



Balkrishna Industries Ltd.

Q4 FY16 Quarterly Update

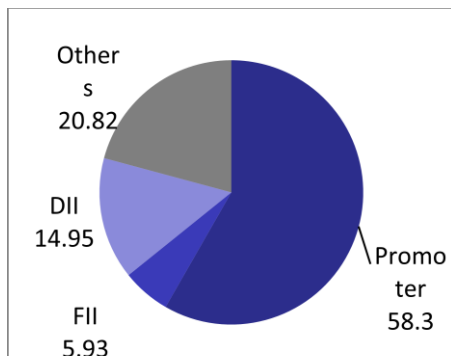
MARKET DATA

NSE TICKER	BALKRISIND
Net worth (₹ Cr)	2,795
P/E Ratio (FY17E) (x)	14.0
P/B Ratio (FY17E) (x)	1.9
EPS (FY17E) (₹)	45.6
Market Price (₹)	674
52 Week High(01/07/2015)(₹)	756
52 Week Low (29/02/2016)(₹)	551
Market Capitalisation (₹ Cr)	6,514

AVERAGE MONTHLY VOLUME ('000)

BSE	2.6
NSE	22.0

SHARE HOLDING PATTERN



RETURN	3M	6M	12M
Balkrishna Ind	26.2	-20.3	-4.2
Sensex	9.6	-1.8	-9.5

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BIL's Q4FY16 results were in line with our expectations. Adjusted for realised forex income, revenue for the quarter was ₹949 crs, down ~9% y-o-y although volumes grew by 5% to 41,306 tonnes as a result of lower realisations. EBITDA margins were higher by ~270 bps at ~35.5% vs ~32.8% y-o-y due to sharp fall in RM prices and exchange rate fluctuations. PAT remained flat at ₹155 crs against ₹154 crs in the corresponding period due to increase in depreciation cost on full commissioning of the plant.

Volumes decline; softening of RM prices led to higher EBITDA margin

Volumes recovered in Q4 posting a growth of 5.1% y-o-y to 41,306MT. Gross margins expanded by 238bps to 58.4% resulting in adjusted EBITDA margins expanding by 265bps to 35.5%. This expansion in margins was primarily because of softer Raw material prices. Natural rubber and crude oil have declined by 10% and 25% respectively since April 2015. These margin gains, however, may be short-lived as RM prices are showing some signs of a recovery in Q1FY17 with Crude Oil and Natural rubber witnessing a sharp recovery of ~80% and ~40% respectively, from the recent lows in February 2016.

Demand Scenario is looking better; although headwinds in USA

The demand scenario is expected to improve in the US based on a revival of demand in the agricultural segment. BKT also plans to explore new markets such as CIS countries and enter new product variants to broaden the company's suite of offerings. The company is planning to improve its capacity utilization by incrementally focussing on its India sales and on the OEM segment which would help the company push volumes and gain market share, albeit at the cost of margins.

BKT may face headwinds if USA imposes anti-dumping duty on Indian Tyres. Titan International has filed a petition with the U.S. International Trade Commission and the U.S. Department of Commerce for relief from imports of OTR" tyres from China, India and Sri Lanka. The decision for the same is pending. Any further regulatory announcements on the same could adversely impact BKT's US Sales which account for 16% of its total revenues.

Outlook and Valuation

Global growth in mining and agriculture has been a drag for volume pick for BIL. The utilization level from the new plant has been low at 25%. We expect some pick in the volumes for BIL. 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.

We expect EBITDA margins to shrink from 33% in Q4 FY16 to 25.5% in FY17E and 27.7% in FY18E despite higher capacity utilization as a result of higher raw material prices. We cut our revenue and EBITDA estimates by 4.4% and 15.3% respectively. We value the company at 15x FY17EPS to value the company at ₹684/share with a 'hold' rating.

