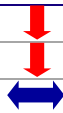


Balkrishna Industries

Estimate change

TP change

Rating change



Bloomberg	BIL IN
Equity Shares (m)	193
M.Cap.(INRb)/(USDb)	448.5 / 5.9
52-Week Range (INR)	2796 / 1909
1, 6, 12 Rel. Per (%)	1/-3/-7
12M Avg Val (INR M)	691

Financials & valuations (INR b)

Y/E March	FY23	FY24E	FY25E
Sales	100.2	89.5	104.9
EBITDA	19.7	21.9	27.3
Adj. PAT	10.1	13.1	17.8
EPS (Rs)	52.1	67.9	91.9
EPS Growth (%)	-29.3	30.2	35.3
BV/Share (Rs)	390.9	428.9	485.8
Ratios			
RoE (%)	13.9	16.6	20.1
RoCE (%)	10.9	12.1	14.5
Payout (%)	30.7	44.2	38.1
Valuations			
P/E (x)	48.5	37.2	27.5
P/BV (x)	6.5	5.9	5.2
Div. yield (%)	0.6	1.2	1.4
FCF yield (%)	-0.6	2.2	2.5

Shareholding pattern (%)

	Dec-23	Sep-23	Dec-22
Promoter (%)	58.3	58.3	58.3
DII (%)	21.4	21.2	20.2
FII (%)	12.7	12.5	12.5
Others (%)	7.6	8.3	9.0

FII Includes depository receipts

CMP: INR2,528

TP: INR2,360 (-7%)

Neutral

Operating performance in line

Management has guided for flattish YoY tonnage in 4QFY24

- Balkrishna Industries (BIL)'s 3QFY24 operating performance was operationally in line, while unrealized Fx loss of INR520m led to Adj PAT miss at INR3.1b (vs. est. INR3.5b). The management has guided for flattish tonnage growth YoY for 4QFY24, followed by an increase in freight cost, due to the ongoing supply chain crisis in Red sea.
- To factor in for the same, we cut FY24E EPS by 5%, while we largely maintain FY25E EPS. We reiterate our **Neutral rating with a TP of INR2,360 (premised on ~22x Dec'25E EPS)**.

Unrealized FX loss dents PAT

- BIL's 3QFY24 revenue/EBITDA/PAT declined 4.5%/39%/2.1x YoY to INR23.2b/INR5.9b/INR3.1b (vs. est. INR23.3b/INR5.7b/INR3.55b). 9MFY24 revenue declined 14% YoY, but EBITDA/adj.PAT grew 6%/16% YoY.
- Volumes grew 9% YoY (3% QoQ) to 72.75k tons (in line) with end-markets stable and showing gradual improvement. Realizations declined 4.5% YoY at INR318.3k/unit (vs. est. INR319.1k).
- Gross margins expanded 3.4pp YoY (up 10bp QoQ) to 52% (vs. est.51.8%). EBITDA margin improved 6.2pp YoY to 25.3%, due to lower cost pressures.
- An unrealized Fx loss of INR520m has significantly impacted the overall performance.
- Further, despite higher interest costs, unrealized FX losses were partially offset by higher 'other income', which led to adj. PAT growing 2.1x YoY to INR3.1b (vs. est. INR3.55b).
- The board has declared the third interim dividend of INR4/share for FY24 (Total FY24YTD dividend=INR12/share).

Highlights from the management commentary

- **Retail demand outlook improving:** With the demand slowly picking up, the company did not undertake any price hikes. Both India and EU markets remained stable. While the Indian market continues to grow, the company does not expect the business share from India to surpass the current levels of 30%. This expectation is rooted in the belief that as the overall market picks up, economies across the board would perform well, thereby maintaining a similar contribution from various regions.
- **Ongoing geopolitical tension to dent performance in the near term:** Due to the red sea crisis and geopolitical issues, 4Q volumes would be flat on a YoY/QoQ basis. This would have an adverse impact on the margins in the near term. Retail demand at the end markets remain stable and show gradual improvement.
- **RM prices to remain stable:** Softness in crude oil prices was offset by pickup in natural rubber prices, and hence, do not expect any major effect on the gross margins.
- **Carbon black sales:** 9MFY24 carbon black sales were 7.5% of the total revenues. This is expected to scale up to 8-9% in FY25. The current BIL capacity for carbon black stands at 170k tons, which is expected to reach 200k tons. Capacity utilization stands at ~85-90%.

