

January 19, 2016
BSE Code: 502355 NSE Code: BALKRISIND Reuters Code: BLKI.NS Bloomberg Code: BIL:IN

Balkrishna Industries Ltd. (BKT) is world's prominent manufacturer of tyres for the niche 'Off- Highway tyre' (OHT) segment. In FY15, BKT derived ~88% of its revenue from exports and has a significant presence in more than 130 countries around the globe. BKT operates through five facilities in India with an annual aggregate achievable capacity of 3 lakh metric tonnes (MT). Further, it commands a 4% share in the global OHT market.

Key Developments

Off Highway Tyres- foothold in the niche segment:

Currently, BKT offers a comprehensive product portfolio consisting of over 2,400 SKUs. The company has a resilient R&D team of 90 members which aims to design, develop and produce about 100-120 SKUs every year. The major brands of BKT include Agrimax and Earthmax.

Lower operating cost for BKT:

The labour cost for BKT stands at 5% of revenues. BKT is able to sustain EBITDA margins in the range of 20-25%.

Higher capacity utilisation at Bhuj plant:

The Bhuj plant is strategically located near port. With the full commissioning of the Bhuj plant, BKT has almost doubled its achievable capacity from 1.66 lakh MT in FY13 to 3 lakh MT in FY16. The current radial/bias mix of BKT stands at 30%/70% respectively. In Q2FY16, production at Bhuj stood at 7,100 MT as against 6,500 MT in Q1FY16.

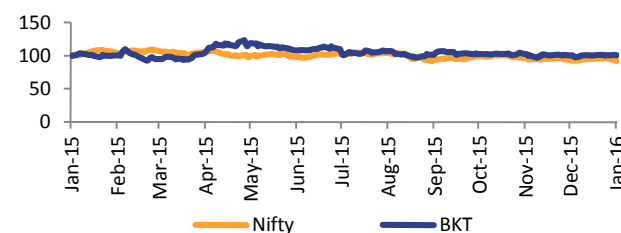
Market Data

CMP (Rs.)	630
Face Value	2.0
52 week H/L (Rs.)	800/596
Adj. all time High (Rs.)	800
Decline from 52WH (%)	21.1
Rise from 52WL (%)	5.8
Beta	0.5
Mkt. Cap (Rs.Cr)	6,098
Enterprise Value(Rs. Cr)	6,569

Fiscal Year Ended (Standalone)

	FY13	FY14	FY15
Total revenue (Rs.cr)	3,191	3,577	4,049
Net Profit (Rs.cr)	356	488	489
Share Capital (Rs.Cr)	19	19	19
EPS (Rs.)	36.8	50.5	50.6
P/E (x)	7.4	9.4	12.8
P/BV (x)	1.8	2.4	2.7
ROE (%)	28.5	29.6	23.4

One year Price Chart



Shareholding	Sep15	Jun15	Diff.
Promoters	58.3	58.3	0.0
DII	15.2	15.6	(0.4)
FII	15.6	15.4	0.2
Others	10.9	10.8	0.1

BKT is world's leading manufacturer of OHT tyres.

BKT supplies to leading OEMs in more than 130 countries around the globe.

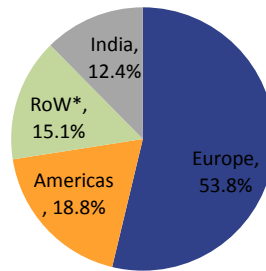
Agriculture segment accounts for 64% of the total sales for BKT.

Balkrishna Industries Ltd:

Balkrishna Industries Ltd (BKT) manufactures 'off-highway tyres' used in agricultural and industrial vehicles. In FY15, BKT derived ~88% of its revenue from exports. BKT products are sold in over 130 countries worldwide through a global network of over 200 distributors. The company operates through its five production units in Aurangabad, Bhiwadi, Chopanki, Dombivali and Bhuj. It has an annual aggregate achievable capacity of 3 lakh metric tonnes (MT). Further, it commands a 4% share in the global OHT market.

