

## Balkrishna Industries

### Management meet takeaways

We met the management of Balkrishna Industries (BIL) to get an update on its business. BIL operates in a niche segment of off-highway tyres (OHT) and has a global market share of ~3.5%. BIL enjoys competitive advantage over its global peers (Titan International, Mitas, Michelin and Bridgestone) on account of its low cost-structure, strong product portfolio (with over 2,000 SKUs) and a strong distribution network (~240 distributors in 120 countries).

**Strong and focused presence in a niche segment:** BIL is amongst the few global companies alongside Titan International and Mitas with a focused presence in the US\$14bn OHT space which is growing at a steady pace of 4-5% annually. The OHT segment in general is a low volume large variety business, which requires high level of customization. Hence, a wide range of product portfolio is a pre-requisite which acts as a major entry barrier. Over the years, BIL has built over 2,000 SKUs and develops 120-150 SKUs every year. BIL derives ~90% of its revenue from exports and has a strong presence in 120 countries through ~240 distributors. The major brands of BIL include *BKT*, *Agrimax* and *Earthmax*.

**Low cost structure, a key competitive advantage:** BIL enjoys a competitive advantage over its global peers due to cost arbitrage in terms of labor cost (~3% of sales as against 18-24% for global peers), duty-free rubber imports and lower distribution expenses. As a result, BIL is able to garner EBITDA margins in the range of 18-20% even after pricing products at a hefty discount to that of global peers (25-30% cheaper as stated by the management). This has helped BIL gain a foothold in the global OHT segment and gradually gain market share.

**Capacity expansion to boost market share:** BIL is augmenting its achievable capacity by ~90% to 276,000MTPA by FY2015 at an outlay of ₹1,800cr through de-bottlenecking and greenfield expansion. The new greenfield facility in Bhuj (120,000MTPA) is placed attractively near the port and also has a captive power plant. The management expects that the ongoing capacity expansion along with venturing into newer geographies, like Russia and other CIS markets will enable the company to further leverage upon its low-cost model. This in turn will lead to rapid growth according to the management. The company is targeting a global market share of ~6% by FY2015E.

**Outlook:** The management expressed optimism about the company's business prospects and is targeting a volume and revenue growth of 20% and 25%, respectively in FY2013. Further, BIL expects margins to remain in the range of 18-22% going ahead. The company sees a revenue potential of ~₹3,000cr annually from the Bhuj plant, once fully operational by FY2015. However, an increase in depreciation and interest expense due to the functioning of the new plant will keep earnings growth under pressure. Nonetheless, the management expects lower tax rate (~25% in FY2013E as against ~33% in FY2012) to mitigate the impact of higher depreciation and interest expense to some extent. While Chinese products are priced lower than the company's products, quality related concerns of the former have led to their lower acceptability in the markets. Thus, the management states that the company does not face any major competition from Chinese companies. At ₹285, the stock is trading at 10.3x FY2012 earnings. **Currently, we do not have a rating on the stock.**

## Not Rated

CMP	₹285
Target Price	-

Investment Period	-
-------------------	---

Stock Info	
Sector	Tyre
Market Cap (₹ cr)	2,753
Net Debt (₹ cr)	1,306
Beta	0.3
52 Week High / Low	303/151
Avg. Daily Volume	13,047
Face Value (₹)	2
BSE Sensex	18,709
Nifty	5,676
Reuters Code	BLKI.BO
Bloomberg Code	BIL@IN

Shareholding Pattern (%)	
Promoters	54.4
MF / Banks / Indian Fls	26.6
FII / NRIs / OCBs	6.8
Indian Public / Others	12.2

