



Balkrishna Industries Ltd.

Q3 FY16 Quarterly Update

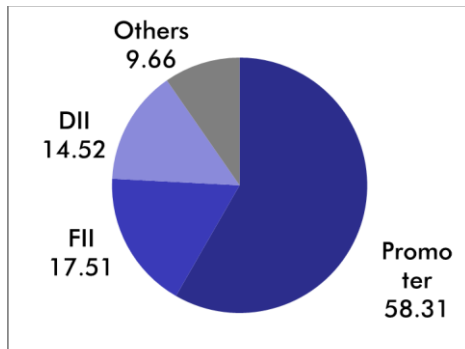
MARKET DATA

NSE TICKER	BALKRISIND
Net worth (₹ Cr)	2,568
P/E Ratio (FY16E) (x)	10.5
P/B Ratio (FY16E) (x)	2.2
EPS (FY16E) (₹)	60.4
Market Price (₹)	605
52 Week High(30/04/2015)(₹)	799
52 Week Low (14/02/2016)(₹)	551
Market Capitalisation (₹ Cr)	5,848

AVERAGE MONTHLY VOLUME ('000)

BSE	2.75
NSE	59.39

SHARE HOLDING PATTERN



RETURN	3M	6M	12M
Balkrishna Ind	-5.1	-12.1	-4.6
Sensex	-1.4	-4.1	-12.9

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Quarterly Performance:

Particulars ₹Crs.	Q3 FY16	Q3 FY15	%YoY	Q2 FY16	%QoQ	FY15	FY14	%YoY
Net Sales	739.2	949.5	-22.1	778.2	-5.0	3,742.4	3,535.7	5.8
EBITDA	274.4	262.7	4.5	248.1	10.6	1,000.3	893.7	11.9
EBITDA Margin	37.1	27.7	940bps	31.9	520bps	25.7	24.1	160bps
Interest	8.8	9.7	-9.4	8.2	7.2	1,004	894	12.3
PBT	199.7	190.5	4.8	180.6	10.6	727.6	717.7	1.4
PAT	135.9	129.9	4.6	125.0	8.7	489	488	0.2
EPS	14.1	13.5	4.5	13.0	8.6	50.5	50.6	-0.1

BIL's Q3FY16 results were below our expectations. Adjusted for realised forex income, revenue for the quarter was ₹835 crs, down ~15% y-o-y as volumes de-grew by 8% to 35,169 tonnes. EBITDA margins were higher by ~600 bps at ~33% vs ~27% y-o-y due to sharp fall in RM prices and exchange rate fluctuations. PAT increased marginally by 4.6% to ₹136 crs from ₹130 crs in the corresponding period.

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

BIL showed volume decline of 8% to 35,169 MT during Q3 FY16. Despite the degrowth in volumes, gross margins increased by 689bps to 56% resulting in adjusted EBITDA margins to expand by ~950 bps to 37.1%. Raw material prices particularly, natural rubber and crude oil have declined by ~30% and ~43% respectively since February 2015. These margin gains however may be short-lived as RM prices are showing some signs of a recovery in Q4 with Crude Oil witnessing a sharp recovery in March of ~50% from the recent lows.

Euro Hedges for FY17 at INR 78

BIL has been enjoying higher Euro hedges at INR 85 for FY16 (current rate of ₹72). However, for FY17E, it has hedged ~25% of the euro revenue at ₹78. We expect further weakness in Euro given tightening in US and the recent quantitative easing carried out by the ECB.

Partial restrictions on rubber imports

Government has introduced partial restrictions on rubber imports, allowing imports to come through only two sea ports, Nhava Sheva (Jawaharlal Nehru Port) and Chennai. Further, rubber imports under Advanced Authorisation (AA) scheme have also been barred between 21 January 2016 and 31 March 2016 prohibiting any duty-free rubber imports into India. The government has imposed an import duty of 25% on Natural Rubber.

BIL faces greater risk from the ban on duty-free imports as ~85% of its production is meant for export. BIL has enough stock to cover its requirements until 31 March 2016. If the ban is extended into FY17 it could impact margins by ~200 bps.

Demand Scenario

BIL generates ~75% of their sales from the replacement market, which shows lower volatility in sales. The OEM segment however which generates ~25% of revenues for the company could see a sharp drop in demand of ~20% based on demand estimates of global OEM giants Deere & Co and Caterpillar.

Outlook and Valuation

BIL has commissioned its Bhuj plant during a weak global demand scenario. Despite volume degrowth industry participants have benefitted from benign raw material prices.

