

Industry **Auto Anciliary**
 Bloomberg **BIL IN**
 BSE CODE **502355**

Margin expansion to continue in FY21

RATING	ACCUMULATE
CMP	1238
Price Target	1360
Potential Upside	10%

Rating Change	↑
Estimate Change	↑
Target Change	↑

STOCK INFO	
52wk Range H/L	1284/683
Mkt Capital (Rs Cr)	24488
Free float (%)	42%
Avg. Vol 1M (,000)	881
No. of Shares (Crs)	19
Promoters Pledged %	0%

RESEARCH ANALYST

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3QFY20 Result update

- Revenue de-grew by 3.7% YoY to Rs 1161 crs (vs. expect. Rs 1109 crs) largely led by 4.8%YoY decline in realizations on account of weaker product mix. However volume has grown by 1.2%YoY because of improving demand scenario of agriculture segment led by better weather conditions.
- Volume for the quarter stands at 47321 MT as against 46780 MT same quarter previous year with a growth of 1.2%YoY.
- Geographical revenue break-up; US stands at 20%, Europe 48%, India 21% and rest of the world was 11%. Segmental revenue break-up; Agri was 60%, OTR 36% and others 4%.
- Gross margin expanded by 239 bps QoQ to 58.7% majorly led by raw material prices correction and to some extent there was benefit of backward integration of carbon black plant. EBITDA margin expanded by 445 bps QoQ to 29.4% led lower employee and other expenses by 44 bps and 162 bps respectively.
- PAT stood at Rs 221 crs (vs. expect. Rs 201 crs) and PAT margin was at 19%. PAT growth reported was 52.5% YoY on account of lower tax as per new corporate tax rate.
- Capex: It was Rs 600 crs for 9MFY20. Capex of Carbon Black Plant's phase II with capacity of 80,000 MT p.a. is to be commissioned in FY21. All other capex are going as per schedule and are expected to complete by FY21 and likely to start contributing from FY22.

View and Valuation

The growth momentum to pick up from FY21 based on improving demand scenario in European market and better weather conditions in domestic as well as in key export markets. Market in India currently contributes around 20% of revenue and within next 1-2 years it's expected to go till 25%. Overall margin is also expected to expand based on backward integration in carbon black plant and decline in commodity prices. The company has also postponed its plans to put a manufacturing facility in US, which will further benefit the company in long run in terms of profitability. Based on improving agriculture demand scenario in domestic as well as in export markets and margin expansion we recommend ACCUMULATE on the stock with target price of Rs.1360.

Key Risks to our rating and target

- Slowdown in agriculture demand in Europe.
- Currency Fluctuation (Euro-INR).

Conso./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	3784	4461	5210	4701	5279
EBITDA	1131	1102	1302	1237	1518
EBIT	827	790	970	870	1134
PAT	717	736	774	929	1078
EPS (Rs)	37	38	40	48	56
EPS growth (%)	61	3	5	20	16
ROE (%)	20	18	17	17	17
ROCE (%)	22	19	21	16	18
BV	183	211	241	277	320
P/B (X)	3.9	5.2	3.2	4.5	3.9
P/E (x)	19.2	28.8	19.5	25.8	22.2

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Result above estimates

3QFY20 Results

Stand./Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	1,206	1,351	1,193	1,071	1,161	-4%	8%	4,464	5,245	17%
Other Income	1	40	72	81	30	2999%	-63%	336	214	-36%
Total Income	1,207	1,391	1,265	1,152	1,191	-1%	3%	4,801	5,459	14%
COGS	553	660	575	468	479	-13%	2%	2,150	2,463	15%
Staff Cost	68	59	70	70	71	4%	1%	249	264	6%
Other Exp.	284	312	281	266	269	-5%	1%	959	1,207	26%
Expenditure	905	1,031	926	804	819	-9%	2%	3,358	3,933	17%
EBITDA	301	320	268	267	341	13%	28%	1,107	1,311	18%
Depreciation	83	82	84	91	95	14%	4%	311	333	7%
EBIT	218	238	184	177	247	13%	40%	795	979	23%
Interest	2	2	2	2	2	-7%	6%	13	10	-25%
PBT	217	276	254	256	275	27%	7%	1,118	1,183	6%
Excpt. Item	-	-	-	-	-	-	-	369	401	-
Tax	72	91	78	(35)	54	-25%	-253%	379	401	6%
PAT	145	185	176	291	221	53%	-24%	739	782	6%

