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Robust show, initial green shoots of recovery visible...

About the stock: Balkrishna Industries (BKT) is the leader in the niche tyre segment used in heavy machinery for mining and agriculture purposes.

- Exports form lion's share of its sales at ~73% of its revenues
- Channel mix: replacement account for ~71% while OEM share is pegged at ~27%. Agriculture accounts for ~61% of volumes with OTR share at ~36%
- It has consistently operated with high margins & return ratios

Q4FY24 Results: BKT reported robust performance in Q4FY24 and was a beat to street estimates. Standalone net sales for the quarter were at ₹2,673 crore, up 15.3% YoY amid tyre sales volume of 82,085 tonne, up 13% YoY. EBITDA margins in Q4FY24 came in at 24.9%, up 460 bps YoY and 125 bps QoQ. PAT for the quarter stood at ₹481 crore, up 88% YoY and 56% QoQ, driven by healthy volume growth, margin expansion & high other income (includes forex gains).

Investment Rationale:

- **10% market share ambition, built in 9.4% volume CAGR over FY23-26E:** BKT operates in a niche off highway tyre (OHT) segment which finds application in agriculture and mining/industrial purposes. These OHT tyres are typically large in size vs. the usual vehicle tyres and are meant for specific applications. On global front, it has a market share of ~5-6% and is committed to augment it to ~10% with its diversification efforts as well as better OEM penetration especially on the non-farm tyre segment. Post covid led demand recovery over FY21-22 & amid inventory rationalisation at its dealers' end, the sales volume growth has been muted with FY23/FY24 volumes at 3.0/2.9 lakh tonnes respectively. Some green shoots were however witnessed in Q4FY24 with BKT reporting volume growth of 13% at 82k tonnes. Company's commentary is cautiously optimistic on the end user demand with geo-political risks still weighing on full blown demand recovery. Building in improved scenario, we have modelled in sales volume CAGR of 9.4% over FY24-26E to 3.5 lakh tonnes by FY26E.
- **O/p leverage benefits & stable RM prices to aid margin recovery:** Going forward we expect sales, PAT to grow at CAGR of 14%, 21%, respectively, over FY24-26E. Margins are seen at 27.5% in FY26E (up ~250 bps from Q4FY24) tracking stable raw material prices and normalisation of freight costs. This is in tandem with management guidance of margins over long period at 26-28%. With calibrated capex spends, BKT is seen turning net cash positive again in FY25E with return ratios seen healthy at ~18% levels.

Rating and Target Price

- Balkrishna Industries stands out amongst its peer by virtue of its healthy margins, return ratios profile and strong B/S (minimal debt). However, with sharp run up in stock price over past one month (up ~25%) we assign **HOLD** rating on the stock. We value BKT at ₹ 3,250 i.e. 30x PE on FY26E.



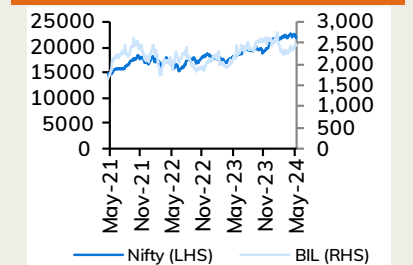
Particulars

Particular	₹ crore
Market Capitalization	57,995
Total Debt (FY24P)	3,037
Cash & Inv (FY24P)	2,740
EV (₹ Crore)	58,292
52 week H/L (₹)	3,034 / 2,194
Equity capital (₹ crore)	38.7
Face value (₹)	2.0

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoter	58.3	58.3	58.3	58.3
FII	12.4	12.5	12.7	12.2
DII	20.9	21.1	21.3	22.0
Other	8.4	8.1	7.7	7.5

Price Chart



Recent event & key risks

- Posted healthy Q4FY24 results with volume growth of 13% and EBITDA margins at 24.9%
- Key Risk: (i) slower than anticipated sales volume growth over FY24-26E, (ii) higher than anticipated margin recovery post rationalised freight costs

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Manisha Kesari
manisha.kesari@icicisecurities.com

Key Financial Summary

Key Financials (₹ crore)	FY19	FY20	FY21	FY22	FY23	FY24P	5 year CAGR (FY19-24)	FY25E	FY26E	2 year CAGR (FY24-26E)
Net Sales	5,244.5	4,782.5	5,757.9	8,266.7	9,810.5	9,298.7	12.1%	10,835.6	12,153.5	14.3%
EBITDA	1,311.1	1,249.3	1,785.5	1,975.5	1,715.6	2,204.0	10.9%	2,708.5	3,340.5	23.1%
EBITDA Margins	25.0	26.1	31.0	23.9	17.5	23.7		25.0	27.5	
Net Profit	782.0	945.0	1,155.4	1,410.7	1,078.7	1,437.6	12.9%	1,656.5	2,097.8	20.8%
EPS (₹)	40.5	48.9	59.8	73.0	55.8	74.4		85.7	108.5	
P/E	74.2	61.4	50.2	41.1	53.8	40.3		35.0	27.6	
RoNW (%)	16.7	18.8	19.2	20.4	14.2	16.2		16.3	17.9	
RoCE (%)	16.7	14.4	19.3	15.9	10.3	12.6		15.8	19.4	