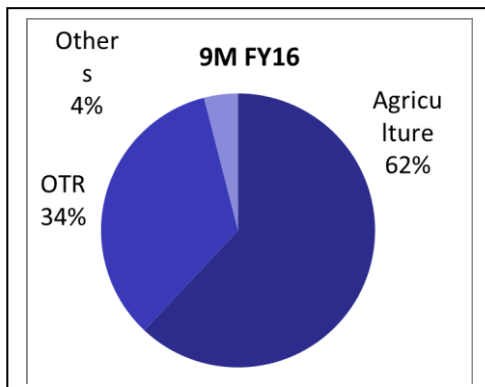
Given a weak global demand scenario, we reduced our volume and margin estimates for FY17E. We continue to value the company at 12.0x FY17 EPS and maintain a BUY rating on the stock while we have revised our target downwards to ₹669 from our earlier target of ₹728.



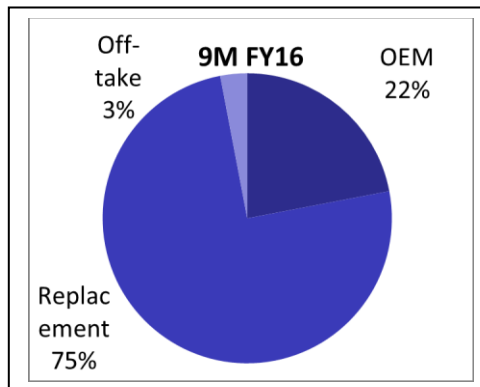
Conference Call Highlights

- Management has given a volume guidance of 160,000 tonnes for FY17E led by increased capacity utilization at the Bhuj facility where the current utilization stands at ~25%. The bhuj facility is at an EBITDA break-even level, implying incremental operating leverage from a further ramp up. However we expect a 6% volume growth in FY17 which would imply volumes of ~150,000 tonnes.
- Management is confident of maintaining 30% EBITDA margin in FY17 based on continuation of lower raw material prices
- BIL plans to improve its margins by catering to the domestic market from its Bhuj facility.
- The management is confident that anti-dumping duty on tyre imports won't be levied on BKT as the tyres are not sold below domestic price or cost of production. However, if implemented, this would impact US sales amounting to ~USD 60 mn.
- Management has taken a price cut of ~3-4% across markets during the quarter due to the sharp fall in input costs.
- Management plans to repay debt of USD 90 mn by August 2016 over two instalments in June and August. Total net debt stands at ₹10 bn (long term at ₹5 bn).
- To offset a weaker demand outlook in the US and Europe, the management is looking to grow market share in new markets such as Russia, Canada and Mexico.
- The Government has partially restricted import of rubber under the advance licensing system till 31st March 2016, impacting players like BIL. However BIL won't be affected for FY16 as a result of an inventory buffer.