Concall Highlights :

- The markets continue to remain challenging. However, it is looking at better growth prospects for FY21 with improving global macro-economic situation and expectation of better weather conditions.
- GM improvement was led by raw material correction (majorly) and backward integration of carbon black plant (benefit of 125 bps on sales).
- Market wise: OEM 25% and replacement 75%.
- Pricing: No pricing action was taken in 3QFY20. Realization improvement was led by product mix & currency benefit (hedging). Hedge rate for the quarter was around Rs 80.
- Coronavirus: On China production recovery, too early to comment.
- Investment: majorly in debt instruments and some AIF (Alternative Investment Fund) investments to improve yield.
- When carbon plant would reach at 100% capacity utilization (post phase II), then it would get 125 bps margin expansion in Tyres business.
- It is expected to give better volume performance in H2FY20 as compared to H1FY20. FY20 expected to give minor de-growth in sales volume figure.
- In carbon black business, the company's EBITDA margin would be in range of 25% (overall).
- Some more benefit from crude and especially crude derivative would be there in next quarter. Sustainability GM: good visibility for similar margins is there for near to medium term and long term difficult to predict. Going forward raw material prices are benign only and hence overall cost will remain low.
- Realization has gone up due to product mix and currency benefit, the same would continue in Q4.
- Within India business the company is targeting 10% market share in near term.
- Overall market share is at 5% of off highway tyres (OHT) market and targeting 10%.
- Capex: It was Rs 600 cr for 9MFY20. FY20 expected to be Rs 700-750 cr. FY21 Rs 500 cr.
- Capex of Carbon Black Plant's phase 2 with capacity of 80,000 MT p.a. to be commissioned in FY21. All other capex are going as per schedule and are expected to complete by FY21 and likely to start contribution from FY22.
- Tax rate: slightly lower than 25% due to deferred tax benefit in FY20 and 25% in FY21.

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

Revenue de-grew by 3.7% YoY to Rs 1161 crs due to decline in realizations on account of weaker product mix.

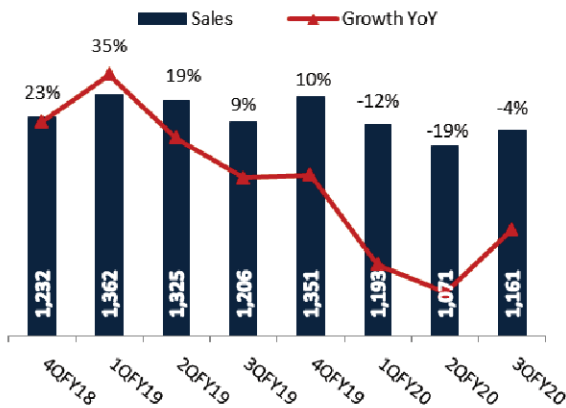


Exhibit: Volume trend and growth

Volumes grew by 1% due to low demand sentiment. Better outlook expected in 2HFY21.

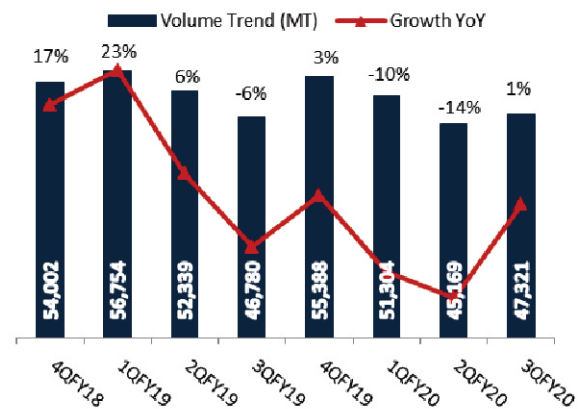


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margin expanded by 445 bps QoQ to 29.4% led lower employee and other expenses.

