

16/09/2016

Sector: Tyres

Financial Snapshot:

Balkrishna Industries (BKT) had a topline at Rs 9.1bn or 7% YoY which was ahead of expectations as volumes has shown improvement of 11% YoY. EBITDA margin at 28% i.e. -452bps QoQ was lower, as higher commodity prices/other expenses offset lower employee cost.

BKT enjoys significant cost benefit i.e. 30% lower than peers, the major advantage is in the OHT segment and thus is able to generate high margins. The company has sufficient capacity utilization standing at 57% to maintain a steady volume growth over the next 3-4 years. We believe BKT will grow faster on account of rising penetration in new geographies like India and OEM segment.

We are expecting FY17/18E earnings to grow by 9-11% to incorporate increase in volume growth guidance to 160-170k in FY17E. We are recommending a BUY with a Target Price of Rs 972, which is based on 14x FY18E EPS. Anti-dumping duty in US (CVD of 4.7%) is a key risk to our view. The final decision over which is due by Jan-17.

Quarter Highlights:

Growth across channels and segments: 1QFY17 volumes inched up 11% YoY on account of 8% growth in Europe followed by 24% in US & 9% in India. In terms of end user segments, BKT's agri volumes had shown a rise of 11% YoY, while OTR saw a 9% YoY growth.

No major capex lined up: With capacity utilisation at 57% in 1QFY17, the management indicated that they will incur only routine capex of Rs 1bn annually and cash generated will be invested in debt instruments.

Increase in volume guidance: The management expects volume growth to improve to 160-170k for FY17E. Higher volume growth expectation drives an 11% upgrade to our FY17E EPS.

Near-term outlook: We are expecting a strong earnings and volume growth to continue with ramp-up of the Bhuj plant.

Stock Summary

Particular	
CMP (INR)	828.40
Target Price (INR)	972
Potential Upside	17.33%
O/S No. of Shares (cr.)	9.66
Market Cap. (cr.)	10489.39
Equity Cap. (cr.)	19.33
52 Week High	920
52 Week Low	547
Face Value	2
NSE Code	BALKRISIND
BSE Code	502355

Share Holding Pattern:

Particular	Mar-16
Promoters	58.30%
Public (FII+DII)	41.70%
Others	0.00%
TOTAL	100%

Stock Performance:



Financial Summary:

Particular (Rs mn)	1QFY17	1QFY16	YoY (%)	4QFY16	QoQ(%)	FY15	FY16	FY17E	FY18E
Net Sales	9,281	8,559	8.4	9,496	(2.3)	38,930	34,471	38,986	44,979
EBITDA	2,600	1,099	136.6	3089	(15.8)	9393	10722	11145	13267
PAT	1,491	1,016	46.6	1,550	(3.8)	4,333	5,630	5,759	7,226
Diluted EPS (Rs)	15.4	10.5	46.6	16.0	(3.8)	44.8	58.3	59.6	74.8
P/E (x)						19.9	15.3	15.0	12.0
EV / EBITDA (x)						10.8	9.1	8.0	6.1
RoE (%)						20.8	22.1	18.9	20.1

Quarterly Financial Snapshot:

Particular (Rs mn)	1QFY17	1QFY16	YoY (%)	4QFY16	QoQ (%)
Volumes (MT)	41,456	37,436	10.7	41,306	0.4
Net ASP (Rs/kg)	224	229	(2.1)	230	(2.6)
Net Sales	9,281	8,559	8.4	9,496	(2.3)
Material Expenses	3,846	4,180	(8.0)	3,662	5.0
Employee Expenses	546	497	9.7	611	(10.7)
Other Operating Expenses	2,290	2,784	(17.8)	2,133	7.3
EBITDA	2,600	1,099	136.6	3,089	(15.8)
Depreciation	775	644	20.3	705	10.0
EBIT	1,825	455	301.3	2,385	(23.5)
Other Income	517	1,117	(53.7)	121	328.8
Interest Cost	66	97	(31.8)	81	(19.2)
PBT	2,277	1,476	54.3	2,424	(6.1)
Tax	786	459	71.2	874	(10.1)
APAT	1,491	1,016	46.6	1,550	(3.8)
Adj EPS	15.4	10.5	46.6	16.0	(3.8)

