



## Balkrishna Industries Ltd.

Q2 FY16 Quarterly Update

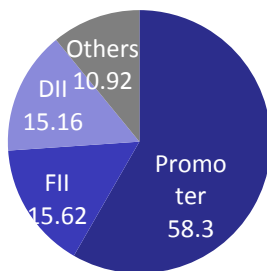
### MARKET DATA

NSE TICKER	BALKRISIND
Net worth (₹ Cr)	2867
P/E Ratio (FY16E) (x)	10.7
P/B Ratio (FY16E) (x)	2.3
Reported EPS (FY16E) (₹)	62.9
Market Price (₹)	627
52 Week High(04/05/2015)(₹)	798
52 Week Low (17/12/2014)(₹)	536
Market Capitalisation (₹ Cr)	6,067

### AVERAGE MONTHLY VOLUME ('000)

BSE	101
NSE	145

### SHARE HOLDING PATTERN



RETURN	3M	6M	12M
Balkrishna Ind	-5.8	-15.7	-9.1
Sensex	-8.2	-5.7	-8.2

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BIL's Q2FY16 result was below our expectation. Adjusted for realised forex income, revenue for the quarter was Rs796 crs, down 14% y-o-y as volumes sales were down 8% to 34,333 tonnes. EBITDA margin was higher at ~31% vs ~22.5% y-o-y due to a sharp fall in RM prices and exchange rate hedging benefit at higher rate. As a result, PAT increased to Rs125 crs from Rs90.2 crs. (38.7% y-o-y)

### Volumes decline; softening of RM prices leading to higher EBITDA margin

BIL volumes declined by 8% (34,333MT for Q2FY16) while blended realisation fell by ~6%. Management expects demand to recover in H2FY16. Increase in Gross margin by 820pp to 58.4% resulted in EBITDA margin increasing to 31.5% (22.7% in Q2FY15). Raw material prices particularly, natural rubber and crude oil have declined by 20% and 51% since September 2014.

### Bhuj Plant to utilization at ~ 20-25%; ramp up slow due to challenging environment

The new plant set up at Bhuj has a capacity of 1.4 LMTPA out of the total capacity of 3,00,000 MTPA. Out of the 34,333 MT volume sales in Q2FY16; ~7,100 MT volume sales came from the Bhuj plant (~6,500MT for Q1FY16). Current capacity utilization of Bhuj plant is ~20%. Management estimates that Bhuj plant will breakeven at 20-25% utilization levels due to lower fixed cost. Management expects Bhuj plant to scale up to full capacity by FY19. Revenue from US has dropped 22% y-o-y for Q2FY16 due slump in global commodity prices particularly from the mining & agriculture sector. Revenue share from US is currently ~15%. Out of the total 8% volume de-growth for this quarter y-o-y, 3% is coming from America alone and the rest is spread out evenly across the globe. Given sluggish demand environment, we cut our volumes estimates by 4% and 7% for FY16 and FY17 respectively. On the working capital front, debtor and inventory stand at 62 days and 40 days respectively. As on H1FY16, cash and bank balance is Rs 25 crs.

### Euro Hedges for FY17 at INR 78

BIL has enjoying higher Euro hedges at INR 85 (current rate of INR 72). However, for FY17E, it has hedged ~25% of the euro revenue at INR 78. We expect further weakness in Euro given tightening in US and expected QE in Dec'15 by ECB. Accordingly, operating margin is expected to drop from current level to 25.7% in FY17.

### Outlook and Valuation

BIL's expansion has commissioned when the global demand is weak. Though volume remain sluggish, industry players like BIL continues to benefit from further softening in raw material prices. BIL to its merit did very good forward hedging at INR 85 which will boost FY16 earnings.

We revise our target to Rs728 from our earlier target of Rs746 and maintain our BUY rating on the stock using the DCF method, on concerns of weak demand scenario and unhedged Euro revenue for FY17E. At our target price, the implied P/E multiple is 9.8x and 12.1x on FY16E & FY17E.

