

## Balkrishna Industries Ltd.

Q1 FY17 Quarterly Update

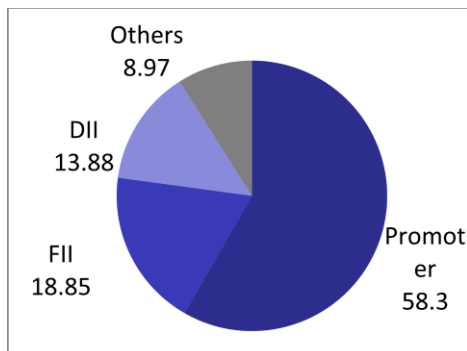
### MARKET DATA

NSE TICKER	BALKRISIND
Net worth (₹ Cr)	2,795
P/E Ratio (FY17E) (x)	10.7
P/B Ratio (FY17E) (x)	1.8
EPS (FY17E) (₹)	59.3
Market Price (₹)	849
52 Week High(09/09/2016)(₹)	920
52 Week Low (29/02/2016)(₹)	551
Market Capitalisation (₹ Cr)	8,202

### AVERAGE MONTHLY VOLUME ('000)

BSE	10.80
NSE	820.14

### SHARE HOLDING PATTERN



RETURN	3M	6M	12M
Balkrishna Ind	23.4	37.8	20.8
Sensex	7.8	15.9	10.2

**Preeti Patel**  
 (Research Analyst)  
[preeti@dimensional.in](mailto:preeti@dimensional.in)  
 +91-22-66545239

### Quarterly Performance:

Particulars ₹Cr.	Q1 FY17	Q1 FY16	%YoY	Q4 FY16	%QoQ	FY16	FY15	%YoY
Net Sales	928.1	855.9	8.4	879.6	5.5	3212	3780	-15
EBITDA	291.0	216.6	34.4	329.4	-11.7	1078.2	1003.2	7.5
EBITDA Margin	32.0	25.4	660bps	37.7	-570bps	33.6	26.5	710bps
Interest	6.6	9.7	-31.8	8.1	-19.2	34.3	46.6	-26.4
PBT	227.7	147.6	54.3	242.4	-6.1	846.9	727.6	16.4
PAT	149.1	101.6	46.6	155.0	-3.8	567.7	488.9	16.1
EPS	15.4	10.5	46.6	16.0	-3.8	58.7	50.7	15.9

BKT reported net revenue of ₹928crs in Q1FY17 driven by volume growth of 11% to 43,306 tonnes (QoQ). EBITDA margins were higher by ~652 bps y-o-y to ~32.0% vs ~25.4% due to stable RM prices and low cost inventory. PAT grew by 46.6% to ₹149 crs against ₹102 crs in the corresponding period of previous year. However, the growth was largely due to lower base in previous quarter due to IND-AS adjustments. (In Q1FY16, company had recognized MTM losses of ₹ 31crs as required under IND-AS).

### Rubber prices correction

Rubber prices, both in international and domestic markets, had witnessed a sharp increase between May-August'17. Although they have softened in the last one month, they are still 24% higher than the Q4 FY16 average and 12% higher than the FY16 average. Increase in crude price has also led to an increase in the synthetic prices adding pressure to the margins.

### Demand outlook muted; although headwinds in USA persist

The global demand for OHT remains muted, also the demand for agricultural tyres continues to be impacted by weak crop prices globally. However, we expect BKT to grow faster than the industry due to its focus on penetrating in newer geographies and adding new OEMs. We estimate volume growth of 6% for FY17E and 10% for FY18E to account for these opportunities.

The United States Department of Commerce (DoC) has found no evidence of dumping by BKT in its preliminary determination therefore no anti-dumping duty has been imposed. However, the regulator has levied a countervailing duty of 4.7% on BKT. The final verdict is awaited and is likely to be announced in January 2017.

### Outlook and Valuation

Global growth in mining and agriculture has been a drag for volume pick for BIL. We expect some pick in the volumes for BIL given its focus on new geographies and deeper penetration in North America. The management has been hedging its Euro/INR exposure for FY2017 by covering its exposure at ₹79-80 (versus ₹84 in FY2016). This implies a hit of ~280bps on BKT's EBITDA margins in FY2017E.