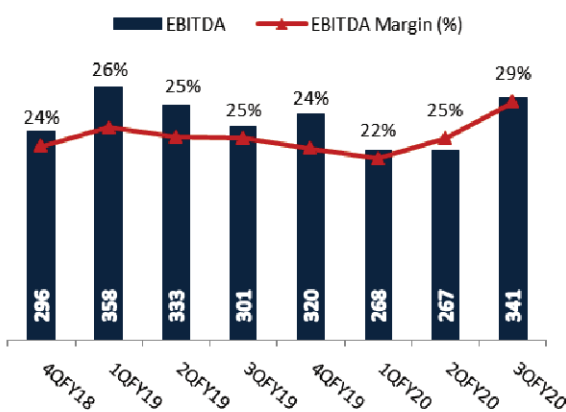


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

PAT stood at Rs 221 crs & PAT margin was at 19%. PAT growth reported was 52.5% YoY on account of lower tax.

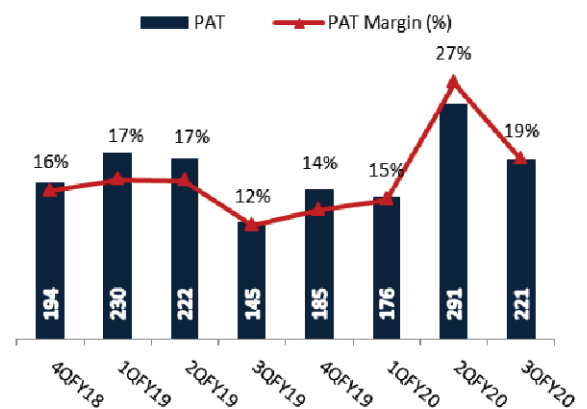


Exhibit: Revenue across regions

Europe vol. has decreased while it increased from US busi. US vol. was 20%, Europe 48%, India 21% and rest was 11%.

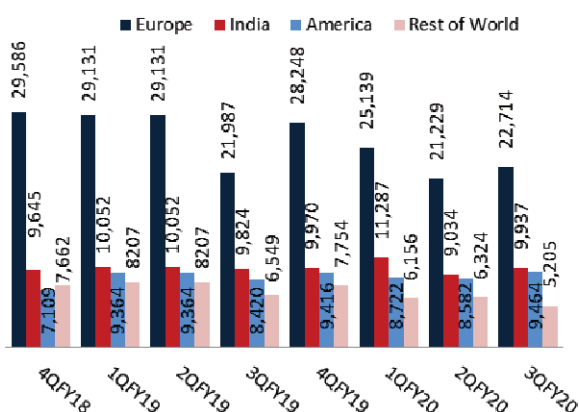
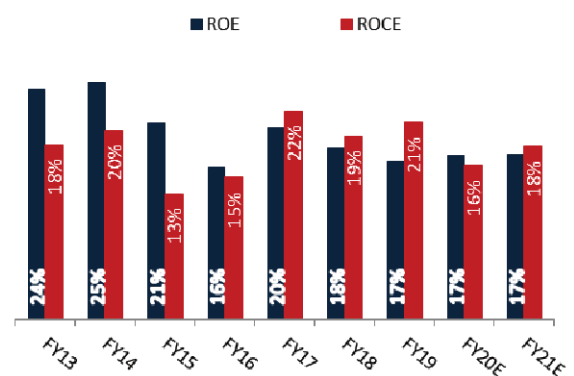


Exhibit: Return Ratios

Higher profitability will improve the return ratio, going ahead.