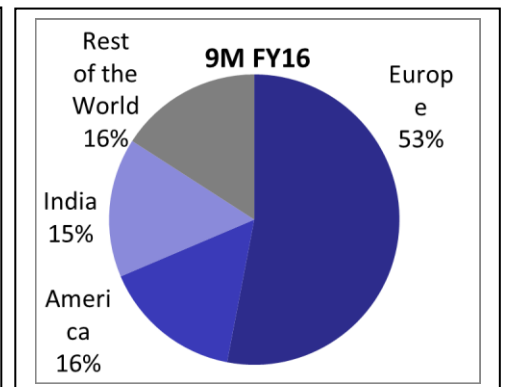
Product Mix

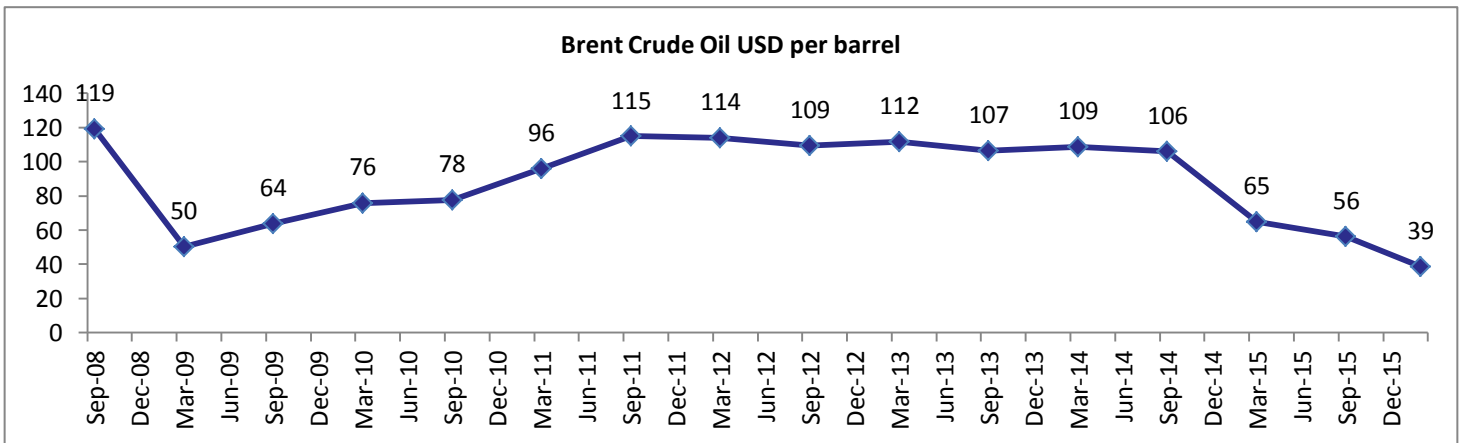
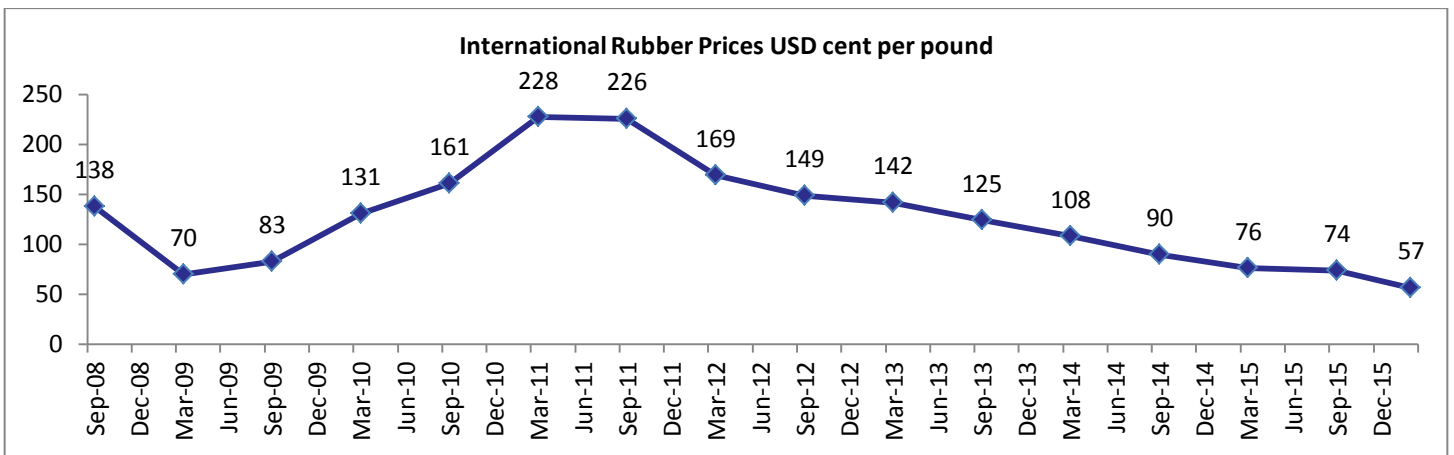
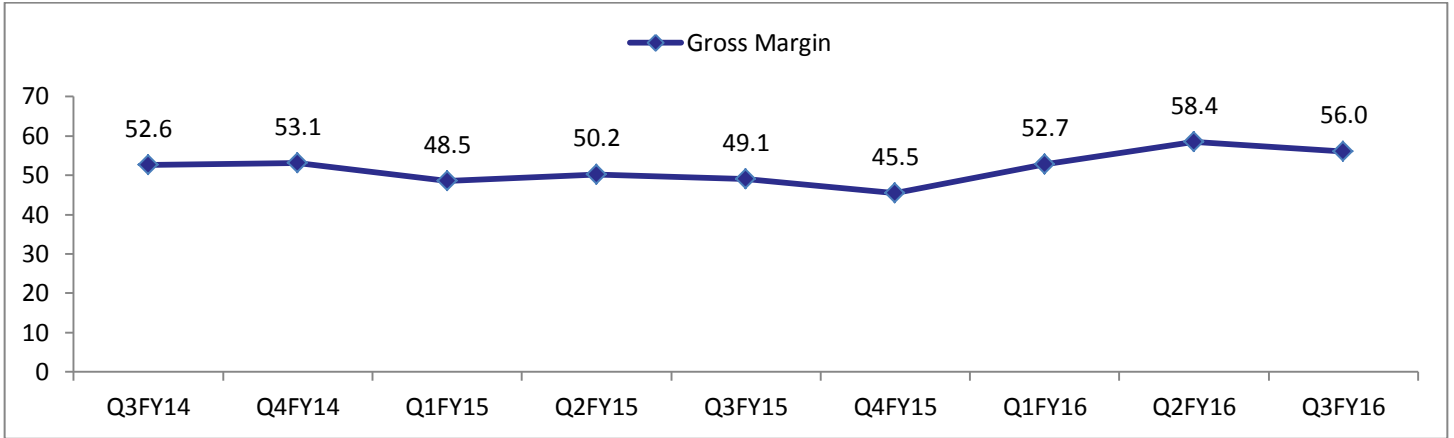


