

Balkrishna Industries

Estimate change	↔
TP change	↔
Rating change	↔

CMP: INR3,059 **TP: INR2,770(-9%)** **Neutral**

Healthy results but outlook remains weak

Demand likely to moderate, while RM/freight costs to increase

Bloomberg	BIL IN
Equity Shares (m)	193
M.Cap.(INRb)/(USDb)	591.3 / 7
52-Week Range (INR)	3378 / 2194
1, 6, 12 Rel. Per (%)	-4/21/6
12M Avg Val (INR M)	877

- BIL's overall performance was healthy in 1QFY25, led by volume growth and lower operating expenses. However, the management has guided for a muted outlook as demand is likely to moderate and RM and freight costs are likely to increase in the coming quarters, which will dent overall margins.

- In the light of these challenges, we cut our FY25/FY26 EPS estimates by ~4% each. We maintain our Neutral rating with a TP of INR2,770, based on ~24x Jun'26E EPS.

Financials & valuations (INR b)

Y/E March	FY24	FY25E	FY26E
Sales	94.5	102.9	118.9
EBITDA	23.7	26.2	32.4
Adj. PAT	14.8	16.3	21.1
EPS (Rs)	76.5	84.1	109.1
EPS Growth (%)	39.6	9.9	29.7
BV/Share (Rs)	458.0	520.2	601.3

Marginal growth guidance for FY25 despite strong Q1 growth

- BIL's standalone 1QFY25 revenue/EBITDA/PAT grew 30%/47%/53% YoY to INR27.4b/INR7.1b/INR4.8b (est. INR25.6b/INR6.6b/INR4.1b).
- Volumes grew 24% YoY to 83.6k tons (est.78.6k tons). Realizations grew 4% YoY at INR328.1k/unit (est. INR325.3k).
- Gross margins expanded 140bp YoY (-20bp QoQ) to 53.1% (est.53%). The company expects RM costs to increase by 2-3% QoQ in 2QFY25.
- Along with lower operating expenses, EBIDTA margins expanded 300bp YoY to 26% (est. 25.6%). However, the freights cost is expected to increase by ~200bp in the coming quarter.
- Further aided by lower interest costs and higher other income, adj. PAT grew 53% YoY to INR4.8b (est. 4.1b).
- The board has declared the first interim dividend of INR4/share for FY25.
- The company would be incurring a capex of INR13b to add capacity of about 35k MTPA at its Bhuj facility. Its current achievable capacity stands at 360k MTPA.

Ratios	FY24	FY25E	FY26E
RoE (%)	18.0	17.2	19.5
RoCE (%)	13.3	13.8	16.1
Payout (%)	21.0	26.2	25.7

Valuations

P/E (x)	39.9	36.3	28.0
P/BV (x)	6.7	5.9	5.1
Div. yield (%)	0.5	0.7	0.9
FCF yield (%)	1.7	2.6	2.5

Shareholding pattern (%)

As On	Jun-24	Mar-24	Jun-23
Promoter (%)	58.3	58.3	58.3
DII (%)	22.4	22.1	21.0
FII (%)	12.6	12.2	12.4
Others (%)	6.7	7.4	8.3

FII Includes depository receipts

Highlights from the management commentary

- **Demand outlook-** Despite a 24% YoY volume growth posted in Q1FY25, BIL has guided for minor volume growth YoY in FY25 as it expects demand headwinds in its key markets in Europe, North America and Middle East in the coming quarters. There has been some channel filling as well by distributors due to increased transit time on account of the Red Sea Crisis.
- **Freight cost-** This was already negotiated for Q1. The freight cost is expected to increase to 8-9% of revenue in 2Q, largely due to the Red Sea crisis. It was 6.4% in 1QFY25.
- **Raw material costs-** BIL expects a 2-3% increase in 2Q. The company has not taken any price hike as market demand is weak.
- **Margin guidance -** While Q1FY25 margins stood at 26%, management has indicated that they would strive to maintain margin at FY24 levels of 25% in FY25, given the rising cost pressure highlighted above
- **European Union De-forestation Union (EUDR):** Effective 31st Dec'24, EUDR requires that rubber supplied to the EU must not come from land deforested after Dec'20. While the company has secured compliant suppliers, costs could increase by USD300 per metric ton over the current base price of USD1,800 per metric ton.

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

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

Valuation and view

- Retail demand in key global markets is currently weak and is likely to remain uncertain due to ongoing geopolitical challenges. As a result, despite the strong growth in Q1, management has guided for flat volume growth in FY25. Further, rising cost pressures are likely to cap margin upside – management expects margins to remain stable in FY25.
- At a P/E multiple of 36x/28x FY25E/FY26E EPS, the stock appears fairly-valued. We value BIL at 24x June'26E EPS (vs ~22x, 10-year LPA) to arrive at our TP of INR2,770. We reiterate our **Neutral** stance on the stock.

