



KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- Balkrishna Industries Ltd Q1FY23 consolidated revenues came in at ₹2619 Cr, up 45.3% YoY and up 10.3% QoQ.
- EBITDA for Q1FY23 stood at ₹444 Cr, down 13.1% YoY and down 11.1% QoQ.
- EBITDA margins for Q1FY23 came at 16.95%, -1141 bps YoY and -424 bps QoQ.
- PAT for Q1FY23 stood at ₹307 Cr, down 7.1% YoY and down 18.1% QoQ.

2. MANAGEMENT COMMENTARY:

- Management retained the sales guidance at 3.2-3.3 lakh MTPA for FY23.
- Management has given the CAPEX guidance of ~900 which is in line with their previous commentary.

3. SEGMENTAL ANALYSIS:

- Q1FY23 Segmental Mix: Agriculture (64%), OTR (32.8%), Others (3.2%)
- Q1FY23 Channel Mix: Replacement (69.8%), OEM (27.8%), Others (2.4%)
- Q1FY23 Geographical Mix: Europe (49.7%), Americas (19.6%), India (21.2%), RoW (9.6%)

4. CONCALL SUMMARY

- Sales volume for Q1FY23 is 83153 MT (+7.8% QoQ and +21% YoY)
- Margin performance was slightly muted due to rise in RM prices, freight rates and power costs. The logistics costs has almost doubled
- Demand continues to remain strong despite inflationary pressures in US and adverse economic environment in Europe.
- Management mentioned that Q2 may face some challenges but demand comeback can be witnessed in Q3 and Q4.
- Raw material prices were at elevated levels but now they are gradually easing.
- Company has taken 5% price hike in Q1FY23 to combat the rising RM prices. BKT tires are cheaper than their competitors and management expects the same to continue.
- Company maintains long term margin guidance of 28-30%.
- Company is looking for expansion to gain their market share.

5. OTHER DEVELOPMENTS:

- Total achievable capacity will be 360000 MTPA by H2FY23.
- Company expects commissioning for 55000 MTPA carbon black capacities by Q3FY23.

6. VALUATION AND OUTLOOK:

Balkrishna Industries is the leader in mining and agricultural segment and they generate ~80% of their revenues from exports.

We believe company will continue to perform well over next few quarters due to robust demand environment. We believe that company's export oriented business model, labor cost benefits and aggressive marketing may help them in outperforming their peers.

Also with the help of CAPEX they are increasing their capacity which will help them in gaining their market share.

We give a "BUY" rating on the stock and value the stock at 22.5x FY24E earnings to arrive at the target of ₹2293.

RECOMMENDATION - BUY

CMP – 1994

TARGET – 2293 (15%)

Industry	Tyres & Allied
NSE CODE	BALKRISIND
BSE CODE	502355
Market Cap (₹ Cr)	38857.72
Shares Outstanding (in Cr)	19.33
52 wk High/Low (₹)	2723.8 / 1690.55
P/E	27.52
P/BV	5.37
Face Value (₹)	2.00
Book Value (₹)	374.51
EPS (FY22) (₹)	74.26
Dividend Yield (%)	1.31
Debt / Equity	0.36
Interest Coverage	212.99

SHAREHOLDING PATTERN

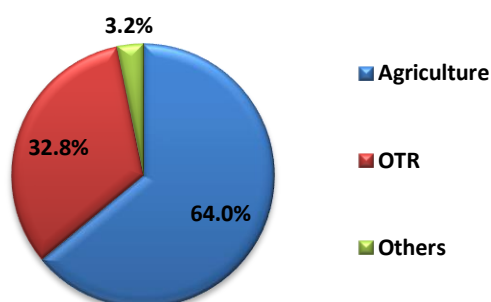
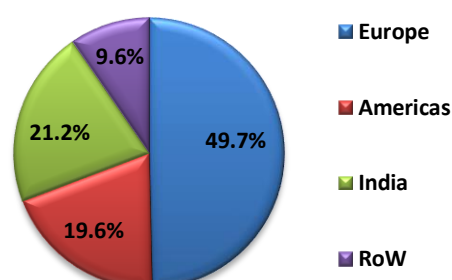
	Jun 22	Mar 22	Dec 21
Promoters	58.29	58.29	58.29
MF/ DII	11.01	11.64	11.48
FII/FPI	14.30	14.05	15.07
Retail & Others	16.24	15.87	15.05
Promoter Pledging	0.00	0.00	0.00

FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2022A	2023E	2024E
Crore			
Sales	8295.12	9456.44	10874.90
Sales Gr. (%)	43.44	14%	15%
EBITDA	2008.95	2458.67	3044.97
EBITDA %	29.48	26%	28%
PAT	1435.38	1561.44	1969.18
EPS (₹)	74.26	80.78	101.87
EPS Gr. (%)	21.90	8.78	26.11
BV/Sh. (₹)	358.67	405.5	472.5
Ratios			
RoE (%)	22.20	20.5	19.5
RoCE (%)	24.19	21.5	20.5
Payout (%)	37.71	25.5	22.5
Valuation			
P/E (x)	28.80	24.68	19.57
P/BV (x)	5.96	4.91	4.22

Historical & Industrial Val Ratios

Historical P/E	27.52
Industry P/E	38.82
Historical P/B	5.37
Industry P/B	2.70


REVENUE SPLIT (Q1FY23)
Segmental Mix (Q1 FY23)

Geographic Mix (Q1 FY23)

QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY21			FY22			FY23		FY22	FY23E
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2E		
Net sales	1,509	1,753	1,803	2,072	2,046	2,374	2,619	2750	8295	9456
YoY change (%)	30.58%	27.78%	91.26%	31.33%	35.55%	35.40%	45.29%	32.72%	43.44%	14.00%
Total Expenditures	1,030	1,203	1,292	1,534	1,589	1,871	2,175	2227	6286	6986
EBITDA	480	550	511	538	457	503	444	522	2009	2459
Margins (%)	32%	31%	28%	26%	22%	21%	17%	19%	29%	26%
Other income	55	61	82	133	113	109	106	50	438	200
Interest	2	3	2	2	2	3	3	3	9	10
Depreciation	105	106	107	111	118	120	129	130	455	480
PBT	428	503	484	558	450	490	417	439	1982	2169
Rate (%)	24%	24%	32%	30%	25%	24%	26%	25%	28%	28%
Adjusted PAT	325	380	331	391	339	375	307	330	1435	1561
EPS in Rs	16.82	19.65	17.1	20.23	17.53	19.39	15.88	17.05	74.26	80.78

Key Performance Indicators

Current Funnel (\$ Mn)	540	564	573	628	649	675	725		
Deal Wins	6	10	12	10	9	10	6		
Large Deal Wins	4	6	4	5	0	0	3		
Implementation Go Lives	13	26	26	11	6	11	6		
Avg Destiny Deal Size (\$ Mn)	6.0	6.1	5.6	5.6	5.6	5.8	6.0		
Inv in Prod Dev (Rs Mn)	284	283	284	287	290	282	297		

Source: Company, Hem Securities Research.

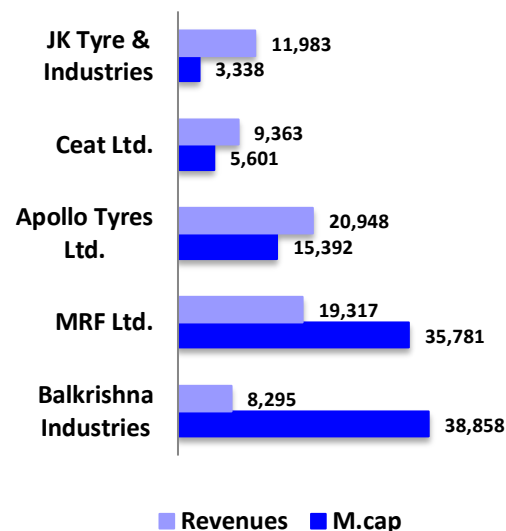


INDUSTRY OVERVIEW

- India is the fourth-largest market for tires globally after China, Europe and the United States
- The Indian market is currently being witnessing increasing radialisation of tires, especially in buses and trucks
- The demand for tires is primarily catalysed from two end user segments - OEMs and the replacement segment. The replacement market currently dominates the tire market accounting for most of the total sales.
- ICRA estimates, the domestic demand growth in volumes for the Indian Tire industry is expected to be around 13-15% for in fiscal year 2021-22 and is expected to maintain a growth rate of 7-9% between 2022-2025 period.
- Tire exports have witnessed a noticeable increase in the current year, owing to increased acceptability of Indian tires in abroad markets, and healthy demand from destinations such as the United States and European countries.
- The industry is further expected to witness a capex of over Rs 20,000 Crores between 2022-2025 period owing to increasing off-take across both Indian and global markets.
- Leading players in Indian Tire space includes Balkrishna Industries, MRF, CEAT, Apollo Tyres, JK Tyre & Industries etc.