Quarterly Performance:

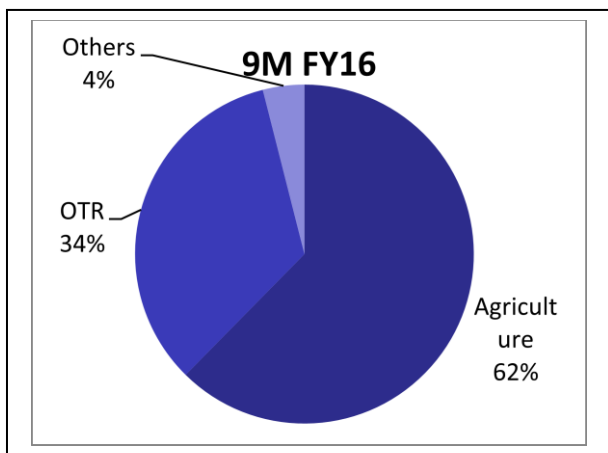
Particulars ₹Crs.	Q4 FY16	Q4 FY15	%YoY	Q3 FY16	%QoQ	FY16	FY15	%YoY
Net Sales	874.2	888.1	-1.6	739.2	18.3	3212	3780	-15
EBITDA	310.3	291.7	6.4	274.4	13.1	1078.2	1003.2	7.5
EBITDA Margin	35.5	32.8	270bps	37.1	-160bps	33.6	26.5	710bps
Interest	8.1	8.6	-5.3	8.8	-7.4	34.3	46.6	-26.4
PBT	242.4	232.1	4.4	199.7	21.4	846.9	727.6	16.4
PAT	155.0	154.1	0.6	135.9	14.0	567.7	488.9	16.1
EPS	16.0	16.0	0.4	14.1	14.0	58.7	50.7	15.9



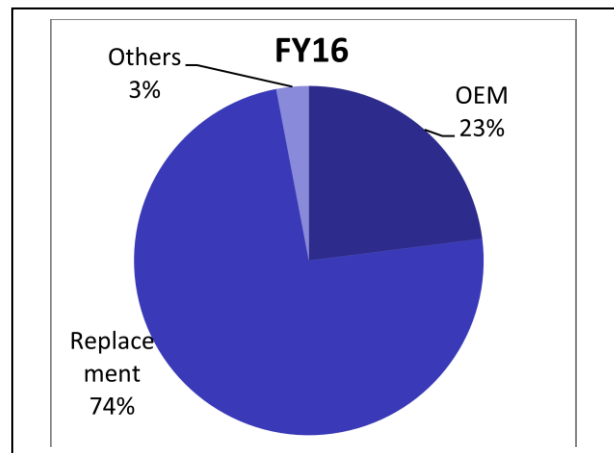
Conference Call Highlights

- Bhuj plant has been fully commissioned and is operating at a capacity utilisation of 25%, management has guided for capacity utilisation of 33% for the current year.
- Management has guided for 60% capacity utilisation in FY17E, including the recently commissioned Bhuj plant.
- BKT will continue to focus on gaining market share across geographies through new products and acquiring new customers (OEMs) Employee expenses increased substantially as commission paid to directors were revised upwards.
- Management is witnessing some uptick in demand led by re-stocking. And they have guided volume growth of 4-11%.
- Titan International had filed petitions for relief from imports of OTR[®] tyres from China, India and Sri Lanka, with the U.S. International Trade Commission and the U.S. Department of Commerce for which the decision is still pending.
- BKT has partially hedged Dollar rupee lag hedged with respect to Euro exposure. Euro/INR hedge was 90 in Q4FY16. It is expected to be 79 in next quarter. It was 84 in FY16 and expected to be 80 in FY17.

