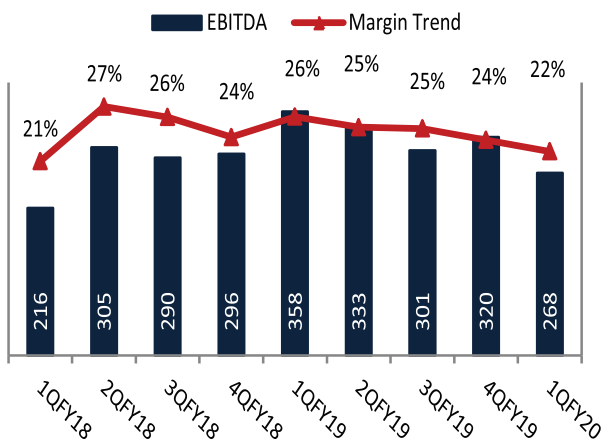
## Exhibit: Volume trend and growth

Decrease in volume growth based on uncertain demand outlook



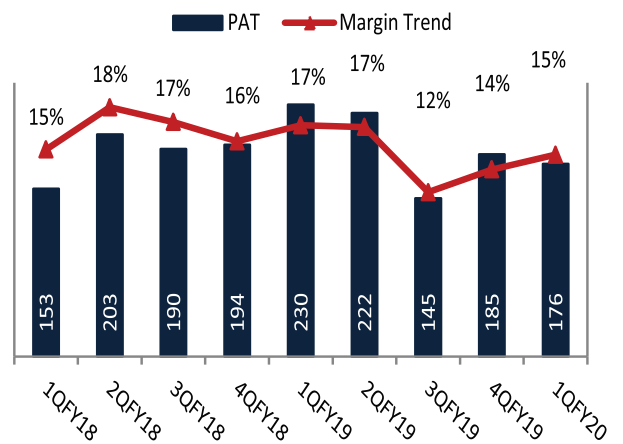
## Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Decline in EBITDA on account of higher branding expense during the quarter



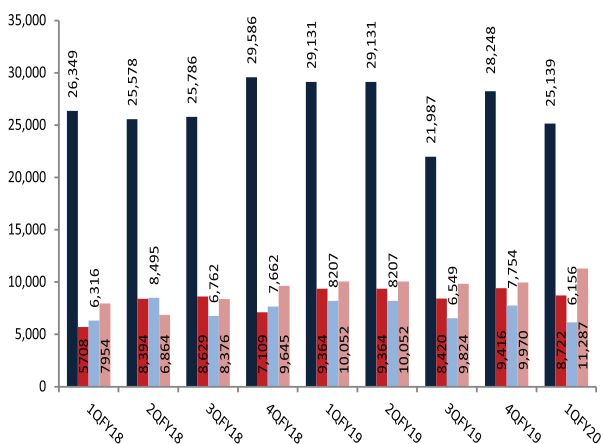
## Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher other income expanded the PAT margin by 100bps on QoQ basis



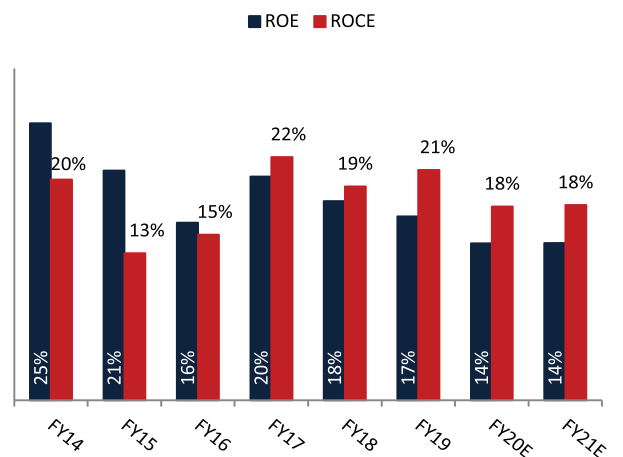
## Exhibit: Revenue across regions

SEGMENT MIX



## Exhibit: Return Ratios

Higher profitability leads to higher returns



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	19	19	19	19	39	39	39	39
Reserves	1,876	2,257	2,756	3,524	4,045	4,615	5,114	5,703
Networth	1,895	2,276	2,775	3,543	4,083	4,654	5,153	5,741
Debt	2,412	1,993	1,290	797	651	871	952	952
Other Non Cur Liab	179	190	267	381	351	368	368	368
Total Capital Employed	3,601	3,635	3,606	3,762	4,086	4,656	5,155	5,743
Net Fixed Assets (incl CWIP)	2,954	3,049	3,090	2,951	2,917	3,309	3,570	3,798
Non Cur Investments	368	58	577	887	619	753	945	1,170
Other Non Cur Asst	221	168	166	205	325	380	380	380
Non Curr Assets	3,543	3,275	3,833	4,043	3,862	4,442	4,895	5,348
Inventory	568	411	398	476	619	759	731	807
Debtors	614	580	385	412	480	517	498	550
Cash & Bank	15	434	330	25	33	66	110	186
Other Curr Assets	282	618	453	833	885	695	806	791
Curr Assets	1,479	2,043	1,566	1,746	2,017	2,037	2,145	2,334
Creditors	409	399	341	374	409	386	372	411
Provisons (both)	29	37	12	18	20	27	26	27
Other Curr Liab	915	1,221	1,395	1,425	1,182	946	913	1,003
Curr Liabilities	535	860	1,066	1,069	794	586	567	620
Net Curr Assets	944	1,184	499	677	1,223	1,451	1,578	1,714
<b>Total Assets</b>	<b>5,021</b>	<b>5,318</b>	<b>5,398</b>	<b>5,789</b>	<b>5,878</b>	<b>6,479</b>	<b>7,040</b>	<b>7,682</b>