Last 2 years, has been a windfall gain for the tyre industry owing to continuous fall in rubber and crude prices. With commodities bottoming out, we expect EBITDA margin to be under pressure going ahead.

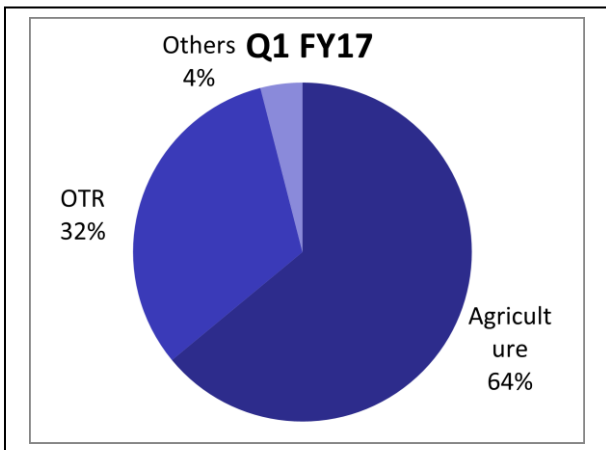
We expect EBITDA margins to shrink further from 32.0% in Q1 FY17 to 28.6% in FY17E and 27.3% in FY18E despite higher capacity utilization as a result of higher raw material prices. We value the company at 12x FY18EPS to value the company at ₹706/share with a 'underperform' rating.



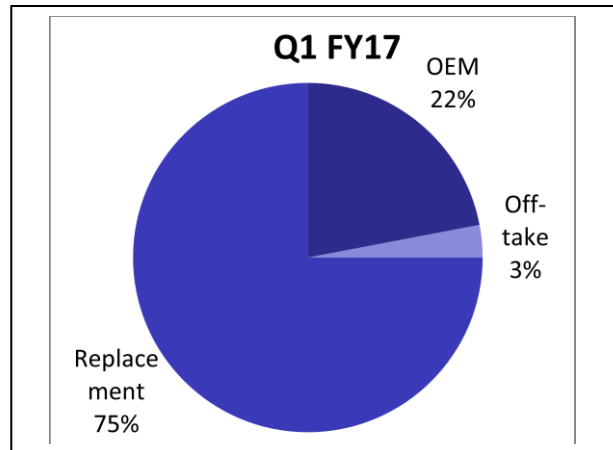
## Conference Call Highlights

- Given the marginal improvement in the agri tyre demand in Europe management has increased the volume guidance from 155,000-165,000 last quarter to 160,000-170,000 MT in FY17E.
- BKT plans to increase its penetration in North America by increasing distributorship and client base.
- BKT has entered the two wheeler tyre segment in 1QFY17, at the request of its dealers who needed 2W tyres to complement their range of agriculture tyres in the rural market. The management outsources its two wheeler tyres and doesn't plan to set up a manufacturing unit.
- The stability in natural rubber price in recent months has spurred demand from the replacement channel in the past two quarters, even though demand environment in the global OHT industry remains weak.
- The management has been hedging its Euro/USD exposure for FY2017 by covering its exposure at ₹79-80 (versus ₹84 in FY2016). This implies a hit of ~280bps on BKT's EBITDA margins in FY2017E.
- The management has guided for ~₹100 crs capex for FY17 and FY18.
- The management is confident that BKT will be debt free by FY19. The management has paid USD 33 mn further reducing the debt to USD 1 25 mn.