### Quarterly Performance:

Particulars Rs. Cr	Q2 FY16	Q2 FY15	% YoY	Q1 FY16	%QoQ	FY15	FY14	% YoY
Net Sales	787	891	-12%	826	-5%	3639	3577	1.7%
Realised Exchange Gain/(Loss)	9	46	-80%	45	-80%	253	-97	-360.8%
Total Expenditure	548	730	-25%	625	-12%	2888	2584	11.7%
EBITDA	248	207	20%	246	1%	1004	894	12.3%



## Balkrishna Industries Ltd.

31.5% 23.2% 36% 29.8% 6%  
**Q2 FY16 Quarterly Update**

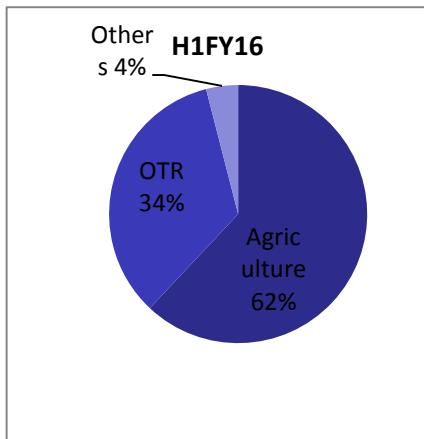
EBITDA Margin	31.5%	23.2%	36%	29.8%	6%	27.6%	25.0%	10.4%
PBT	181	134	35%	224	-19%	728	718	1.4%
Profit After Tax	125	90	39%	152	-18%	488.8	488.4	0.1%
EPS	13.0	9.3	39%	15.7	-18%	50.6	50.5	0.2%



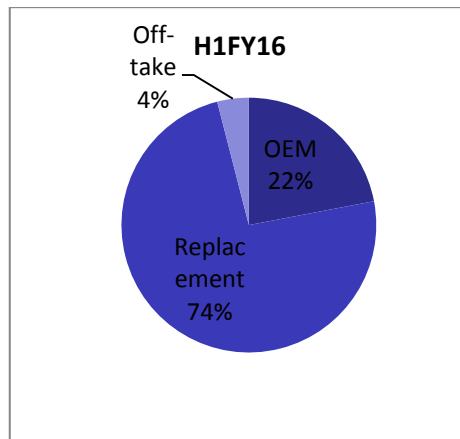
## Conference Call Highlights

- Volume guidance of FY16 – 1, 45,000 - 1, 50,000 MTPA for FY16
- Volume for Q2FY16 – 34,333 MT; 7,100 MT production for Q2FY16 (6,500 MT for Q1FY16) coming from the Bhuj Plant.
- Average realisation on q-o-q basis has largely remained the same. Management highlighted that ~6-7% fall in average realisation from INR 250 per kg in Q2FY15 is led by lower RM prices and benefits of Euro hedges not evenly spread.
- Out of the total 8% volume de-growth for this quarter YoY, 3% is coming from America alone and the rest is spread out evenly across the globe.
- OEM sales mix stood at 22.37% vs 21.2% in Q2FY15
- 25% of the Euro sales are hedged for FY17E at INR/Euro rate of Rs 78.
- Cost of debt - ~2% and no hedging as BIL is naturally hedged.
- BIL is bullish on India as its share of sales has increased from 12% in FY15 to 15.7% in Q2FY16. India EBITDA margins are 2-3% lower
- Management highlighted strong growth potential in CIS markets where they have little presence.
- Industry is experiencing destocking of Inventory for the past 2-3 years; Management believes inventory is low in the system. For BIL, replacement volumes were down by ~10% YoY and dealers have been maintaining low inventory levels. There have been no major changes in the working capital cycle.
- Depreciation for Q2FY16 – Rs 70crs; it would increase to Rs 75crs for the next quarter as full capitalisation of the plant
- Bhuj plant capex – Rs 2570crs have already been capitalized out of the total Rs 2800crs. The remaining Rs 230crs will be capitalized in H2FY16.
- BIL has paid USD 58mn in June 2015 and further expects to repay 58mn each in June 2016 & June 2017 and USD 33mn each in August 2017, 2018 and 2019. Total Debt – ~Rs 1900crs & Net Debt - ~Rs 1100crs.

