

Balkrishna Industries Ltd.

Industry Auto Anciliary
Bloomberg BIL IN
BSE CODE 502355

Higher branding & promotional expenses to hamper margins in near term

RATING	NEUTRAL
CMP	863
Price Target	841
Potential Upside	-3%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	1023/683
Mkt Capital (Rs Cr)	16680
Free float (%)	42%
Avg. Vol 1M (,000)	460
No. of Shares (Cr.)	19
Promoters Pledged %	0%

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2QFY20 Result update

- ❑ BALKRISIND reported a revenue of Rs. 1071 Cr. de-grew by 19.2% YoY largely on account of reduced volumes and realization by 8% and 6% YoY respectively.
- ❑ Volumes during the quarter stood at 45169 MT (down 8% YoY) and in 1HFY20 at 96473 MT (down 12% YoY). However, volume guidance for FY20 remained subdued based on poor performance.
- ❑ Revenue contribution across the geographies stood at 47%, 19%, 20% and 14% from Europe, America, India and rest of the world respectively.
- ❑ Gross margins expanded by 430 BPS QoQ to 56.3% on the back of reduced raw material prices (rubber prices), fall in crude prices and carbon black plant commissioned in 1QFY20.
- ❑ EBITDA margins increased by 260 BPS QoQ to 25% on account of operating leverage benefit. However, commissioning of plant and branding expense increased the manpower cost and other expense in 2QFY20.
- ❑ PAT during the quarter stood at Rs. 291 Cr. grew by 30.9% YoY because of deferred tax benefit during the quarter.
- ❑ CAPEX planned by the management for FY20 is around Rs. 600-700 Cr. out of which Rs. 430 Cr. is already spent in 1HFY20. For FY21 CAPEX is expected to be around Rs. 500-600 Cr.
- ❑ In FY20 first phase of carbon black plant got commissioned in 1QFY20 with the capacity of 60000 MT and second phase is expected to be commissioned in 1HFY21 with the capacity of 80000 MT. Bhuj Plant is expected to be commissioned in 2HFY21.

View and Valuation

The management has lowered its volume growth guidance to negative from 3-5% in FY20 due to subdued demand scenario in domestic as well as in international markets (USA & Europe). The margin is expected to improve by 100bps due to backward integration once the carbon black plant reaches the full capacity but higher branding and promotional expenses will offset some of the benefits. Going ahead the management expects to expand the market share in Europe to 10% (currently 7-8%) in Agri segment on account of continued branding expenses. We largely maintain our EPS estimates for FY21. We value the stock at 18x FY21e EPS to arrive at a target price of Rs.841 and maintain Neutral.

Key Risks to our rating and target

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

Fig. in Rs. Cr.

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3788	4464	5245	4737	5272
EBITDA	1132	1107	1311	1122	1233
EBIT	828	795	979	783	861
PAT	715	739	782	899	876
EPS (Rs)	37	38	40	46	45
EPS growth (%)	61	3	5	16	-3
ROE (%)	20	18	17	17	15
ROCE (%)	22	19	21	15	14
BV	183	211	241	275	309
P/B (X)	3.9	5.2	3.2	3.1	2.8
P/E (x)	19.2	28.8	19.5	18.6	19.0

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2QFY20 Results

PAT above expectation

Fig. in Rs. Cr.

Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,325	1,206	1,351	1,193	1,071	-19%	-10%	4,464	5,245	17%
Other Income	91	1	40	72	81	-11%	13%	336	214	-36%
Total Income	1,416	1,207	1,391	1,265	1,152	-19%	-9%	4,801	5,459	14%
COGS	612	553	660	575	468	-24%	-19%	2,150	2,463	15%
Staff Cost	68	68	59	70	70	3%	1%	249	264	6%
Other Exp.	313	284	312	281	266	-15%	-5%	959	1,207	26%
Expenditure	993	905	1,031	926	804	-19%	-13%	3,358	3,933	17%
EBITDA	333	301	320	268	267	-20%	0%	1,107	1,311	18%
Depreciation	83	83	82	84	91	10%	8%	311	333	7%
EBIT	250	218	238	184	177	-29%	-4%	795	979	23%
Interest	2	2	2	2	2	-29%	-3%	13	10	-25%
PBT	338	217	276	254	256	-24%	1%	1,118	1,183	6%
Excpt. Item	-	-	-	-	-	-	-	369	401	9%
Tax	116	72	91	78	(35)	-130%	-146%	379	401	6%
PAT	222	145	185	176	291	31%	65%	739	782	6%

Revenue de-grew by 19.2% YoY led by reduced volumes and realization

Net sales during the quarter stood at Rs. 1071 Cr. reduced by 19.2% YoY on the account of reduced volumes to 45169 MT (down 8% YoY) and realization by 6% YoY. Decline in realization of 4% YoY is through pricing and 2% YoY through currency. Volume growth of 2HFY20 is expected to be flat with the overall guidance of volume remains subdued for FY20 as per management.