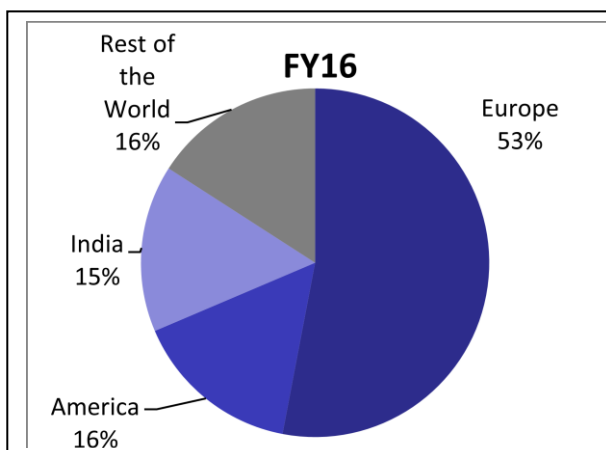
Product Mix

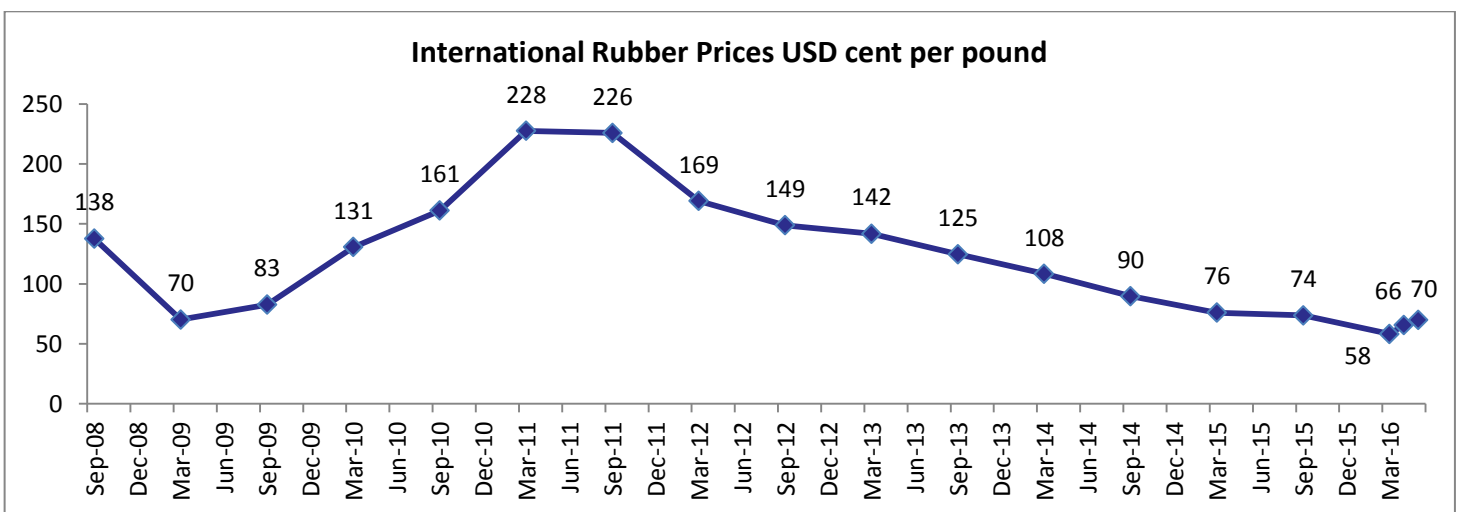
