



ALPHA

23 SEP 2022

Balkrishna Industries Ltd. – Niche Tyremaker

Market Data	
CMP	Rs. 1918
Date	22-Sep-22
Target Price	Rs. 2260
Upside Potential	18.00%
52 Week High/Low	2724/1691
Market Cap	Mid Cap
NSE Code	BALKRISIND
Sector	Tyres & Rubber
Rating	Buy

Balkrishna Industries Limited (BKT) started its Off-Highway Tyre business in 1987. For over 30 years, BKT has successfully focused on specialist segments such as agricultural, construction and industrial as well as earthmoving, port and mining, ATV, and gardening applications. Company sells its Tyres in 160 + countries through its distribution network in Americas, Europe, India & ROW. The company has been undertaking various actions like setting up warehouses in markets in North America and Europe to be closer to the customer and have a just in time (JIT) system. BIL also has strong partnership with OEMs. The company has over 2,700 SKUs. The company currently has four manufacturing units in India, with an overall achievable capacity of 2,85,000 metric tonnes (MT) per annum, and a sales distribution network spread across 160 countries. BKT's latest Bhuj plant has a dedicated capacity to produce large and ultra large all-steel radial mining Tyres.



Products & Services: The company's product portfolio includes three segments namely Agriculture Tyres, Industrial Tyres and OTR (Off the Road) Tyres.

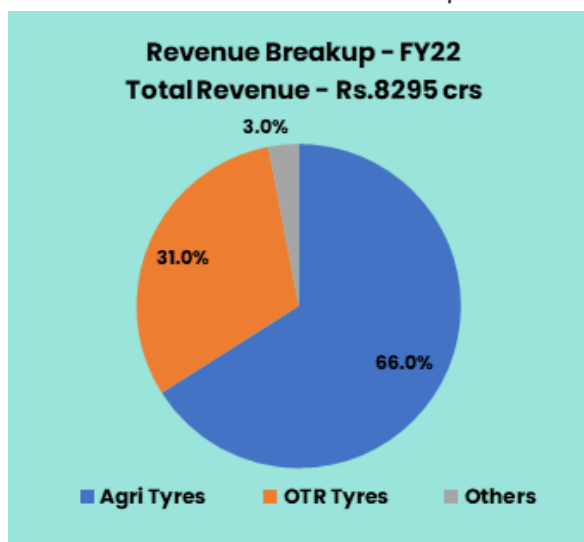
Agriculture Tyres – Tractor, Small tractor, Harvester, Sprayer, Agro truck, Cotton Picker, irrigator, etc.

Industrial Tyres – Loader, Compactor, Military Truck, Mobile Crane, Trailer, etc.

OTR Tyres – Rigid Dump Truck, Mining Vehicle, Scraper, Haul Train, Grader, etc..

SHP	Jun - 22 (%)	Mar - 22 (%)	Change
Promoters	58.29	58.29	0.00
FPI	14.30	14.05	0.25
DII	11.17	11.78	-0.61
Public & Others	16.24	15.87	0.37
Pledged	0.00	0.00	0.00

Subsidiaries: As on March 31, 2022, the company has one domestic and four overseas wholly owned subsidiaries with one step-down subsidiary.