Margin Analysis:

Particular	1QFY17	1QFY16	YoY (bps)	4QFY16	QoQ (bps)
Material Expenses As % Of Net Sales	41.4	48.8	(739)	38.6	287
Employee Expenses As % Of Net Sales	5.9	5.8	7	6.4	(56)
Other Expenses As % Of Net Sales	24.7	32.5	(785)	22.5	220
EBITDA Margin (%)	28.0	12.8	1,518	32.5	(452)
Tax Rate (%)	34.5	31.1	341	36.1	(153)
Net Profit Margin (%)	16.1	11.9	418	16.3	(26)

Key Assumptions:

Particular	FY15	FY16	FY17E	FY18E
Volumes (MT)				
Europe	82,553	81,468	92,874	104,018
% YoY	9.2	(1.3)	14.0	12.0
USA	28,617	22,669	24,936	27,429
% YoY	7.4	(20.8)	10.0	10.0
ROW	42,987	44,107	50,286	57,336
% YoY	5.9	2.6	14.0	14.0
Total	154,156	148,244	168,096	188,784
% YoY	7.9	(3.8)	13.4	12.3
Blended ASP (Rs/kg)	253	233	231	238
% YoY	0.8	(7.9)	(0.5)	2.7
Blended RM (Rs/kg)	122	95	102	106
% YoY	1.0	(21.7)	7.0	3.5
EUR/INR (x)	77	75	79	79
% YoY	(4.5)	(3.1)	5.2	-

Financial Statement:
Income Statement:

Particular (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Sales (MT)	142,810	154,156	148,244	168,096	188,784
Net Revenues	35,767	38,930	34,471	38,986	44,979
Growth (%)	(74.1)	8.8	(11.5)	13.1	15.4
Material Expenses	17,210	18,760	14,124	17,136	19,919
Employee Expenses	1,386	1,943	2,091	2,385	2,732
Other Operating Expenses	8,233	8,833	7,534	8,321	9,062
EBITDA	8,938	9,393	10,722	11,145	13,267
EBITDA Margin (%)	25.0	24.1	31.1	28.6	29.5
EBITDA Growth (%)	34.5	5.1	14.1	3.9	19.0
Depreciation	1,650	2,380	2,807	2,811	2,942
EBIT	7,288	7,013	7,915	8,334	10,326
Other Income (Incl EO Items)	138	80	854	500	600
Interest	250	420	345	242	145
PBT	7,177	6,673	8,424	8,592	10,781
Tax (Incl Deferred)	2,293	2,340	2,794	2,833	3,555
APAT	4,884	4,333	5,630	5,759	7,226
APAT Growth (%)	37	(11.3)	29.9	2.3	25.5
Adjusted EPS (Rs)	50.5	44.8	58.3	59.6	74.8
EPS Growth (%)	37.2	(11.3)	29.9	2.3	25.5

Balance Sheet:

Particular (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
SOURCES OF FUNDS					
Share Capital - Equity	193	193	193	193	193
Reserves & Surplus	18,655	22,723	27,760	32,689	38,875
Total Shareholders' Funds	18,848	22,917	27,953	32,882	39,068
Long-term Debt	-	-	-	-	-
Short-term Debt	23,500	23,578	16,534	10,334	4,134
Total Debt	-	-	-	-	-
Net Deferred Taxes	23,500	23,578	16,534	10,334	4,134
Long-term Provisions & Others	1,722	1,887	2,382	2,382	2,382
TOTAL SOURCES OF FUNDS	(7)	14	37	38	39
APPLICATION OF FUNDS	44,063	48,395	46,905	45,636	45,623
Net Block					
CWIP	23,295	24,148	28,538	27,527	25,285
Investments	6,172	7,115	3,085	200	500
LT Loans & Advances	-	-	-	-	-
Total Non-current Assets	4,265	584	5,621	5,621	5,621
Inventories	689	890	591	609	627
Debtors	34,421	32,736	37,834	33,956	32,033
Other Current Assets	5,291	3,920	2,864	3,239	3,737
Cash & Equivalents	6,185	6,018	5,533	6,258	7,220
Total Current Assets	2,746	2,295	1,773	2,002	2,306
Creditors	98	8,176	5,732	7,907	9,241
Other Current Liabilities & Provisions	14,319	20,410	15,903	19,406	22,504
Total Current Liabilities	3,734	3,799	3,367	3,808	4,394
Net Current Assets	944	951	3,464	3,918	4,521
TOTAL APPLICATION OF FUNDS	4,678	4,750	6,832	7,727	8,914