Quarterly Earning Model (Standalone)

(INR Million)

Y/E March	FY24				FY25E				FY24	FY25E	FY25E
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			
Volumes (Ton)	67,209	70,585	72,749	82,085	83,570	74,820	74,204	77,905	2,92,628	3,10,499	78,635
YoY Change (%)	-19.2	-10.5	9.4	12.9	24.3	6.0	2.0	-5.1	-2.8	6.1	17.0
Realizations (INR '000/ton)	314.7	318.3	318.3	328.6	328.1	329.0	329.2	330.5	320.4	329.2	325.3
YoY Change (%)	-4.0	-10.5	-4.5	2.7	4.2	3.4	3.4	0.6	-4.2	2.7	3.4
Net Revenues	21,150	22,468	23,158	26,971	27,415	24,619	24,428	25,751	93,760	1,02,212	25,579
YoY Change (%)	-22.4	-19.9	4.5	16.0	29.6	9.6	5.5	-4.5	-6.9	9.0	20.9
EBITDA	4,863	5,480	5,868	7,098	7,137	6,105	6,156	6,401	23,322	25,799	6,548
Margins (%)	23.0	24.4	25.3	26.3	26.0	24.8	25.2	24.9	24.9	25.2	25.6
Depreciation	1,537	1,586	1,591	1,724	1,617	1,650	1,700	1,743	6,438	6,710	1,600
Interest	208	229	354	299	143	150	175	152	1,089	620	220
Forex loss/(gain)	-330	-250	520	-490	-60	0	0	0	-550	500	0
Other Income	660	520	700	870	830	700	750	783	2,750	3,063	680
PBT before EI	4,108	4,435	4,104	6,436	6,267	5,005	5,031	5,289	19,095	21,032	5,408
Extra-Ord expense	0	0	0	98	0	0	0	0	98	0	0
PBT	4,108	4,435	4,104	6,337	6,267	5,005	5,031	5,289	18,997	21,032	5,408
Rate (%)	23.9	24.5	24.8	24.1	23.8	23.7	23.7	23.3	24.3	24.3	23.7
Reported PAT	3,125	3,350	3,084	4,809	4,773	3,819	3,839	4,056	14,382	15,927	4,126
Adj PAT	3,125	3,350	3,084	4,884	4,773	3,819	3,839	4,056	14,456	15,927	4,126
YoY Change (%)	-2.3	-17.1	209.9	89.6	52.7	14.0	24.5	-17.0	34.0	10.2	32.0

E: MOFSL Estimates

Key Performance Indicators

Y/E March	FY24				FY25E				FY24	FY25E	FY25E
	1Q	2Q	3Q	4QE	1Q	2Q	3Q	4QE			
Volumes (Ton)	67,209	70,585	72,749	82,085	83,570	74,820	74,204	77,905	2,92,628	3,10,499	78,635
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Realizations (INR '000/ton)	314.7	318.3	318.3	328.6	328.1	329.0	329.2	330.5	320.4	329.2	325.3
YoY Change (%)	-4.0	-10.5	-4.5	2.7	4.2	3.4	3.4	0.6	-4.2	2.7	3.4
Gross Margins (%)	51.7	51.9	52.0	53.3	53.1	52.5	52.5	52.4	52.3	52.6	53.0
EBITDA Margins (%)	23.0	24.4	25.3	26.3	26.0	24.8	25.2	24.9	24.9	25.2	25.6
Gross Profit (INR '000/ton)	162.6	165.1	165.6	175.1	174.2	172.7	172.8	173.3	167.5	173.3	172.4
EBITDA (INR '000/ton)	72.4	77.6	80.7	86.5	85.4	81.6	83.0	82.2	79.7	83.1	83.3