Channel Mix



Region Mix





Natural rubber and crude oil prices have fallen by ~30% and ~43% respectively since February 2015 due to oversupply and modest growth in demand. The domestic rubber prices have also been impacted, although they have been partially supported by the import restrictions. However in March RM prices have seen a sharp rally from recent low's which might impact BIL margins negatively in FY17.


QUARTERLY PERFORMANCE:

Particulars (₹crs.)	Q3 FY16	Q3 FY15	QoQ%	Q2 FY16	YoY%	FY15	FY14	YoY%
Net Sales	739.2	949.5	-22.1	778.2	-5.0	3,742.4	3,535.7	5.8%
Other operating income	10.6	10.8	-2.0	8.7	21.6	37.6	41.0	-8.3%
Total Operating Income	749.8	960.3	-21.9	786.9	-4.7	3,780.0	3,576.7	5.7%
Expenditure								
Raw Material	330.0	482.6	-31.6	327.0	0.9	1967.9	1721	14.3%
Employee Cost	47.9	50.3	-4.7	49.5	-3.2	194.4	138.6	40.3%
Other Expenses	187.9	225.3	-16.6	168.0	11.9	883.3	732.3	20.6%
Foreign Exchange (Gain)/Loss	-90.5	-60.6	49.2	-5.7	1498.1	-265.9	91.1	-391.9%
Total Expenditure	475.4	697.6	-31.8	538.8	-11.8	2779.7	2683	3.6%
EBITDA	274.4	262.7	4.5	248.1	10.6	1000.3	893.7	11.9%
Other Income	10.5	3.3	220.7	10.7	-1.3	11.2	13.8	-18.8%
Operating Profit	284.9	266.0	7.1	258.7	10.1	1011.5	907.5	11.5%
Interest	8.8	9.7	-9.4	8.2	7.2	43.7	25.5	71.4%
Depreciation	76.4	65.8	16.1	69.9	9.3	240.2	165	45.6%
PBT	199.7	190.5	4.8	180.6	10.6	727.6	717.7	1.4%
Tax	63.8	60.6	5.3	55.6	14.8	238.7	229.3	4.1%
Profit After Tax	135.9	129.9	4.6	125.0	8.7	488.9	488.4	0.1%
FV	2.0	2.0	NM	2.0	NM	2.0	2.0	NM
EPS	14.1	13.5	4.5	13.0	-65.6	50.6	50.5	0.2%

P&L on 100

Particulars	Q3 FY16	Q3 FY15	Q2 FY16	FY15	FY14
Net Sales	100	100	100	100	100
Other operating income	1.4	1.1	1.1	1.0	1.2
Total Operating Income	101	101	101	101	101
Total Expenditure					
Raw material	44.6	50.8	42.0	52.6	48.7
Employee Cost	6.5	5.3	6.4	5.2	3.9
Other Expenses	25.4	23.7	21.6	23.6	20.7
Foreign Exchange (Gain)/Loss	-12.2	-6.4	-0.7	-7.1	2.6
Total Expenditure	64.3	73.5	69.2	74.3	75.9
EBITDA	37.1	27.7	31.9	25.7	24.1
Other Income	1.4	0.3	1.4	0.3	0.4
Operating Profit	38.5	28.0	33.2	26.0	24.5
Interest	1.2	1.0	1.1	1.2	0.7
Depreciation	10.3	6.9	9.0	6.4	4.7
PBT	27.0	20.1	23.2	18.4	19.1
Tax	8.6	6.4	7.1	6.4	6.5
Profit After Tax	18.4	13.7	16.1	12.0	12.6

**OUTLOOK & VALUATION: -**

BIL has commissioned its Bhuj plant in an uncertain global demand scenario. Despite volume de-growth industry participants have benefitted from benign raw material prices.

