

11 August 2024

India | Equity Research | Q1FY25 results review

Balkrishna Industries

Auto Ancillaries

Weaker retail demand environment may impede upgrades in near term

Balkrishna Industries' (BIL) EBITDAM came in at 26%, flat QoQ, both in percentage and per-kg terms. Volume was up 24% YoY/2% QoQ to ~84k tonnes with strong growth in EU's agri segment. BIL is seeing retail demand weakness and channel inventory build-up due to a combination of geopolitical issues, inflation and recessionary concerns, and thus, may see low single-digit growth in FY25. As against its 84k tonne volume in Q1, we are building in average volume of ~79k tonnes in next three quarters in FY25, implying 10% YoY growth. BIL expects to see 2–3% RM inflation and 7–8% rise in freight costs in Q2; BIL would look to absorb costs, if market forces do not allow price hikes. We are building in ~10% volume CAGR and average EBITDAM of ~27% for FY25E–26E. Maintain **HOLD**, with an unchanged DCF-based TP of INR 3,200, implying 26x FY26E EPS.

Takeaways from the conference call, and our views

- Volume was up ~24% YoY/2% QoQ to ~84k tonne, driven by strong growth in the agri segment in Europe; realisation was up 4% YoY/flat QoQ at INR 328/kg. Management highlighted that retail demand is slowing in EU/US due to a combination of geopolitical issues, inflation and recessionary concerns, and this weakness in demand is leading to inventory build-up. We maintain our estimate of 10% volume growth in FY25E, which implies average quarterly volume reducing to ~79k tonnes for the rest of the year. EBITDAM was at 26% in Q1, up 330bps YoY/10bps QoQ; however, BIL expects to see RM prices rising by 2–3% and freight cost escalating ~8% in Q2FY25. EPR provisioning impact was at INR 40mn in Q1FY25. We expect BIL to manage the rise in RM/freight costs well; we continue to build-in 26% EBITDA margin in FY25E.
- Carbon black sales are at 8% of Q1FY25 sales (vs. 7% in FY24) and shall rise in FY25E as capacity moves up to 200k tonnes, from 170k tonnes, with the addition of advanced CB capacity. As per BIL, capex in FY25 would be ~INR 6–7bn, with capex in Q1 at INR 2bn. BIL announced capex spend of up to INR 13bn for the adding of fresh capacity of 35k tonnes in Bhuj, which would be implemented in phases. This new capacity aims to focus on the mining segment alongside some utilities being added. Hence, capex spend is higher vs. earlier capex spend of ~INR 8bn for 50k capacity addition.

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Market Data

Market Cap (INR)	591bn
Market Cap (USD)	7,043mn
Bloomberg Code	BIL IN
Reuters Code	BLKI.BO
52-week Range (INR)	3,378 / 2,194
Free Float (%)	41.0
ADTV-3M (mn) (USD)	15.1

Price Performance (%)	3m	6m	12m
Absolute	25.3	33.1	29.9
Relative to Sensex	15.2	21.8	9.1

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	98,105	92,987	1,05,352	1,19,435
EBITDA	17,156	22,041	27,443	33,628
EBITDA %	17.5	23.7	26.0	28.2
Net Profit	10,787	14,376	18,538	23,735
EPS (INR)	55.8	74.4	95.9	122.8
EPS % Chg YoY	(23.6)	33.3	28.9	28.0
P/E (x)	54.8	41.1	31.9	24.9
EV/EBITDA (x)	39.3	30.5	24.1	19.1
RoCE (%)	10.7	13.0	15.3	18.2
RoE (%)	14.9	17.5	19.4	21.3

Previous Reports

18-07-2024: [Company Update](#)

21-06-2024: [Company Update](#)