Amber Shukla - Research analyst (Amber.Shukla@MotilalOswal.com)

Aniket Desai - Research analyst (Aniket.Desai@motiloswal.com)

Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motiloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Valuation and view

- Retail demand in key global markets is currently on an upswing, and the demand in India continues to remain positive. However, ongoing geopolitical tensions have again disrupted the sea route supply chain. While this is currently at an initial stage, any escalation could potentially further delay the recovery for BIL. Despite these challenges, we expect BIL's outperformance to the Specialty Tyre industry to persist. This is driven by the expansion of its product portfolio and the ramp-up in the OTR segment, providing opportunities to strengthen its competitive positioning.
- Current valuations fairly reflect its industry-leading margin, FCF, and capital efficiencies. It currently trades at a P/E multiple of 37.2x/27.5x FY24E/FY25E EPS. We reiterate our **Neutral** stance on the stock.

Quarterly Earning Model (Standalone)

(INR m)

Y/E March	FY23				FY24E				FY23	FY24E	3QE
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			
Volumes (Ton)	83,153	78,872	66,480	72,676	67,209	70,585	72,749	73,188	301,181	283,731	73,128
YoY Change (%)	21.2	8.4	-5.5	-5.8	-19.2	-10.5	9.4	0.7	4.3	-5.8	10.0
Realizations (INR '000/ton)	327.9	355.8	333.2	319.9	314.7	318.3	318.3	317.5	334.4	317.2	319.1
YoY Change (%)	23.0	24.5	12.7	1.4	-4.0	-10.5	-4.5	-0.7	14.7	-5.1	-4.2
Net Revenues	27,263	28,063	22,153	23,246	21,150	22,468	23,158	23,236	100,725	90,012	23,336
YoY Change (%)	49.1	34.9	6.6	-4.4	-22.4	-19.9	4.5	0.0	19.6	-10.6	5.3
EBITDA	5,470	5,640	4,233	4,942	4,863	5,480	5,868	5,764	20,284	21,975	5,717
Margins (%)	20.1	20.1	19.1	21.3	23.0	24.4	25.3	24.8	20.1	24.4	24.5
Depreciation	1,262	1,341	1,449	1,515	1,537	1,586	1,591	1,580	5,566	6,295	1,590
Interest	27	43	136	250	208	229	354	357	456	1,147	200
Forex loss/(gain)	-260	-490	1,660	-30	-330	-250	520	-440	880	-500	-250
Other Income	-150	580	430	280	660	520	700	742	1,140	2,622	520
PBT before EI	4,290	5,327	1,417	3,487	4,108	4,435	4,104	5,009	14,521	17,655	4,697
Extra-Ord expense	0	0	0	23	0	0	0	0	23	0	0
PBT	4,290	5,327	1,417	3,465	4,108	4,435	4,104	5,009	14,499	17,655	4,697
Rate (%)	25.4	24.1	29.8	26.1	23.9	24.5	24.8	24.7	25.7	24.5	24.5
Reported PAT	3,199	4,043	995	2,559	3,125	3,350	3,084	3,770	10,774	13,329	3,546
Adj PAT	3,199	4,043	995	2,576	3,125	3,350	3,084	3,770	10,791	13,329	3,546
YoY Change (%)	-10.5	1.2	-69.7	-30.5	-2.3	-17.1	209.9	46.4	-25.9	23.5	256.4
Margins (%)	11.7	14.4	4.5	11.1	14.8	14.9	13.3	16.2	10.7	14.8	15.2

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY23				FY24E				FY23	FY24E	3Q
	1Q	2Q	3Q	4QE	1Q	2Q	3Q	4QE			
Volumes (Ton)	83,153	78,872	66,480	72,676	67,209	70,585	72,749	73,188	3,01,181	2,83,731	73,128
YoY Change (%)	21.2	8.4	-5.5	-5.8	-19.2	-10.5	9.4	0.7	4.3	-5.8	10.0
Realizations (INR '000/ton)	327.9	355.8	333.2	319.9	314.7	318.3	318.3	317.5	334.4	317.2	319.1
YoY Change (%)	23.0	24.5	12.7	1.4	-4.0	-10.5	-4.5	-0.7	14.7	-5.1	-4.2
Gross Margins (%)	53.4	51.2	48.6	49.3	51.7	51.9	52.0	51.9	50.8	51.9	51.8
EBITDA Margins (%)	20.1	20.1	19.1	21.3	23.0	24.4	25.3	24.8	20.1	24.4	24.5
Gross Profit (INR '000/ton)	175.2	182.2	162.1	157.6	162.6	165.1	165.6	164.8	169.9	164.6	165.3
EBITDA (INR '000/ton)	65.8	71.5	63.7	68.0	72.4	77.6	80.7	78.8	67.3	77.4	78.2