Source: Company, Hem Securities Research.

KEY PLAYERS in Tyre Ind



PEER PERFORMANCE

(₹ Cr)

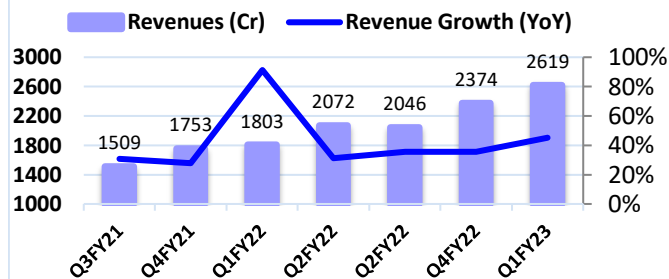
Particulars	Balkrishna Industries Ltd.	Ceat Ltd.	Apollo Tyres Ltd.	MRF Ltd.	JK Tyre & Industries Ltd.
Market Cap	38,857.7	5,601.3	15,391.7	35,781.2	3,337.7
Net Sales	8,295.1	9,363.4	20,947.6	19,316.7	11,983.0
EBITDA	2,009.0	708.4	2,594.8	2,058.8	1,073.3
PAT	1,435.4	71.2	638.6	669.2	210.0
EPS(₹)	74.3	17.6	10.1	1,578.4	8.5
EBITDA MARGIN %	29.5	7.7	13.0	12.0	9.3
PAT MARGIN %	17.3	0.4	3.0	3.4	1.7
ROCE %	24.2	5.5	7.4	7.3	9.5
ROE %	22.2	1.3	5.5	4.9	7.3
P/E TTM	27.5	99.2	21.9	57.0	16.6
P/B TTM	5.4	1.7	1.3	2.5	1.2
EV/EBITDA	17.5	10.5	7.85	17.0	7.62
Dividend Yield %	1.4	0.2	1.3	0.2	1.1

Source: Company, Hem Securities Research.