Exhibit 1: Q1FY25 result review

BIL standalone (INR mn)	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
Sales tonnage	83,570	67,209	24%	82,085	2%
Net Sales	27,410	21,200	29%	26,970	2%
Raw Material	12,860	10,223	26%	12,600	2%
RM/Sales	46.9%	48.2%	-130 bps	46.7%	20 bps
Gross Profit	14,550	10,978	33%	14,370	1%
Gross margin	53.1%	51.8%	130 bps	53.3%	-20 bps
Staff Cost	1,160	1,055	10%	1,110	5%
Staff Cost/Sales	4.2%	5.0%	-74 bps	4.1%	12 bps
Others	6,260	5,109	23%	6,270	0%
Other expenditure/Sales	22.8%	24.1%	-126 bps	23.2%	-41 bps
EBITDA	7,130	4,814	48%	6,990	2%
EBITDA Margin	26.0%	22.7%	331 bps	25.9%	9 bps
Depreciation	1,620	1,537	5%	1,720	-6%
PBIT	5,510	3,277	68%	5,270	5%
Interest	140	208	-33%	300	-53%
Other Income	890	1,037	-14%	1,360	-35%
PBT	6,260	4,106	52%	6,330	-1%
Tax	1,490	983	52%	1,530	-3%
Adj. PAT	4,770	3,123	53%	4,800	-1%
EPS (INR)	24.7	16.2	53%	24.8	-1%

Source: Company data, I-Sec research

Exhibit 2: Q1FY25 per-kg metrics

Per kg matrix	Q1FY25	Q1FY24	YoY	Q4FY24	QoQ
NRV (INR/kg)	328	315	4%	329	0%
GP/kg (INR)	174	163	7%	175	-1%
EBITDA/kg (INR)	85	72	19%	85	0%
RM/kg (INR)	154	152	1%	153	0%

Source: I-Sec research, Company data

Exhibit 3: Key metrics and assumptions

	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Volume ('000 tonne)	202	227	289	301	292	321	360
NRV (INR/kg)	243	254	286	326	319	328	332
Gross profit/kg	138	152	155	161	166	176	184
EBITDA (INR mn)	13,805	17,855	19,760	17,156	22,041	27,445	33,628
EBITDA Margin	28.2%	31.0%	23.9%	17.5%	23.7%	26.0%	28.2%
EBITDA/kg	68	79	68	57	75	85	93
Capex (INR mn)	8,591	7,332	14,986	20,529	11,311	7,000	10,000
PAT (INR mn)	9,445	11,554	14,112	10,787	14,376	18,539	23,735
FCF (INR mn)	6,804	4,857	(6,456)	(2,451)	9,383	16,304	25,000

Source: I-Sec research, Company data

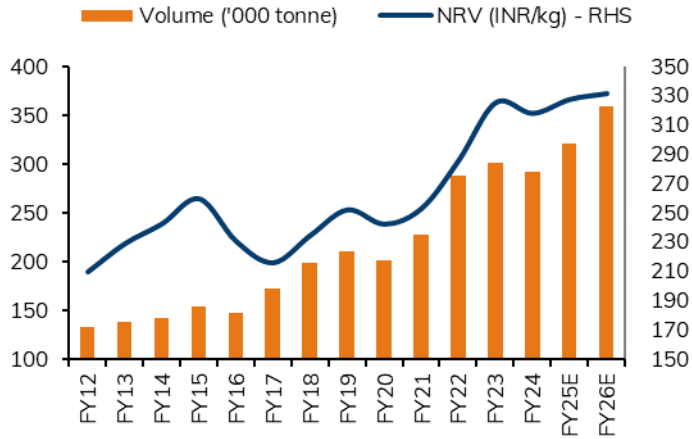
Upside risks

- Volume growth significantly more than estimated at 10% in FY25E driven by favourable base, driving agri tyre growth in key markets.
- Delivers consistent price hikes from current levels in coming quarters and benefits from current favourable moves.

