

Volume growth slowdown weigh on valuations

Balkrishna Industries (BIL) numbers were below estimates on all fronts. Volume hit in the quarter was mainly due to Europe and is expected to recover from the ongoing quarter. Operating performance was further impact due to increased branding expenditure to the tune of ₹ 160 mn. Realizations growth has been the silver lining. It increased by 12.1% YoY in Q2FY19.

BIL management has downgraded volume guidance for FY19 to 210,000 – 220,000 MT from 225,000 – 230,000 MT guidance given post Q1FY19. This was majorly due to draught situation faced in Europe (more towards Northern Europe) and unstable forex movements as ~50% of BKT sales are in USD denominated currency.

We believe that this should be a short-term trend as BIL will revert to double digit volume growth from FY20E. BIL capex is on schedule. This coupled with increase in branding will have short term margin pressure. With most of the negatives already in the price, we feel that BIL risk reward is in favor from a longer-term perspective.

Volume momentum slowing

Volume slowdown for the quarter was largely due to adverse weather conditions faced in Europe and adverse fluctuations in currencies. BKT derives more than 50% of sales from Europe. Stabilizing currency and easing of adverse conditions in Europe will help put the volume growth on track. We expect this recovery to take place gradually post Q3FY19. However, realization growth has been strong and would support revenue growth despite cut in volume estimates.

Margin guidance intact, not possible without realized forex gain

BIL management have maintained margin guidance for FY19 at 28-30%, however, it is heavily dependent on foreign exchange gain that will be realized in FY19. Managing increased other expenditure due to brand building exercise on an ongoing basis will be a key factor to look out as it can adversely impact operating margins.

Q2FY19 Result (₹ Mn)

Particulars	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	13,255	11,145	18.9	13,624	(2.7)
Total Expense	9,929	8,096	22.6	10,048	(1.2)
EBITDA	3,326	3,049	9.1	3,576	(7.0)
Depreciation	828	777	6.6	841	(1.5)
EBIT	2,498	2,272	9.9	2,735	(8.7)
Other Income	909	825	10.1	822	10.5
Interest	25	26	(5.8)	33	(26.2)
EBT	3,382	3,071	9.9	3,524	(4.0)
Tax	1,159	1,042	11.3	1,222	(5.1)
RPAT	2,223	2,030	9.5	2,303	(3.4)
APAT	2,223	2,030	9.5	2,303	(3.4)
			(bps)		(bps)
Gross Margin (%)	53.8	50.8	301	53.2	66
EBITDA Margin (%)	25.1	27.4	(226)	26.2	(115)
NPM (%)	16.8	18.2	(144)	16.9	(13)
Tax Rate (%)	34.3	33.9	36	34.7	(39)
EBIT Margin (%)	18.8	20.4	(154)	20.1	(123)

CMP	₹ 955
Target / Upside	₹ 1,106 / 16%
BSE Sensex	35,457
NSE Nifty	10,682

Scrip Details

Equity / FV	₹ 387mn / Rs 2
Market Cap	₹185bn
	US\$ 3bn
52-week High/Low	₹ 2,548/Rs 923
Avg. Volume (no)	1,078,670
NSE Symbol	BALKRISIND
Bloomberg Code	BIL IN

Shareholding Pattern Sep'18(%)

Promoters	58.3
MF/Banks/FIs	12.9
FIIIs	14.8
Public / Others	14.0

Valuation (x)

	FY18A	FY19E	FY20E
P/E	25.0	19.7	17.3
EV/EBITDA	16.8	11.5	9.9
ROE (%)	19.3	20.8	19.9
RoACE (%)	10.8	14.4	14.0

Estimates (₹ mn)

	FY18A	FY19E	FY20E
Revenue	44,473	54,174	62,108
EBITDA	11,067	15,711	18,390
PAT	7,393	9,390	10,688
EPS (Rs.)	38.2	48.6	55.3