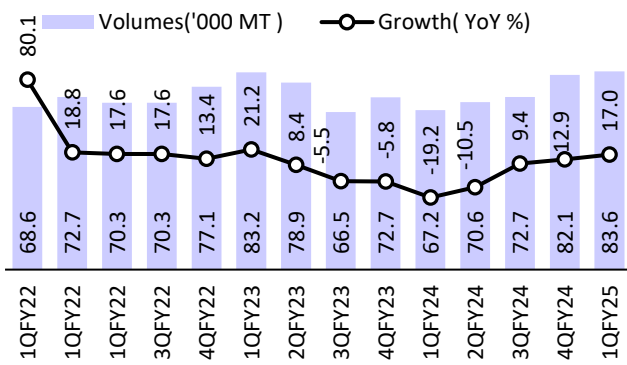


Highlights from the management commentary

- **Demand outlook-** Despite a 24% YoY volume growth posted in Q1FY25, BIL has guided for minor volume growth YoY in FY25 as it expects demand headwinds in its key markets in Europe, North America and Middle East in the coming quarters. There has been some channel filling as well by distributors due to increased transit time on account of the Red Sea Crisis.
 - In 1QFY25, sales volume grew 24% YoY to 83,570MT. However, the 1QFY24 base was also low due to the cyclonic issue in western India.
 - It has market share of 6-7% and is likely to sustain it in FY25.
- **Freight cost-** This was already been negotiated for Q1. However, freight cost is expected to increase to 8-9% of revenue in 2Q, largely due to the Red Sea crisis. It was 6.4% in 1QFY25.
- **Raw material-** BIL expects a 2-3% increase in 2Q. The company has not taken any price hikes as market demand is weak.
- **EUDR:** Effective 31st Dec'24, EUDR regulations in Europe requires that rubber supplied to the EU must not come from land deforested after Dec'20. While the company has secured compliant suppliers, but costs could increase by USD300 per metric ton above the current base price of USD1,800 per metric ton.
- **Margin guidance:** While Q1FY25 margins stood at 26%, management has indicated that they would strive to maintain margin at FY24 levels of 25% in FY25, given the rising cost pressure highlighted above.
- **Capex guidance-** The company has guided for capex of INR6-7b for FY25, out of which it has already incurred capex of INR2b in 1QFY25.
- **New capex-**
 - With the acceptance and success in the OTR range of tires, the company is planning to add fresh capacity. It is embarking on a new capex of up to INR13b for capacity addition of 35k MTPA at Bhuj.
 - It is working on advanced carbon black project of 30k MT and the commissioning is expected in Q2 as per schedule.
 - Commenced operations for the new mould manufacturing unit in Bhuj. This will be used for internal consumption.
- **Others**
 - Third party Carbon Black Sales stood at ~8% of total revenue in 1QFY25.
 - EUR-INR rate- INR92; For future it has hedged at INR92.5.
 - EPR- The net impact would be INR40m for this quarter after adjusting for the reversal attributable to the last year.