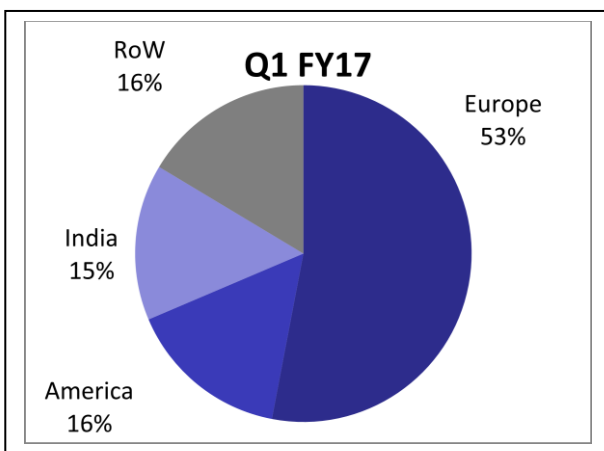
### Product Mix

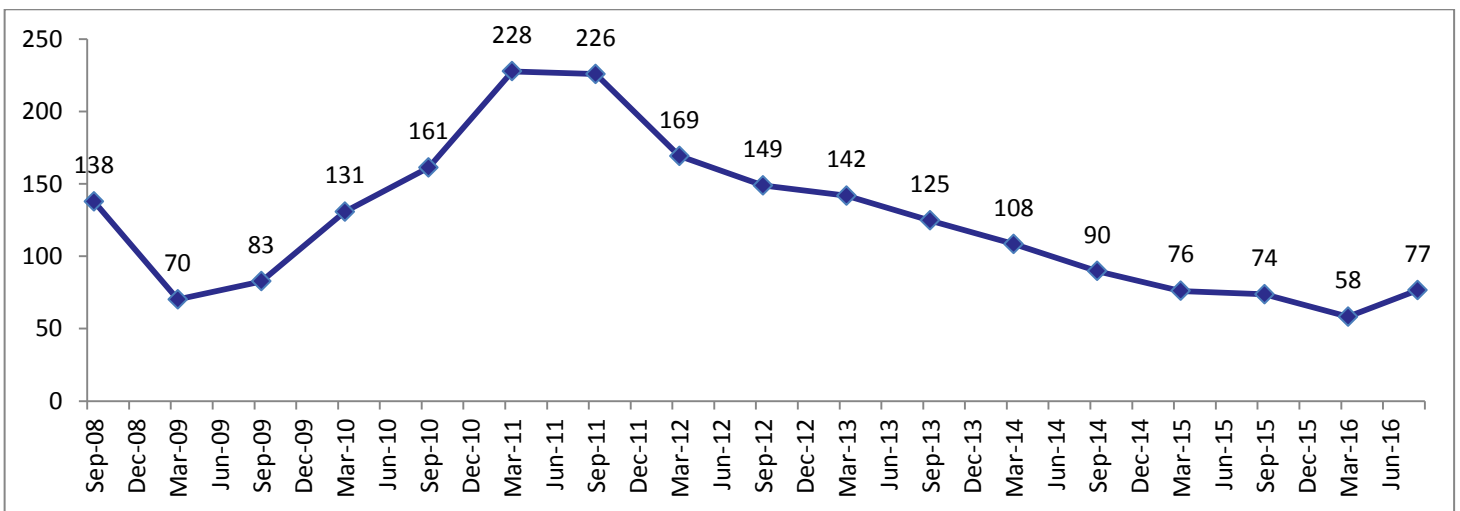