Downside risks

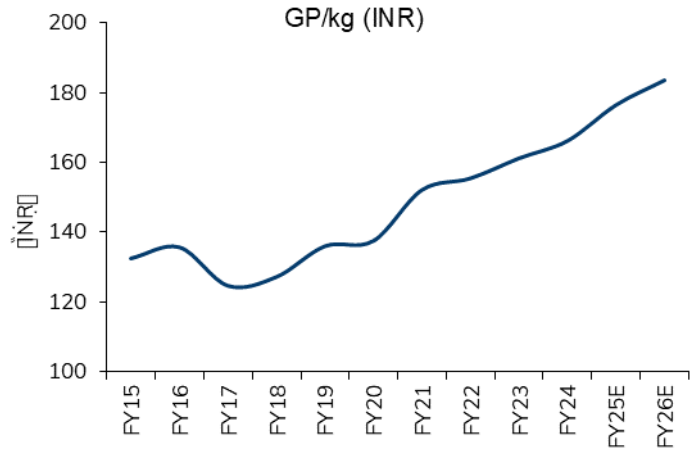
- Weakness in retail offtake from key markets would impact volume offtake for BIL in the coming quarters, post-weak volumes in the past few quarters due to inventory de-stocking.
- Inability to grab further market share in the global OHT market due to intense rise in competition.
- Inability to go back to 28–29% operating margin levels due to adverse input cost scenario and higher competition.

Exhibit 4: Building in 10%/12% volume growth in FY25E/26E



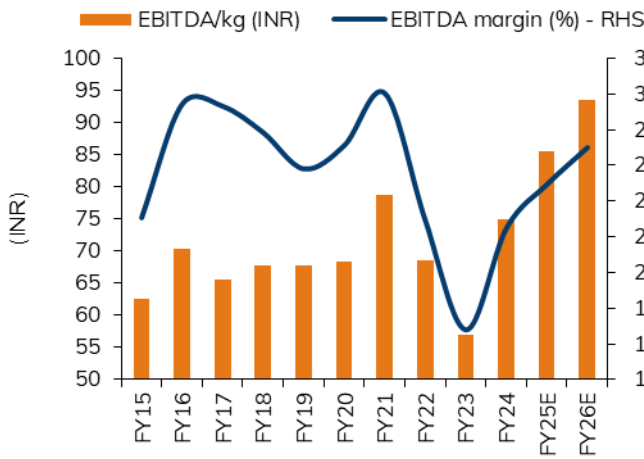
Source: I-Sec research, Company data

Exhibit 5: GP/kg set to continue its rising trajectory driven by steady RMB cost, improving mix/favourable currency



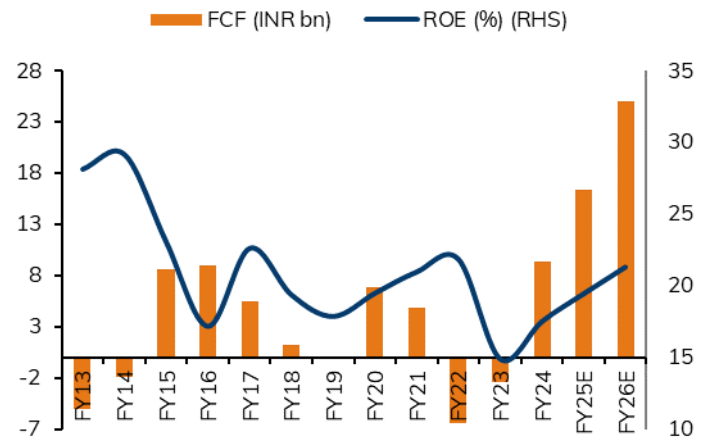
Source: I-Sec research, Company data

Exhibit 6: Expect EBITDAM to return to >26% FY25E onwards with EBITDA/kg crossing INR 85