Source: Company, ICICI Direct Research

Key takeaways of Recent Quarter

Exhibit 1: Quarterly Variance Analysis

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
Total Operating Income	2,673.1	2,317.6	15.3	2,279.8	17.3	Topline grew high double digit tracking 13% growth in volumes and was a positive surprise
Raw Material Expenses	1,259.5	1,179.6	6.8	1,111.3	13.3	
Employee Expenses	110.6	94.9	16.6	113.7	-2.7	Employee costs was under check
Other expenses	637.7	572.4	11.4	515.8	23.6	
EBITDA	665.3	470.8	41.3	539.0	23.4	
EBITDA Margin (%)	24.9	20.3	457 bps	23.6	124 bps	EBITDA margins surprised positively and stood at ~25% which includes elevated ocean freight costs well as EPR provisioning
Other Income	170.6	54.0	216.0	66.5	156.6	
Depreciation	172.4	151.5	13.8	159.1	8.4	
Interest	29.9	25.0	19.6	35.4	-15.5	Interest costs declined on QoQ basis
Tax	152.8	92.8	64.7	102.0	49.8	
PAT	480.8	255.6	88.2	309.1	55.6	PAT grew healthy tracking growth in volumes, margin expansion & higher other income
EPS	24.9	13.2	88.2	16.0	55.6	
Key Metrics						
Volume (MT)	82,085	72,676	12.9	72,749	12.8	Volume growth for the quarter stood healthy 13% both on YoY & QoQ basis at 82k tonne

Source: Company, ICICI Direct Research

Q4FY24 Earnings Conference Call highlights

- Guidance:** BKT holds 7% to 10% market share domestically in the agricultural tyres category and expects to sustain at this level going forward. On the global front, its long-term vision is to increase its market share to 10% from the current 5% to 6% in the Off-Highway Tyres segment. It expects global demand to remain stable at the current levels and aims to maintain the Q4FY24 margins in FY25.
- Advance Carbon Black:** Revenue contribution from carbon black for Q4FY24 stood at 7%. BKT will be commissioning an advance carbon plant in H1FY25 with a capacity of 30,000 Metric Tons (MT), thereby increasing its total carbon black capacity to 200,000 MT. It expects incremental margins of 200 to 300 bps from the additional 30,000 MT capacity.
- Commodity Inflation and Price hike:** BKT has not taken any price hike in Q4FY24. The raw material cost for the quarter has marginally increase to ₹150-152 per kg from ₹148-149 per kg reported in Q3FY24. It expects a similar marginal increase in Q1FY25. It has passed 50% of the freight cost increase to customers in Q4FY24 and expects no incremental impact of freight cost in Q1FY25.
- Capex & Capacity Expansion:** BKT will commission mould manufacturing plant in this current quarter. In near future it might look at adding a smaller brownfield capacity of 30,000 to 40,000 MT. Capex spending for FY24 stood at ₹1,140 crore. It plans to spend of ₹500-600 crore in FY25.
- Others:** Channel inventory is being rebuilt to normal levels of ~40 to 45 days. The forex hedging rate for Q4FY24 stood at ₹90 per euro and expects it to be ₹95 per euro in FY25. BKT has created a provision for EPR of ₹11.25 crore, which is included in the other expenses for the current quarter.

Exhibit 2: Assumptions

	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Capacity (MT)	3,00,000	3,00,000	3,00,000	2,80,000	2,85,000	3,35,000	3,60,000	3,60,000	3,60,000
Sales volume (MT)	1,99,213	2,11,261	2,01,760	2,27,132	2,88,795	3,01,181	2,92,628	3,18,198	3,50,018
Volume growth (% YoY)		6%	-4%	13%	27%	4%	-3%	9%	10%