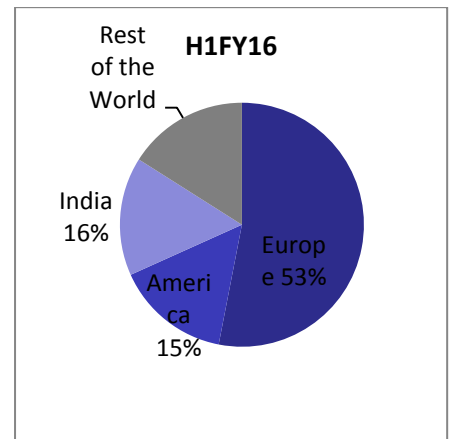
### Product Mix

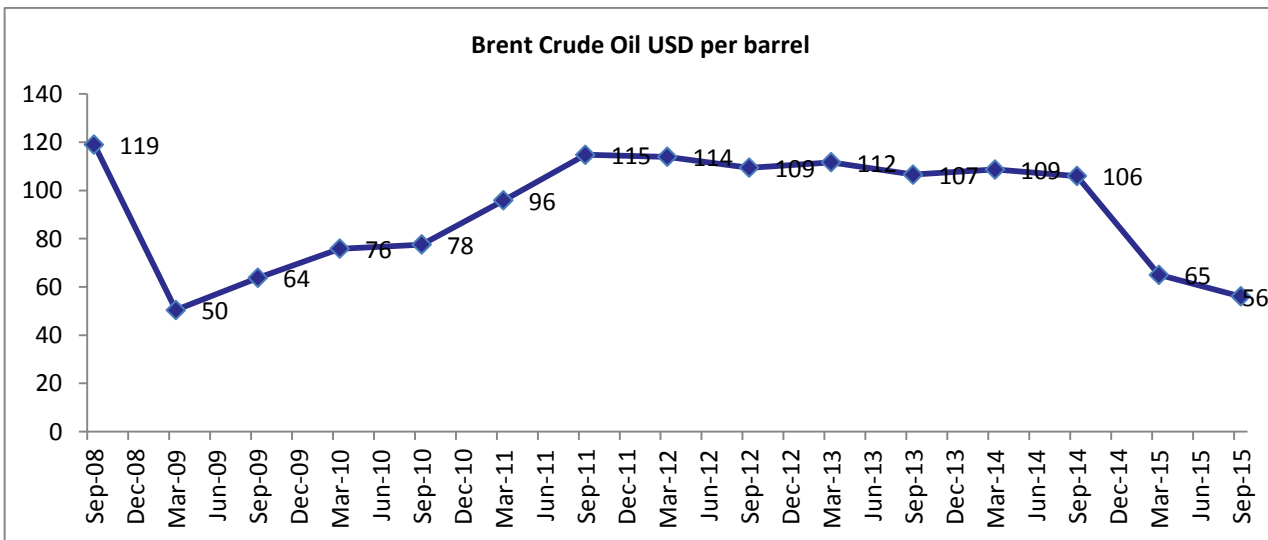
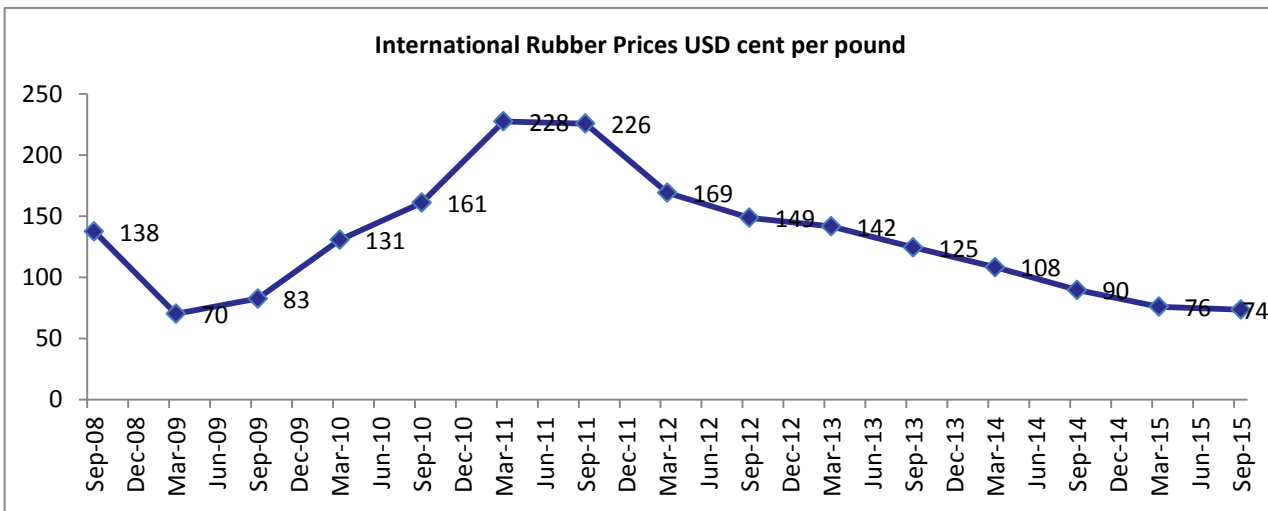
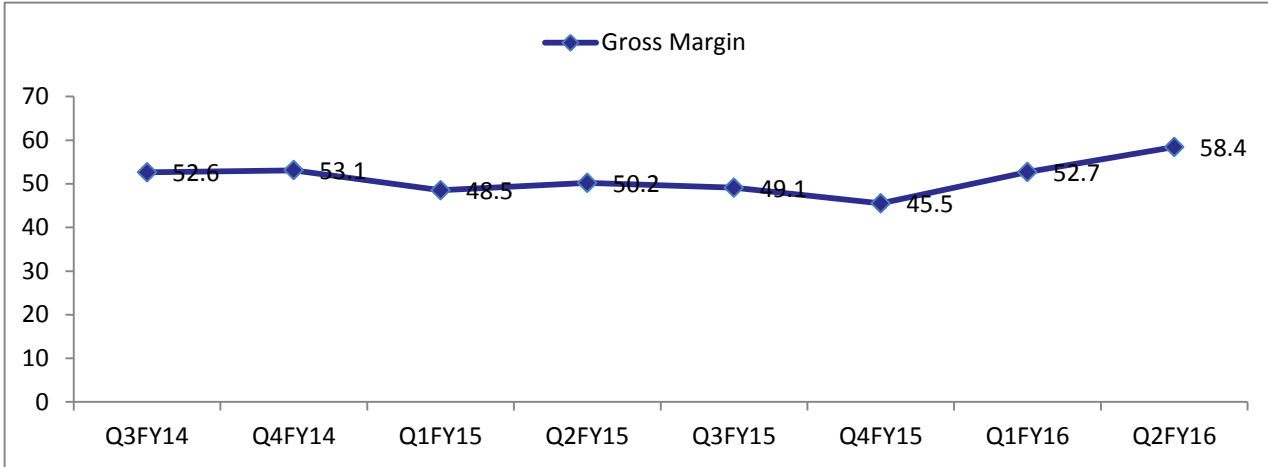