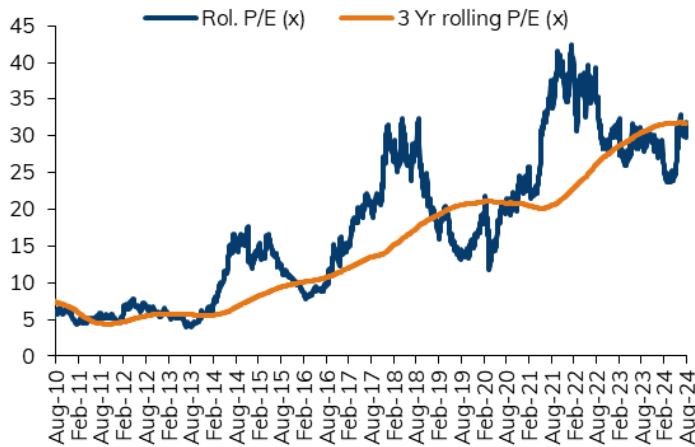
Source: I-Sec research, Company data

Exhibit 7: Set to return to positive FCF trajectory with improvement in profitability + limited capex in FY24-26E



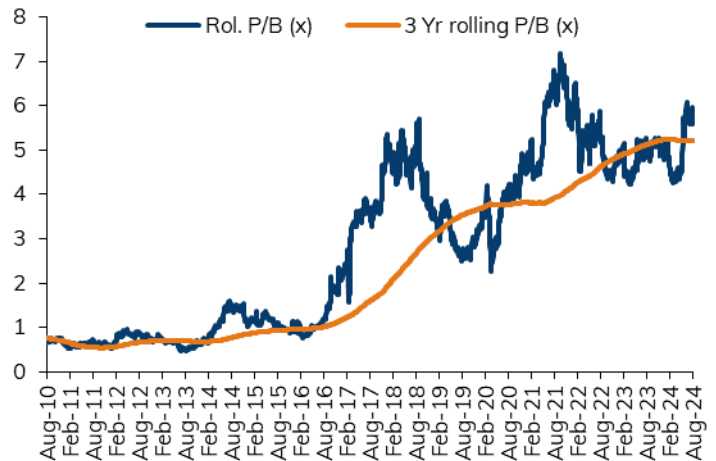
Source: I-Sec research, Company data

Exhibit 8: Three-year rolling P/E



Source: I-Sec research, Company data

Exhibit 9: Three-year rolling P/B



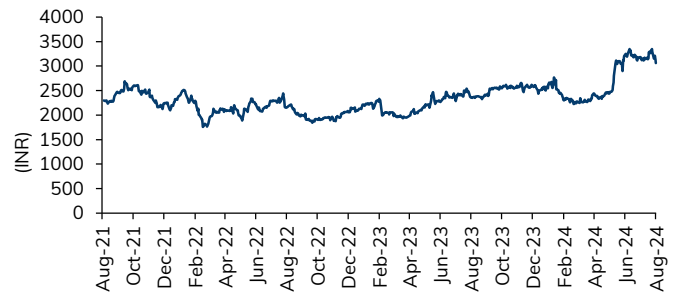
Source: I-Sec research, Company data

Exhibit 10: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	58.3	58.3	58.3
Institutional investors	33.9	34.2	34.5
MFs and others	14.0	14.6	14.6
FIs/Banks	0.6	0.5	0.1
Insurance	6.6	6.7	7.2
FIIIs	12.7	12.4	12.6
Others	7.8	7.5	7.2

Source: Bloomberg

Exhibit 11: Price chart



Source: Bloomberg

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	98,105	92,987	1,05,352	1,19,435
Operating Expenses	31,391	26,203	29,234	32,407
EBITDA	17,156	22,041	27,443	33,628
EBITDA Margin (%)	17.5	23.7	26.0	28.2
Depreciation & Amortization	5,566	6,438	7,500	8,069
EBIT	11,590	15,603	19,943	25,559
Interest expenditure	456	1,089	700	250
Other Non-operating Income	3,378	4,477	5,149	5,921
Recurring PBT	14,512	18,991	24,392	31,230
Profit / Loss from Associates	-	-	-	-
Less: Taxes	3,725	4,615	5,855	7,495
PAT	10,787	14,376	18,538	23,735
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	10,787	14,376	18,538	23,735
Net Income (Adjusted)	10,787	14,376	18,538	23,735

