

31 August 2017

Initiating Coverage (BUY)

BALKRISHNA INDUSTRIES LTD

CMP

INR 1551

Target Price

INR 1830

Stock Details	
Industry	RUBBER PRODUCTS
Bloomberg Code	BIL:IN
BSE Code	502355
Face Value (Rs.)	2.00
Market Cap. (Rs. mn)	152,628
52wk. Low/High (Adjusted) ((Rs.)	815.00/1750.00

Shareholding Pattern June '17	
Promoter (%)	54.37
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	45.63
No. of Share Outstanding (mn)	96.6

Valuation Summary				
	FY 15A	FY 16A	FY 17P	FY 18P
P/E (x)*	13.52	26.03	24.00	24.00
EV/EBITDA (x)	07.28	13.44	11.56	11.59
P/BV (x)	2.81	5.47	4.60	4.30

*TTM for Current Year

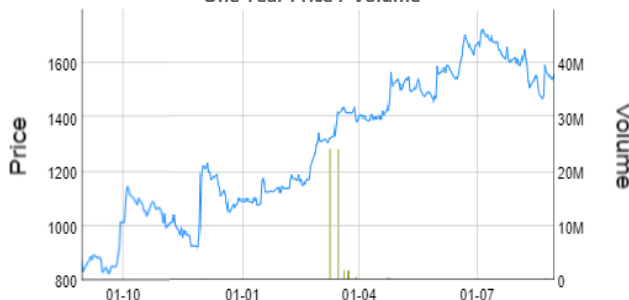
Based on Market Price as on 1st Apr is taken for Each FY

Key Financial				
Rs. Mn	FY 15A	FY 16A	FY 17P	FY 18P
Net Sales	38,168	32,587	37,475	43,097
EBITDA	10,046	11,730	13,169	14,352
Net Profit	4,726	5,759	6,541	7,370
EPS (Rs.)*	48.9	59.6	67.7	76.3

*Un adjusted

Key Ratios				
	FY 15A	FY 16A	FY 17P	FY 18P
EBITDA Margin (%)	24.5	33.0	32.5	31.4
EBIT Margin (%)	18.6	25.1	24.9	24.6
Net Pro. Margin (%)	11.5	16.2	16.1	16.1
Debt/Equity (x)	0.60	0.30	0.24	0.20
RoNW (%)	22.7	22.7	21.1	19.6
RoCE (%)	12.4	15.0	13.3	11.7

One Year Price / Volume



We recommend 'BUY' on BALKRISHNA INDUSTRIES LTD for a target of INR 1830 - valuing the company at P/E 24x of FY19E Earning.

INVESTMENT RATIONALE:

- Market share gains on back of cost competitiveness to drive revenue growth.
- Higher Utilization to bring-in cost efficiency and to offset rising input prices.
- Positive outlook on volumes and margins.
- Backward integration with carbon black project
- Focused OHT player + labour arbitrage = to expand its share
- Management maintains its margin guidance at ~30%
- Backward integration to aid margin
- Export dominated niche play; maintain BUY!
- Sustainable margins & higher utilisation to drive profitability
- Demand scenario to remain stable
- Enjoys significant labour cost arbitrage

VALUATIONS AND VIEW:

BKT has significant cost & focus advantages in the OHT segment compared with peers which is reflected in margin advantage with peers. We believe adding new SKU's and deepening its geographical reach BKT will witness significant top-line growth which will lead to increase in cash flow. The company expects to fully repay its long term debt by mid FY18-19. Industry leading performance, improving utilization, lowering D/E are the key levers for the stock. **We value the business at 24x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 1830 per share.**

RISK & CONCERNS

- **Fluctuation in Raw Material prices:** The Company's major raw material is Natural Rubber, which is an agricultural commodity and actively traded on the commodities exchanges. Its prices fluctuate significantly and have witnessed significant volatility in the past.
- **Labour Relations:** Since Company's manufacturing process is that of batch processing, it requires lot of skilled as well as un-skilled workers. Maintaining a huge work force is a big challenge.
- **Retention of skilled manpower:** Like other players in the industry, the Company is also exposed to this risk, more particularly when there is shortage of skilled manpower in the industry.
- **Currency fluctuation:** As stated earlier the company revenues are mainly generated through exports. The Company also imports lot of its raw materials and capital equipment's. Moreover, all its borrowings are in foreign currency and it is therefore exposed to risks due to currency fluctuations.