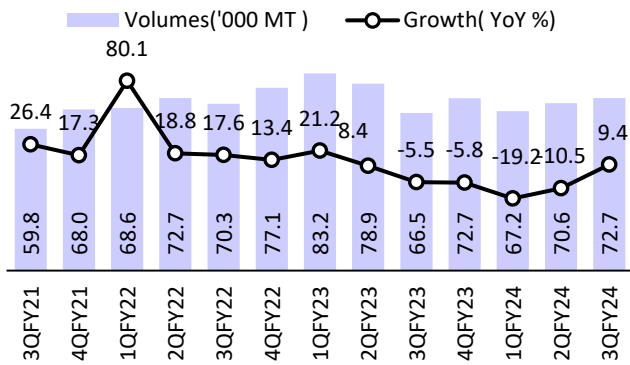


Highlights from the management commentary

- **Red sea crisis:** Due to the red sea crisis and geopolitical issues, 4Q volumes would be flat on a YoY/QoQ basis. This would have an impact on the margins in the near term. Retail demand at the end markets remain stable and showing gradual improvement. Retail inventory at the dealers' end is around 30-45 days and the company is watchful how the crisis unfolds.
- Presently, there is no shortage of customers, but there is an uptick in freight costs. Normally, freight costs are 3-4% of sales, but if there is a significant change, then it takes ~two quarters to pass on to the end customer. Owing to this uncertainty, the company has not given any volume guidance for FY25; however, it has ample capacity to cater to the sudden demand if it comes. It sees an opportunity to capture EU markets also as companies who import RM from Asia would get affected due to this crisis.
- **3Q operational highlights:** With the demand slowly picking up, the company did not undertake any price hikes. Both India and EU markets remained stable.
- **India market showing resilience:** The Indian market continues to grow, the company does not expect the business share from India to surpass the current levels of 30%. This expectation is rooted in the belief that as the overall market picks up, economies across the board would perform well, thereby maintaining a similar contribution from various regions.
- Softness in crude oil prices was offset by pickup in natural rubber prices, hence, we do not expect any major effect on the gross margins.
- **Carbon black sales:** 9MFY24 carbon black sales were 7.5% of the total revenues. This is expected to scale up to 8-9% in FY25. India has ample carbon black capacity, but EU has seen some shortage as major supply would come from Russia before the war. Current BIL capacity for carbon black stands at 170k tons, which is expected to reach 200k tons. Capacity utilization stands at ~85-90%.
- **Gross debt stood at INR28.8b as on Dec'23**, with 65% of it contributing to working capital requirement. Cash on the balance sheet stands at INR3.3b.
- The EUR-INR hedge rate stood at 89-90 in 3Q and 91-92 in FY25.