Margins expansion on account of reduced raw material prices

Reduced raw material prices (rubber prices), fall in crude prices and carbon black plant commissioned in 1QFY20 expanded the gross margins by 430 BPS QoQ to 56.3% in 2QFY20. Moreover, EBITDA margins increased by 260 BPS QoQ to 25% on the back of operating leverage benefit. Employee expense and other expense remained on higher side due to operations at carbon black plant and branding expense. However, branding expense expected to be there going forward to expand the reach of brand name of the company.

Reduced taxes and higher other income improved PAT growth

PAT during the quarter stood at Rs. 291 Cr. grew by 30.9% YoY largely driven by higher other income and reduced taxes because of deferred tax benefit. Other income during the quarter includes Rs. 55 Cr. from net gain from foreign exchange and Rs. 26 Cr. as income from investments.

Concall Highlights

- Volumes growth in 1HFY20 declined by around 12% and in 2HFY20 it's expected to remain flat. Overall volume growth in expected to be subdued in FY20.
- Revenue contribution across products stood at 60%, 37% and 3% from Agri, OTR and others respectively.
- Revenue contribution across OEM, Replacement and other off take market is 25%, 73% and 2% respectively.
- Market in India currently contributes around 20% of revenue and within next 2-3 years it's expected to go till 25%.
- Overall market share stood at 5% consist of market share from Agri and OTR segment of 8% and 2-2.5% respectively. Management expects to expand the market share in Europe to 10% in Agri segment on account of branding expense incurred by the company.
- No price hike was taken by the company during the quarter, while the increase in realization in 2QFY20 was due to increase in ASB on account of better currency utilization.
- No pricing pressure is expected to be faced by the company and management pass on the benefit by reducing the prices in 1QFY20 to the customers. Moreover there is still 10-15% of price gap in comparison to peers.
- Margins expanded in 2QFY20 due to reduced raw material prices (rubber prices), crude prices decline and the carbon black plant commissioning in 1QFY20 improved margin 2QFY20.
- Margins are expected to expand further based on the reduced raw material prices, carbon black plant etc.
- Hedge rate against Euro for the next 1 year is at Rs. 79-80/ Euro which is hedged for around 74-75%. Whereas, in US dollar (\$) is traded at spot rate.

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

Revenue de-growth of 19% YoY basis led by decline in volumes and realization

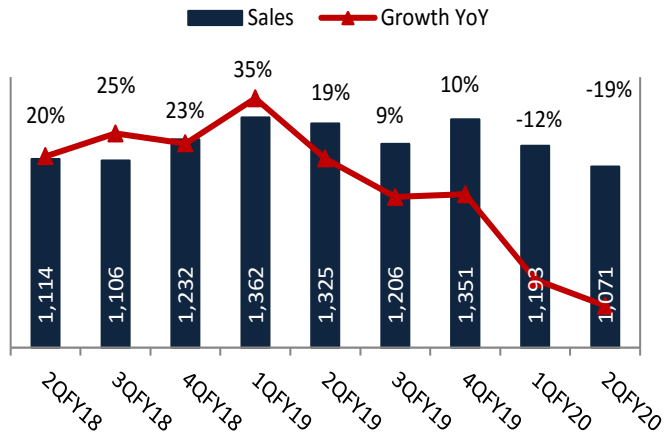


Exhibit: Volume trend and growth

Decrease in volume growth based on uncertain demand outlook

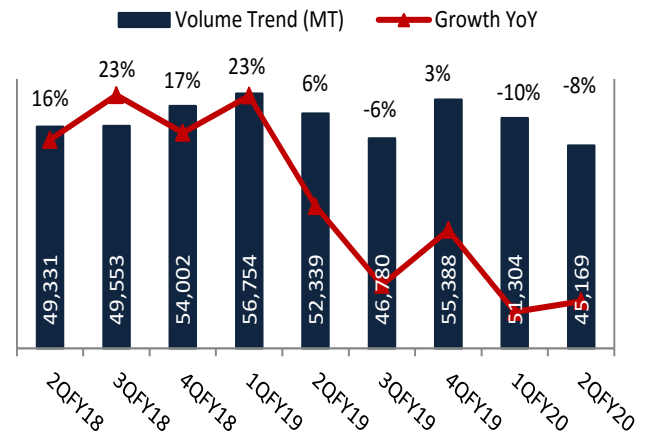


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Lower raw material expanded PAT margin