Currently, it offers a comprehensive product portfolio consisting of over 2,400 SKUs. The company has a sturdy R&D team of 90 members which aims to design, develop and produce about 100-120 SKUs every year. The major brands of BKT include Agrimax and Earthmax. In terms of region wise sales mix, Europe contributed the maximum 54% to the total revenues followed by Americas (19%), RoW (15%), and India (12.4%). Segment-wise, 64% of its sales come from agriculture segment, and 33% come from OTR segment. Similarly, channel-wise, 75% of its sales come from replacement, 22% come from OEM.

Region wise Revenue Breakup (FY15)



RoW* – Rest of the World includes Middle East, Asia (excl India), Africa, Australia & New Zealand

Source: Company

Product Portfolio

Agriculture: "AGRIMAX"

- Tractors, Trailers, Farm equipments
- Tractor radial tyres are sold under the brand 'Agrimax'

OTR: "EARTHMAX"

- Industrial, Construction & Earth Moving equipments
- Steel radial OTR tyres are sold under brand 'Earthmax'

Others: "MULTIMAX"

Sports, Utility vehicles such as Golf-cart, All Terrain Vehicles, Lawn & Garden vehicles

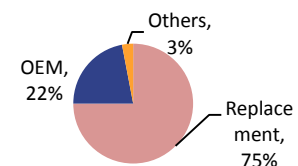
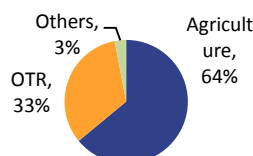
Manufacturing units in India

Location	Achievable Capacity (MT)
Rajasthan	120,000
Maharashtra	40,000
Gujarat	140,000
Total	300,000

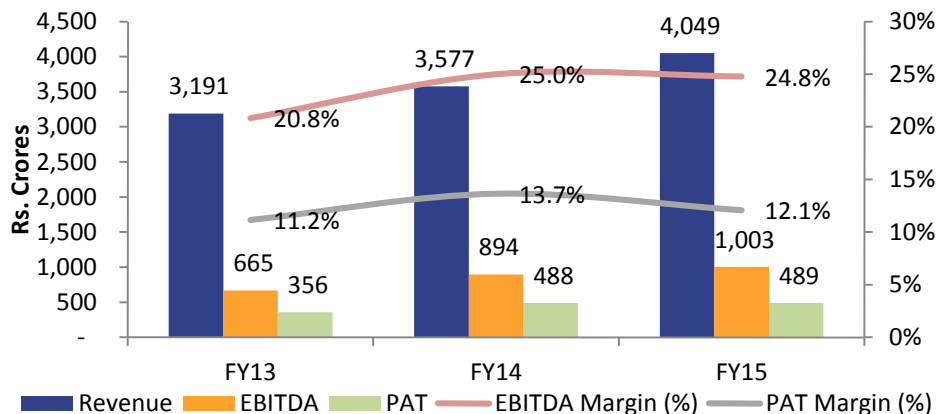
Suppliers to leading OEMs



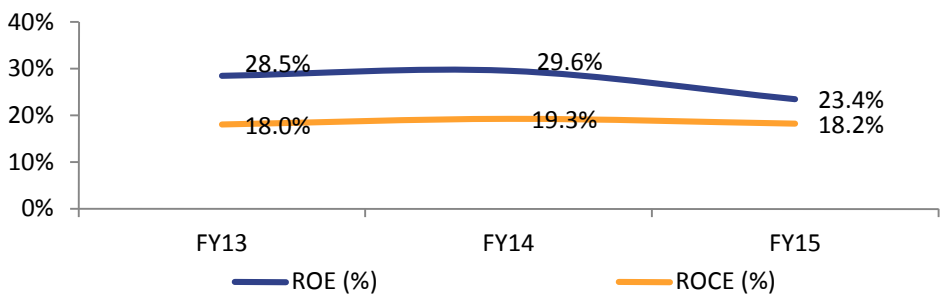
Segmental and Channel wise Sales mix (FY15)