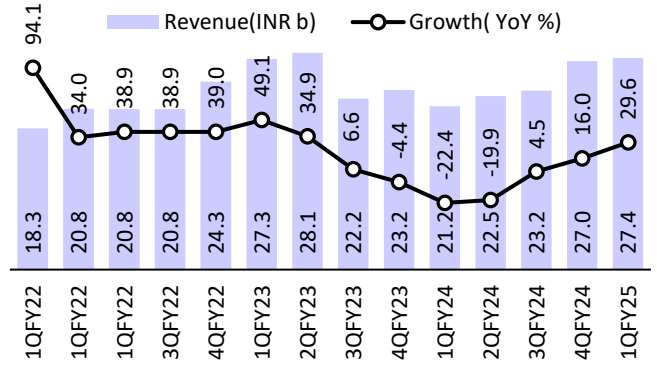
Key exhibits

Exhibit 1: Volume trend



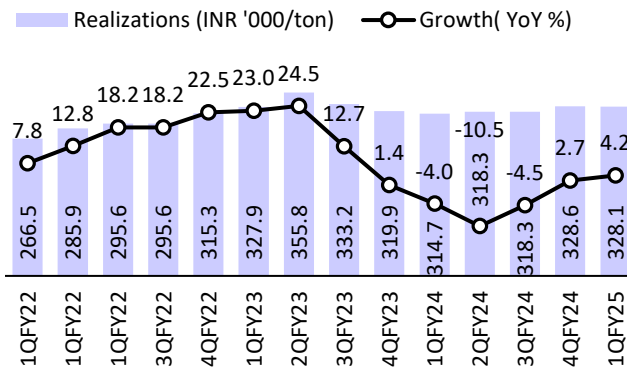
Source: MOFSL, Company

Exhibit 2: Trend in revenue



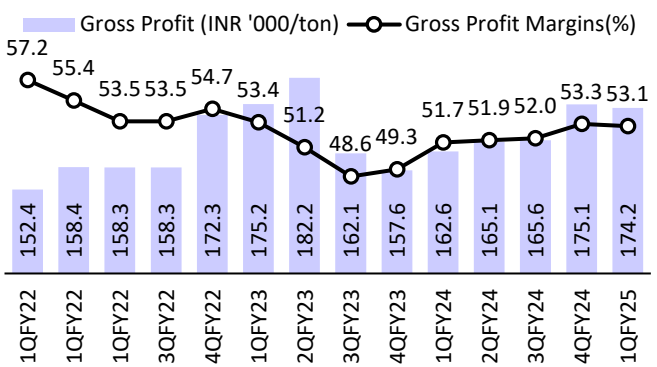
Source: MOFSL, Company

Exhibit 3: Net realization trend



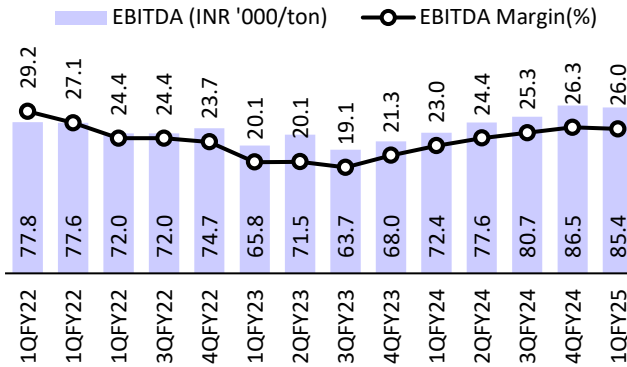
Source: MOFSL, Company

Exhibit 4: Gross profit margin trend



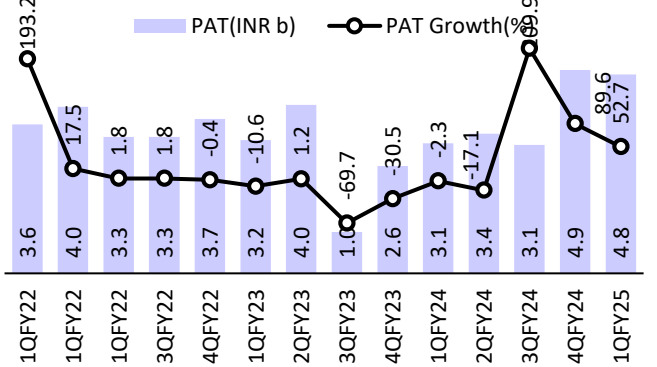
Source: MOFSL, Company

Exhibit 5: EBITDA margin trend



Source: MOFSL, Company

Exhibit 6: PAT and PAT growth trends



Source: MOFSL, Company

Exhibit 7: Geography-wise contribution

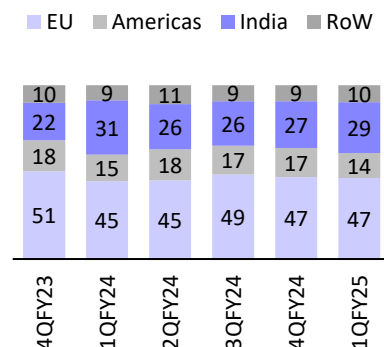


Exhibit 8: Channel-wise sales

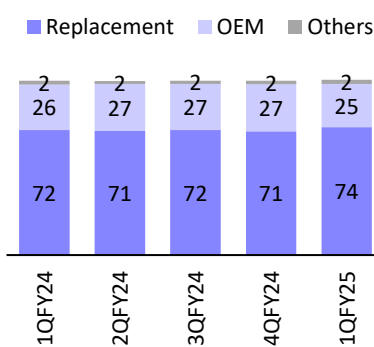
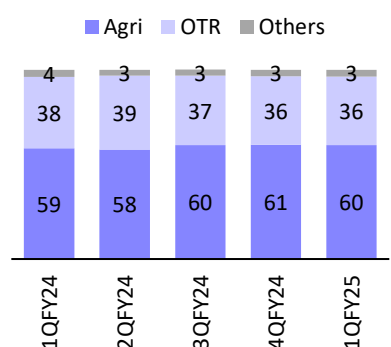