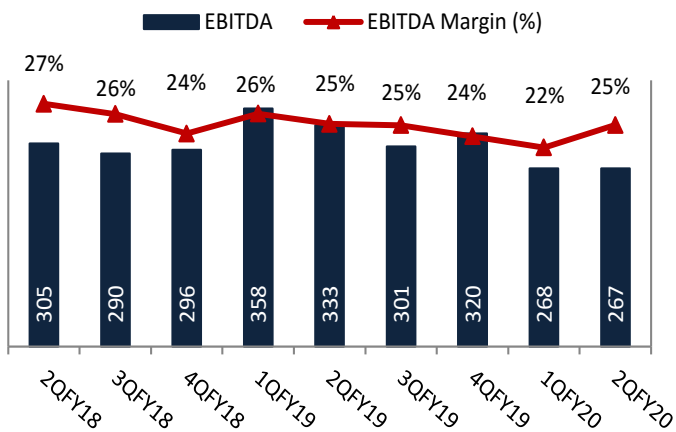


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher other income and reduced taxes improved PAT margin

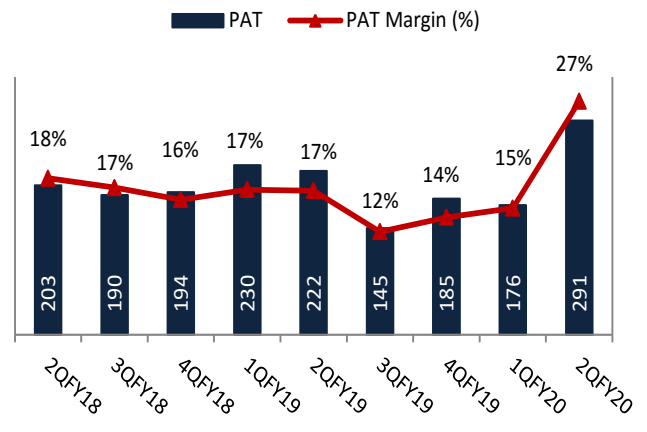


Exhibit: Revenue across regions

SEGMENT MIX

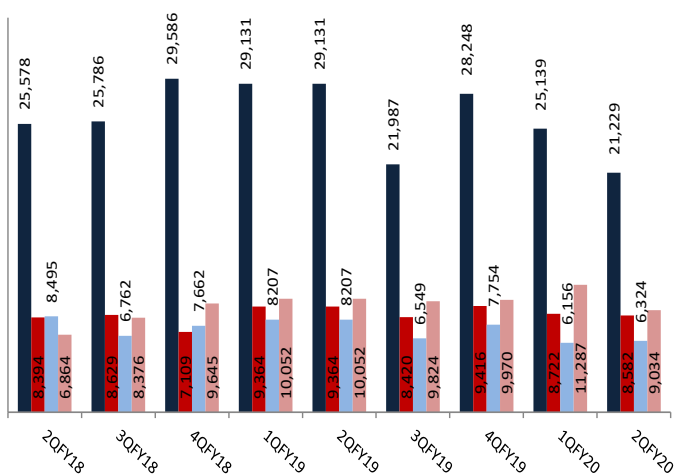
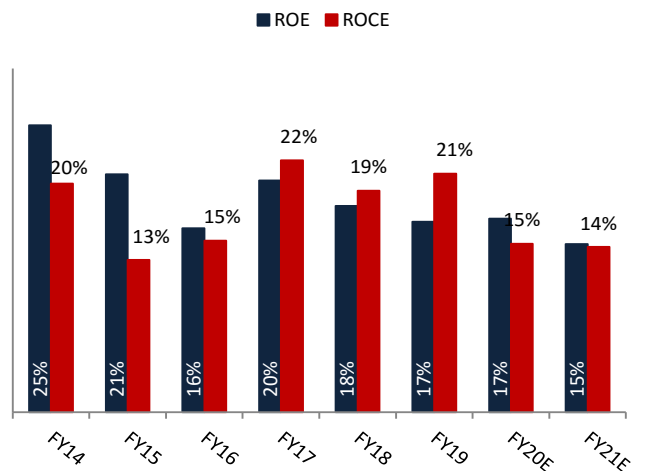


