



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	■	✓	■
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old	↔	New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

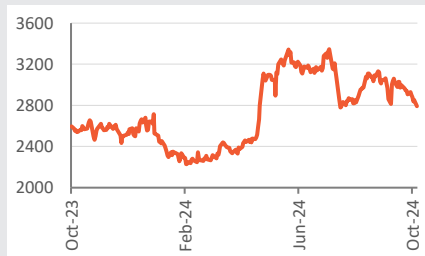
Company details

Market cap:	Rs. 54,032 cr
52-week high/low:	Rs. 3,378 / 2,194
NSE volume: (No of shares)	2.9 lakh
BSE code:	502355
NSE code:	BALKRISIND
Free float: (No of shares)	8.1 cr

Shareholding (%)

Promoters	58.3
FII	12.6
DII	22.4
Others	6.7

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.9	-15.2	16.5	7.5
Relative to Sensex	-1.5	-16.7	10.9	-16.2

Sharekhan Research, Bloomberg

Balkrishna Industries Ltd
Sustaining margins amid cloudy demand

Automobiles	Sharekhan code: BALKRISIND		
Reco/View: Buy	↔	CMP: Rs. 2,795	Price Target: Rs. 3,195
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Q2FY25 performance was better than estimates, though the management continues to assume a muted demand scenario is near term.
- Amidst RM cost inflation and rising freight costs, the management is looking for a minor growth in volumes in FY25.
- We maintain Buy on BKT with an unchanged PT of Rs 3195 in expectation of sustenance of its market share and hope of a stable margin profile.
- Stock trades at P/E multiple of 22.3x and EV/EBITDA multiple of 15.5x its FY27E estimates.

BKT's operating performance was better than expected owing to better product mix and healthy gross margin expansion on y-o-y basis. However, the management commentary was indicating for headwinds in global demand and hence, the management has broadly maintained its slight volume growth guidance for FY25. Revenue increased by 9.5% y-o-y to Rs 2436 crore (against estimate of Rs 2256 crore) on the back of 3.8% y-o-y increase in volumes and 5.4% y-o-y increase in ASPs. AEBITDA increased by 11.9% y-o-y to Rs 580 crore (against estimate of Rs 478 crore). EBITDA margin expanded by 50 bps y-o-y to 23.8% (against estimate of 21.2%) in support of 60 bps y-o-y expansion in gross margin. With this operating performance and adjusted to unrealized forex loss of Rs 53 crore, APAT has increased by 23.0% y-o-y to Rs 389 crore (against estimate of Rs 325 cr).

Key positives

- The company hiked prices by 1-2%, which will take effect in Q3FY25.
- In Q2 FY25, carbon black sales accounted for less than 10% of revenue.
- ASPs increased by 5.4% y-o-y on improvement in product mix.

Key negatives

- Freight costs as a percentage of revenue increased to 7.4% in Q2 FY25, up from 4.4% in Q2 FY24.
- EBITDA margin shrunk by 40 bps q-o-q on 20 bps q-o-q contraction in gross margin.
- Employee cost as percentage of sales has expanded by 60 bps q-o-q.

Management Commentary

- Company has been observing a weak business scenario across the geographies except Indian market.
- Phase 1 of capex for the OTR range of tyres is expected to be completed by H1FY26.
- The implementation of European Union Deforestation Act is likely to be postponed by a year, but the company is prepared to comply with the regulations.

Our Call

Valuation – Maintain Buy with an unchanged PT of Rs. 3,195

After reporting slightly better-than-expected performance in Q2FY25, the management has indicated for a headwinds in global markets. Broadly, the company has been observing a weak business scenario across the geographies except Indian market. Along with that the rising input cost and continued surge in freight cost has been putting pressure on profitability. Despite that the management has maintained its marginal volume growth guidance for FY25. Amidst RM cost pressure the company implemented a slight price hike of 1-2%, which will take effect in Q3 FY25. The company has incurred a capex of Rs 540 crore in H1FY25 out of the planned capex of Rs 800 crore to 1000 crore for FY25. As per the management the implementation of European Union Deforestation Act is likely to be postponed by a year, but the company is prepared to comply with the regulations. While we believe the demand scenario is weak BKT would sustain its market share. Further the new capacity additions would help it to drive its growth and fulfil market share aspirations on availability of the additional capacities in future. We maintain a Buy on BKT with an unchanged PT of Rs 3195 in expectation of sustenance of its market share and hope of a stable margin profile.

Key Risks

BKT derives significant part of its revenue from exports markets Any adverse movement in the macro environment of these countries or forex fluctuation could affect the company's financial performance.

Valuation (Standalone)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenues	9,811	9,299	9,769	12,062	12,797
Growth (%)	18.7	-5.2	5.1	23.5	6.1
EBIDTA	1,716	2,204	2,315	3,233	3,429
OPM (%)	17.5	23.7	23.7	26.8	26.8
Net Profit	1,144	1,396	1,542	2,267	2,424
Growth (%)	-17.2	22.0	10.5	47.0	6.9
EPS (Rs.)	59.2	72.2	79.8	117.3	125.4
P/E	47.2	38.7	35.0	23.8	22.3
P/BV	7.1	6.1	5.4	4.6	4.0
EV/EBIDTA	32.2	24.6	22.7	16.2	15.5
ROE (%)	15.1	15.8	15.4	19.3	17.9
ROCE (%)	10.3	12.8	14.1	17.7	16.6

Source: Company; Sharekhan estimates