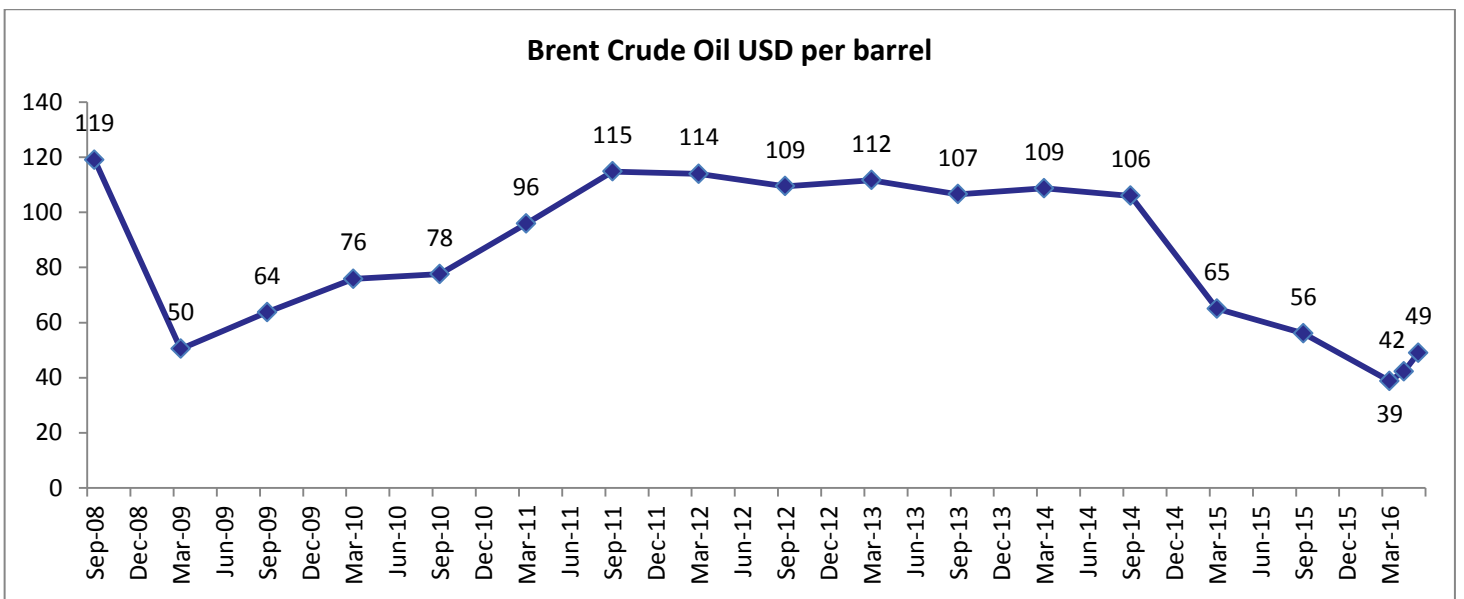
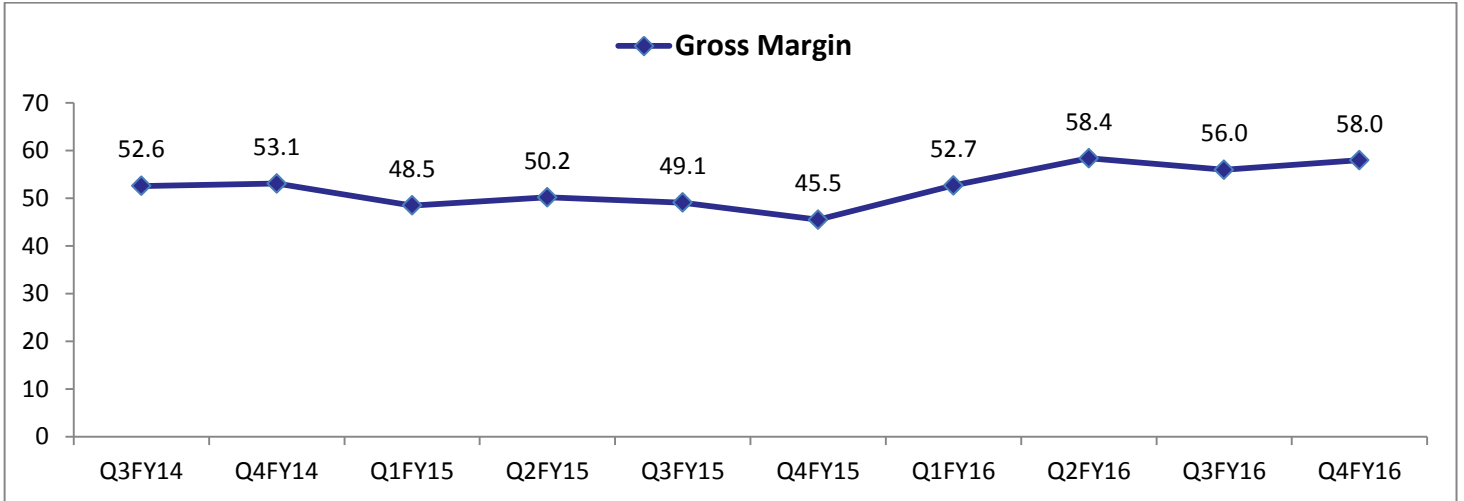