COMPANY BACKGROUND:

BKT is the flagship company of the Siyaram Group and was incorporated in 1961. It is the holding company of Balkrishna Paper Mills, Balkrishna tyres and Balkrishna Synthetic. The company's success story began in 1995, when it entered into production of cross ply offhighway tires. Its product was instantly accepted in European and North American markets. With the help of persistent and intensive market research coupled with ever expanding production capabilities, BKT is currently one of the world's leading manufacturers of OTH tyres and boasts of a product range of more than 1,900 SKUs for agricultural, industrial, construction and earthmoving applications. The company is present in more than 120 countries and derives ~88% of its revenue through exports and has ~4% market share in the OHT segment BKT is the main brand name while it sells tractor radial tyres under brand Agrimax (agriculture) and steel radial OTR tyres under the brand Earthmax (OTR segment). Its continuous focus on R&D has helped it develop over 120-150 new SKUs every year, coupled with the world's fastest turnaround time of 8-10 weeks for new product development.

INDUSTRY OVERVIEW:

According to the Confederation of Indian Industry (CII), the Indian automobile industry is one of the largest in the world, having grown by 2.6% over the previous year. It is one of the key drivers of economic growth, contributing 7.1% to India's Gross Domestic Product (GDP). Since de-licensing of the sector in 1991 and subsequent opening up of 100% FDI through the automatic route, the sector has come a long way. Today, almost every global auto major has set up facilities in India to cater to the growing middle class and young population.

The industry has a promising future in India. Apart from meeting growing domestic demand, it is also gradually penetrating international markets. Favoured with various advantages such as access to a globally competitive automobile industry; supply of locally produced raw materials at low costs; availability of highly skilled manpower at competitive wages, and a mature ecosystem of testing and R&D centres, India's automobile industry provides immense investment and employment opportunities.

Peer Comparison

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
MRF	62,945	25.0	26,688.6	0.10	106.5	(78.30)	3,566.6	2.43	3.08
Apollo Tyres	166	20.3	659.0	1.21	88.3	(72.02)	3,282.5	(0.88)	5.24
Balkrishna Inds	1,580	24.0	156,98.2	0.51	153.1	2.74	1,012.8	7.51	5.47
CEAT	1,662	22.8	6,721.2	0.69	19.1	(79.99)	1,451.1	(0.32)	2.89
JK Tyre & Indust	144	23.9	3,268.4	1.73	(107.7)	(206.80)	1,806.6	1.45	1.76
TVS Srichakra	3,307	20.0	2,532.9	1.53	17.8	(61.64)	539.3	5.36	4.27
Goodyear India	822	16.6	1,896.0	1.52	28.5	(31.08)	468.2	12.66	2.59