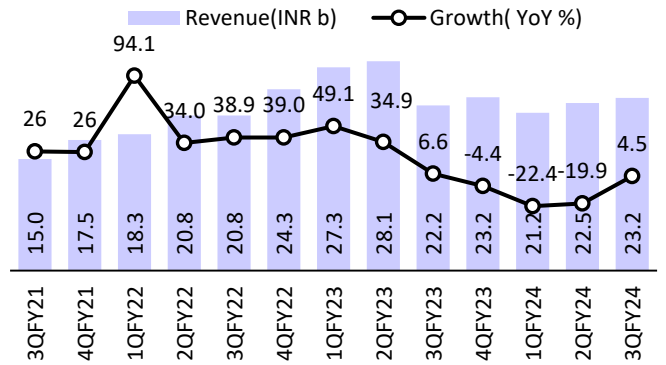
Key exhibits

Exhibit 1: Volume trend



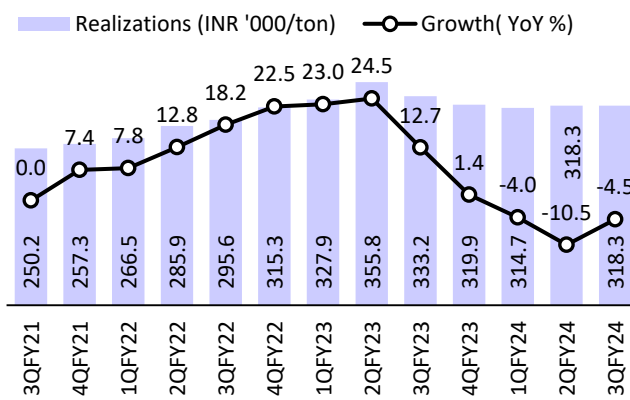
Source: MOFSL, Company

Exhibit 2: Trend in revenue



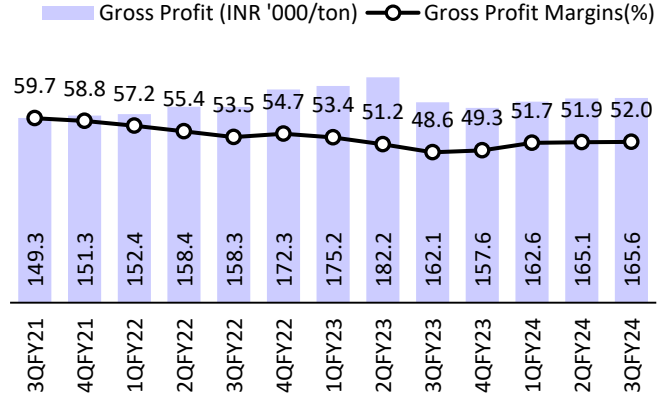
Source: MOFSL, Company

Exhibit 3: Net realization trend



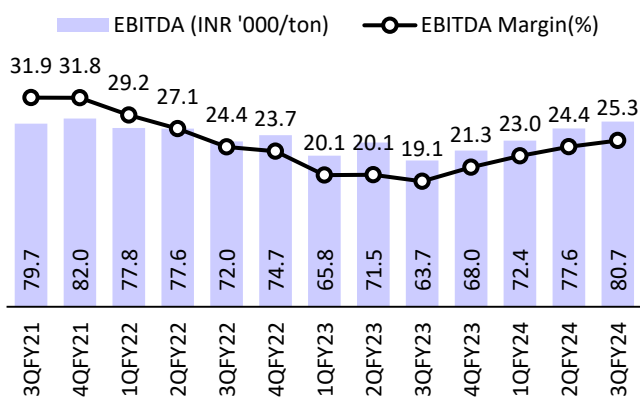
Source: MOFSL, Company

Exhibit 4: Gross profit margin trend



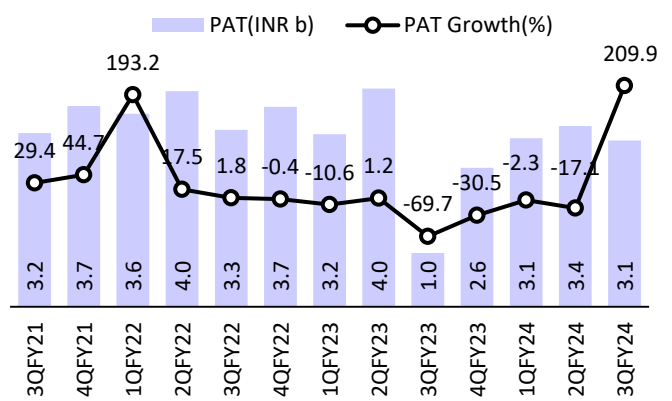
Source: MOFSL, Company

Exhibit 5: EBITDA margin trend



Source: MOFSL, Company

Exhibit 6: PAT and PAT growth trends



Source: MOFSL, Company

Exhibit 7: Geography-wise contribution

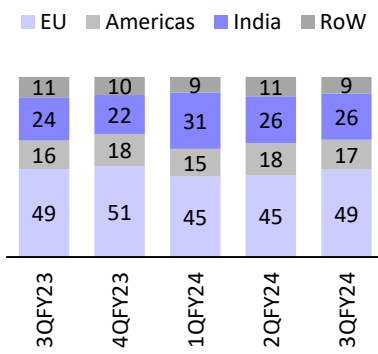


Exhibit 8: Channel-wise sales

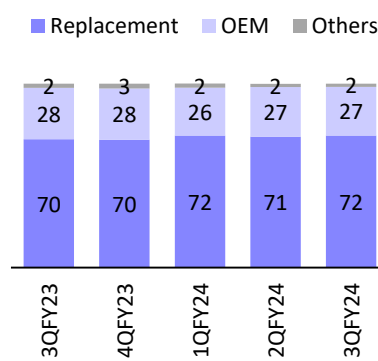
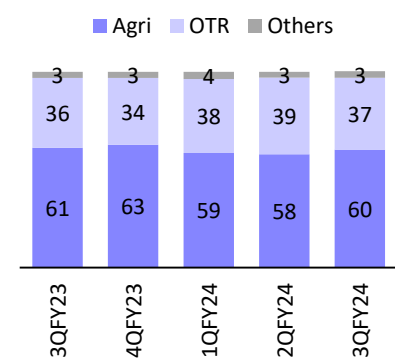