Margins - FY22	
Gross Profit	54%
EBITDA	24%
PAT	17%



Key Rationale

- **Niche Player** – BKT has over the years established a strong presence in the highly specialized global OHT market by leveraging on its own low cost advantage, extensive product portfolio (with over 2700 SKUs) supported with state-of-the-art R&D facility and wide distribution network across over 160 countries. BKT being an Indian company has manufacturing base in India, thus gaining an edge over its global peers in terms of labour cost, which stands at 6–8% of revenues for BKT as compared to companies having operating base in developed nations vis-à-vis Michelin (28%) and Trelleborg (28%). Besides this factor, proximity to the largest rubber producing nations of the world like Thailand, Malaysia and Indonesia results in significantly lower raw material sourcing and logistics/transportation cost as compared to global peers. BKT therefore leverages its cost benefits significantly by positioning its products cheaper than leading brands while retaining strong 25% plus EBITDA margins.
- **Strong Moat** – Off Highway Tyres (OHT) are significantly different from conventional Tyres as far as the applications are concerned. The vastly different usage patterns of OHTs like the diverse surfaces on which they operate and applications necessitate unique customized solutions for each situation, contrary to conventional Tyres. The Tyre ranges from 2 to 10 feet high and weighing 15kg to 1000kg per Tyre which shows a very high range of customization, which is the core for this business. Company launched SKUs in larger diameter tyres of 51" & 57" to strengthen its presence in the OTR space. Many players have entered in this business over past years but could not sustain due to high degree of specialization required by this industry, whereas BKT has created its own identity in the OHT space over a span of three decades. Besides, this segment is low volumes; and that is the reason why Chinese players have not yet made a mark in this business due to their large-scale manufacturing DNA.
- **Q1FY23** – Balkrishna Industries Ltd Q1FY23 consolidated revenues came in at Rs.2619 crs, up 45.3% YoY and up 10.3% QoQ. Sales volume for Q1FY23 is 83153 MT (+7.8% QoQ and +21% YoY). EBITDA margins for Q1FY23 came at 16.95%, -1141 bps YoY and -424 bps QoQ. Margin performance was slightly muted due to rise in RM prices, freight rates and power costs. The logistics costs have almost doubled.
- **Financial Performance** – The company generated a Revenue and PAT CAGR of 17% over the period of 5 years (FY18–22). The company maintained an average EBITDA Margin of 26%+ for the same period of 5 years. As of Mar'22, gross debt stood at ~Rs.2520 crs while cash & cash equivalent stood at Rs.1950 crs. 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. Capex for FY23 is expected to be ~Rs.900 crs and is in line with previous commentary.

**Ratios - FY22**

ROE	21%
ROCE	21%
Div. Yield	0.85%
PE Ratio	26.00
Face Value	2.00
EPS	Rs. 74.25

Industry Analysis

India represents the fourth largest market for Tyres in the world after China, Europe and the United States. In India, the market is currently being driven by the increasing radialization of Tyres, especially in buses and trucks. Moreover, the Tyre industry consists of a vast consumer base; they are used in all types of vehicles which include passenger cars, buses, military vehicles, motorcycles, trucks, etc. The demand for Tyres is primarily catalysed from two end-user segments - OEMs and the replacement segment. The replacement market currently dominates the Tyre market accounting for most of the total sales. Riding on a resurging global growth after two muted years of the covid-19 Pandemic, the Indian tyre industry surpassed Rs.21000 crs in exports in FY22 with about 50% value growth vs last year, an all time high for the sector. The domestic demand growth in volumes for the Indian Tyre industry is expected to be around 13-15% in the near term and is expected to maintain a growth rate of 7-9% between 2022-2025 period.

Growth Drivers

In Union Budget 2021-22, the government introduced the voluntary vehicle scrappage policy, which is likely to boost demand for new vehicles after removing old unfit vehicles currently plying on the Indian roads.

The PLI scheme for automobile and auto component industry, for five years, commencing FY22-23 has an outlay of Rs.26,000 crs. A total of 115 companies, auto and auto components, had filed their application, of which 20 OEMs have been already accorded approval for incentives in February 2022.

The Government of India encourages foreign investment in the auto components sector and has allowed 100% foreign direct investment (FDI) under the automatic route.



Peer Analysis

Competitors: JK Tyres, CEAT, etc.

No listed company is fully into OTR segment and the peers are mostly catering to 2W, 4W and PV segment with a little concentration into OTR. In comparison, Balkrishna has better return ratios and profitability even with a low volume business whereas its peers are lacking with a high-volume business (2W & PV segment).