VP Research: Priyank Chandra

Tel: +91 22 40969737

E-mail: priyank@dolatcapital.com

Associate: Kushal Shah

Tel: +91 22 40969768

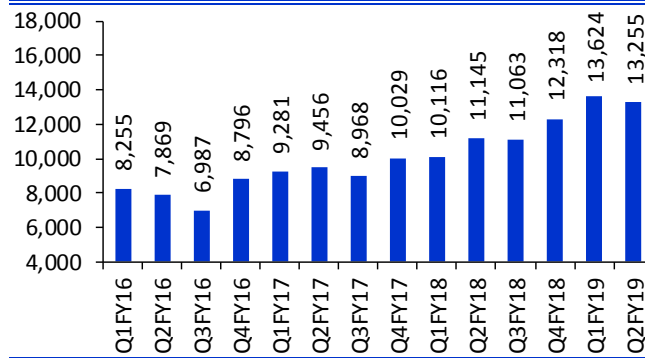
E-mail: kushals@dolatcapital.com

Valuation

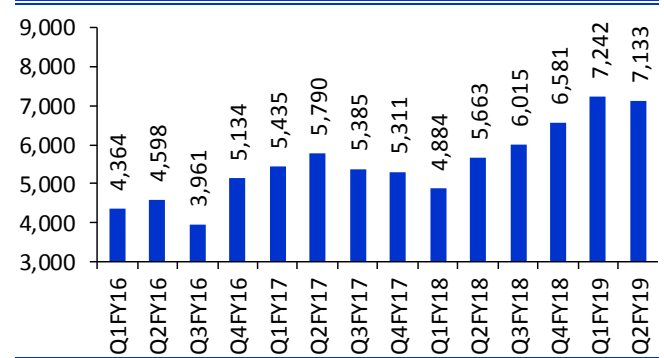
Correction in the stock price is factoring most of the negatives. Considering the market outlook and increase in risk free rate, we have reduced PER accordingly. We reiterate Accumulate recommendation with a target price of ₹ 1,106.

Concall KTAs

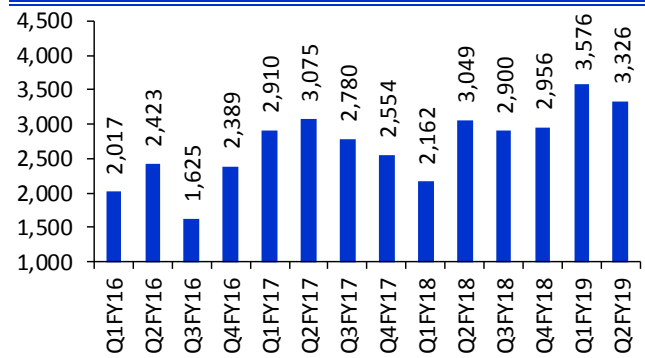
- Overall business environment across the globe were impacted due to volatility in currency exchange rates. This was in addition to the draught challenges faced in Europe and weak monsoon in other areas.
- USA plant is expected to reduce to lead time significantly and would also enhance competitiveness in neighboring countries.
- Other expenditure was higher due to brand building activity carried out through sponsorship of sport events across key markets to the tune of ₹ 160-170mn and higher fuel expenditure. Branding expenditure is expected to continue for next 3-4 years.
- BIL management has maintained capex guidance of ₹ 700bn for FY19.
- BIL management maintained EBITDA margin guidance of 28-30% FY19.
- Agriculture segment has growth at about 12% in H1 and OTR has growth by ~20%.
- Euro average realizations for Q2FY19 were ₹ 82 and USD at ₹ 70.
- Bhuj expansion plant will manufacture 57 inches tyres for mining (currently 49 inches max).
- Lead time in transit for to USA is 60 days.

Exhibit 1: Net Sales (₹ in Mn)


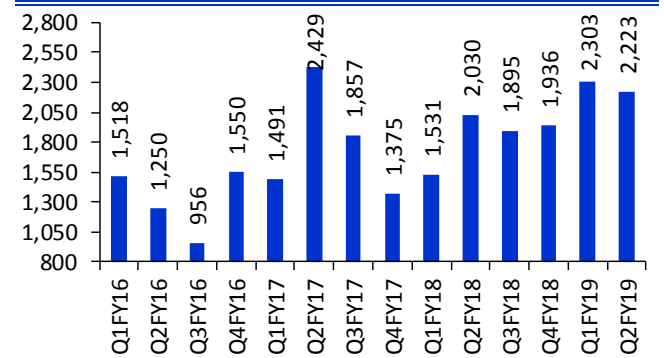
Source: Company, DART

Exhibit 2: Gross Profit (₹ in Mn)