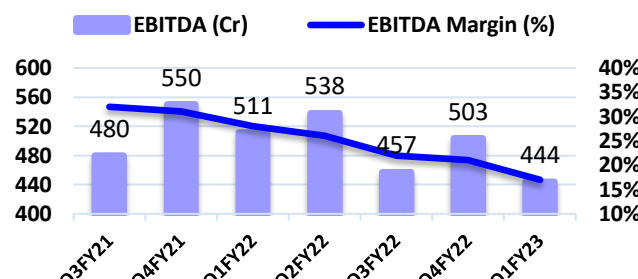


STORY IN CHARTS

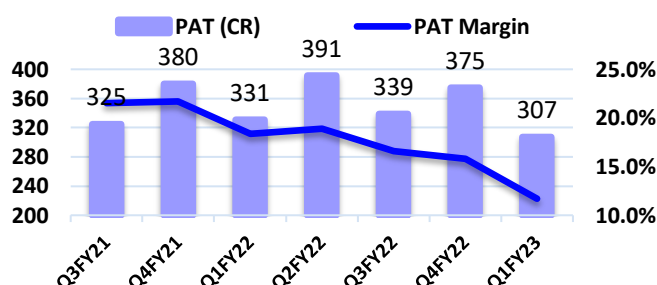
Revenue



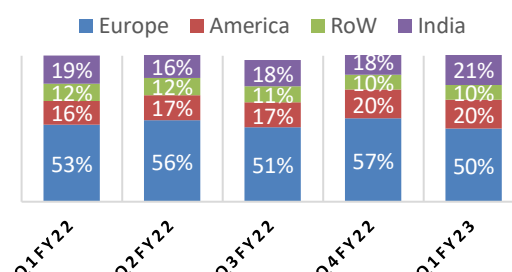
EBITDA & EBITDA Margin



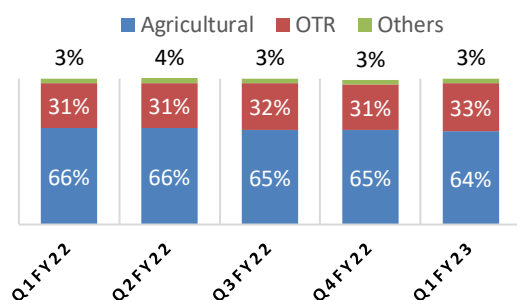
PAT & PAT Margin



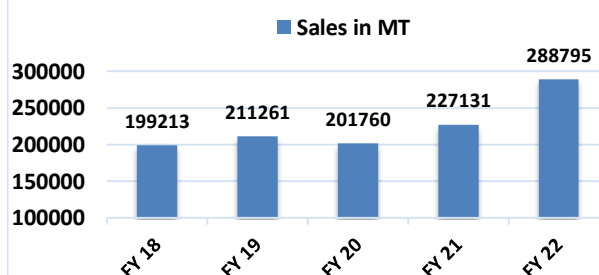
GEOGRAPHICAL MIX



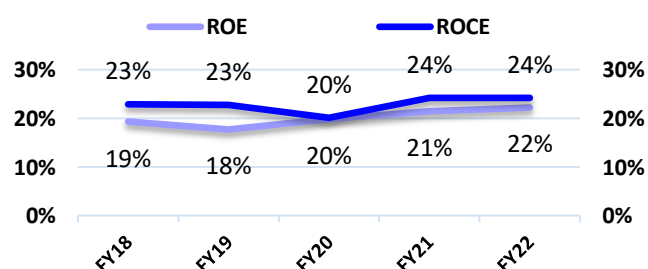
PRODUCT MIX



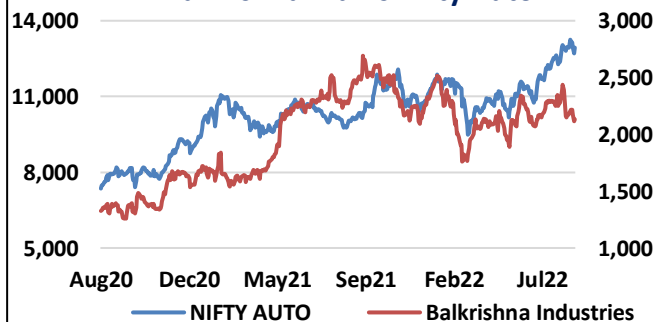
Sales Volume Profile



ROE and ROCE



Balkrishna Ind Vs Nifty Auto





INVESTMENT RATIONALE:

- Company targets to double global market share to ~10% vs. ~5.5-6% currently.
- Company launched SKUs in larger diameter tyres of 51" & 57" to strengthen its presence in the OTR space.
- The achievable capacity by end of FY23 will be 360,000 MT as compared to ~285,000 MT right now.
- FY23 Sales Volume guidance: 320,000 MT – 330,000 MT as compared to 288K MT volumes in FY22.
- Backward integration at the carbon black plant is may increase margins by ~100 bps.
- Since company has manufacturing base in India, it has an edge over its global peers to in terms of labor cost.
- Company has a close proximity rubber producing nations such as Thailand, Malaysia, and Indonesia which leads to lower RM sourcing and logistics costs.
- Company is aggressive in marketing and promotional activities which is improving their brand visibility.
- 3Y Sales Growth: 17%. 3Y profit growth: 23%.
- 5Y Sales Growth: 17%. 5Y profit growth: 17%.

RISK / NEGATIVE FACTORS:

- Majority of BKT's revenue comes from the European agri segment, any unfavorable climatic conditions could have a bearing on demand.
- Any downturn in mining and construction activities could unfavorably impact demand for the company.
- North America (NA) and EU are key geographies for BKT, contributing ~20%/50% of revenues. Any geopolitical issues in these nations may impact the company's topline and bottomline.
- Natural/synthetic rubber and crude derivatives are the major raw materials for BKT. Any sharp uptick in raw material prices could negatively impact the company's margins.