Abs. (%)	3m	1yr	3yr
Sensex	6.8	15.3	11.1
Balkrishna Industries	5.4	69.6	301.3

**Yaresh Kothari**

+91 22 39357800 Ext: 6844

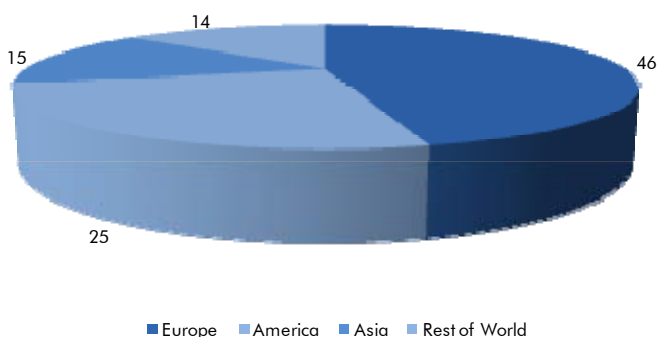
yareshb.kothari@angelbroking.com

### Company Background

Balkrishna Industries (BIL), a flagship company of the Siyaram Group, is the holding company of Balkrishna Tyres (BKT), Balkrishna Paper Mills and Balkrishna Synthetics. BIL is one of the world’s leading manufacturers of OHT, which are used in the agricultural, industrial, construction and earthmoving industries. The company has the widest product range with more than ~2,000 SKUs and is one-stop-shop for all OHT solutions. BIL’s success story began in 1995, when it entered into production and exports of cross-ply OHT which were instantly accepted in European and North American markets. BIL’s standalone volumes, revenues and net profits have grown at an extremely strong CAGR of 19%, 26% and 25% respectively over FY2007-12.

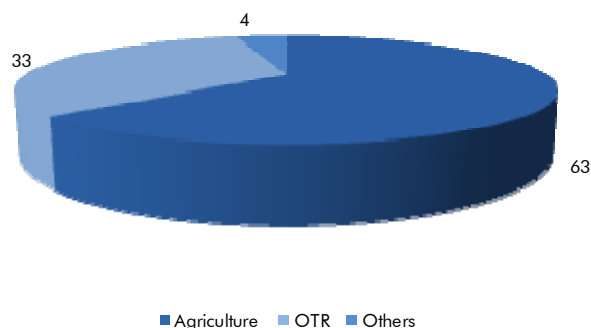
BIL is present in more than 120 countries and derives ~90% of its revenues through exports and has ~3.5% market share in the OHT segment. Europe and the US are the leading export destinations for the company with revenue contribution of ~46% and ~25%, respectively in FY2012. Within OHT, BIL mainly addresses the segments of agricultural and off-the-road (OTR) tyres. While the company derives ~80% of its revenue from the replacement market, original equipment manufacturers (OEMs) account for 15% of sales. The remaining 5% is derived through job work. BIL is a leading supplier to global OEMs like Volvo, John Deere, BOMAG, SAME, CNH, Ferrari, among others.

**Exhibit 1: FY2012 Revenue-mix – region-wise**



Source: Company, Angel Research

**Exhibit 2: FY2012 Revenue-mix – segment-wise**



Source: Company, Angel Research

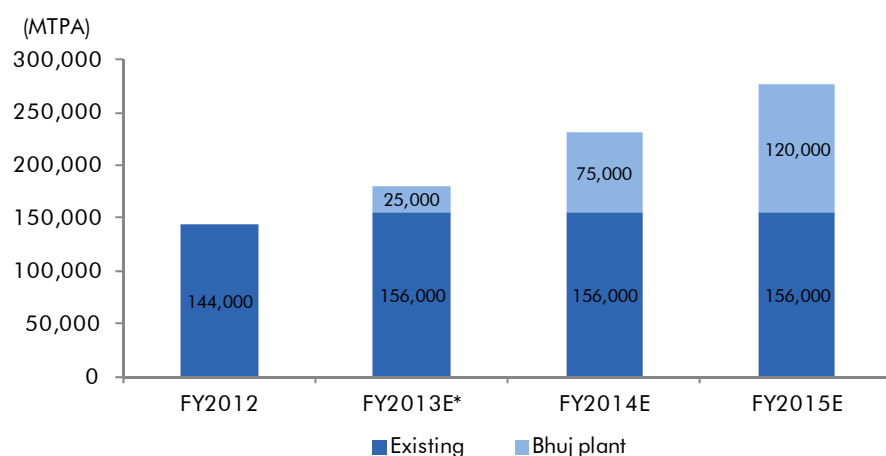
BIL has an in-house research and development facility, which allows development of new products in a shorter time frame. The company develops 120-150 new tyre sizes every year and has a low turnaround time of 8-10 weeks for product development. BIL’s business model is labor-intensive and requires a high level of customization, which creates an entry barrier for new players and adds to its competitive strength. OHT is a low-volume, high-variety business, which leads to higher idle time resulting in an achievable production capacity of 75% of installed capacity.