### Income Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>3,772</b>	<b>3,817</b>	<b>3,289</b>	<b>3,784</b>	<b>4,461</b>	<b>5,210</b>	<b>5,021</b>	<b>5,541</b>
Change (%)	11%	1%	-14%	15%	18%	17%	-4%	10%
Other Income	14	277	174	254	340	218	226	247
<b>EBITDA</b>	<b>890</b>	<b>727</b>	<b>822</b>	<b>1,131</b>	<b>1,102</b>	<b>1,302</b>	<b>1,212</b>	<b>1,374</b>
Change (%)	33%	-18%	13%	38%	-3%	18%	-7%	13%
<b>Margin (%)</b>	<b>24%</b>	<b>19%</b>	<b>25%</b>	<b>30%</b>	<b>25%</b>	<b>25%</b>	<b>24%</b>	<b>25%</b>
Depr & Amor.	170	244	282	304	311	333	339	372
EBIT	719	483	540	827	790	970	873	1,002
Int. & other fin. Cost	27	48	39	22	14	11	15	16
<b>EBT</b>	<b>706</b>	<b>713</b>	<b>674</b>	<b>1,059</b>	<b>1,116</b>	<b>1,177</b>	<b>1,084</b>	<b>1,232</b>
Exp Item	-	-	-	-	-	-	-	-
Tax	232	241	229	342	380	403	353	412
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>475</b>	<b>473</b>	<b>446</b>	<b>717</b>	<b>736</b>	<b>774</b>	<b>731</b>	<b>820</b>
<b>Adjusted PAT</b>	<b>475</b>	<b>473</b>	<b>446</b>	<b>717</b>	<b>736</b>	<b>774</b>	<b>731</b>	<b>820</b>
Change (%)	36%	0%	-6%	61%	3%	5%	-5%	12%
<b>Margin(%)</b>	<b>13%</b>	<b>12%</b>	<b>14%</b>	<b>19%</b>	<b>16%</b>	<b>15%</b>	<b>15%</b>	<b>15%</b>

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	25%	21%	16%	20%	18%	17%	14%	14%
ROCE	20%	13%	15%	22%	19%	21%	17%	17%
Asset Turnover	0.8	0.7	0.6	0.7	0.8	0.8	0.7	0.7
Debtor Days	614	580	385	412	480	517	498	550
Inv Days	568	411	398	476	619	759	731	807
Payable Days	409	399	341	374	409	386	372	411
Int Coverage	26.4	10.2	13.7	37.6	57.0	87.1	58.6	61.5
P/E	9.7	13.2	13.1	19.2	28.8	19.5	19.4	17.3
Price / Book Value	2.4	2.7	2.1	3.9	5.2	3.2	2.8	2.5
EV/EBITDA	7	10	8	12	19	12	12	10
FCF per Share	(285)	613	830	662	330	81	524	504

### Cash Flow Statement

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
PBT	706	713	857	1,059	1,116	1,177	1,084	1,232
(inc)/Dec in Working Capital	(135)	196	208	(111)	(215)	(193)	38	(105)
Non Cash Op Exp	170	244	281	304	311	333	339	372
Int Paid (+)	27	48	34	22	14	11	15	16
Tax Paid	(177)	(213)	(234)	(313)	(387)	(408)	(353)	(412)
others	11	(4)	(74)	(114)	(89)	(99)	-	-
CF from Op. Activities	602	984	1,073	847	750	820	1,124	1,104
(inc)/Dec in FA & CWIP	(887)	(371)	(242)	(185)	(420)	(740)	(600)	(600)
Free Cashflow	(285)	613	830	662	330	81	524	504
(Pur)/Sale of Inv	1,418	1,004	3,306	2,128	1,487	-	(121)	45
others	(1,761)	(1,070)	(3,616)	(2,506)	(1,159)	104	(192)	(225)
CF from Inv. Activities	(1,230)	(437)	(552)	(563)	(92)	(636)	(913)	(780)
inc/(dec) in NW	-	1	-	-	-	-	-	-
inc/(dec) in Debt	410	(61)	(498)	(502)	(519)	21	81	-
Int. Paid	(28)	(48)	(36)	(23)	(14)	(11)	(15)	(16)
Div Paid (inc tax)	(17)	(22)	(91)	(64)	(121)	(174)	(232)	(232)
others	-	0	-	-	-	-	-	-
CF from Fin. Activities	365	(130)	(625)	(589)	(654)	(165)	(166)	(248)
Inc(Dec) in Cash	(263)	420	(104)	(306)	4	20	45	75
Add: Opening Balance	278	15	434	328	23	26	46	50
Closing Balance	15	434	330	23	26	46	91	125

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