Exhibit 9: Segment-wise sales



Source: Company, MOFSL

Valuation and view

Huge opportunity size, strong competitive positioning

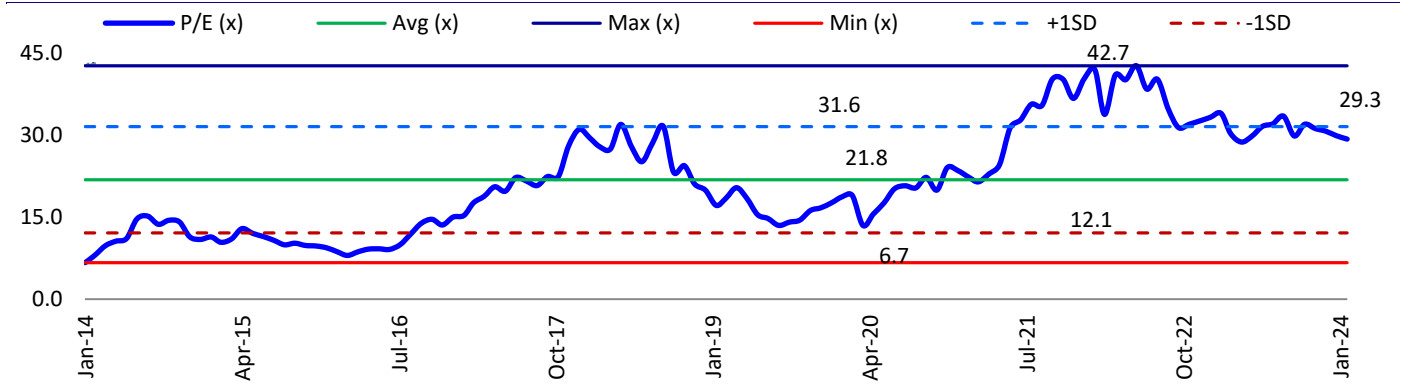
- Profitable market share gains to continue:** We anticipate that BIL will continue to outperform the industry, providing opportunities to strengthen its competitive positioning.
- BIL has a well-established competitive advantage, which has enabled consistent market share gains. Its competitive advantage is driven by: a) competitive cost and pricing, b) consistent product portfolio expansion, and c) expanding reach. With a current market share of 5-6% in the USD15b global Specialty Tyre segment, BIL aspires to increase this to 10% over the next four-to-five years by: a) ramping up in the OTR segment, which is much larger than Agri Tyres, b) strengthening its presence in North America and RoW markets, and c) gaining share with OEMs. We estimate ~7%/6% volume/revenue CAGR over FY23-26E.
- Investing to improve its competitiveness:** The management has invested over ~INR30b in the last three years toward expanding capacity in tyres as well as carbon black and modernization & automation. At the company level, achievable capacity stands at 360k MTPA. As a percentage of sales, capex intensity would start moderating in FY24-25 to ~7-10% of sales (vs. the last five-year average of 16%), driving improvement in FCF generation.
- Earnings growth to pick up:** We estimate consol revenue/EBITDA/PAT for BIL to grow at 6%/18%/29% over FY23-26E. We expect an improvement in EBITDA margin over FY23-26E to ~26.9% (vs. 19.6% in FY23), led by stable RM and benefits of operating leverage. With total capex likely to be ~INR25.5b over FY23-26E, we estimate FCF generation of INR37.4b over the same period.
- Valuations factor in a focused business model:** To factor in for the ongoing supply-related challenges and its impact on the freight costs, we cut FY24E EPS by 5%, while we largely maintain FY25E EPS. BIL ranks the highest among domestic peers in terms of cost competitiveness and financial strength. In terms of valuation, it trades at a substantial premium to its mainstream peers. Premium valuations fairly reflect its industry-leading margin, FCF, and capital efficiencies. It currently trades at 37.2x/27.5x of FY24E/FY25E EPS. We value BIL at 22x Dec'25E EPS (in line with its 10-year LPA) to arrive at our TP of INR2,360. We reiterate our **Neutral** rating on the stock.

Exhibit 10: Revisions to our estimates

(INR M)	FY24E			FY25E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	89,502	91,841	-2.5	1,04,941	1,08,011	-2.8
EBITDA	21,892	22,364	-2.1	27,304	28,334	-3.6
EBITDA (%)	24.5	24.4	10bp	26.0	26.2	-20bp
Adj. PAT	13,129	13,865	-5.3	17,769	18,348	-3.2
EPS (INR)	67.9	71.7	-5.3	91.9	94.9	-3.2