**Exhibit 3: Installed and achievable capacity – FY2012**

Plant location	Installed capacity (MTPA)	Achievable capacity MTPA (75% of installed capacity)
Chopanki, Rajasthan	60,000	45,000
Bhiwadi, Rajasthan	60,000	45,000
Waluj, Maharashtra	40,000	30,000
De-bottlenecking in FY2012	32,000	24,000
<b>Total</b>	<b>192,000</b>	<b>144,000</b>

Source: Company, Angel Research

BIL is in the process of increasing its capacity by ~90%, in order to address the rising demand for tyres, by de-bottlenecking at existing facilities and setting up a new plant at Bhuj, Gujarat at a capital expenditure of ₹1,800cr. While the de-bottlenecking will increase the achievable capacity by 12,000MTPA in FY2013E; the greenfield expansion will result in additional achievable capacity of 120,000MTPA in a phased manner by FY2015E. Around 60% of the total capacity at Bhuj will cater to manufacturing radial tyres, which enjoy 8-10% higher margins compared to cross-ply tyres. According to the management, the new plant will result in reduction of logistics cost and power and fuel costs as it is located close to the Mundra port and also has a rubber mixing plant besides a captive 20MW power plant. The production at Bhuj plant (25,000MTPA) has been commissioned in September 2012 and is currently in the ramp-up phase.

**Exhibit 4: Achievable capacity to increase by ~90% by FY2015E**


Source: Company, Angel Research; \* includes addition via de-bottlenecking

**Profit and loss statement (Standalone)**

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012
<b>Total operating income</b>	<b>981</b>	<b>1,224</b>	<b>1,359</b>	<b>1,934</b>	<b>2,820</b>
% chg	13.5	24.7	11.0	42.4	45.8
<b>Total expenditure</b>	<b>775</b>	<b>1,055</b>	<b>1,017</b>	<b>1,655</b>	<b>2,314</b>
Net raw material costs	553	714	686	1,226	1,711
Other mfg costs	89	127	153	191	281
Employee expenses	24	31	37	55	72
Other	109	185	142	184	249
<b>EBITDA</b>	<b>206</b>	<b>169</b>	<b>341</b>	<b>279</b>	<b>506</b>
% chg	28.6	(18.1)	102.3	(18.3)	81.5
(% of total op. income)	21.0	13.8	25.1	14.4	17.9
Depreciation & amortization	44	57	66	74	83
<b>EBIT</b>	<b>162</b>	<b>112</b>	<b>275</b>	<b>204</b>	<b>423</b>
% chg	30.6	(30.9)	145.2	(25.7)	106.9
(% of total op. income)	16.5	9.2	20.2	10.6	15.0
Interest and other charges	27	38	19	21	28
Other income	27	34	55	91	3
(% of PBT)	16.9	31.0	17.6	33.2	0.8
Extraordinary expense/ (income)	1	-	-	-	-
<b>PBT (reported)</b>	<b>162</b>	<b>108</b>	<b>311</b>	<b>275</b>	<b>398</b>
Tax	57	38	102	89	130
(% of PBT)	35.2	35.0	32.9	32.5	32.6
<b>PAT (reported)</b>	<b>105</b>	<b>71</b>	<b>209</b>	<b>186</b>	<b>268</b>
<b>ADJ. PAT</b>	<b>106</b>	<b>70</b>	<b>209</b>	<b>186</b>	<b>269</b>
% chg	27.1	(33.4)	196.9	(11.1)	44.7
(% of total op. income)	10.8	5.7	15.4	9.6	9.5
<b>Basic EPS (₹)</b>	<b>10.9</b>	<b>7.3</b>	<b>21.6</b>	<b>19.2</b>	<b>27.8</b>
<b>Adj. EPS (₹)</b>	<b>10.9</b>	<b>7.3</b>	<b>21.6</b>	<b>19.2</b>	<b>27.8</b>
% chg	27.1	(33.4)	196.9	(11.1)	44.7