Channel Mix



Region Mix





Natural rubber prices had fallen to ₹94 in FY16 and to ₹100 in Q4 FY16 although they have recovered to ~₹130 as of today and are expected to continue trading in this range. The company enjoyed an EBITDA margin expansion in FY16 due to soft rubber prices which would reverse from Q2 FY17.


QUARTERLY PERFORMANCE:

Particulars (₹crs.)	Q4 FY16	Q4 FY15	QoQ%	Q3 FY16	YoY%	FY16	FY15	YoY%
Net Sales	874.2	888.1	-1.6	739.2	18.3	3212	3780	-15
Other operating income	5.4	5.3	1.1	10.6	-49.3	29	0	NA
Total Operating Income	879.6	893.4	-1.5	749.8	17.3	3242	3780	-14
Expenditure								
Raw Material	366.2	484.2	-24.4	330.0	11.0	1412.4	1968.5	-28.3
Employee Cost	61.1	47.5	28.7	47.9	27.5	209.1	194.3	7.6
Other Expenses	213.3	221.2	-3.6	187.9	13.5	753.4	882.5	-14.6
Foreign Exchange (Gain)/Loss	-71.3	-151.2	-52.8	-90.5	-21.1	-211.3	-268.6	-21.3
Total Expenditure	569.3	601.7	-5.4	475.4	19.8	2163.5	2776.7	-22.1
EBITDA	310.3	291.7	6.4	274.4	13.1	1078.2	1003.2	7.5
Other Income	10.7	6.2	72.1	10.5	1.9	84.1	11.2	652.8
Operating Profit	321.0	297.9	7.8	284.9	12.7	1162.3	1014.4	14.6
Interest	8.1	8.6	-5.3	8.8	-7.4	34.3	46.6	-26.4
Depreciation	70.5	57.2	23.2	76.4	-7.8	281.1	240.2	17.0
PBT	242.4	232.1	4.4	199.7	21.4	846.9	727.6	16.4
Tax	87.4	78.0	12.1	63.8	37.0	279.2	238.7	17.0
Profit After Tax	155.0	154.1	0.6	135.9	14.0	567.7	488.9	16.1
FV	2.0	2.0	NM	2.0	NM	2.0	2.0	NM
EPS	16.0	16.0	0.4	14.1	14.0	58.7	50.7	15.9

P&L on 100

Particulars	Q4FY16	Q4FY15	Q3FY16	FY16	FY15
Net Sales	100	100	100	100	100
Other operating income	0.6	0.6	1.4	0.9	0.0
Total Operating Income	101	101	101	100.9	100.0
Total Expenditure	0.0	0.0	0.0	0.0	0.0
Raw material	41.9	54.5	44.6	44.0	52.1
Employee Cost	7.0	5.3	6.5	6.5	5.1
Other Expenses	24.4	24.9	25.4	23.5	23.3
Foreign Exchange (Gain)/Loss	-8.2	-17.0	-12.2	-6.6	-7.1
Total Expenditure	65.1	67.8	64.3	67.3	73.5
EBITDA	35.5	32.8	37.1	33.6	26.5
Other Income	1.2	0.7	1.4	2.6	0.3
Operating Profit	36.7	33.5	38.5	36.2	26.8
Interest	0.9	1.0	1.2	1.1	1.2
Depreciation	8.1	6.4	10.3	8.8	6.4
PBT	27.7	26.1	27.0	26.4	19.2
Tax	10.0	8.8	8.6	8.7	6.3
Profit After Tax	17.7	17.4	18.4	17.7	12.9



OUTLOOK & VALUATION: -

Global growth in mining and agriculture has been a drag for volume pick for BIL. The utilization level from the new plant has been low at 25%. We expect some pick in the volumes for BIL. 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. We expect EBITDA margins to shrink from 33% in Q4 FY16 to 25.5% in FY17E and 27.7% in FY18E despite higher capacity utilization as a result of higher raw material prices.

Also, BIL had enjoyed higher Euro hedges at INR 84 for FY16. However, for FY17E, it has hedged ~25% of the euro revenue at 79. This exposes the company to a margin risk on further Euro weakness in FY17. We cut our revenue and EBITDA estimates by 4.4% and 15.3% respectively. We value the company at 14x FY18EPS to value the company at ₹684/share with a **'hold'** rating.

REVISED ESTIMATES: -

Particulars (₹ crs.)	FY17E		
	Revised	Old	%Change
Sales	3,488	3,648	-4.4
EBITDA	888	1,048	-15.3
Recurring PAT	443	538	-17.6

We have lowered our earnings estimates for FY17 despite some recovery in demand in the global markets as RM prices are showing some signs of a recovery in Q1FY17 with Crude Oil and Natural rubber witnessing a sharp recovery of ~80% and ~40% respectively, from the recent lows.