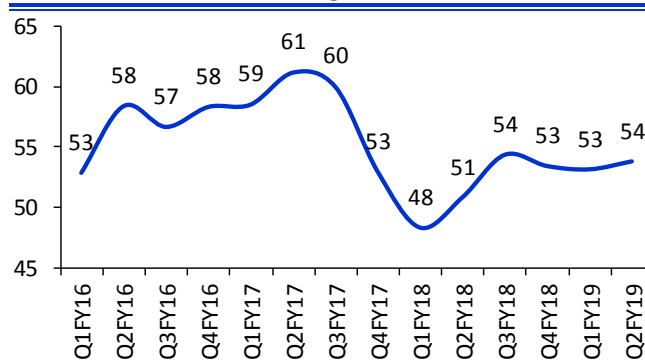
Source: Company, DART

Exhibit 3: EBITDA (₹ in Mn)


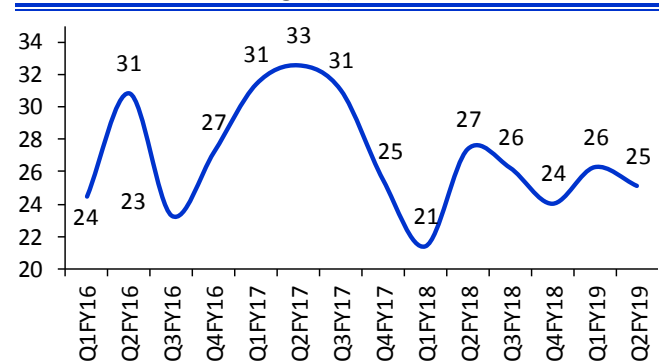
Source: Company, DART

Exhibit 4: Net profit %


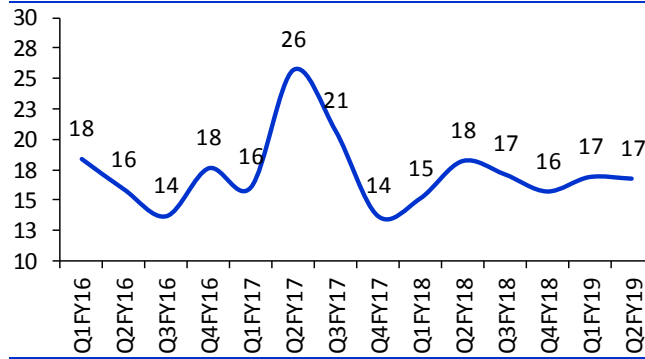
Source: Company, DART

Exhibit 5: Gross Profit Margin %


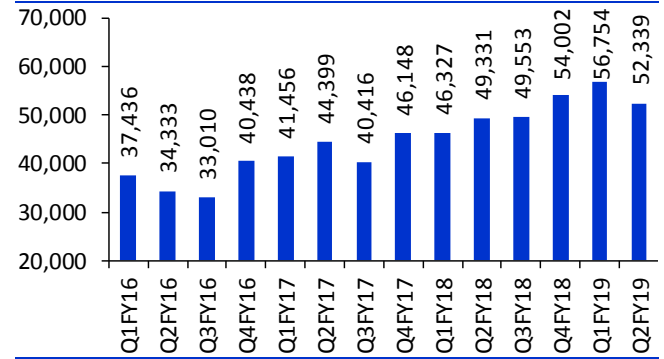
Source: Company, DART

Exhibit 6: EBITDA Margin (%)


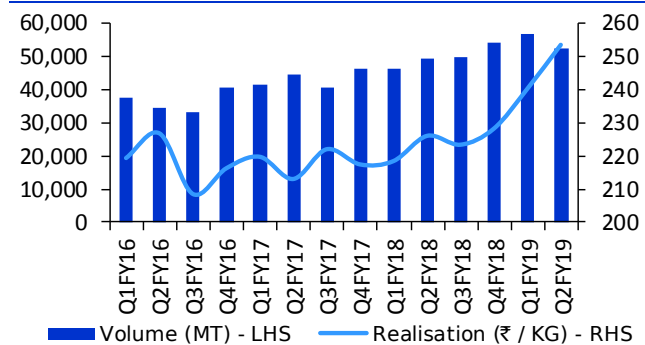
Source: Company, DART

Exhibit 7: Net Profit Margin (%)