Financial snapshot of BKT



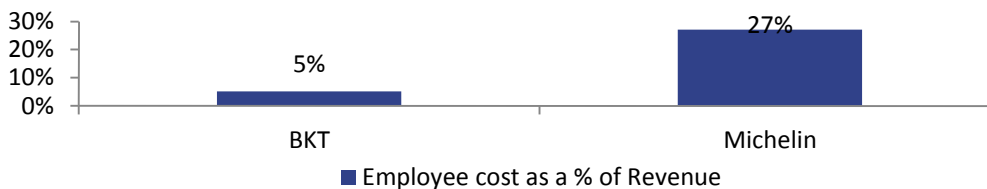
Return Ratios Trend



Lower operating cost, a distinct advantage for BKT

All plants of BKT are located in India and hence the company enjoys a significant cost advantage over its global peers due to cheap labour. In the latest annual report, the labour cost for BKT (in FY15) stands at 5% of revenues. BKT is able to sustain EBITDA margins in the range of 20-25%.

Lower employee cost is a distinct advantage for BKT



Bhuj Plant: Focusing on enhancing capacity utilisation rate

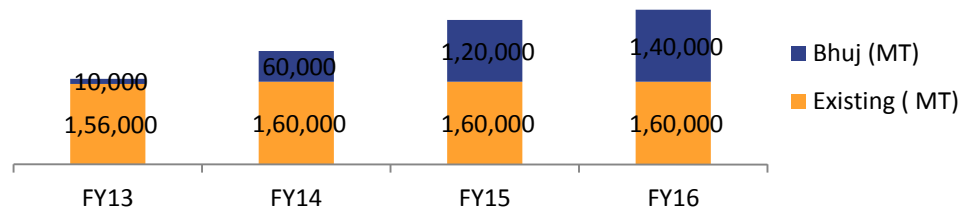
With the full commissioning of Bhuj plant, the company has almost doubled its capacity from 1.66 lakh MT in FY13 to 3 lakh MT at the start of FY16 (an increase of ~80%). The plant is strategically located near port. The current radial/bias mix of BKT stands at 30%/70% respectively. In Q2FY16, production at Bhuj stood at 7,100 MT as against 6,500 MT in Q1FY16.

Employee cost for BKT stands at 5% of its revenues.

BKT has enhanced its capacity to 3 lakh MT in FY16 due to the commissioning of Bhujplant .

India's contribution to BKT's topline has increased from 8.2% in FY13 to 12.4% in FY15.

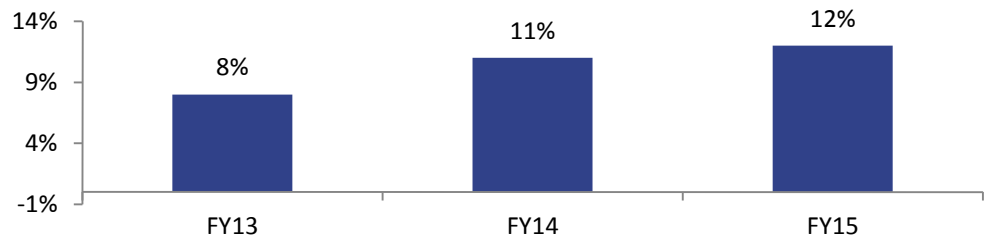
Achievable capacity almost doubled in FY16



Increasing share of the Indian market to BKT's revenue

The company has already started tapping Indian markets aggressively. This can be witnessed through the rising contribution of India's revenue to BKT's topline. It has increased from 8.2% in FY13 to 12.4% in FY15.

India's contribution to the total revenues on the rise



Margins susceptible to forex vagaries

As BKT derives 88% of its revenue through exports, it exposes it to the risk of currency fluctuation (Euro&USD). It imports all of its natural rubber requirements (natural rubber accounts for ~50% of raw material cost), and hence entire USD revenues are naturally hedged. To counter Euro exposure for FY16, BKT has hedged Euro at Rs. 85 (currently Euro is around 72). Because of lower input cost (lower rubber and crude prices) & favourable hedging policy (forex gains to lift margins), the company's EBITDA margin stood at 25% in FY15.

Reducing debt

With the repayment of debt worth USD 58 million in Q1FY16, BKT has continued the process to lower down its debt levels. The D/E ratio for the company currently stands at 1x.