Cashflow Statement:

Particular (Rs mn)	FY14	FY15	FY16	FY17E	FY18E
Reported PBT	7,177	6,673	8,424	8,592	10,781
Interest expenses	250	420	345	242	145
Depreciation	1,650	2,380	2,807	2,811	2,942
Working Capital Change	(688)	2,060	4,145	(434)	(576)
Tax Paid	(2,293)	(2,340)	(2,794)	(2,833)	(3,555)
OPERATING CASH FLOW (a)	6,095	9,194	12,927	8,377	9,736
Capex	(6,530)	(4,175)	(3,168)	1,085	(1,000)
Free cash flow (FCF)	(435)	5,018	9,759	9,462	8,736
Investments	(3,936)	3,681	(5,037)	-	-
Non-operating Income	(476)	(15)	817	(17)	(17)
INVESTING CASH FLOW (b)	(10,941)	(508)	(7,388)	1,069	(1,017)
Debt Issuance/(Repaid)	2,756	78	(7,044)	(6,200)	(6,200)
Interest Expenses	(250)	(420)	(345)	(242)	(145)
FCFE	2,072	4,677	2,371	3,021	2,391
Share Capital Issuance	1	14	46	-	-
Dividend	(226)	(278)	(640)	(829)	(1,041)
FINANCING CASH FLOW (c)	2,281	(607)	(7,983)	(7,271)	(7,385)
NET CASH FLOW (a+b+c)	(2,565)	8,079	(2,444)	2,175	1,334
Closing Cash & Equivalents	98	8,176	5,732	7,907	9,241

Ratio Analysis:

Particular	FY14	FY15	FY16	FY17E	FY18E
PROFITABILITY (%)					
GPM	51.9	51.8	59.0	56.0	55.7
EBITDA Margin	25.0	24.1	31.1	28.6	29.5
APAT Margin	13.7	11.1	16.3	14.8	16.1
RoE	29.6	20.8	22.1	18.9	20.1
RoIC (or Core RoCE)	13.4	10.8	11.6	14.3	18.8
RoCE	12.6	10.0	12.3	12.8	16.1
EFFICIENCY					
Tax Rate (%)	32.0	35.1	33.2	33.0	33.0
Fixed Asset Turnover (x)	1.2	1.2	0.9	1.0	1.1
Inventory (days)	54.0	36.8	30.3	30.3	30.3
Debtors (days)	63.1	56.4	58.6	58.6	58.6
Other Current Assets (days)	28.0	21.5	18.8	18.7	18.7
Payables (days)	38.1	35.6	35.7	35.7	35.7
Other Current Liab & Provns (days)	9.6	8.9	36.7	36.7	36.7
Cash Conversion Cycle (days)	97.4	70.2	35.4	35.3	35.3
Debt/EBITDA (x)	2.6	2.5	1.5	0.9	0.3
Net D/E (x)	1.2	0.7	0.4	0.1	(0.1)
Interest Coverage (x)	29.2	16.7	22.9	34.5	71.4
PER SHARE DATA (Rs)					
EPS	50.5	44.8	58.3	59.6	74.8
CEPS	67.6	69.5	87.3	88.7	105.2
Dividend	2.0	2.4	5.5	7.1	9.0
Book Value	195.0	237.1	289.2	340.2	404.2
VALUATION					
P/E (x)	17.7	19.9	15.3	15.0	12.0
P/BV (x)	4.6	3.8	3.1	2.6	2.2
EV/EBITDA (x)	12.3	10.8	9.1	8.0	6.1
EV/Revenues (x)	3.1	2.6	2.8	2.3	1.8
OCF/EV (%)	5.6	9.0	13.3	9.4	12.0
FCF/EV (%)	(0.4)	4.9	10.0	10.7	10.7
FCFE/Mkt Cap (%)	2.4	5.4	2.7	3.5	2.8
Dividend Yield (%)	0.2	0.3	0.6	0.8	1.0

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