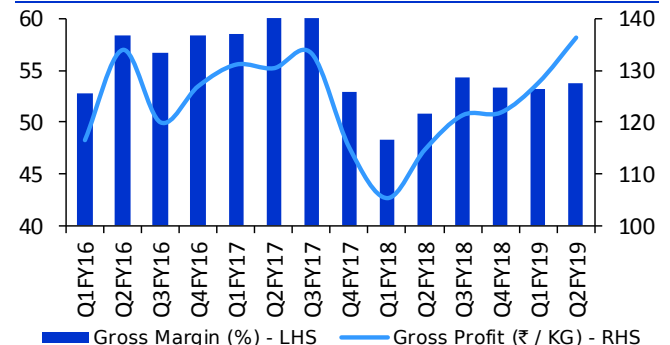
Source: Company, DART

Exhibit 8: Volume (MT)


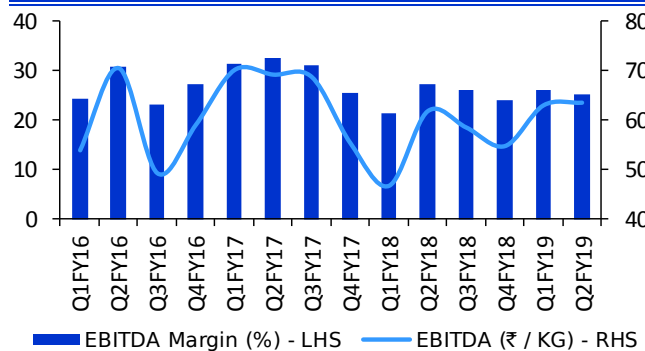
Source: Company, DART

Exhibit 9: Volumes and Realisations


Source: Company, DART

Exhibit 10: Gross Spread and Gross Margin


Source: Company, DART

Exhibit 11: EBIDTA Spread and EBIDTA Margin


Source: Company, DART

Profit and Loss Account

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Revenue	37,279	44,473	54,174	62,108
Total Expense	25,959	33,406	38,463	43,718
COGS	15,813	21,499	25,595	29,383
Employees Cost	2,243	2,488	2,737	3,010
Other expenses	7,903	9,420	10,131	11,325
EBIDTA	11,320	11,067	15,711	18,390
Depreciation	3,038	3,113	3,610	4,198
EBIT	8,281	7,953	12,101	14,192
Interest	214	131	374	748
Other Income	2,496	3,362	2,500	2,750
Exc. / E.O. items	0	0	0	0
EBT	10,563	11,185	14,227	16,194
Tax	3,407	3,792	4,837	5,506
RPAT	7,156	7,393	9,390	10,688
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	7,156	7,393	9,390	10,688

Balance Sheet

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
Sources of Funds				
Equity Capital	193	387	387	387
Minority Interest	0	0	0	0
Reserves & Surplus	35,319	40,566	48,825	57,930
Net Worth	35,512	40,952	49,211	58,316
Total Debt	7,824	6,273	7,475	12,475
Net Deferred Tax Liability	3,528	3,288	3,354	3,421
Total Capital Employed	46,864	50,514	60,040	74,212

Applications of Funds

Net Block	28,486	28,490	29,879	35,681
CWIP	1,097	1,183	1,500	4,000
Investments	9,282	6,281	6,406	6,534
Current Assets, Loans & Advances	18,692	22,493	31,868	38,824
Inventories	4,597	5,942	7,012	8,386
Receivables	4,122	5,019	7,012	8,386
Cash and Bank Balances	136	246	6,138	9,187
Loans and Advances	1,809	2,799	2,939	3,233
Other Current Assets	3,409	3,655	3,838	4,606
Less: Current Liabilities & Provisions	10,692	7,932	9,613	10,827
Payables	3,633	3,974	5,195	6,126
Other Current Liabilities	7,058	3,958	4,419	4,702
<i>sub total</i>				
Net Current Assets	8,000	14,561	22,255	27,997
Total Assets	46,864	50,514	60,040	74,212