COMPANY RECAP

- Balkrishna Industries Limited (BKT), incorporated in 1961, is the flagship company of the Siyaram Poddar group led by Mr Arvind Poddar.
- Agricultural, construction and industrial vehicles segments have been the key focus areas for BKT, along with earthmoving, port and mining, and ATV (All-terrain vehicle) segments.
- BKT is now an established exporter of OHT, with exports comprising ~80% of its revenue share.
- Sales to over 160 countries through Distribution network in Americas, Europe, India and Rest of the World.
- The company currently has four manufacturing units in India, with an overall achievable capacity of 285,000 metric tonnes (MT) per annum, and a sales distribution network spread across 140 countries.
- It has an in-house production unit for tyre moulds as well, which helps it render faster response to customers. Achievable Capacity at end of FY23 will be 360,000 M.T.P.A.
- The Company's major raw material is Natural and Synthetic Rubber, Carbon Black and Nylon fabric.
- FY22 Segmental Sales: Agriculture (65.5%), OTR (31.1%), Others (3.3%)
- FY22 Channel Sales: Replacement (69.1%), OEM (27.7%), Others (3.3%)
- FY22 Geographical Sales: Europe (53.9%), Americas (17.3%), India (17.6%), RoW (11.2%)



ANNUAL PERFORMANCE

Financials & Valuations

Income Statement							(₹ Cr)
Y/E March	2018	2019	2020	2021	2022	2023E	2024E
Revenue from operations	4,443.79	5,209.99	4,811.24	5,783.19	8,295.12	9456.44	10874.90
Growth YoY (%)	19.35	17.24	-7.65	20.20	43.44	14.00	15.00
Total Expenditure	3,341.27	3,906.55	3,655.31	3,972.37	6,286.17	6985.6	7816.3
(%) of sales	75.19	74.98	75.97	68.69	75.78	74.00	72.00
EBITDA	1,102.52	1,303.44	1,155.93	1,810.82	2,008.95	2458.67	3044.97
EBITDA Growth (%)	4.17	5.50	0.15	30.12	23.39	22.39	23.85
EBITDA Margin (%)	32.33	29.21	31.67	34.27	29.48	26%	28%
Depreciation	311.40	332.61	373.61	416.30	455.37	480	500
EBIT	1,130.87	1,189.00	1,150.31	1,566.68	1,991.50	1978.67	2544.97
EBIT Growth (%)	4.65	5.14	-3.25	36.20	27.12	-0.64	28.62
Net Interest Expenses	14.83	12.44	10.79	11.76	9.35	10	10
Other Income	339.75	218.17	367.99	172.16	437.92	200	200
Earnings before Taxes	1,116.04	1,176.56	1,139.52	1,554.92	1,982.15	2168.67	2734.97
EBT Margin (%)	25.02	22.58	23.68	26.87	23.88	22.93	25.15
Tax-Total	380.25	402.91	179.87	377.39	546.77	607.23	765.79
Rate of tax (%)	34.07	34.24	15.78	24.27	27.58	28	28
Net Profit	735.79	773.65	959.65	1,177.53	1,435.38	1561.44	1969.18
PAT Growth (%)	2.64	5.15	24.04	22.70	21.90	8.78	26.11
PAT Margin (%)	16.49	14.85	19.95	20.35	17.29	16.51	18.11
Minority Interest	0.00	0.00	0.00	0.00	0.00	0	0
Adjusted PAT	735.79	773.65	959.65	1,177.53	1,435.38	1561.44	1969.18
EPS	38.06	40.02	49.65	60.92	74.26	80.78	101.87
EPS Growth (%)	2.64	5.15	24.04	22.70	21.90	8.78	26.11

Balance Sheet

Y/E March	2018	2019	2020	2021	2022
Share Capital	39	39	39	39	39
Reserves	4,045	4,615	4,970	5,961	6,894
Net Worth	4,084	4,654	5,009	6,000	6,933
Borrowings	867	871	932	1,001	2,529
Other Liabilities	927	954	866	1,166	1,517
Total Liabilities & Equity	5,878	6,479	6,806	8,166	10,979
Fixed Assets	2,849	2,786	3,308	3,370	4,019
CWIP	119	600	587	856	1,258
Investments	1,103	1,083	1,062	1,418	1,897
Other Assets	1,808	2,010	1,850	2,523	3,805
Total Assets	5,878	6,479	6,806	8,166	10,979