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Total operating Income	9,811	9,299	10,836	12,153	
Growth (%)	18.7	-5.2	16.5	12.2	
Raw Material Expenses	4,956	4,474	5,065	5,617	
Employee Expenses	404	441	477	523	
Other Expenses	2,735	2,179	2,586	2,674	
Total Operating Exp.	8,095	7,095	8,127	8,813	
EBITDA	1,716	2,204	2,708	3,340	
Growth (%)	-13.2	28.5	22.9	23.3	
Depreciation	557	644	715	778	
Interest	46	109	96	86	
Other Income	338	448	317	328	
PBT	1,451	1,899	2,215	2,805	
Total Tax	372	461	558	707	
Reported PAT	1,079	1,438	1,656	2,098	
Growth (%)	-23.5	33.3	15.2	26.6	
EPS (₹)	55.8	74.4	85.7	108.5	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Profit after Tax	1,079	1,438	1,656	2,098	
Add: Depreciation	557	644	715	778	
(Inc)/dec in Current Assets	9	-116	-514	-451	
Inc/(dec) in CL & Provisions	-149	200	54	157	
CF from operating activities	1,495	2,165	1,912	2,582	
(Inc)/dec in Investments	-90	-574	250	-325	
(Inc)/dec in Fixed Assets	-2,062	-1,122	-650	-650	
Others	262	-72	-124	-113	
CF from investing activities	-1,890	-1,768	-524	-1,088	
Inc/(dec) in loan funds	811	-217	-1,000	-1,000	
Dividend & dividend tax	-309	-309	-387	-483	
Others	-105	145	0	0	
CF from financing activities	397	-382	-1,387	-1,483	
Net Cash flow	2	15	1	10	
Opening Cash	35	38	53	54	
Closing Cash	38	53	54	64	

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet		₹ crore			
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Liabilities					
Equity Capital	39	39	39	39	
Reserve and Surplus	7,550	8,823	10,093	11,708	
Total Shareholders funds	7,589	8,862	10,132	11,746	
Total Debt	3,254	3,037	2,037	1,037	
Deferred Tax Liability	241	349	349	349	
Minority Interest / Others	0	0	0	0	
Total Liabilities	11,237	12,370	12,639	13,254	
Assets					
Gross Block	8,284	9,853	11,198	11,848	
Less: Acc Depreciation	3,006	3,650	4,365	5,143	
Net Block	5,278	6,204	6,833	6,705	
Capital WIP	1,392	944	250	250	
Total Fixed Assets	6,670	7,148	7,083	6,955	
Investments	2,108	2,767	2,567	2,942	
Inventory	1,592	1,271	1,781	1,998	
Debtors	1,254	1,543	1,484	1,665	
Loans and Advances	55	76	89	100	
Cash	38	53	54	64	
Other current assets	174	301	350	393	
Total Current Assets	3,112	3,244	3,759	4,220	
Creditors	487	893	891	999	
Provisions	4	4	4	5	
Other current liabilities	544	338	394	442	
Total Current Liabilities	1,035	1,235	1,289	1,446	
Net Current Assets	2,077	2,008	2,469	2,774	
Others	381	446	520	583	
Application of Funds	11,237	12,370	12,639	13,254	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios					
(Year-end March)	FY23	FY24P	FY25E	FY26E	
Per share data (₹)					
EPS	55.8	74.4	85.7	108.5	
Cash EPS	84.6	107.7	122.7	148.8	
BV	392.6	458.4	524.1	607.6	
DPS	16.0	16.0	20.0	25.0	
Cash Per Share	42.0	72.5	59.6	77.0	
Operating Ratios (%)					
EBITDA Margin	17.5	23.7	25.0	27.5	
PBT / Net sales	11.8	16.8	18.4	21.1	
PAT Margin	11.0	15.5	15.3	16.9	
Inventory days	59.2	49.9	60.0	60.0	
Debtor days	46.6	60.6	50.0	50.0	
Creditor days	18.1	35.0	30.0	30.0	
Return Ratios (%)					
RoE	14.2	16.2	16.3	17.9	
RoCE	10.3	12.6	15.8	19.4	
RoIC	12.9	15.6	17.8	22.3	
Valuation Ratios (x)					
P/E	53.8	40.3	35.0	27.6	
EV / EBITDA	35.2	27.1	21.7	17.2	
EV / Net Sales	6.2	6.4	5.4	4.7	
Market Cap / Sales	5.9	6.2	5.4	4.8	
Price to Book Value	7.6	6.5	5.7	4.9	
Solvency Ratios					
Debt/EBITDA	1.9	1.4	0.8	0.3	
Debt / Equity	0.4	0.3	0.2	0.1	
Current Ratio	6.3	3.6	4.1	4.1	
Quick Ratio	3.0	2.1	2.1	2.1	

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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Name of the Compliance officer (Research Analyst): Mr. Atul Agarwal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headsservicequality@icicidirect.com Contact Number: 18601231122

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