### Channel Mix



### Region Mix






**QUARTERLY PERFORMANCE:**

Particulars (rs. Crs.)	Q2 FY16	Q2 FY15	QoQ%	Q1 FY16	YoY%	FY15	FY14	YoY%
Net Sales	778.2	875.5	-11.1%	820.8	-5.2%	3,742.4	3,535.7	5.8%
Other operating income	8.7	5.8	50.0%	4.7	85.1%	37.6	41.0	-8.3%
<b>Total Operating Income</b>	<b>786.9</b>	<b>881.3</b>	<b>-10.7%</b>	<b>825.5</b>	<b>-4.7%</b>	<b>3,780.0</b>	<b>3,576.7</b>	<b>5.7%</b>
<b>Expenditure</b>								
Raw Material	327	461.4	-29.1%	389.1	-16.0%	1967.9	1721	14.3%
Employee Cost	49.5	45	10.0%	50.6	-2.2%	194.4	138.6	40.3%
Other Expenses	168	218.1	-23.0%	184.1	-8.7%	883.3	732.3	20.6%
Foreign Exchange (Gain)/Loss	-5.7	-48.8	-88.3%	-43.7	-87.0%	-265.9	91.1	-391.9%
<b>Total Expenditure</b>	<b>538.8</b>	<b>675.7</b>	<b>-20.3%</b>	<b>580.1</b>	<b>-7.1%</b>	<b>2779.7</b>	<b>2683</b>	<b>3.6%</b>
EBITDA	248.1	205.6	20.7%	245.4	1.1%	1000.3	893.7	11.9%
Other Income	10.7	1.1	872.7%	52.2	-79.5%	11.2	13.8	-18.8%
<b>Operating Profit</b>	<b>258.8</b>	<b>206.7</b>	<b>25.2%</b>	<b>297.6</b>	<b>-13.0%</b>	<b>1011.5</b>	<b>907.5</b>	<b>11.5%</b>
Interest	8.2	13.1	-37.4%	9.0	-8.9%	43.7	25.5	71.4%
Depreciation	69.9	59.5	17.5%	64.4	8.5%	240.2	165	45.6%
PBT	180.7	134.1	34.8%	224.2	-19.4%	727.6	717.7	1.4%
Tax	55.5	44	26.1%	72.5	-23.4%	238.7	229.3	4.1%
<b>Profit After Tax</b>	<b>125.2</b>	<b>90.1</b>	<b>39.0%</b>	<b>151.7</b>	<b>-17.5%</b>	<b>488.9</b>	<b>488.4</b>	<b>0.1%</b>
FV	2.0	2.0	NM	2.0	NM	2.0	2.0	NM
EPS	12.9	9.3	38.7%	15.7	-17.8%	50.6	50.5	0.2%