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	34,943	36,901	43,527	50,676
of which cash & cash eqv.	378	528	2,999	12,683
Total Current Liabilities & Provisions	11,880	13,568	14,988	15,648
Net Current Assets	23,063	23,333	28,539	35,028
Investments	20,373	26,868	26,868	26,868
Net Fixed Assets	53,492	62,837	62,337	64,268
ROU Assets	-	-	-	-
Capital Work-in-Progress	13,916	9,444	9,444	9,444
Total Intangible Assets	-	-	-	-
Other assets	-	-	-	-
Deferred Tax assets	-	-	-	-
Total Assets	1,10,844	1,22,482	1,27,188	1,35,607
Liabilities				
Borrowings	32,539	30,369	21,369	11,369
Deferred Tax Liability	2,413	3,494	3,494	3,494
Provisions	-	-	-	-
Other Liabilities	-	-	-	-
Equity Share Capital	387	387	387	387
Reserves & Surplus	75,505	88,233	1,01,940	1,20,358
Total Net Worth	75,891	88,619	1,02,326	1,20,745
Minority Interest	-	-	-	-
Total Liabilities	1,10,844	1,22,482	1,27,189	1,35,608

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	22,258	23,160	26,970	27,410
% growth (YOY)	-21	8	13	24
EBITDA	5,184	5,860	6,990	7,130
Margin %	23.3	25.3	25.9	26.0
Other Income	770	180	1,360	890
Adjusted Net Profit	3354	3,084	4,800	4,770

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	18,078	20,694	23,304	35,000
Working Capital Changes	1,725	(120)	(2,735)	3,195
Capital Commitments	(20,529)	(11,311)	(7,000)	(10,000)
Free Cashflow	(2,451)	9,383	16,304	25,000
Other investing cashflow	(1,400)	-	-	-
Cashflow from Investing Activities	(21,929)	(11,311)	(7,000)	(10,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	8,114	(2,170)	(9,000)	(10,000)
Dividend paid	(3,093)	(4,639)	(4,833)	(5,316)
Others	(1,145)	(2,424)	-	-
Cash flow from Financing Activities	3,876	(9,234)	(13,833)	(15,316)
Chg. in Cash & Bank balance	25	149	2,472	9,684
Closing cash & balance	377	527	2,999	12,684

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	55.8	74.4	95.9	122.8
Adjusted EPS (Diluted)	55.8	74.4	95.9	122.8
Cash EPS	84.6	107.7	134.7	164.5
Dividend per share (DPS)	1.6	2.4	2.5	2.8
Book Value per share (BV)	392.6	458.5	529.4	624.7
Dividend Payout (%)	2.9	3.2	2.6	2.2
Growth (%)				
Net Sales	18.7	(5.2)	13.3	13.4
EBITDA	(13.2)	28.5	24.5	22.5
EPS (INR)	(23.6)	33.3	28.9	28.0
Valuation Ratios (x)				
P/E	54.8	41.1	31.9	24.9
P/CEPS	36.2	28.4	22.7	18.6
P/BV	7.8	6.7	5.8	4.9
EV / EBITDA	39.3	30.5	24.1	19.1
EV / Sales	6.9	7.2	6.3	5.4
Profitability Ratios				
Gross Profit Margins (%)	49.5	51.9	53.8	55.3
EBITDA Margins (%)	17.5	23.7	26.0	28.2
EBIT Margins (%)	11.8	16.8	18.9	21.4
Net Profit Margins (%)	11.0	15.5	17.6	19.9
RoCE (%)	10.7	13.0	15.3	18.2
RoE (%)	14.9	17.5	19.4	21.3
Dividend Yield (%)	0.1	0.1	0.1	0.1
Operating Ratios				
Fixed Asset Turnover (x)	1.5	1.3	1.5	1.6
Inventory Turnover Days	57	50	50	50
Receivables Days	45	61	61	38
Payables Days	30	35	35	32
Effective Tax Rate (%)	25.7	24.3	24.0	24.0
Net Debt / Equity (x)	0.4	0.3	0.2	0.0
Net Debt / EBITDA (x)	1.9	1.4	0.7	0.0

Source Company data, I-Sec research

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