Exhibit: Return Ratios

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	5,282	5,926
Networth	1,895	2,276	2,775	3,543	4,083	4,654	5,320	5,965
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	5,322	5,967
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	970	1,100
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	4,920	5,278
Inventory	568	411	398	476	619	759	690	768
Debtors	614	580	385	412	480	517	470	523
Cash & Bank	15	434	330	25	33	66	208	326
Other Curr Assets	282	618	453	833	885	695	891	982
Curr Assets	1,479	2,043	1,566	1,746	2,017	2,037	2,259	2,600
Creditors	409	399	341	374	409	386	351	391
Provisons (both)	29	37	12	18	20	27	26	27
Other Curr Liab	915	1,221	1,395	1,425	1,182	946	863	957
Curr Liabilities	535	860	1,066	1,069	794	586	538	593
Net Curr Assets	944	1,184	499	677	1,223	1,451	1,721	2,007
Total Assets	5,021	5,318	5,398	5,789	5,878	6,479	7,179	7,877

Income Statement

Fig. in Rs. Cr.

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	3,772	3,817	3,289	3,784	4,461	5,210	4,737	5,272
Change (%)	11%	1%	-14%	15%	18%	17%	-9%	11%
Other Income	14	277	174	254	340	218	312	326
EBITDA	890	727	822	1,131	1,102	1,302	1,122	1,233
Change (%)	33%	-18%	13%	38%	-3%	18%	-14%	10%
Margin (%)	23.6%	19.1%	25.0%	29.9%	24.7%	25.0%	23.7%	23.4%
Depr & Amor.	170	244	282	304	311	333	339	372
EBIT	719	483	540	827	790	970	783	861
Int. & other fin. Cost	27	48	39	22	14	11	15	16
EBT	706	713	674	1,059	1,116	1,177	1,080	1,171
Exp Item	-	-	-	-	-	-	-	-
Tax	232	241	229	342	380	403	181	295
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	475	473	446	717	736	774	899	876
Adjusted PAT	475	473	446	717	736	774	899	876
Change (%)	36%	0%	-6%	61%	3%	5%	16%	-3%
Margin(%)	12.6%	12.4%	13.5%	18.9%	16.5%	14.8%	19.0%	16.6%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	25%	21%	16%	20%	18%	17%	17%	15%
ROCE	20%	13%	15%	22%	19%	21%	15%	14%
Asset Turnover	0.8	0.7	0.6	0.7	0.8	0.8	0.7	0.7
Debtor Days	59	55	43	40	39	36	36	36
Inv Days	55	39	44	46	51	53	53	53
Payable Days	40	38	38	36	33	27	27	27
Int Coverage	26	10	14	38	57	87	53	53
P/E	9.7	13.2	13.1	19.2	28.8	19.5	18.6	19.0
Price / Book Value	2.4	2.7	2.1	3.9	5.2	3.2	3.1	2.8
EV/EBITDA	7.1	9.9	7.7	12.3	19.2	11.6	14.7	13.3
FCF per Share	(285)	613	830	662	330	81	749	556

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	1,080	1,171
(inc)/Dec in Working Capital	(135)	196	208	(111)	(215)	(193)	96	(108)
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)	(181)	(295)
others	11	(4)	(74)	(114)	(89)	(99)	-	-
CF from Op. Activities	602	984	1,073	847	750	820	1,349	1,156
(inc)/Dec in FA & CWIP	(887)	(371)	(242)	(185)	(420)	(740)	(600)	(600)
Free Cashflow	(285)	613	830	662	330	81	749	556
(Pur)/Sale of Inv	1,418	1,004	3,306	2,128	1,487	-	(223)	(60)
others	(1,761)	(1,070)	(3,616)	(2,506)	(1,159)	104	(217)	(130)
CF from Inv. Activities	(1,230)	(437)	(552)	(563)	(92)	(636)	(1,040)	(790)
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	143	118
Add: Opening Balance	278	15	434	328	23	26	66	208
Closing Balance	15	434	330	23	26	46	208	326

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