Financial Details

Balance Sheet

Conso./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	5,312	6,157
Networth	1,895	2,276	2,775	3,543	4,083	4,654	5,350	6,196
Debt	2,412	1,993	1,290	797	651	871	752	702
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	5,352	6,198
Net Fixed Assets (incl CWIP)	2,954	3,049	3,090	2,951	2,917	3,309	3,543	3,759
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	4,893	5,239
Inventory	568	411	398	476	619	759	670	752
Debtors	614	580	385	412	480	517	451	506
Cash & Bank	15	434	330	25	33	66	208	326
Other Curr Assets	282	618	453	833	885	695	784	1,036
Curr Assets	1,479	2,043	1,566	1,746	2,017	2,037	2,112	2,620
Creditors	409	399	341	374	409	386	348	391
Provisions (both)	29	37	12	18	20	27	26	27
Other Curr Liab	915	1,221	1,395	1,425	1,182	946	857	958
Curr Liabilities	535	860	1,066	1,069	794	586	534	593
Net Curr Assets	944	1,184	499	677	1,223	1,451	1,578	2,027
Total Assets	5,021	5,318	5,398	5,789	5,878	6,479	7,005	7,859

Income Statement

Conso./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	4,701	5,279
Change (%)	11%	1%	-14%	15%	18%	17%	-10%	12%
Other Income	14	277	174	254	340	218	244	314
EBITDA	890	727	822	1,131	1,102	1,302	1,237	1,518
Change (%)	33%	-18%	13%	38%	-3%	18%	-5%	23%
Margin (%)	23.6%	19.1%	25.0%	29.9%	24.7%	25.0%	26.3%	28.8%
Depr & Amor.	170	244	282	304	311	333	367	384
EBIT	719	483	540	827	790	970	870	1,134
Int. & other fin. Cost	27	48	39	22	14	11	9	8
EBT	706	713	674	1,059	1,116	1,177	1,105	1,441
Exp Item	-	-	-	-	-	-	-	-
Tax	232	241	229	342	380	403	177	363
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	475	473	446	717	736	774	929	1,078
Adjusted PAT	475	473	446	717	736	774	929	1,078
Change (%)	36%	0%	-6%	61%	3%	5%	20%	16%
Margin(%)	12.6%	12.4%	13.5%	18.9%	16.5%	14.8%	19.8%	20.4%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	25%	21%	16%	20%	18%	17%	17%	17%
ROCE	20%	13%	15%	22%	19%	21%	16%	18%
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	35	35
Inv Days	55	39	44	46	51	53	52	52
Payable Days	40	38	38	36	33	27	27	27
Int Coverage	26	10	14	38	57	87	100	151
P/E	9.7	13.2	13.1	19.2	28.8	19.5	25.8	22.2
Price / Book Value	2.4	2.7	2.1	3.9	5.2	3.2	4.5	3.9
EV/EBITDA	7.1	9.9	7.7	12.3	19.2	11.6	19.2	15.6
FCF per Share	(285)	613	830	662	330	81	837	755

Cash Flow Statement

Conso./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	1,105	1,441
(inc)/Dec in Working Capital	(135)	196	208	(111)	(215)	(193)	134	(113)
Non Cash Op Exp	170	244	281	304	311	333	367	384
Int Paid (+)	27	48	34	22	14	11	9	8
Tax Paid	(177)	(213)	(234)	(313)	(387)	(408)	(177)	(363)
others	11	(4)	(74)	(114)	(89)	(99)	-	-
CF from Op. Activities	602	984	1,073	847	750	820	1,437	1,355
(inc)/Dec in FA & CWIP	(887)	(371)	(242)	(185)	(420)	(740)	(600)	(600)
Free Cashflow	(285)	613	830	662	330	81	837	755
(Pur)/Sale of Inv	1,418	1,004	3,306	2,128	1,487	-	(118)	(218)
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)	(935)	(948)
inc/(dec) in NW	-	1	-	-	-	-	-	-
inc/(dec) in Debt	410	(61)	(498)	(502)	(519)	21	(119)	(50)
Int. Paid	(28)	(48)	(36)	(23)	(14)	(11)	(9)	(8)
Div Paid (inc tax)	(17)	(22)	(91)	(64)	(121)	(174)	(232)	(232)
others	-	0	-	-	-	-	-	-
CF from Fin. Activities	365	(130)	(625)	(589)	(654)	(165)	(360)	(290)
Inc(Dec) in Cash	(263)	420	(104)	(306)	4	20	142	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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