Balance Sheet (Standalone)

(Rs.Cr)	FY13	FY14	FY15
Share Capital	19	19	19
Reserve and surplus	1,400	1,865	2,272
Net Worth	1,419	1,885	2,292
Total Debt	2,064	2,344	1,993
Other non-current liabilities	194	171	190
Total Equity & Liabilities	3,676	4,400	4,474
Fixed Assets	2,223	2,806	3,049
Investments	33	427	445
Net current assets	1,141	958	813
Other non-current assets	279	210	168
Total Assets	3,676	4,400	4,474

Cash Flow (Standalone)

Y/E (Rs. Cr)	FY13	FY14	FY15
Net profit/loss before tax & extraordinary items	535	718	728
Net cashflow from operating activities	528	580	943
Net cash used in investing activities	(963)	(1,252)	(444)
Net cash used from financing activities	344	415	(78)
Net inc/dec in cash and cash equivalents	(91)	(257)	421

Financial performance snapshot

Net sales of the company stood at Rs. 4,049 Crores in FY15, a growth of 13.2% as compared to Rs. 3,577 Crores in FY14. The operating expenses of the company increased by 13.5% YoY to Rs. 3,046 Crores from Rs. 2,683 Crores during the year. The company's EBITDA grew by 12.3% YoY to Rs. 1,003 Crores in FY15 from Rs. 894 Crores in FY14. EBITDA margins contracted by 21 bps to 24.8% in FY15 from 25.0% in FY14. Net profit witnessed a minor rise by 0.2% to Rs. 489 Crores in FY15 from Rs. 488 Crores in FY14. The NPM contracted by 157 bps to 12.1% from 13.7% during the above period.

Profit & Loss Account (Standalone)

(Rs.Cr)	FY13	FY14	FY15
Net revenue	3,191	3,577	4,049
Expenses	2,526	2,683	3,046
EBITDA	665	894	1,003
Depreciation	108	165	240
EBIT	557	729	763
Interest cost	26	25	46
Other Income	4	14	11
Profit Before Tax	535	718	728
Tax	179	229	239
Profit After Tax	355	488	489
E/o income / (Expense)	1	-	-
Net Profit	356	488	489

Key Ratios (Standalone)

	FY13	FY14	FY15
EBITDA Margin (%)	20.8	25.0	24.8
EBIT Margin (%)	17.6	20.8	19.1
NPM (%)	11.1	13.7	12.1
ROCE (%)	18.0	19.3	18.2
ROE (%)	28.5	29.6	23.4
EPS (Rs.)	36.8	50.5	50.6
P/E (x)	7.4	9.4	12.8
BVPS (Rs.)	146.8	195.0	237.1
P/BVPS (x)	1.8	2.4	2.7
EV/EBITDA (x)	6.8	8.0	7.6



Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com

Disclaimer

@ All Rights Reserved

This report and Information contained in this report is solely for information purpose and may not be used as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. The investment as mentioned and opinions expressed in this report may not be suitable for all investors. In rendering this information, we assumed and relied upon, without independent verification, the accuracy and completeness of all information that was publicly available to us. The information has been obtained from the sources that we believe to be reliable as to the accuracy or completeness. While every effort is made to ensure the accuracy and completeness of information contained, Indbank Limited and its affiliates take no guarantee and assume no liability for any errors or omissions of the information. This information is given in good faith and we make no representations or warranties, express or implied as to the accuracy or completeness of the information. No one can use the information as the basis for any claim, demand or cause of action.

Indbank and its affiliates shall not be liable for any direct or indirect losses or damage of any kind arising from the use thereof. Opinion expressed is our current opinion as of the date appearing in this report only and are subject to change without any notice.

Recipients of this report must make their own investment decisions, based on their own investment objectives, financial positions and needs of the specific recipient. The recipient should independently evaluate the investment risks and should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document and should consult their advisors to determine the merits and risks of such investment.

The report and information contained herein is strictly confidential and meant solely for the selected recipient and is not meant for public distribution. This document should 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, duplicated or sold in any form.