*TTM

FINANCIAL OVERVIEW

Q4 FY16 Performance Highlight

(in Million)	4Q FY15	1Q FY16	2Q FY16	3Q FY16	4Q FY16	YoY (%)	QoQ (%)
Revenue	9,280.70	9,465.30	8,968.20	10,029.40	10,127.70	9.13%	0.98%
Other Income	517.1	1035.4	631.6	617.2	922.7		
Total Income	9,797.80	10,500.70	9,599.80	10,646.60	11,050.40	12.78%	3.79%
Expenditure	-6,680.70	-6,390.40	-6,188.50	-7,528.40	-8,017.00		
As a % of Sales	71.98%	67.51%	69.00%	75.06%	79.16%		
Interest	-65.8	-46.9	-49	--	--	#VALUE!	#VALUE!
PBDT	3051.3	4063.4	3362.3	2367.4	2278.4		
As a % of Sales	32.88%	42.93%	37.49%	23.60%	22.50%		
Depreciation	-774.7	-724.9	-787.9	--	--		
PBT	2276.6	3338.5	2574.4	2367.4	2278.4	0.08%	-3.76%
As a % of Sales	24.53%	35.27%	28.71%	23.60%	22.50%		
Tax	-786.1	-909.3	-717.5	-992.7	-747	-4.97%	-24.75%
Net Profit	1490.5	2429.2	1856.9	1374.7	1531.4	2.74%	11.40%
As a % of Sales	16.06%	25.66%	20.71%	13.71%	15.12%		
Equity	193.3	193.3	193.3	193.3	--	#VALUE!	#VALUE!
EPS (Rs)	15.42	25.13	19.21	--	--	#VALUE!	#VALUE!
CEPS (Rs)	23.44	32.63	27.36	14.22	--		
OPM %	33.59	43.42	38.04	23.6	22.5		
NPM %	16.06	25.66	20.71	13.71	15.12		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Net Sales	33,939	37,719	38,168	32,587	37,475	43,097	47,406
Other Operating Income	45	141	2,774	2,949	3,058	2,678	3,637
Expenditure	27,251	28,822	30,896	23,807	27,364	31,423	34,487
EBITDA	6,734	9,037	10,046	11,730	13,169	14,352	16,556
Depreciation	1,122	1,703	2,437	2,813	3,093	3,106	3,121
EBIT	5,612	7,334	7,609	8,917	10,077	11,246	13,435
Interest Expenses	274	273	476	343	431	464	530
PBT	5,338	7,062	7,133	8,574	9,646	10,781	12,905
Tax	1,839	2,316	2,408	2,814	3,104	3,412	3,986
Other Income	-	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-	-
Net Income Before Adjustment	3,499	4,746	4,726	5,759	6,541	7,370	8,919
Minority Int./Income from Assoc.	-	-	-	-	-	-	-
Adjusted PAT	3,499	4,746	4,726	5,759	6,541	7,370	8,919

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17P	FY 18P
Equity share capita	193	193	193	193	193	193	193
Reserves & surplus	14,237	18,758	22,566	27,685	33,899	40,900	49,372
Share Warrants	-	-	-	-	-	-	-
Net worth	14,430	18,951	22,760	27,879	34,093	41,093	49,566
Minority Interest	-	-	-	-	-	-	-
Loan Funds	15,666	17,064	13,593	8,323	8,325	8,323	8,321
Net deferred tax liability	1,067	1,796	1,887	2,382	2,382	2,382	2,382
Other Long-term Liabilities	969	420	0	0	0	0	0
Long-term Provisions	5	(3)	14	36	42	48	53
Total Liabilities	32,137	38,228	38,255	38,622	44,843	51,849	60,324
Net block	23,479	29,546	30,494	30,854	40,149	40,292	37,668
Investment, Loan & Adv.	2,909	5,886	2,254	6,971	1,562	1,804	1,983
Total Current Assets	15,119	14,788	20,435	16,080	27,742	35,834	47,912
Current Liabilities & Provisions	9,370	11,994	14,930	15,284	24,612	26,082	27,241
Net Current Assets	5,749	2,794	5,505	795	3,130	9,752	20,671
Total Assets	32,137	38,228	38,255	38,622	44,843	51,849	60,324

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17P	FY 18P
Operating Cash Flow	10,729	1,865	9,357	10,937
Cash Flow from Investments	(5,519)	7,570	(3,497)	(685)
Cash Flow from Financing	(6,254)	281	24	(274)
Net Changes in Cash	(1,045)	9,716	5,884	9,978
Opening Cash	4,342	3,298	13,015	18,899
Closing Cash Balance	3,297	13,015	18,899	28,877

Research Analyst Details

Wealth Discovery Securities Pvt. Ltd.

SEBI Registration No.: INH100004571

Research Analyst: Rahul Agarwal, rahul@wealthdiscovery.in

Research Associate: Dushmanta Panda, dushmanta@wealthdiscovery.co.in

Research Associate: Divya Sood, divya@wealthdiscovery.co.in

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Head Office

Wealth Discovery Securities Pvt. Ltd.

1206, 12th Floor,
Kailash Building K.G. Marg.
Connaught Place
New Delhi-110001

Telephone:

91 +11-43444-666

91 +11-43444-623

Email:

info@wealthdiscovery.in

Website:

<http://www.wealthdiscovery.in>