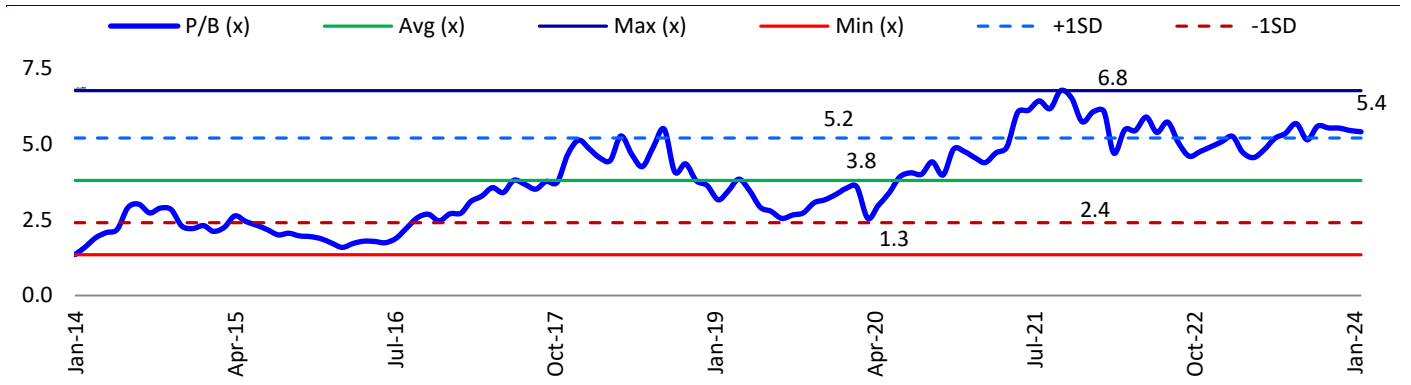
Source: MOFSL, Company

Exhibit 11: One-year forward P/E



Source: MOFSL, Company

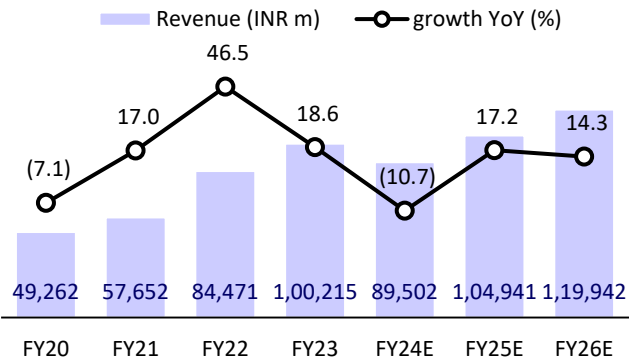
Exhibit 12: One-year forward P/B band



Source: MOFSL, Company

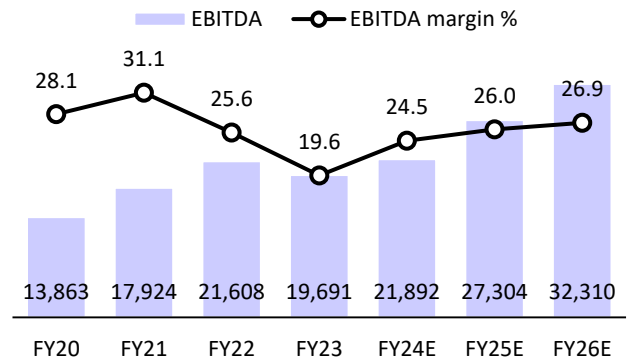
Story in charts

Exhibit 13: Revenue to register a ~6% CAGR over FY23-26E



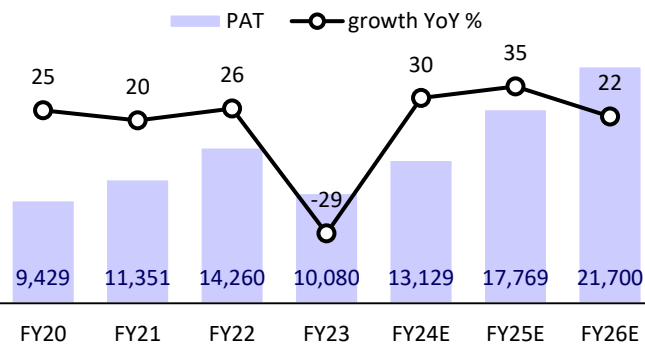
Source: Company, MOFSL

Exhibit 14: EBITDA margin to improve over FY23-26E



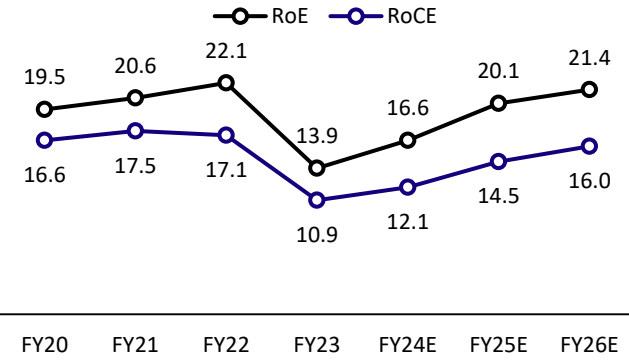
Source: Company, MOFSL

Exhibit 15: PAT to register a ~29% CAGR over FY23-26E



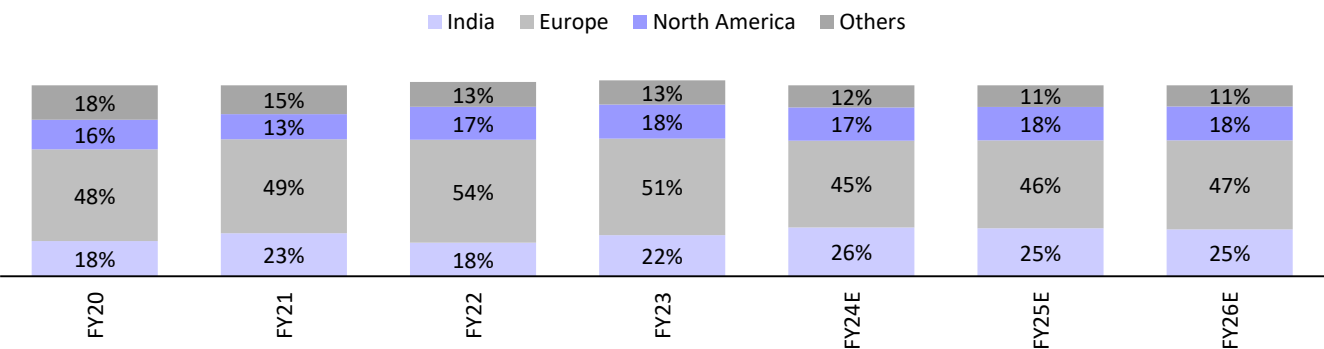
Source: Company, MOFSL

Exhibit 16: RoE to see a gradual pickup



Source: Company, MOFSL

Exhibit 17: Market mix can potentially improve towards the US and Europe



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement

(INR Million)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Adj. Net Revenues	49,262	57,652	84,471	1,00,215	89,502	1,04,941	1,19,942
Change (%)	-7.1	17.0	46.5	18.6	-10.7	17.2	14.3
Raw Materials	21,388	23,110	37,778	49,153	42,916	49,847	56,373
Employees Cost	3,286	3,709	4,301	4,594	4,962	5,657	6,335
Other Expenses	10,726	12,909	20,785	26,777	19,732	22,133	24,924
Total Expenditure	35,400	39,728	62,864	80,524	67,611	77,637	87,632
% of Sales	71.9	68.9	74.4	80.4	75.5	74.0	73.1
EBITDA	13,863	17,924	21,608	19,691	21,892	27,304	32,310
EBITDA Margin (%)	28.1	31.1	25.6	19.6	24.5	26.0	26.9
Depreciation	3,736	4,163	4,554	5,708	6,436	6,786	7,210
EBIT	10,126	13,761	17,054	13,983	15,455	20,518	25,100
EBIT Margin (%)	20.6	23.9	20.2	14.0	17.3	19.6	20.9
Int. and Finance Charges	89	114	92	480	1,171	937	837
Fx loss/(gain)	0	-180	-390	880	-500	-1,000	-1,000
Other Income	1,190	1,297	1,920	1,215	2,697	2,955	3,479
PBT bef. EO Exp.	11,228	15,125	19,272	13,838	17,482	23,535	28,742
EO Items	0	0	-615	-23	0	0	0