**P&L on 100**

Particulars	Q2 FY16	Q2 FY15	Q1 FY16	FY15	FY14
Net Sales	100.00	100.00	100.00	100	100
Other operating income	1.10	0.70	0.60	1	1.2
<b>Total Operating Income</b>	<b>101.10</b>	<b>100.70</b>	<b>100.60</b>	<b>101</b>	<b>101.2</b>
<b>Total Expenditure</b>					
Raw material	42.00	52.60	47.30	52.60	48.70
Employee Cost	6.40	5.10	6.20	5.2	3.9
Other Expenses	21.60	24.90	22.40	23.60	20.70
Foreign Exchange (Gain)/Loss	-0.70	-5.60	-5.30	-7.1	2.6
<b>Total Expenditure</b>	<b>69.30</b>	<b>77.00</b>	<b>70.60</b>	<b>74.30</b>	<b>75.90</b>
EBITDA	30.70	23.00	29.40	25.70	24.10
Other Income	1.40	0.10	6.40	0.3	0.4
<b>Operating Profit</b>	<b>32.10</b>	<b>23.10</b>	<b>35.80</b>	<b>26.00</b>	<b>24.50</b>
Interest	1.10	1.50	1.10	1.2	0.7
Depreciation	9.00	6.80	7.80	6.4	4.7
PBT	22.00	14.80	26.90	18.40	19.10
Tax	7.10	5.00	8.80	6.4	6.5
<b>Profit After Tax</b>	<b>14.90</b>	<b>9.80</b>	<b>18.10</b>	<b>12.00</b>	<b>12.60</b>

**OUTLOOK & VALUATION: -**

BIL's expansion has commissioned when the global demand is weak. Though volume remain sluggish, industry players like BIL continues to benefit from further softening in raw material prices. BIL to its merit did very good forward hedging at INR 85 which will boost FY16 earnings. However, for FY17 hedges INR 78 currently and we expect further weakness in Euro given tightening in US and QE by Europe. Accordingly, profitability is expected to drop from current level.

We revise our target to Rs 728 from our earlier target of Rs 746 as we factoring lower ramp up in volumes from the new plant due to sluggish market. However, we maintain our BUY rating on the stock using the DCF method. At our target price, the implied P/E multiple is 9.8x and 12.1x on FY16E & FY17E.

**REVISED ESTIMATES: -**

Particulars (Rs crs.)	FY16			FY17		
	Revised	Old	%Change	Revised	Old	%Change
Sales	3,664	3,835	-4.46	3,904	4,203	-7.11
EBITDA	1,180	1,143	3.24	1,003	968	3.62
Recurring PAT	627	608	3.13	507	482	5.19