Exhibit 9: Segment-wise sales



Source: Company, MOFSL

Valuation and view

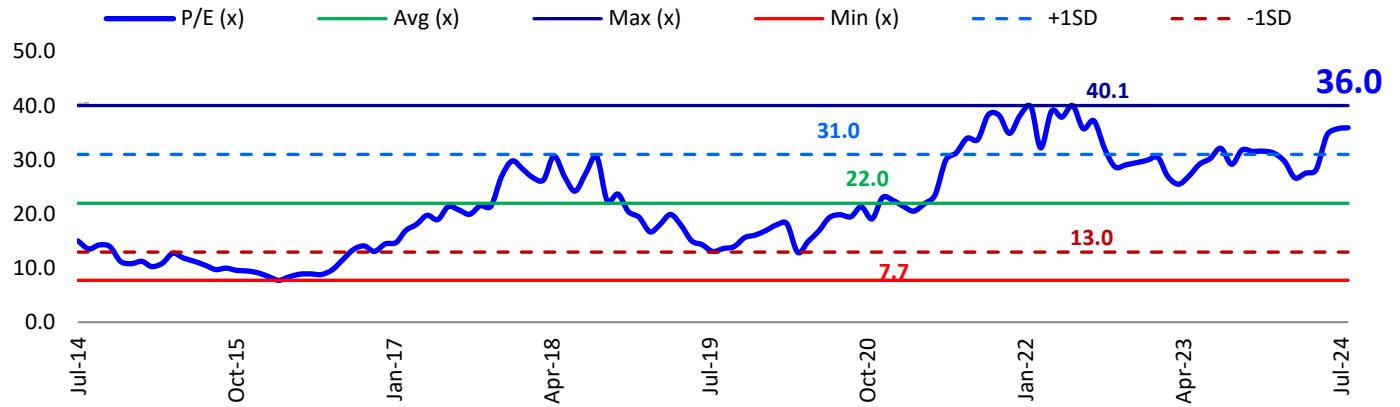
- Profitable market share gains to continue:** BIL has a well-established competitive advantage, which has enabled consistent market share gains. Its competitive advantage is driven by: a) competitive cost and pricing, b) consistent product portfolio expansion, and c) expanding reach. With a current market share of 6-7% 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 ~9%/13% volume/revenue CAGR over FY24-26E, largely back-ended.
- Investing to improve its competitiveness:** The management has invested over ~INR44b 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. Moreover, with the acceptance and success in the OTR range of tires, the company is planning to add fresh capacity. BIL is embarking on a new capex of up to INR13b. The capacity addition will be for 35k MTPA at Bhuj. Overall the company has guided for INR6-7b of capex for FY25E. As a percentage of sales, capex intensity would start moderating in FY25-26E to ~6% of sales (vs. the last five-year average of 16%), driving improvement in FCF generation.
- Factor in earnings revival from FY26 onwards:** As highlighted above, BIL is likely to see near term earnings pressure in FY25. However, we have factored in its performance to pick-up from FY26 onwards, assuming a normalization of demand macro. Overall, we estimate consol revenue/EBITDA/PAT for BIL to grow at 12%/17%/19% over FY24-26E. We expect an improvement in EBITDA margin of ~210bp over FY24-26E to ~27.2%. With total capex likely to be ~INR13.5b over FY24-26E, we estimate FCF generation of INR30b over the same period.
- Valuations factor in a focused business model:** We reduce our FY25/FY26 EPS estimates by ~4% each to factor in moderate demand and increase operational costs. BIL ranks the highest among domestic peers in terms of cost competitiveness and financial strength and hence enjoys premium valuations relative to its mainstream peers. Given the earnings pressure expected in the near term, the stock at 36x/28x of FY25E/FY26E EPS appears fairly valued. We value BIL at 24x June'26E EPS (vs ~22x, 10-year LPA) to arrive at our TP of INR2,770. We reiterate our **Neutral** rating on the stock.

Exhibit 10: Revisions to our estimates

(INR M)	FY25E			FY26E		
	Rev	Old	Chg (%)	Rev	Old	Chg (%)
Net Sales	1,02,911	1,05,992	-2.9	1,18,907	1,21,950	-2.5
EBITDA	26,210	27,499	-4.7	32,351	33,448	-3.3
EBITDA (%)	25.5	25.9	-50bp	27.2	27.4	-20bp
Adj. PAT	16,260	16,966	-4.2	21,092	21,925	-3.8
EPS (INR)	84.1	87.8	-4.2	109.1	113.4	-3.8