PBT after EO Exp.	11,228	15,125	18,657	13,815	17,482	23,535	28,742
Total Tax	1,799	3,774	4,852	3,751	4,353	5,766	7,042
Eff. Tax Rate (%)	16.0	25.0	26.0	27.2	24.9	24.5	24.5
Reported PAT	9,429	11,351	13,804	10,064	13,129	17,769	21,700
Adjusted PAT	9,429	11,351	14,260	10,080	13,129	17,769	21,700
Change (%)	24.8	20.4	25.6	-29.3	30.2	35.3	22.1

Consolidated - Balance Sheet

(INR Million)

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	387	387	387	387	387	387	387
Total Reserves	49,696	59,612	68,944	75,183	82,512	93,516	1,08,451
Net Worth	50,083	59,998	69,330	75,569	82,899	93,903	1,08,837
Total Loans	9,316	10,006	25,286	33,465	33,465	33,465	33,465
Deferred Tax Liabilities	1,783	2,035	2,509	2,419	2,419	2,419	2,419
Capital Employed	61,182	72,039	97,125	1,11,453	1,18,783	1,29,786	1,44,721
Gross Block	48,210	52,954	64,051	83,240	1,00,656	1,08,156	1,17,156
Less: Accum. Deprn.	15,992	20,115	24,651	30,108	36,544	43,330	50,540
Net Fixed Assets	32,218	32,839	39,401	53,133	64,113	64,826	66,616
Capital WIP	5,866	8,555	12,584	13,916	5,500	5,500	5,500
Investment property	857	864	793	708	708	708	708
Total Investments	10,625	14,177	18,967	20,367	20,367	20,367	20,367
Curr. Assets, Loans&Adv.	18,498	25,230	38,045	35,353	40,862	53,355	68,639
Inventory	6,156	9,397	16,721	16,674	12,261	14,375	16,430
Account Receivables	5,899	7,536	10,962	11,153	11,035	12,938	14,787
Cash and Bank Balance	691	780	517	763	6,533	13,103	22,634
Loans and Advances	5,752	7,517	9,846	6,763	11,035	12,938	14,787
Curr. Liability & Prov.	6,882	9,626	12,665	12,024	12,767	14,969	17,109
Account Payables	3,837	6,550	8,293	4,921	8,582	10,063	11,501
Other Current Liabilities	2,746	2,750	4,056	6,754	3,678	4,313	4,929
Provisions	299	326	316	348	506	594	678
Net Current Assets	11,616	15,604	25,380	23,330	28,096	38,386	51,530
Appl. of Funds	61,182	72,039	97,125	1,11,453	1,18,783	1,29,786	1,44,721