**Balance sheet statement (Standalone)**

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012
<b>SOURCES OF FUNDS</b>					
Equity share capital	19	19	19	19	19
Reserves & surplus	392	449	641	812	1,061
<b>Shareholders' Funds</b>	<b>411</b>	<b>468</b>	<b>661</b>	<b>832</b>	<b>1,080</b>
Total loans	535	473	464	598	1,663
Other long term liabilities	-	-	-	23	34
Long term provisions	-	-	-	344	125
Deferred tax liability	43	52	55	57	63
<b>Total Liabilities</b>	<b>989</b>	<b>993</b>	<b>1,180</b>	<b>1,854</b>	<b>2,965</b>
<b>APPLICATION OF FUNDS</b>					
Gross block	572	739	871	1,009	1,227
Less: Acc. depreciation	148	204	257	322	399
<b>Net Block</b>	<b>424</b>	<b>535</b>	<b>615</b>	<b>687</b>	<b>828</b>
Capital work-in-progress	127	75	59	44	450
Investments	34	32	81	32	32
Long term loans and advances	-	-	-	462	393
Other noncurrent assets	-	-	-	1	0
<b>Current assets</b>	<b>685</b>	<b>631</b>	<b>817</b>	<b>871</b>	<b>1,538</b>
Cash	9	11	4	11	357
Loans & advances	295	278	370	126	220
Other	382	341	443	735	961
Current liabilities	282	279	392	243	276
<b>Net current assets</b>	<b>403</b>	<b>352</b>	<b>425</b>	<b>628</b>	<b>1,261</b>
<b>Total Assets</b>	<b>989</b>	<b>993</b>	<b>1,180</b>	<b>1,854</b>	<b>2,965</b>

**Cash flow statement (Standalone)**

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012
Profit before tax	162	108	311	275	398
Depreciation	44	57	66	74	83
Change in working capital	(129)	72	(81)	(217)	(282)
Others	(23)	118	57	108	8
Other income	(74)	(34)	(55)	(91)	(3)
Direct taxes paid	57	(38)	(102)	(89)	(130)
<b>Cash Flow from Operations</b>	<b>38</b>	<b>284</b>	<b>196</b>	<b>59</b>	<b>74</b>
(Inc./Dec. in fixed assets	(59)	(114)	(117)	(123)	(624)
(Inc./Dec. in investments	(32)	2	(49)	48	0
Other income	74	34	55	91	3
<b>Cash Flow from Investing</b>	<b>(17)</b>	<b>(79)</b>	<b>(110)</b>	<b>17</b>	<b>(620)</b>
Issue of equity	-	-	-	-	-
Inc./Dec. in loans	134	(62)	(8)	134	1,065
Dividend paid (Incl. Tax)	0	24	16	16	17
Others	(151)	(165)	(100)	(219)	(189)
<b>Cash Flow from Financing</b>	<b>(17)</b>	<b>(203)</b>	<b>(93)</b>	<b>(70)</b>	<b>893</b>
Inc./Dec. in cash	4	2	(7)	7	346
<b>Opening Cash balances</b>	<b>5</b>	<b>9</b>	<b>11</b>	<b>4</b>	<b>11</b>
<b>Closing Cash balances</b>	<b>9</b>	<b>11</b>	<b>4</b>	<b>11</b>	<b>357</b>