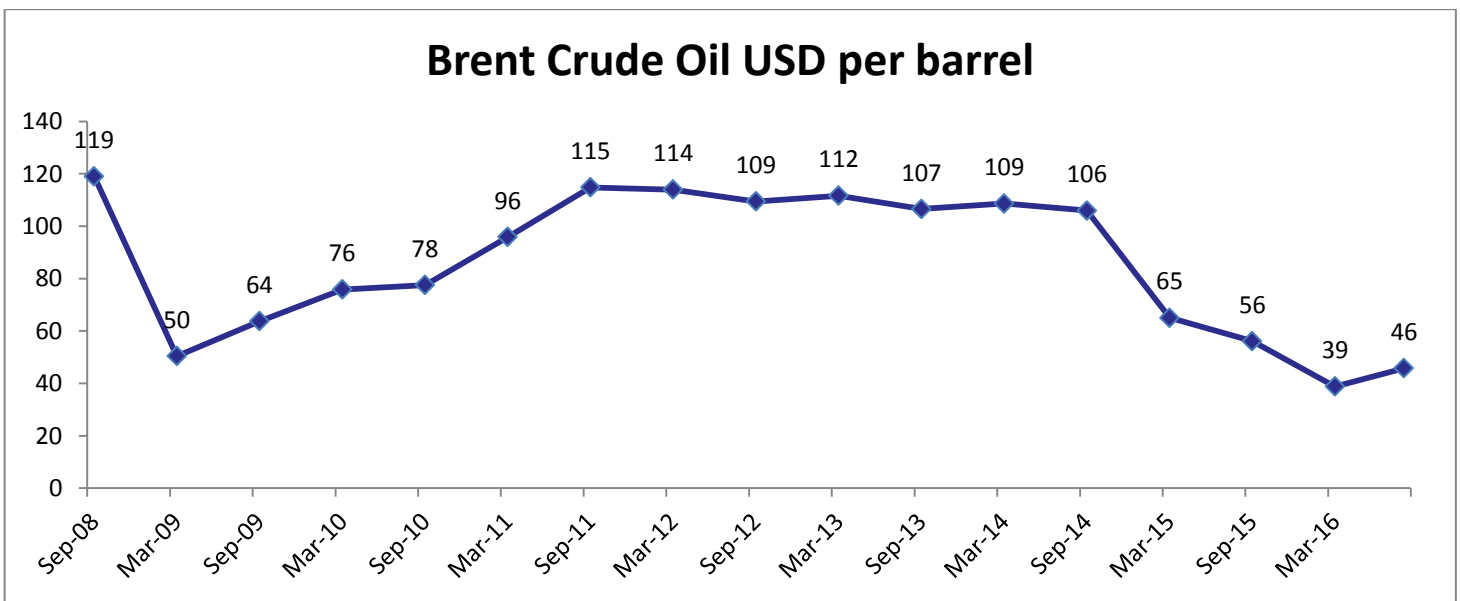
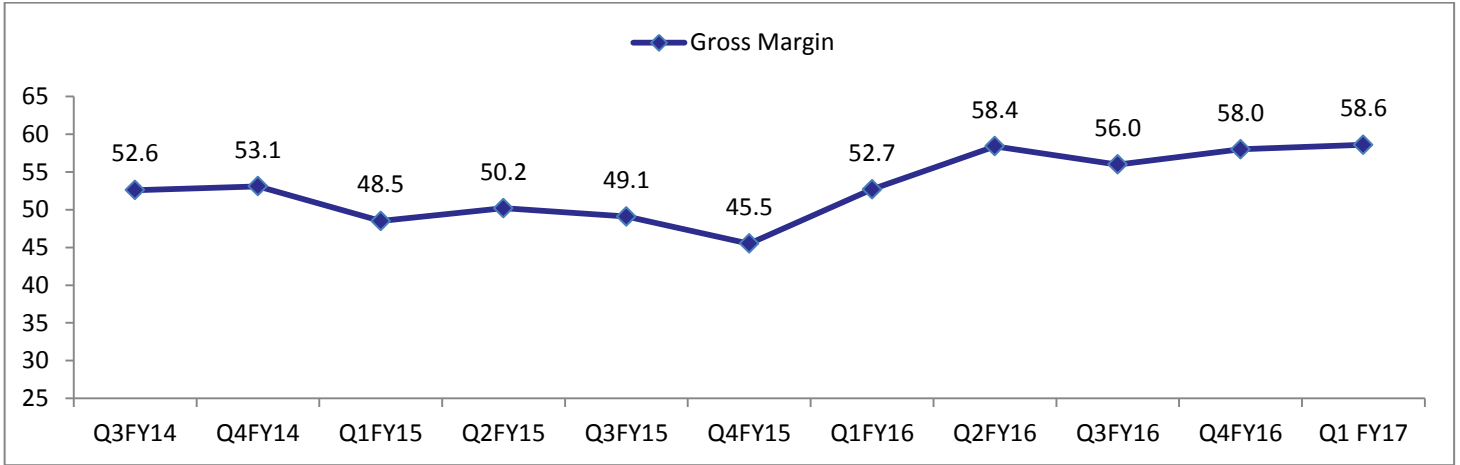