## Profit & Loss

(Rs crs)	FY14	FY15	FY16E	FY17E
<b>Net sales</b>	<b>3,577</b>	<b>3,780</b>	<b>3,664</b>	<b>3,904</b>
<b>YoY (%)</b>		<b>5.7%</b>	<b>-3.1%</b>	<b>6.6%</b>
<b>Total expenses</b>				
Raw Material Cost	1,722	1,969	1,685	1858
Employee costs	139	194	202	211
Other Manufacturing Cost	640	883	817	824
Foreign Exchange Gain(Loss)	-91	269	220	-8
<b>EBITDA</b>	<b>985</b>	<b>1,003</b>	<b>1,180</b>	<b>1,003</b>
				-
<b>YoY (%)</b>		<b>1.8%</b>	<b>17.6%</b>	<b>15.0%</b>
<b>EBIDTA (%)</b>	<b>27.5%</b>	<b>26.5%</b>	<b>32.2%</b>	<b>25.7%</b>
Depreciation	165	240	250	269
<b>EBIT</b>	<b>820</b>	<b>763</b>	<b>930</b>	<b>734</b>
Interest	25	47	39	34
Other income	14	11	69	77
<b>PBT</b>	<b>718</b>	<b>727</b>	<b>960</b>	<b>777</b>
Less: Taxation	229	239	333	269
Effective tax rate (%)	31.9%	32.8%	34.7%	34.7%
<b>Recurring PAT</b>	<b>488</b>	<b>489</b>	<b>627</b>	<b>507</b>
				-
<b>YoY (%)</b>		<b>0.1%</b>	<b>28.3%</b>	<b>19.1%</b>
<b>PAT (%)</b>	<b>13.7%</b>	<b>12.9%</b>	<b>17.1%</b>	<b>13.0%</b>
<b>Reported PAT</b>	<b>488</b>	<b>489</b>	<b>627</b>	<b>507</b>

## Key Ratios

	FY14	FY15	FY16E	FY17E
Recurring EPS (Rs)	50.5	50.6	64.9	52.5
Reported EPS (Rs)	50.5	50.6	64.9	52.5
Book value (Rs)	195.0	237.1	299.7	350.1
Dividend per share (Rs)	2.0	1.4	1.9	1.8
Net Debt Equity Ratio	1.2	0.7	0.3	0.1
Payable Days	38	36	36	36
Debtor Days	62	57	62	65
Inventory Days	53	37	40	40
ROCE (%)	19.2%	17.4%	21.0%	17.1%
Recurring ROE (%)	29.6%	23.4%	24.2%	16.2%
ROA (%)	11.0%	9.6%	11.6%	9.3%
Div Yield (%)	4.0%	4.0%	3.0%	2.8%
<b>Valuation Ratios</b>				
PE (x)	9.5	12.8	9.8	12.1
Price/book value (x)	2.5	2.7	2.1	1.8

## Balance Sheet

(Rs crs)	FY14	FY15	FY16E	FY17E
Equity capital	19	19	19	19
Reserves	1,865	2,272	2,878	3364
<b>Net worth</b>	<b>1,885</b>	<b>2,292</b>	<b>2,897</b>	<b>3384</b>
Total borrowings	2,350	2,358	1,945	1270
Minority Interest Non Current	0	0	0	0
Liabilities	171	190	214	263
Current Liabilities	468	475	460	491
<b>Total liabilities</b>	<b>4,874</b>	<b>5,315</b>	<b>5,516</b>	<b>5,407</b>
Net block	2,806	3,049	2,999	2830
Investments	427	58	58	58
Long term loans & adv	210	168	186	198
<b>Current assets</b>				
Inventories	529	392	407	434
Debtors	618	602	631	705
Cash	10	431	627	559
Current Investments	0	386	386	386
Other Current assets	274	228	221	236
<b>Total assets</b>	<b>4,874</b>	<b>5,315</b>	<b>5,516</b>	<b>5,407</b>

## Cash Flow

(Rs crs)	FY14	FY15	FY16E	FY17E
Net profit	488	489	627	507
Depn and w/o	165	240	250	269
Others	72	108	44	71
Change in working cap	(68)	(179)	(52)	(85)
<b>Op. Cash flow</b>	<b>657</b>	<b>657</b>	<b>869</b>	<b>762</b>
<b>Capex (Gross*)</b>				
Capex (Net)	(748)	(483)	(200)	(100)
Investments	(394)	368	0	0
<b>Inv. Cash flow</b>	<b>(1,141)</b>	<b>(115)</b>	<b>(200)</b>	<b>(100)</b>
Dividend	(23)	(18)	(22)	(21)
Fresh Equity	0	0	0	0
Minority interest	0	0	0	0
Debt	276	8	(413)	(675)
Others	(25)	(110)	(51)	(44)



