Balkrishna Industries Ltd. (BIL)

September 13, 2011 | **ACCUMULATE** | **HIGH RISK** | **PRICE Rs.165** | **TARGET Rs.198**

TYRES

SHARE HOLDING (%)

Promoters	54.4
FII	16.9
FI / MF	14.3
Body Corporate	2.1
Public & Others	12.3

STOCK DATA

Reuters Code	BLKI.BO
Bloomberg Code	BIL IN
BSE Code	502355
NSE Symbol	BALKRISIND
Market Capitalization*	Rs. 15956.9 mn US$ 339.7 mn
Shares Outstanding*	96.6 mn
52 Weeks (H/L)	Rs.186 /110
Avg. Daily Volume (6m)	15,527 Shares

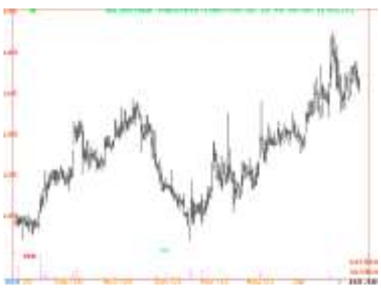
Price Performance (%)

1M	3M	6M
2	11	23

***On fully diluted equity shares**

200 days EMA Rs.147

Part of Sushil Bonanza



STRENGTH: : Niche Player with strong product basket, Stable volume Growth with superior margins, Presence across 120 markets with over 200 distributors, Better business mix with 80% from replacement market and Strong return ratios. **WEAKNESS:** Lacks presence in conventional Tyre space **OPPORTUNITIES:** Expanding production capacities, Increase product penetration in both existing and newer geographies **THREAT:** Adverse movement of currency and rubber prices, Slowdown in volume off take amidst weakening macro conditions in key markets.

Niche player in the 'OHT' space

BIL is one of the leading players in the 'Off-Highway Tyres' space having widest & comprehensive product portfolio of over 1900 SKU's. Almost 94% of revenues is derived from Agriculture (65%) and OTR (29%) space wherein it caters to the customized demands of tyres for tractors, trailers, farm equipments, earth movers etc. It has market presence in more than 120 countries & derives ~90% of its revenues through exports.

Aggressive capex plans to drive volume growth

In order to meet increasing demand, the Company is almost doubling its capacity from 125,000 MTPA to ~230,000 MTPA by FY13E through Greenfield expansion and de-bottlenecking exercise at its existing plants. Greenfield expansion at Bhuj would enhance its achievable production capacity by 90,000 MTPA which is likely to get operational by Q2FY13 whereas de-bottlenecking exercise is already underway & nearing completion by Q2FY12. Total estimated capital outlay for the expansion is ~Rs.12 bn which is likely to be funded through debt & internal accruals (65:35).

Superior margins on back of higher replacement demand & operating-cost advantage

Strong global network with over 200 distributors in more than 120 countries has enabled the Company to capture growing replacement market. BIL derives ~80% of its revenues from replacement market which fetches higher margins which are in the range of 18-20%. Also lower operating cost mainly employee and selling & distribution expenses compared to its global peers further facilitates in fetching higher margins. Being labor-intensive business & with cheaper availability of labor in India, the employee cost is ~1/5th of the cost incurred by the global peers. Also distribution model adopted by the Company in which sales is carried on by the distributor network not only results in lower inventory levels but also reduces warehousing expenses.

Healthy return ratios with strong dividend track record

The Company has healthy return ratios as compared to industry with ROE & ROCE pegged at 25% and 22% respectively. Also historically, since 1990 the company has been consistently paying dividend every year. Even during the difficult times on the expanded equity post-bonus, the company has not shield out in paying higher and better dividends.

OUTLOOK & VALUATION

BIL is one of the leading players in the 'OHT' space with wide product portfolio (~1900 SKU's) under its kitty. Capacity expansion by ~105,000 MTPA over the next 2 years is likely to be the major growth trigger for the Company in the future. Also superior margins on back of strong distribution network & comparative cost advantage offer an edge over its peers. At the CMP of Rs.165, the stock is quoting at 6.6x and 5.8x its FY12E and FY13E EPS of Rs. 25.0 and Rs. 28.3 respectively. Hence, considering the strong business model, upcoming expansions coupled with its strong financials, we recommend 'ACCUMULATE' on the stock with a price target of Rs.198.

KEY FINANCIALS

Y/E Mar.	Revenue (Rs mn)	APAT (Rs mn)	AEPS (Rs)	AEPS (% Ch.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
FY11	21920.9	1946.3	20.1	(11.1)	8.2	22.1	25.2	1.9
FY12E	**28242.7**	**2416.1**	**25.0**	**24.1**	**6.6**	**20.6**	**25.3**	**1.5**
FY13E	**33302.0**	**2731.5**	**28.3**	**13.1**	**5.8**	**17.9**	**23.4**	**1.2**

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Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	**High predictability / Low volatility**
Medium Risk	**Moderate predictability / volatility**
High Risk	**Low predictability / High volatility**

Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	**Over 15 %**	**Over 20%**	**Over 25%**
Accumulate	**10 % to 15 %**	**15% to 20%**	**20% to 25%**
Hold	**0% to 10 %**	**0% to 15%**	**0% to 20%**
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

Please Note

- Recommendations with “Neutral” Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- ** Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
- **Stock Review Reports:** These are Soft coverage’s on companies where Management access is difficult or Market capitalization is below Rs. 2000 mn. Views and recommendation on such companies may not necessarily be based on management meeting but may be based on the publicly available information and/or attending Company AGMs. Hence Stock Reviews may be just one-time coverage’s with an occasional Update, wherever possible.