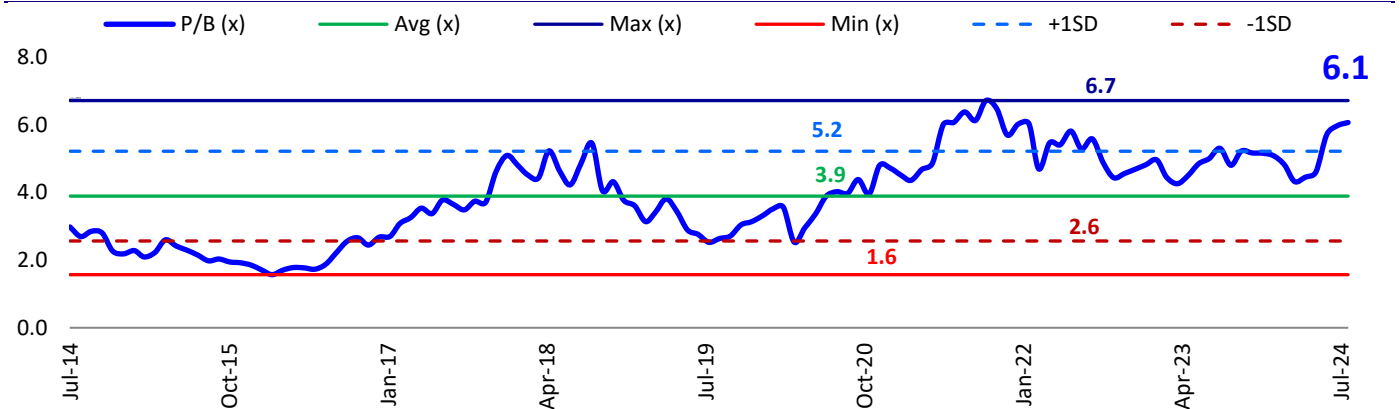
Source: MOFSL, Company

Exhibit 11: One-year forward P/E



Source: MOFSL, Company

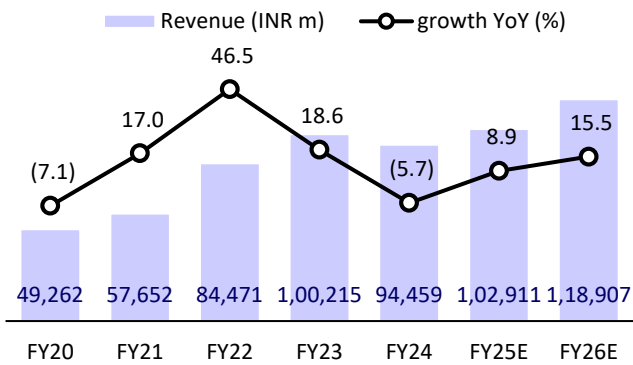
Exhibit 12: One-year forward P/B band



Source: MOFSL, Company

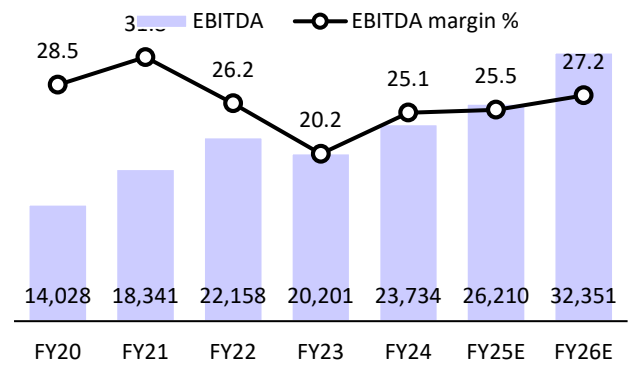
Story in charts

Exhibit 13: Revenue to register a ~14% CAGR over FY24-26E



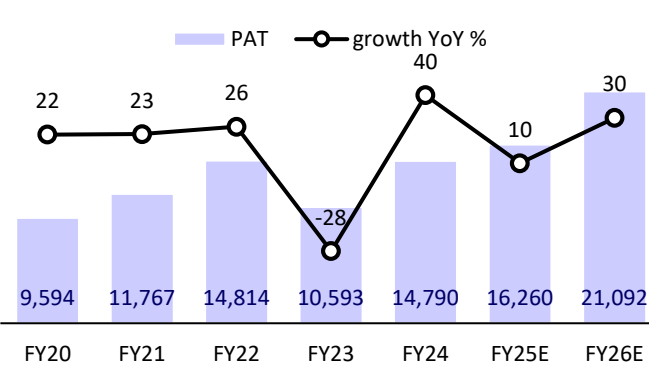
Source: Company, MOFSL

Exhibit 14: EBITDA margin to improve over FY24-26E



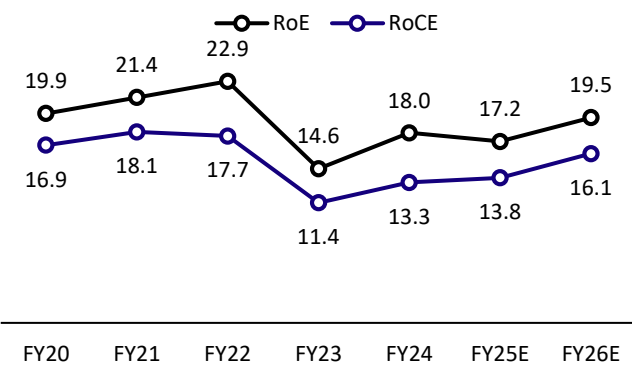
Source: Company, MOFSL

Exhibit 15: PAT to register a ~22% CAGR over FY24-26E



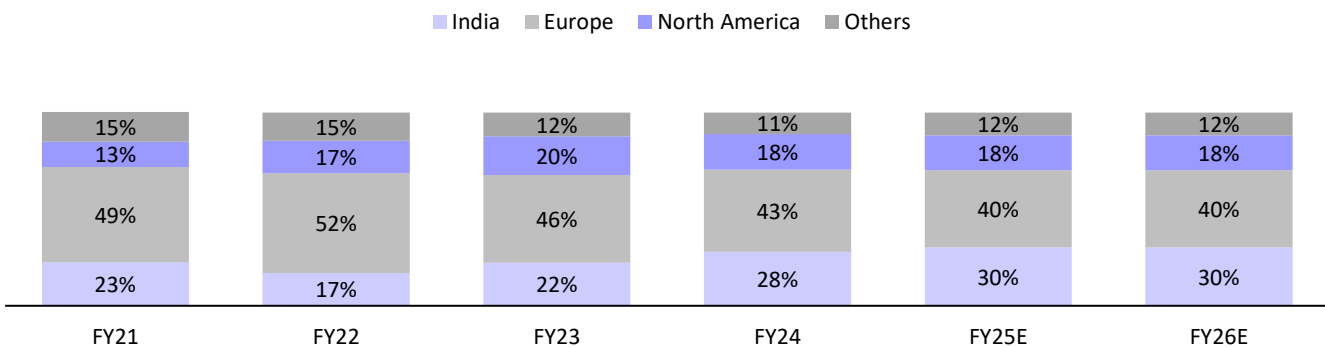
Source: Company, MOFSL

Exhibit 16: RoE to see a gradual pickup



Source: Company, MOFSL

Exhibit 17: Revenue mix trend across geographies over the years



Source: Company, MOFSL

Financials and valuations

Consolidated - Income Statement							(INR Million)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Adj. Net Revenues	53,010	49,262	57,652	84,471	1,00,215	94,459	1,02,911	1,18,907
Change (%)	13.6	-7.1	17.0	46.5	18.6	-5.7	8.9	15.5
Raw Materials	24,441	21,388	23,110	37,778	49,153	44,914	48,574	56,124
Employees Cost	2,992	3,286	3,709	4,301	4,594	4,995	5,395	5,934
Other Expenses	11,367	10,561	12,492	20,235	26,267	20,816	22,732	24,497
Total Expenditure	38,800	35,235	39,311	62,314	80,014	70,725	76,701	86,556
% of Sales	73.2	71.5	68.2	73.8	79.8	74.9	74.5	72.8
EBITDA	14,210	14,028	18,341	22,158	20,201	23,734	26,210	32,351
EBITDA Margin (%)	26.8	28.5	31.8	26.2	20.2	25.1	25.5	27.2
Depreciation	3,326	3,736	4,163	4,554	5,708	6,507	6,779	7,233
EBIT	10,884	10,292	14,178	17,604	14,493	17,227	19,431	25,119
EBIT Margin (%)	20.5	20.9	24.6	20.8	14.5	18.2	18.9	21.1
Int. and Finance Charges	111	89	114	92	480	1,129	660	560
Fx loss/(gain)	-100	0	-180	-390	880	-550	500	500
Other Income	990	1,190	1,297	1,920	1,217	2,810	3,123	3,694
PBT bef. EO Exp.	11,863	11,393	15,541	19,822	14,350	19,458	21,395	27,753
EO Items	0	0	0	-615	-23	-98	0	0
PBT after EO Exp.	11,863	11,393	15,541	19,207	14,327	19,360	21,395	27,753