E – Estimates

Important Ratios

Particulars	FY17A	FY18A	FY19E	FY20E
(A) Margins (%)				
Gross Profit Margin	57.6	51.7	52.8	52.7
EBIDTA Margin	30.4	24.9	29.0	29.6
EBIT Margin	22.2	17.9	22.3	22.9
Tax rate	32.3	33.9	34.0	34.0
Net Profit Margin	19.2	16.6	17.3	17.2
(B) As Percentage of Net Sales (%)				
COGS	42.4	48.3	47.2	47.3
Employee	6.0	5.6	5.1	4.8
Other	21.2	21.2	18.7	18.2
(C) Measure of Financial Status				
Gross Debt / Equity	0.2	0.2	0.2	0.2
Interest Coverage	38.6	60.9	32.4	19.0
Inventory days	45	49	47	49
Debtors days	40	41	47	49
Average Cost of Debt	2.1	1.9	5.4	7.5
Payable days	36	33	35	36
Working Capital days	78	120	150	165
FA T/O	1.3	1.6	1.8	1.7
(D) Measures of Investment				
AEPS (₹)	37.0	38.2	48.6	55.3
CEPS (₹)	52.7	54.3	67.2	77.0
DPS (₹)	8.0	8.0	5.0	7.0
Dividend Payout (%)	21.6	20.9	10.3	12.7
BVPS (₹)	367.4	211.8	254.6	301.7
RoANW (%)	22.6	19.3	20.8	19.9
RoACE (%)	12.5	10.8	14.4	14.0
RoAIC (%)	19.1	16.4	23.2	23.9
(E) Valuation Ratios				
CMP (₹)	955	955	955	955
P/E	25.8	25.0	19.7	17.3
Mcap (₹ Mn)	184,599	184,599	184,599	184,599
MCap/ Sales	5.0	4.2	3.4	3.0
EV	187,668	185,794	181,007	182,859
EV/Sales	5.0	4.2	3.3	2.9
EV/EBITDA	16.6	16.8	11.5	9.9
P/BV	5.2	4.5	3.8	3.2
Dividend Yield (%)	0.4	0.8	0.5	0.7
(F) Growth Rate (%)				
Revenue	15.7	19.3	21.8	14.6
EBITDA	35.1	(2.2)	42.0	17.1
EBIT	49.0	(4.0)	52.1	17.3
PBT	58.7	5.9	27.2	13.8
APAT	63.2	3.3	27.0	13.8
EPS	63.2	3.3	27.0	13.8

Cash Flow

(₹ Mn)	FY17A	FY18A	FY19E	FY20E
CFO	8,417	7,533	11,139	12,397
CFI	(5,337)	(919)	(4,875)	(12,017)
CFF	(6,162)	(6,553)	(303)	2,668
FCFF	6,805	3,424	5,822	(103)
Opening Cash	3,196	115	176	6,138
Closing Cash	136	246	6,138	9,187

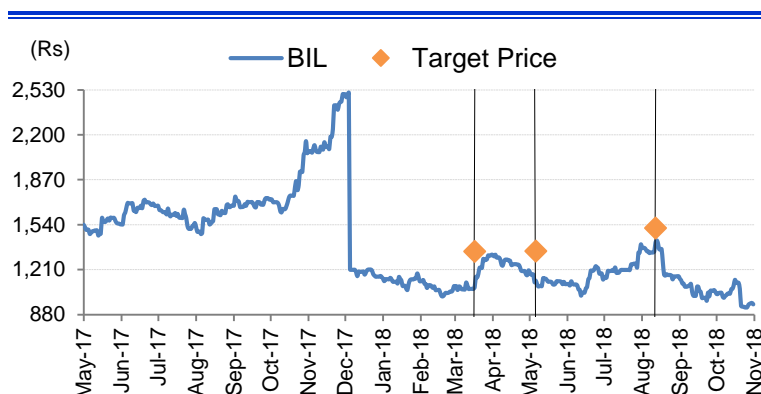
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹)
Apr-18	Buy	1,345	1,081
May-18	Buy	1,348	1,129
Aug-18	Accumulate	1,517	1,409

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	VP - Head Asia Derivatives Sales Trading	kartikm@dolatcapital.com	+9122 4096 9715
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