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2018	2019	2020	2021	2022
Profitability and return ratios					
Net profit margin (%)	16.49	14.85	19.95	20.35	17.29
EBITDA margin (%)	32.33	29.21	31.67	34.27	29.48
EBIT margin (%)	25.35	22.82	23.91	27.08	23.99
ROE (%)	19.30	17.71	19.86	21.39	22.20
ROCE (%)	22.88	22.70	20.07	24.21	24.19
Working Capital & liquidity ratios					
Payables (Days)	40.21	35.16	65.69	82.03	71.70
Inventory (Days)	44.80	48.26	52.13	49.06	57.43
Receivables (Days)	36.46	34.91	41.99	42.37	40.67
Current Ratio (x)	1.41	1.70	1.23	1.30	1.20
Valuations Ratios					
EV/sales (x)	4.85	3.84	3.36	5.81	5.28
EV/EBITDA (x)	14.96	13.16	10.60	16.95	17.90
P/E (x)	28.18	24.85	15.93	27.75	28.80
P/BV (x)	5.08	4.13	3.05	5.45	5.96
Dividend Yield (%)	0.75	0.80	2.53	1.01	1.31
Return on Assets (%)	12.61	12.52	14.45	15.73	14.99
Leverage Ratio					
Debt/Equity (x)	0.21	0.19	0.19	0.17	0.36

Cash Flow Statement					
Y/E March	2018	2019	2020	2021	2022
CF from Operating activities (A)	750	820	1,173	1,339	908
CF from Investing Activities (B)	-92	-636	-678	-1,173	-1,897
CF from Financing Activities (C)	-654	-165	-495	-158	980
Net Cash Flow	3.85	19.74	0.69	7.55	-9
Add: Opening Bal.	23	26	46	47	55
Closing Balance	26	46	47	55	46

Source: Company, Hem Securities Research.



RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
3 Sep 2022	Buy	2293

DISCLAIMER

HEM Securities Limited (“Research Entity or HSL”) is regulated by the Securities and Exchange Board of India (“SEBI”) and is licensed to carry on the business of broking, depository services and other related activities. Broking services offered by HEM Securities Limited are under SEBI Registration No.: INZ000168034.

This Report has been prepared by HEM Securities Limited in the capacity of a Research Analyst having SEBI Registration No. INH100002250 and distributed as per SEBI (Research Analysts) Regulations 2014. This report does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. The information contained herein is from publicly available data or other sources believed to be reliable. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. This should not be construed as invitation or solicitation to do business with HSL. The investment discussed or views expressed may not be suitable for all investors.

This information is strictly confidential and is being furnished to you solely for your information. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. 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 HSL and associates / group companies to any registration or licensing requirements within such jurisdiction. The distribution of this report in certain jurisdictions may be restricted by law, and persons in whose possession this report comes, should observe, any such restrictions. The information given in this report is as of the date of this report and there can be no assurance that future results or events will be consistent with this information. This information is subject to change without any prior notice. HSL reserves the right to make modifications and alterations to this statement as may be required from time to time. HSL or any of its associates / 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. HSL is committed to providing independent and transparent recommendation to its clients. Neither HSL nor any of its associates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including loss of revenue or lost profits that may arise from or in connection with the use of the information. Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein. Past performance is not necessarily a guide to future performance. The disclosures of interest statements incorporated in this report are provided solely to enhance the transparency and should not be treated as endorsement of the views expressed in the report.

We offer our research services to clients as well as our prospects. Though this report is disseminated to all the customers simultaneously, not all customers may receive this report at the same time. We will not treat recipients as customers by virtue of their receiving this report.



HSL and its associates, officer, directors, and employees, research analyst (including relatives) worldwide may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of 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 subject company/company(ies) discussed herein or act as advisor or lender/borrower to such company(ies) or have other potential/material conflict of interest with respect to any recommendation and related information and opinions at the time of publication of research report or at the time of public appearance.

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

ANALYST CERTIFICATION/ DISCLOSURE OF INTEREST

Name of the Research Analyst: ABHISHEK SHARDA

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

SN	Particulars	Yes/No
1.	Research Analyst or his/her relative's or HSL's financial interest in the subject company(ies)	No
2.	Research Analyst or his/her relative or HSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3.	Research Analyst or his/her relative or HSL has any other material conflict of interest at the time of publication of the Research Report	No
4.	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5.	HSL has received any compensation from the subject company in the past twelve months	No
6.	HSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7.	HSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8.	HSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9.	HSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

Since HSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months. Associates of HSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

There were no instances of non-compliance by HSL on any matter related to the capital markets, resulting in significant and material disciplinary action during the last three years.