Total Tax	4,029	1,799	3,774	4,852	3,751	4,645	5,135	6,661
Eff. Tax Rate (%)	34.0	15.8	24.3	25.3	26.2	24.0	24.0	24.0
Reported PAT	7,833	9,594	11,767	14,354	10,576	14,715	16,260	21,092
Adjusted PAT	7,833	9,594	11,767	14,814	10,593	14,790	16,260	21,092
Change (%)	6.5	22.5	22.7	25.9	-28.5	39.6	9.9	29.7

Consolidated - Balance Sheet							(INR Million)	
Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	387	387	387	387	387	387	387	387
Total Reserves	46,150	49,696	59,612	68,944	75,183	88,152	1,00,159	1,15,839
Net Worth	46,537	50,083	59,998	69,330	75,569	88,538	1,00,546	1,16,225
Minority Interest	0	0	0	0	0	0	0	0
Total Loans	8,796	9,316	10,006	25,286	33,465	30,994	28,994	26,994
Deferred Tax Liabilities	3,255	1,783	2,035	2,509	2,419	3,490	3,490	3,490
Capital Employed	58,588	61,182	72,039	97,125	1,11,453	1,23,023	1,33,030	1,46,710
Gross Block	39,355	48,210	52,954	64,051	83,240	99,070	1,09,514	1,16,514
Less: Accum. Deprn.	12,264	15,992	20,115	24,651	30,108	36,538	43,317	50,550
Net Fixed Assets	27,091	32,218	32,839	39,401	53,133	62,532	66,198	65,965
Goodwill on Consolidation	0	0	0	0	0	0	0	0
Capital WIP	6,004	5,866	8,555	12,584	13,916	9,444	5,500	5,500
Investment property	772	857	864	793	708	643	643	643
Total Investments	10,826	10,625	14,177	18,967	20,367	26,857	37,857	47,857
Curr. Assets, Loans&Adv.	20,099	18,498	25,230	38,045	35,353	37,370	37,513	43,707
Inventory	7,587	6,156	9,397	16,721	16,674	13,315	14,097	16,289
Account Receivables	5,171	5,899	7,536	10,962	11,153	14,454	12,688	14,660
Cash and Bank Balance	656	691	780	517	763	800	860	1,357
Loans and Advances	6,684	5,752	7,517	9,846	6,763	8,800	9,868	11,402
Curr. Liability & Prov.	6,202	6,882	9,626	12,665	12,024	13,823	14,680	16,961
Account Payables	3,861	3,837	6,550	8,293	4,921	9,102	9,868	11,402
Other Current Liabilities	2,073	2,746	2,750	4,056	6,754	4,329	4,229	4,887
Provisions	267	299	326	316	348	392	582	673
Net Current Assets	13,897	11,616	15,604	25,380	23,330	23,547	22,833	26,746
Appl. of Funds	58,589	61,182	72,039	97,125	1,11,453	1,23,023	1,33,030	1,46,710