Company	CMP	Mcap.	ROE	ROCE	P/E	EPS
Balkrishna	1918	37097	21.00%	21.00%	26	74.25
CEAT	1619	6548	2.00%	6.00%	92	17.6
JK Tyre	175	4303	7.00%	9.00%	21	8.53

Outlook

BKT has developed a strong franchise in a highly specialized and large off-highway Tyres (OHT) segment, in which it has ~5.5-6% global market share. Company targets to double global market share to ~10%. Over the years, BKT has been generating robust cash flows and return ratios, and maintained a strong balance sheet across cycles. Management commentary on demand remained strong despite inflationary scenario in the US & heatwave and adverse economic environment in Europe. However, demand is likely to suffer a bit in Q2FY23 but with overall brand image remaining strong. Total production capacity for FY23 is expected to be 3.6 lakh MTPA with sales guidance retained at 3.2 to 3.3 lakh MTPA for FY23. Company expects commissioning for 55000 MTPA carbon black capacities by Q3FY23. The company also maintains a long-term margin guidance of 28-30%. To offset rising input cost the company has taken ~5% hike during Q1FY23 while with adverse environment the company is unable to take any hike in Q2FY23. BKT tyres are cheaper than competition and the management expects the same to continue, going forward.



Valuation

We believe company will continue to perform well over next few quarters due to robust demand environment. We believe that company's export-oriented business model, labor cost benefits and aggressive marketing may help them in outperforming their peers. Hence, we recommend a BUY rating in the stock with the target price (TP) of Rs.2260, 23x FY24E EPS.

Risks

- **Lackluster Agri cycle** – With majority of BKT's revenue skewed towards the Europe Agri segment, any unfavourable climatic conditions could have a bearing on demand. Any downturn in mining and construction activities could unfavourably impact demand for the company.
- **Raw Material Risk** – Natural/synthetic rubber and crude derivatives are the key raw materials for BKT. Any sharp increase in raw material prices could impact margins. The company's new carbon black capacity which has been operational since FY20, should help offset the volatility in crude prices.
- **Geo-Political Risk** – North America (NA) and EU are key geographies for BKT, contributing ~17%/54% of FY22 revenues, respectively. Uncertainty arising from trade wars, rising Inflation, Prolonged Ukraine – Russia conflict, etc., in these countries could negatively impact BKT.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

Abeshak C V

Equity Research Analyst – Fundamental
Equity Research Desk





Disclaimer: Wealth India Financial Services Pvt. Ltd is registered under the SEBI (Research Analyst) Regulations, 2014 (SEBI Regulations) as a Research Analyst vide Registration No. INH200000394.

The analyst for this report certifies that all the views expressed in this report accurately reflect his / her personal views about the subject company or companies, and its / their securities. No part of his / her compensation was / is / will be, directly / indirectly related to specific recommendations or views expressed in this report. This material is for the personal information of the authorized recipient, and no action is solicited on the basis of this. It is not to be construed as an offer to sell, or the solicitation of an offer to buy any security, in any jurisdiction, where such an offer or solicitation would be illegal.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable, though its accuracy or completeness cannot be guaranteed. Neither Wealth India Financial Services Pvt. Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance.

We and our affiliates, officers, directors, and employees worldwide:

Do not have any financial interest in the subject company / companies in this report;

Do not have any actual / beneficial ownership of one per cent or more in the company / companies mentioned in this document, or in its securities at the end of the month immediately preceding the date of publication of the research report, or the date of public appearance;

Do not have any other material conflict of interest at the time of publication of the research report, or at the time of public appearance;

Have not received any compensation from the subject company / companies in the past 12 months;

Have not managed or co-managed the public offering of securities for the subject company / companies in the past 12 months;

Have not received any compensation for investment banking, or merchant banking, or brokerage services from the subject company / companies in the past 12 months;

Have not served as an officer, director, or employee of the subject company;

Have not been engaged in market making activity for the subject company;

This document is not for public distribution. It has been furnished to you solely for your information, and must not be reproduced or redistributed to any other person.

You are receiving this mail because you are a registered user at www.FundsIndia.com.

Our mailing address is:

Uttam Building, Third Floor,

No. 38 & 39, Whites Road, Royapettah, Chennai – 600014