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)							
EPS	48.8	58.7	73.8	52.1	67.9	91.9	112.3
Cash EPS	68.1	80.3	97.3	81.7	101.2	127.0	149.6
BV/Share	259.1	310.4	358.7	390.9	428.9	485.8	563.0
DPS	22.0	17.0	28.0	16.0	30.0	35.0	35.0
Payout (%)	54.4	29.0	39.2	30.7	44.2	38.1	31.2
Valuation (x)							
P/E	51.8	43.1	34.3	48.5	37.2	27.5	22.5
Cash P/E	37.1	31.5	26.0	30.9	25.0	19.9	16.9
P/BV	9.8	8.1	7.0	6.5	5.9	5.2	4.5
EV/Sales	10.1	8.6	6.1	5.2	5.8	4.9	4.2
EV/EBITDA	35.9	27.8	23.8	26.5	23.6	18.6	15.5
Dividend Yield (%)	0.9	0.7	1.1	0.6	1.2	1.4	1.4
FCF per share	20.2	21.5	-35.2	-15.7	55.8	62.6	74.9
Return Ratios (%)							
RoE	19.5	20.6	22.1	13.9	16.6	20.1	21.4
RoCE	16.6	17.5	17.1	10.9	12.1	14.5	16.0
RoIC	20.0	22.3	22.2	14.4	14.3	17.5	20.3
Working Capital Ratios							
Fixed Asset Turnover (x)	1.0	1.1	1.3	1.2	0.9	1.0	1.0
Asset Turnover (x)	0.8	0.8	0.9	0.9	0.8	0.8	0.8
Inventory (Days)	46	59	72	61	50	50	50
Debtor (Days)	44	48	47	41	45	45	45
Creditor (Days)	28	41	36	18	35	35	35
Leverage Ratio (x)							
Current Ratio	2.7	2.6	3.0	2.9	3.2	3.6	4.0
Interest Cover Ratio	113.8	120.9	186.4	29.1	13.2	21.9	30.0
Net Debt/Equity	0.0	-0.1	0.1	0.2	0.1	0.0	-0.1

Consolidated - Cash Flow Statement

Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	11,393	15,541	19,207	14,325	17,482	23,535	28,742
Depreciation	3,736	4,163	4,554	5,708	6,436	6,786	7,210
Interest & Finance Charges	-135	-289	-324	116	-784	-1,238	-1,823
Direct Taxes Paid	-2,884	-3,510	-4,579	-3,429	-4,353	-5,766	-7,042
(Inc)/Dec in WC	544	-1,273	-8,289	-1,865	1,003	-3,719	-3,614
CF from Operations	12,653	14,632	10,569	14,855	19,785	19,598	23,473
Others	-922	-1,242	-1,488	-376	0	0	0
CF from Operating incl EO	11,731	13,390	9,080	14,480	19,785	19,598	23,473
(Inc)/Dec in FA	-7,830	-9,232	-15,889	-17,523	-9,000	-7,500	-9,000
Free Cash Flow	3,901	4,159	-6,809	-3,043	10,785	12,098	14,473
(Pur)/Sale of Investments	863	-2,891	-3,516	-883	0	0	0
Others	190	388	431	575	1,955	2,175	2,660
CF from Investments	-6,778	-11,734	-18,975	-17,831	-7,045	-5,325	-6,340
Inc/(Dec) in Debt	279	857	15,498	7,097	0	0	0
Interest Paid	-88	-114	-90	-420	-1,171	-937	-837
Dividend Paid	-5,126	-2,316	-5,603	-3,091	-5,799	-6,766	-6,766
Others	-13	-3	0	-1	0	0	0
CF from Fin. Activity	-4,947	-1,575	9,804	3,585	-6,970	-7,703	-7,602
Inc/Dec of Cash	7	81	-90	234	5,769	6,571	9,531
Net cash flow from financing activities	0	6	1	0	0	0	0
Opening Balance	462	468	549	459	693	6,462	13,033
Closing Balance	468	549	459	693	6,462	13,033	22,564

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NOTES

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BUY	>=15%
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UNDER REVIEW	Rating may undergo a change
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