Given weak global demand scenario, we reduced our volume and margin estimates for FY17. We value the company at 12.0x FY17 EPS and maintain a BUY rating on the stock while we have revised our target downwards to ₹669 from our earlier target of ₹728.

REVISED ESTIMATES: -

Particulars (₹ crs.)	FY16			FY17		
	Revised	Old	%Change	Revised	Old	%Change
Sales	3,407	3,664	-7.0%	3,648	3,904	-6.6%
EBITDA	1,113	1,180	-5.7%	1,048	930	12.7%
Recurring PAT	584	627	-6.8%	538	507	6.1%

We have lowered our estimates for FY16 as a result of subdued demand in global markets. Despite an expected de-growth in FY17 volumes, we revise our earnings estimate upwards by 6% underpinned by margin expansion due to low commodity prices.



PROFIT & LOSS

(₹ crs)	FY14	FY15	FY16E	FY17E
Net sales	3,577	3,780	3,407	3,648
YoY (%)		5.7%	-9.9%	7.1%
Total expenses				
Raw Material Cost	1,722	1,969	1,537	1629
Employee costs	139	194	187	197
Other Manufacturing Cost	640	883	760	766
Foreign Exchange Gain(Loss)	-91	269	191	-8
EBITDA	985	1,003	1,114	1,048
YoY (%)		1.8%	11.0%	-5.9%
EBIDTA (%)	27.5%	26.5%	32.7%	28.7%
Depreciation	165	240	250	269
EBIT	820	763	864	779
Interest	25	47	39	34
Other income	14	11	69	79
PBT	718	727	894	824
Less: Taxation	229	239	310	286
Effective tax rate (%)	31.9%	32.8%	34.7%	34.7%
PAT	488	489	584	539
YoY (%)		0.1%	19.5%	-7.8%
PAT (%)	13.7%	12.9%	17.1%	14.8%

KEY RATIOS

	FY14	FY15	FY16E	FY17E
EPS (Rs)	50.5	50.6	60.4	55.7
Book value (Rs)	195.0	237.1	295.4	348.8
Dividend per share (Rs)	2.0	1.4	1.8	1.9
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%	19.7%	18.2%
Recurring ROE (%)	29.6%	23.4%	22.7%	17.3%
ROA (%)	11.0%	9.6%	10.9%	10.0%
Div Yield (%)	4.0%	4.0%	2.7%	3.0%
Valuation Ratios				
PE (x)	9.5	12.8	10.5	11.4
Price/book value (x)	2.5	2.7	2.2	1.8
Market cap/sales (x)	1.3	1.7	1.8	1.7
EV/sales (x)	1.9	2.2	2.4	2.0
EV/EBITDA (x)	7.7	8.1	6.2	7.1

BALANCE SHEET

(₹ crs)	FY14	FY15	FY16E	FY17E
Equity capital	19	19	19	19
Reserves	1,865	2,272	2,836	3352
Net worth	1,885	2,292	2,855	3372
Total borrowings	2,350	2,358	1,945	1270
Minority Interest	0	0	0	0
Non-Current Liabilities	171	190	214	259
Current Liabilities	468	475	428	458
Total liabilities	4,874	5,315	5,442	5,359
Net block	2,806	3,049	2,999	2830
Investments	427	58	58	58
Long term loans & adv	210	168	173	185
Current assets				
Inventories	529	392	379	405
Debtors	618	602	587	659
Cash	10	431	841	801
Current Investments	0	386	200	200
Other Current assets	274	228	206	220
Total assets	4,874	5,315	5,442	5,359

CASH FLOW

(₹ crs)	FY14	FY15	FY16E	FY17E
Net profit	488	489	584	539
Depn and w/o	165	240	250	269
Others	72	108	57	67
Change in working cap	-68	-179	190	-83
Op. Cash flow	657	657	1,082	791
Capex (Gross*)				
Capex (Net)	-748	-483	-200	-100
Investments	-394	368	0	0
Inv. Cash flow	-1,141	-115	-200	-100
Dividend	-23	-18	-20	-22
Fresh Equity	0	0	0	0
Minority interest	0	0	0	0
Debt	276	8	-413	-675
Others	-25	-110	-51	-44
Fin. Cash flow	228	-121	-484	-741
Net change in cash	(256.5)	421.3	397.2	-50
Opening cash	266.3	9.8	431.1	841
Closing cash	9.8	431.1	840.6	801.0



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