**Key ratios**

Y/E March (₹ cr)	FY2008	FY2009	FY2010	FY2011	FY2012
<b>Valuation Ratio (x)</b>					
P/E (on FDEPS)	26.1	39.2	13.2	14.8	10.3
P/CEPS	18.4	21.7	10.0	10.6	7.8
P/BV	6.7	5.9	4.2	3.3	2.5
Dividend yield (%)	0.7	0.4	0.5	0.5	0.5
EV/Sales	3.3	2.6	2.3	1.7	1.4
EV/EBITDA	15.7	18.9	9.2	11.9	8.0
EV / Total Assets	3.3	3.2	2.7	1.8	1.4
<b>Per Share Data (₹)</b>					
EPS (Basic)	10.9	7.3	21.6	19.2	27.8
EPS (fully diluted)	10.9	7.3	21.6	19.2	27.8
Cash EPS	15.5	13.1	28.5	26.9	36.4
DPS	2.1	1.2	1.4	1.4	1.5
Book Value	42.5	48.4	68.4	86.1	111.8
<b>Dupont Analysis</b>					
EBIT margin	16.5	9.2	20.2	10.6	15.0
Tax retention ratio	0.6	0.7	0.7	0.7	0.7
Asset turnover (x)	1.1	1.2	1.3	1.3	1.3
ROIC (Post-tax)	11.9	7.4	17.1	9.1	12.8
Cost of Debt (Post Tax)	3.7	4.8	2.7	2.6	1.7
Leverage (x)	1.2	1.1	0.8	0.7	1.0
Operating ROE	21.8	10.3	28.9	13.7	23.8
<b>Returns (%)</b>					
ROCE (Pre-tax)	18.2	11.3	25.3	13.5	17.5
Angel ROIC (Pre-tax)	16.6	11.4	23.4	11.1	16.2
ROE	27.8	16.0	37.0	24.9	28.1
<b>Turnover ratios (x)</b>					
Asset Turnover (Gross Block)	1.7	1.9	1.7	2.1	2.5
Inventory / Sales (days)	57	46	44	58	58
Receivables (days)	68	62	62	53	52
Payables (days)	34	28	27	32	31
WC cycle (ex-cash) (days)	131	110	102	98	98
<b>Solvency ratios (x)</b>					
Net debt to equity	1.3	1.0	0.7	0.7	1.2
Net debt to EBITDA	2.6	2.7	1.3	2.1	2.6
Interest Coverage (EBIT / Int.)	6.0	3.0	14.7	9.9	15.2

Research Team Tel: 022 - 39357800

 E-mail: [research@angelbroking.com](mailto:research@angelbroking.com)

 Website: [www.angelbroking.com](http://www.angelbroking.com)

## DISCLAIMER

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Angel Broking Limited, its affiliates, directors, its proprietary trading and investment businesses may, from time to time, make investment decisions that are inconsistent with or contradictory to the recommendations expressed herein. The views contained in this document are those of the analyst, and the company may or may not subscribe to all the views expressed within.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals.

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall 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. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Angel Broking Limited and its affiliates may seek to provide or have engaged in providing corporate finance, investment banking or other advisory services in a merger or specific transaction to the companies referred to in this report, as on the date of this report or in the past.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

**Note: Please refer to the important 'Stock Holding Disclosure' report on the Angel website (Research Section). Also, please refer to the latest update on respective stocks for the disclosure status in respect of those stocks. Angel Broking Limited and its affiliates may have investment positions in the stocks recommended in this report.**

Disclosure of Interest Statement	Balkrishna Industries
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

*Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors*

<b>Ratings (Returns):</b>	Buy (> 15%) Reduce (-5% to 15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
---------------------------	------------------------------------	---	--------------------