### Channel Mix



### Region Mix





Natural rubber prices had increased to ₹144 in the last quarter, although they have softened to ~₹120 as of today and are expected to continue trading in this range. Until Q1 FY17 the company enjoyed healthy EBITDA margin due to softness in rubber prices. However, going ahead we expect the margins to taper down gradually as rubber prices have started picking up.



**QUARTERLY PERFORMANCE:**

Particulars (₹crs.)	Q1 FY17	Q1 FY16	%YoY	Q4 FY16	YoY%	FY16	FY15	YoY%
Net Sales	910.5	851.2	7.0	874.2	4.1	3212	3780	-15
Other operating income	17.6	4.7	273.5	5.4	228.2	29	0	NA
<b>Total Operating Income</b>	<b>928.1</b>	<b>855.9</b>	<b>8.4</b>	<b>879.6</b>	<b>5.5</b>	<b>3242</b>	<b>3780</b>	<b>-14</b>
Expenditure	959.1	962.6	-0.4					
Raw Material	384.6	418.0	-8.0	366.2	5.0	1412.4	1968.5	-28.3
Employee Cost	54.6	49.7	9.7	61.1	-10.7	209.1	194.3	7.6
Other Expenses	229.0	278.4	-17.8	213.3	7.3	753.4	882.5	-14.6
Foreign Exchange (Gain)/Loss	-31.0	-106.7	-70.9	-90.5	-65.7	-211.3	-268.6	-21.3
<b>Total Expenditure</b>	<b>637.1</b>	<b>639.3</b>	<b>-0.4</b>	<b>550.2</b>	<b>15.8</b>	<b>2163.5</b>	<b>2776.7</b>	<b>-22.1</b>
EBITDA	291.0	216.6	34.4	329.4	-11.7	1078.2	1003.2	7.5
Other Income	20.7	5.0	310.9	-8.4	-346.8	84.1	11.2	652.8
<b>Operating Profit</b>	<b>311.7</b>	<b>221.6</b>	<b>40.7</b>	<b>321.0</b>	<b>-2.9</b>	<b>1162.3</b>	<b>1014.4</b>	<b>14.6</b>
Interest	6.6	9.7	-31.8	8.1	-19.2	34.3	46.6	-26.4
Depreciation	77.5	64.4	20.3	70.5	10.0	281.1	240.2	17.0
PBT	227.7	147.6	54.3	242.4	-6.1	846.9	727.6	16.4
Tax	78.6	45.9	71.2	87.4	-10.1	279.2	238.7	17.0
<b>Profit After Tax</b>	<b>149.1</b>	<b>101.6</b>	<b>46.6</b>	<b>155.0</b>	<b>-3.8</b>	<b>567.7</b>	<b>488.9</b>	<b>16.1</b>
FV	2.0	2.0	NM	2.0	NM	2.0	2.0	NM
EPS	15.4	10.5	46.6	16.0	-3.8	58.7	50.7	15.9

**P&L on 100**

Particulars	Q4FY16	Q4FY15	Q4FY16	FY16	FY15
Net Sales	100	100	100	100	100
Other operating income	1.9	0.6	0.6	0.9	0.0
<b>Total Operating Income</b>	<b>102</b>	<b>101</b>	<b>101</b>	<b>100.9</b>	<b>100.0</b>
Total Expenditure	105.3	113.1	0.0	0.0	0.0
Raw material	42.2	49.1	41.9	44.0	52.1
Employee Cost	6.0	5.8	7.0	6.5	5.1
Other Expenses	25.1	32.7	24.4	23.5	23.3
Foreign Exchange (Gain)/Loss	-3.4	-12.5	-10.3	-6.6	-7.1
<b>Total Expenditure</b>	<b>70.0</b>	<b>75.1</b>	<b>62.9</b>	<b>67.3</b>	<b>73.5</b>
EBITDA	32.0	25.4	37.7	33.6	26.5
Other Income	2.3	0.6	-1.0	2.6	0.3
<b>Operating Profit</b>	<b>34.2</b>	<b>26.0</b>	<b>36.7</b>	<b>36.2</b>	<b>26.8</b>
Interest	0.7	1.1	0.9	1.1	1.2
Depreciation	8.5	7.6	8.1	8.8	6.4
PBT	25.0	17.3	27.7	26.4	19.2
Tax	8.6	5.4	10.0	8.7	6.3
<b>Profit After Tax</b>	<b>16.4</b>	<b>11.9</b>	<b>17.7</b>	<b>17.7</b>	<b>12.9</b>



## OUTLOOK & VALUATION: -

Global growth in mining and agriculture has been a drag for volume pick for BIL. We expect some pick in the volumes for BIL given its focus on new geographies and deeper penetration in North America. The management has been hedging its Euro/USD exposure for FY2017 by covering its exposure at ₹79-80 (versus ₹84 in FY2016). This implies a hit of ~280bps on BKT's EBITDA margins in FY2017E.