Profit & Loss

(₹crs)	FY14	FY15	FY16	FY17E	FY18E
Net sales	3,577	3,780	3,242	3,505	3,933
YoY (%)		5.7%	-14.2%	8.1%	12.2%
Total expenses					
Raw Material Cost	1,722	1,969	1,412	1660	1801
Employee costs	139	194	209	221	240
Other Manufacturing Cost	640	883	753	769	826
Foreign Exchange Gain(Loss)	-91	269	211	41	32
EBITDA	985	1,003	1,078	896	1,098
YoY (%)		1.8%	7.5%	-16.9%	22.5%
EBIDTA (%)	27.5%	26.5%	33.3%	25.6%	27.9%
Depreciation	165	240	281	270	278
EBIT	820	763	797	626	820
Interest	25	47	34	34	19
Other income	14	11	84	81	64
PBT	718	727	847	674	865
Less: Taxation	229	239	279	233	299
Effective tax rate (%)	31.9%	32.8%	33.0%	34.6%	34.6%
PAT	488	489	568	441	565
YoY (%)		0.1%	16.2%	-22.3%	28.2%
PAT (%)	13.7%	12.9%	17.5%	12.6%	14.4%

Key Ratios

	FY14	FY15	FY16	FY17E	FY18E
EPS (Rs)	50.5	50.6	58.7	45.6	58.5
Book value (Rs)	195.0	237.1	289.2	333.0	389.1
Dividend per share (Rs)	2.0	1.4	1.8	1.6	2.0
Net Debt Equity Ratio	1.2	0.7	0.5	0.2	0.0
Payable Days	38	36	37	37	37
Debtor Days	62	57	62	65	65
Inventory Days	53	37	32	38	38
ROCE (%)	19.2%	17.4%	18.9%	15.4%	20.1%
Recurring ROE (%)	29.6%	23.4%	22.3%	14.7%	16.2%
ROA (%)	11.0%	9.6%	10.6%	8.3%	10.9%
Div Yield (%)	4.0%	4.0%	2.5%	2.3%	2.9%
Valuation Ratios					
PE (x)	9.5	12.8	10.8	14.0	10.9
Price/book value (x)	2.5	2.7	2.2	1.9	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	6.2	7.9	6.6
Earnings growth					
EBITDA (%)	35%	12%	8%	-17%	22%
EPS (%)	37%	0%	16%	-22%	28%
PAT (%)	37%	0%	16%	-22%	28%



Balance Sheet

(₹ crs)	FY14	FY15	FY16	FY17E	FY18E
Equity capital	19	19	19	19	19
Reserves	1,865	2,272	2,776	3199	3741
Net worth	1,885	2,292	2,795	3218	3761
Total borrowings	2,350	2,358	1,892	1270	566
Non Current Liabilities	0	0	0	0	0
Current Liabilities	171	190	242	242	276
Total liabilities	468	475	445	485	545
	4,874	5,315	5,374	5,215	5,147
Net block					
Investments	2,806	3,049	3,085	2815	2537
Long term loans & adv	427	58	562	562	562
	210	168	137	143	161
Current assets					
Inventories					
Debtors	529	392	286	372	418
Cash	618	602	553	637	715
Current Investments	10	431	303	271	367
Other Current assets	0	386	270	220	170
Total assets	274	228	177	193	217

Cash Flow

(₹ crs)	FY14	FY15	FY16	FY17E	FY18E
Net profit	488	489	568	441	565
Depn and w/o	165	240	281	270	278
Others	72	108	90	55	36
Change in working cap	-68	-179	291	-96	-38
Op. Cash flow	657	657	1,230	670	842
Capex (Net)	-748	-483	-317	0	0
Investments	-394	368	-504	0	0
Inv. Cash flow	-1,141	-115	-821	0	0
Dividend	-23	-18	-20	-18	-23
Fresh Equity	0	0	-0	0	0
Minority interest	0	0	0	0	0
Debt	276	8	-466	-622	-703
Others	-25	-110	-46	-44	-29
Fin. Cash flow	228	-121	-532	-684	-756
Net change in cash	(256.5)	421.3	(123.7)	-14	86
Opening cash	266.3	9.8	431.1	303	271
Closing cash	9.8	431	303	271	367



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