Market cap/sales (x)	1.3	1.7	1.7	1.6
EV/sales (x)	1.9	2.2	2.2	1.9
EV/EBITDA (x)	7.7	8.1	5.8	7.5

<b>Fin. Cash flow</b>	<b>228</b>	<b>(121)</b>	<b>(486)</b>	<b>(740)</b>
Net change in cash	(256.5)	421.3	183.5	(78)
<b>Opening cash</b>	<b>266.3</b>	<b>9.8</b>	<b>431.1</b>	<b>627</b>
<b>Closing cash</b>	<b>9.8</b>	<b>431.1</b>	<b>626.8</b>	<b>558.9</b>

## Profit & Loss

(Rs crs)	FY14	FY15	FY16E	FY17E
<b>Net sales</b>	<b>3,577</b>	<b>3,780</b>	<b>3,664</b>	<b>3,904</b>
<b>YoY (%)</b>		<b>5.7%</b>	<b>-3.1%</b>	<b>6.6%</b>
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Depreciation	165	240	250	269
<b>EBIT</b>	<b>820</b>	<b>763</b>	<b>930</b>	<b>734</b>
Interest	25	47	39	34
Other income	14	11	69	77
<b>PBT</b>	<b>718</b>	<b>727</b>	<b>960</b>	<b>777</b>
Less: Taxation	229	239	333	269
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<b>Recurring PAT</b>	<b>488</b>	<b>489</b>	<b>627</b>	<b>507</b>
<b>YoY (%)</b>		<b>0.1%</b>	<b>28.3%</b>	<b>-19.1%</b>
<b>PAT (%)</b>	<b>13.7%</b>	<b>12.9%</b>	<b>17.1%</b>	<b>13.0%</b>
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## Balance Sheet

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Total borrowings	2,350	2,358	1,945	1270
Minority Interest	0	0	0	0
Non-Current Liabilities	171	190	214	263
Current Liabilities	468	475	460	491
<b>Total liabilities</b>	<b>4,874</b>	<b>5,315</b>	<b>5,516</b>	<b>5,407</b>
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## Key Ratios

	FY14	FY15	FY16E	FY17E
Recurring EPS (Rs)	50.5	50.6	64.9	52.5
Reported EPS (Rs)	50.5	50.6	64.9	52.5
Book value (Rs)	195.0	237.1	299.7	350.1
Dividend per share (Rs)	2.0	1.4	1.9	1.8
Net Debt Equity Ratio	1.2	0.7	0.3	0.1
Payable Days	38	36	36	36
Debtor Days	62	57	62	65
Inventory Days	53	37	40	40
ROCE (%)	19.2%	17.4%	21.0%	17.1%
Recurring ROE (%)	29.6%	23.4%	24.2%	16.2%
ROA (%)	11.0%	9.6%	11.6%	9.3%
Div Yield (%)	4.0%	4.0%	3.0%	2.8%
<b>Valuation Ratios</b>				
PE (x)	9.5	12.8	9.8	12.1
Price/book value (x)	2.5	2.7	2.1	1.8
Market cap/sales (x)	1.3	1.7	1.7	1.6
EV/sales (x)	1.9	2.2	2.2	1.9

## Cash Flow

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Others	72	108	44	71
Change in working cap(68)	(179)	134	(85)	
<b>Op. Cash flow</b>	<b>657</b>	<b>657</b>	<b>1,056</b>	<b>762</b>
Capex (Gross*)				
Capex (Net)	(748)	(483)	(200)	(100)
Investments	(394)	368	0	0
<b>Inv. Cash flow</b>	<b>(1,141)</b>	<b>(115)</b>	<b>(200)</b>	<b>(100)</b>
Dividend	(23)	(18)	(22)	(21)
Fresh Equity	0	0	0	0
Minority interest	0	0	0	0
Debt	276	8	(413)	(675)
Others	(25)	(110)	(51)	(44)
<b>Fin. Cash flow</b>	<b>228</b>	<b>(121)</b>	<b>(486)</b>	<b>(740)</b>
Net change in cash	(256.5)	421.3	370.0	(78)





EV/EBITDA (x)	7.7	8.1	5.8	7.5
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Opening cash	266.3	9.8	431.1	813
Closing cash	10	431	813	745



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