Last 2 years, has been a windfall gain for the tyre industry owing to continuous fall in rubber and crude prices. With commodities bottoming out, we expect EBITDA margin to be under pressure going ahead.

We expect EBITDA margins to further shrink from 32.0% in Q1 FY17 to 28.6% in FY17E and 27.3% in FY18E despite higher capacity utilization as a result of higher raw material prices. We value the company at 12x FY18EPS to value the company at ₹706/share with a **'underperform'** rating.



## Profit & Loss

(₹crs)	FY14	FY15	FY16	FY17E	FY18E
<b>Net sales</b>	<b>3,577</b>	<b>3,780</b>	<b>3,242</b>	<b>3,481</b>	<b>3,875</b>
<b>YoY (%)</b>		<b>5.7%</b>	<b>-14.2%</b>	<b>7.4%</b>	<b>11.3%</b>
<b>Total expenses</b>					
Raw Material Cost	1,722	1,969	1,412	1594	1792
Employee costs	139	194	209	237	252
Other Manufacturing Cost	640	883	753	773	839
<b>EBITDA</b>	<b>985</b>	<b>1,003</b>	<b>1,079</b>	<b>997</b>	<b>1,058</b>
<b>YoY (%)</b>		<b>1.8%</b>	<b>7.5%</b>	<b>-7.6%</b>	<b>6.2%</b>
<b>EBIDTA (%)</b>	<b>27.5%</b>	<b>26.5%</b>	<b>33.3%</b>	<b>28.6%</b>	<b>27.3%</b>
Depreciation	165	240	281	277	296
<b>EBIT</b>	<b>820</b>	<b>763</b>	<b>798</b>	<b>720</b>	<b>762</b>
Interest	25	47	34	33	18
Other income	14	11	84	167	104
<b>PBT</b>	<b>718</b>	<b>727</b>	<b>847</b>	<b>855</b>	<b>848</b>
Less: Taxation	229	239	279	282	279
Effective tax rate (%)	31.9%	32.8%	33.0%	33.0%	33.0%
<b>PAT</b>	<b>488</b>	<b>489</b>	<b>568</b>	<b>573</b>	<b>568</b>
<b>YoY (%)</b>		<b>0.1%</b>	<b>16.3%</b>	<b>0.9%</b>	<b>-0.8%</b>
<b>PAT (%)</b>	<b>13.7%</b>	<b>12.9%</b>	<b>17.5%</b>	<b>16.5%</b>	<b>14.7%</b>

## Key Ratios

	FY14	FY15	FY16	FY17E	FY18E
EPS (Rs)	50.5	50.6	58.8	59.3	58.8
Book value (Rs)	195.0	237.1	288.4	345.3	401.7
Dividend per share (Rs)	2.0	1.4	3.7	2.1	2.1
Net Debt Equity Ratio	1.2	0.7	0.5	0.2	0.0
Payable Days	38	36	38	38	38
Debtor Days	62	57	62	65	65
Inventory Days	53	37	33	40	40
ROCE (%)	19.2%	17.4%	18.9%	19.2%	19.4%
Recurring ROE (%)	29.6%	23.4%	22.4%	18.7%	15.7%
ROA (%)	11.0%	9.6%	10.6%	10.7%	10.7%
Div Yield (%)	4.0%	4.0%	4.1%	2.3%	2.2%
<b>Valuation Ratios</b>					
PE (x)	9.5	12.8	10.8	10.7	10.8
Price/book value (x)	2.5	2.7	2.2	1.8	1.6
Market cap/sales (x)	1.3	1.7	1.9	1.8	1.6
EV/sales (x)	1.9	2.2	2.5	2.1	1.7
EV/EBITDA (x)	7.7	8.1	6.3	6.6	6.6
<b>Earnings growth</b>					
EBITDA (%)	35%	12%	8%	-8%	6%
EPS (%)	37%	0%	16%	1%	-1%
PAT (%)	37%	0%	16%	1%	-1%



