

**Ajcon's Xpress idea: Balkrishna Industries Ltd. (BIL)- "BUY",**

**26<sup>th</sup> Sept., 2014**

**About the Company:** BIL is one of the world's leading manufacturers of "OFF-HIGHWAY tyres". BIL has the widest product range with more than 2000 SKU's (Stock Keeping Units) and is "One Stop Shop" for all off-highway tyre solutions. The success story of BIL began in 1995, when it entered into production of cross ply off-highway tires. Product received instant acceptance in European & North American market. With the help of persistent & intensive market research coupled with ever expanding production capabilities, today BIL has made its mark in the specialty segments like Agricultural, Construction, Industrial, Earthmover, Port, ATV (All Terrain Vehicle) and Turf care applications in both cross ply & radial construction.

BIL is a focused off-highway tyre (OHT) manufacturer with contribution of agricultural and OTR segments at 63% and 37%, respectively. More than 90% of tyre production is exported to more than 120 countries across all five continents, in all the major markets of Europe, North & South America, Africa, Asia & Middle East. With the OHT segment forming only 10-15% of revenues for global players like Bridgestone and Michelin, BIL's focus on this niche segment augurs well for the company as it currently enjoys only 4.5% market share in a ~\$15 billion global market. Also, the only focused global player, Titan commands a hefty brand premium (~30%) over BIL's products. Hence, this outlines the headroom for both volume and pricing growth for BIL in this highly capital and labour intensive segment characterised by large number of SKUs and frequent mould changes due to high degree of customisation level demanded by the end-application.

BIL is continuously expanding its production base. With three state of the art "Tyre manufacturing plants" and one "In-house Hi-tech Mould-manufacturing facility" at different locations in India, BIL is very well equipped to feed the ever-growing demand of its worldwide customers.

**Q1FY15 result update:** BIL reported yoy growth in revenues to touch Rs 961 crore (YoY growth of ~18%). The growth was largely driven by volume growth, which came at 39,202 MT (~12% YoY increase) and increase in realisations owing to rupee depreciation on a YoY basis. EBITDA margins at 24.8%, (~100 bps QoQ decline) came lower than estimate (26.2%) due to lower than expected benefit of lower raw material prices owing to consumption of inventory. Thus, reported PAT of Rs 115.4 crore, too came lower than street estimate

**Capex to drive growth:** BIL is setting up a plant at Bhuj with a capacity of 140,000 MT, which will be fully commissioned by the end of FY16E in a phased manner. This would take BIL's total capacity to 300,000 MT in FY16E and cater mainly to the OTR segment (which forms only 37% of revenues) where BIL's presence was constrained by lack of capacity. The main focus is likely to be on large diameter tyres for use in the construction and mining segments. The new capacity will also facilitate entry in markets like CIS, Russia where the management expects strong offtake in coming years.

**Outlook:** BIL's huge capex plan had raised fears it would lead to deteriorating earnings and return ratios over the next two years. However, with a European recovery aiding strong volume pick-up and raw material prices aiding profitability, we believe BIL might clock volumes of ~185,000 MT, ~15% CAGR FY14-16E. At the current market price of Rs. 742, the stock P/E ratio is at 13 x FY15E and 11x FY16E respectively. EPS for FY15E and FY16E is seen at Rs.55 and Rs.70 respectively. We continue to like the export dominated, strong margin and return ratio profile of BIL and recommend a "BUY" with a target price of Rs. 850 (P/E multiple of 12x at estimated FY16 EPS by street.)

#### Stock Holding Disclosure under SEBI regulations:

- a) **Analyst holding: No**
- b) **Company holding: No**
- c) **Directors holding: No**
- d) **Group/Associates Position: No**
- e) **Relationship with management: No**

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