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Basic (INR)								
EPS	40.5	49.6	60.9	76.6	54.8	76.5	84.1	109.1
Cash EPS	57.7	69.0	82.4	100.2	84.3	110.2	119.2	146.5
BV/Share	240.7	259.1	310.4	358.7	390.9	458.0	520.2	601.3
DPS	7.5	22.0	17.0	28.0	16.0	16.0	22.0	28.0
Payout (%)	22.3	53.4	27.9	37.7	29.2	21.0	26.2	25.7
Valuation (x)								
P/E	75.4	61.6	50.2	39.9	55.8	39.9	36.3	28.0
Cash P/E	52.9	44.3	37.1	30.5	36.2	27.7	25.6	20.9
P/BV	12.7	11.8	9.8	8.5	7.8	6.7	5.9	5.1
EV/Sales	11.3	12.2	10.4	7.3	6.2	6.6	6.0	5.2
EV/EBITDA	42.1	42.7	32.7	27.8	30.9	26.2	23.6	19.0
Dividend Yield (%)	0.2	0.7	0.6	0.9	0.5	0.5	0.7	0.9
FCF per share	4.4	20.2	21.5	-35.2	-15.7	51.8	77.9	77.6
Return Ratios (%)								
RoE	17.9	19.9	21.4	22.9	14.6	18.0	17.2	19.5
RoCE	15.0	16.9	18.1	17.7	11.4	13.3	13.8	16.1
RoIC	17.7	20.4	23.2	23.2	15.1	16.1	16.9	21.1
Working Capital Ratios								
Fixed Asset Turnover (x)	1.3	1.0	1.1	1.3	1.2	1.0	0.9	1.0
Asset Turnover (x)	0.9	0.8	0.8	0.9	0.9	0.8	0.8	0.8
Inventory (Days)	52	46	59	72	61	51	50	50
Debtor (Days)	36	44	48	47	41	56	45	45
Creditor (Days)	27	28	41	36	18	35	35	35
Leverage Ratio (x)								
Current Ratio	3.2	2.7	2.6	3.0	2.9	2.7	2.6	2.6
Interest Cover Ratio	97.8	115.6	124.6	192.4	30.2	15.3	29.4	44.9
Net Debt/Equity	-0.1	0.0	-0.1	0.1	0.2	0.0	-0.1	-0.2

Consolidated - Cash Flow Statement

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
OP/(Loss) before Tax	11,863	11,393	15,541	19,207	14,327	19,410	21,395	27,753
Depreciation	3,326	3,736	4,163	4,554	5,708	6,507	6,779	7,233
Interest & Finance Charges	49	-135	-289	-324	116	661	-2,245	-2,905
Direct Taxes Paid	-4,076	-2,884	-3,510	-4,579	-3,429	-4,235	-5,135	-6,661
(Inc)/Dec in WC	-1,934	544	-1,273	-8,289	-1,865	1,536	773	-3,416
CF from Operations	9,228	12,653	14,632	10,569	14,857	23,879	21,567	22,004
Others	-1,024	-922	-1,242	-1,488	-378	-3,053	0	0
CF from Operating incl EO	8,204	11,731	13,390	9,080	14,480	20,826	21,567	22,004
(Inc)/Dec in FA	-7,344	-7,830	-9,232	-15,889	-17,523	-10,814	-6,500	-7,000
Free Cash Flow	860	3,901	4,159	-6,809	-3,043	10,013	15,067	15,004
(Pur)/Sale of Investments	877	863	-2,891	-3,516	-883	-4,574	-11,000	-10,000
Others	108	190	388	431	575	632	2,905	3,465
CF from Investments	-6,360	-6,778	-11,734	-18,975	-17,831	-14,755	-14,595	-13,535
Issue of Shares	0	0	0	0	0	0	0	0
Inc/(Dec) in Debt	213	279	857	15,498	7,097	-1,902	-2,000	-2,000
Interest Paid	-115	-88	-114	-90	-420	-1,022	-660	-560
Dividend Paid	-1,745	-5,126	-2,316	-5,603	-3,091	-3,095	-4,253	-5,412
Others	0	-13	-3	0	-1	1	0	0
CF from Fin. Activity	-1,647	-4,947	-1,575	9,804	3,585	-6,018	-6,912	-7,972
Inc/Dec of Cash	197	7	81	-90	234	53	60	497
Opening Balance	265	462	468	549	459	693	746	806
Closing Balance	462	468	549	459	693	746	806	1,303

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NOTES

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BUY	>=15%
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UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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