## Balance Sheet

(₹ crs)	FY14	FY15	FY16	FY17E	FY18E
Equity capital	19	19	19	19	19
Reserves	1,865	2,272	2,769	3318	3863
<b>Net worth</b>	<b>1,885</b>	<b>2,292</b>	<b>2,788</b>	<b>3338</b>	<b>3883</b>
Total borrowings	2,350	2,358	1,915	1207	505
Non-Current Liabilities	171	190	242	291	342
Current Liabilities	468	475	446	479	533
<b>Total liabilities</b>	<b>4,874</b>	<b>5,315</b>	<b>5,391</b>	<b>5,315</b>	<b>5,263</b>
Net block	2,806	3,049	3,085	2909	2713
Investments	427	58	561	561	561
Long term loans & adv	210	168	136	177	197
<b>Current assets</b>					
Inventories	529	392	297	387	431
Debtors	618	602	558	629	701
Cash	10	431	330	215	202
Current Investments	0	386	241	241	241
Other Current assets	274	228	182	196	218
<b>Total assets</b>	<b>4,874</b>	<b>5,315</b>	<b>5,390</b>	<b>5,315</b>	<b>5,263</b>

## Cash Flow

(₹ crs)	FY14	FY15	FY16	FY17E	FY18E
Net profit	488	489	568	573	568
Depn and w/o	165	240	281	277	296
Others	72	108	118	41	48
Change in working cap	-68	-179	301	-142	-83
<b>Op. Cash flow</b>	<b>657</b>	<b>657</b>	<b>1,269</b>	<b>748</b>	<b>830</b>
Capex (Net)	-748	-483	-318	-100	-100
Investments	-394	368	-503	0	0
<b>Inv. Cash flow</b>	<b>-1,141</b>	<b>-115</b>	<b>-821</b>	<b>-100</b>	<b>-100</b>
Dividend	-23	-18	-64	-23	-23
Fresh Equity	0	0	0	0	0
Minority interest	0	0	0	0	0
Debt	276	8	-443	-708	-702
Others	-25	-110	-46	-43	-28
<b>Fin. Cash flow</b>	<b>228</b>	<b>-121</b>	<b>-553</b>	<b>-774</b>	<b>-753</b>
Net change in cash	(256.5)	421.3	(105.3)	-125	-23
<b>Opening cash</b>	<b>266.3</b>	<b>9.8</b>	<b>431.1</b>	<b>330</b>	<b>215</b>
<b>Closing cash</b>	<b>9.8</b>	<b>431.1</b>	<b>329.9</b>	<b>214.6</b>	<b>201.7</b>



## ANALYST CERTIFICATION

We /I (Preeti Patel), Research Analysts, authors and the names subscribed to this report; hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

### **Terms & conditions and other disclosures:**

Dimensional Securities Private Limited (DSPL) is engaged in the business of stock broking and distribution of financial products. This Report has been prepared by Dimensional Securities Private Limited (DSPL) in the capacity of a Research Analyst having SEBI Registration No. INH000001444 and distributed as per SEBI (Research Analysts) Regulations 2014.

The information and opinions in this report have been prepared by DSPL and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of DSPL. While we would endeavour to update the information herein on a reasonable basis, DSPL is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent DSPL from doing so.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. DSPL or its associates accept no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

DSPL encourages independence in research report preparation and strives to minimize conflict in preparation of research report. DSPL or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither DSPL nor Research Analysts have any material conflict of interest at the time of publication of this report.

It is confirmed that (Preeti Patel), Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

DSPL or its associates collectively or Research Analysts do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of DSPL are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

It is confirmed that (Preeti Patel), Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

DSPL may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

We submit that no material disciplinary action has been taken on DSPL by any Regulatory Authority impacting Equity Research Analysis activities.

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 DSPL and associates 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 certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DSPL shall not be liable for any delay or any other interruption which may occur in presenting the data due to any reason including network (Internet) reasons or snags in the system, break down of the system or any other equipment, server breakdown, maintenance shutdown, breakdown of communication services or inability of DSPL to present the data. In no event shall DSPL be liable for any damages, including without limitation direct or indirect, special, incidental, or consequential damages, losses or expenses arising in connection with the data presented by DSPL through this report.