

## **Balkrishna Industries Q2FY21**

### **Financial Results & Highlights**

#### **Brief Company Introduction**

Balkrishna Industries Limited (BKT) is a tire manufacturing company based in Mumbai, India. Balkrishna Industries manufactures off-highway tires used in specialist segments like mining, earthmoving, agriculture and gardening in five factories located in Aurangabad, Bhiwadi, Chopanki, Dombivali and Bhuj. In 2013, it was ranked 41st among the world's tire makers.

Balkrishna Industries is currently an OEM vendor for heavy equipment manufacturers like JCB, John Deere and CNH Industrial. The company currently enjoys 2% market share of the global off-the-road tire segment.

If you are interested to know about the business of BKT in detail, watch this [video](#)

Standalone Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1597	1152	38.63%	962	66.01%	2559	2417	5.88%
PBT	451	256	76.17%	162	178.40%	612	509	20.24%
PAT	339	291*	16.49%	122	177.87%	461	467	-1.28%
Consolidated Financials (In Crs)								
	Q2FY21	Q2FY20	YoY %	Q1FY21	QoQ %	H1FY21	H1FY20	YoY
Sales	1598	1165	37.17%	979	63.23%	2577	2438	5.70%
PBT	452	260	73.85%	172	162.79%	625	515	21.36%
PAT	341	294*	15.99%	132	158.33%	473	471	0.42%

\*includes negative tax of Rs 35 Cr.

#### **Detailed Results:**

1. The revenue for the quarter grew 37% YoY in consolidated terms.
2. PBT was up 76% and 74% YoY in standalone and consolidated terms in Q2.
3. Consolidated PAT was up 16% YoY in the quarter.
4. Record Sales volumes for the quarter came in at 61,224 tons which were up 61% QoQ and 35% YoY.
5. Sales volumes for H1 were up a modest 3% YoY which is very good considering the fall in performance in Q1.
6. The EBITDA margin improved 610 bps YoY to 34% in Q2.
7. Net forex loss for Q2 was at Rs 4 Cr vs a gain of Rs 55 Cr a year ago.
8. Sales breakup for the company is:
  1. Agri-64%, OTR-33%, Others-3%.
  2. Replacement-71%, OEM-25%, Others-4%
  3. EU-51%, Americas-14%, India-23%, RoW-13%
9. The company remains debt-free with current cash holding at Rs 1299 Cr as of 30<sup>th</sup> Sep 2020.
10. The previously guided CapEx programs are on track for the company.

11. The company announced a 2nd interim dividend of Rs 4 per share.
12. The company has become a premium partner for EUROLEAGUE BASKETBALL and is also sponsoring the Tractor of the year (TotY)-EUROPE award.

### **Investor Conference Call Highlights**

1. The company's current capacity is at 3,05,000 MTPA including 5,000 MTPA for ultra-large All Steel radial mining tire.
2. Due to some redundancy in product sizes and technology, this capacity can come down to 280,000 MTPA.
3. BKT is exploring investments by the way of a brownfield CapEx at existing locations to create capacity.
4. The management expects FY21 volumes to exceed FY20 volumes.
5. The management is guiding for marginal growth in volumes in FY21 mainly due to the second coming of COVID-19 which is expected to slow down sales momentum in the company's principal market of EU.
6. The inventory buildup since March in the EU has come down significantly and is slowly being built up to normal levels. The company has also gained market share in both Agri and non-agri segments in the region.
7. The management maintains that the company's long term EBITDA margin shall stay in the 28-30% range.
8. The company has generally seen a trend of rising rubber prices.
9. The company has hedged for euro at 82.4 in Q2 and 83.4 in H1. For FY22, the rate is at 85.
10. Production during the quarter was at 61,223 tons.
11. The market trend in India is strong and the company is steadily gaining market share. It has also seen a good increase in visibility and brand image due to the sponsorship with IPL 2020.
12. The management is aiming to keep expenses at around 21% of sales.
13. The company has seen good growth in the OTR segment which has seen this segment revenue share rise to 33% from 20% previously. The company is also optimistic about this segment due to the launch of its ultra-large radial tires.
14. The company is gaining good market share in Asia and Australia but is struggling in South America and Africa due to import restrictions in these regions.
15. The import ban on tires in India has not had any impact on BKT as it is applicable only to commercial vehicles.
16. The company has gotten confirmation from its OEM customers that there will not be any delay in procurement and distributors expect sales to continue despite lockdown in the EU.

17. The management insists that the growth in volumes in the EU was organic in nature and was not due to any ban on Chinese tires as there hasn't been any such ban.
18. The EBITDA margin of 34% in Q2 is expected to be a one-off and over the long term, margins are expected to stay in the guided range of 28-30%.
19. The company will not be looking to take any impairment charges for the reduced capacity as no machines will be redundant. The existing machines will be repurposed for larger sizes from smaller sizes and this will result in lower overall capacity. This shift towards larger sizes is purely due to current market trends.
20. The company will continue to add around 100 SKUs each year.
21. The gross margin for Q2 was at 61%. The management state that the sustainable gross margin for the company should be at 58%.
22. The management is confident that the reduced capacity will be enough for the company's growth prospects for the next 2-3 years.
23. The carbon black sales are at 2% of overall sales for BKT. This is around 20% of the carbon black capacity for BKT.
24. The Capex guidance for Fy21 was at rs 700 Cr out of which Rs 350 Cr is already done. Capex for FY22 should around similar levels. The maintenance Capex should be at Rs 200 Cr per year.
25. In the USA, the company is seeing good pull demand due to its branding efforts in the last 2-3 years. It is also increasing its dealer network. The company is also developing USA specific products which should also help the company capture more market share here.
26. The brand spending will remain roughly the same at current levels of Rs 100 Cr per year.
27. There shouldn't be a major change in average selling price due to the shifting product mix from the reduction in capacity. The ASP is expected to remain near Rs 250 per kg for the company.
28. BKT's market share is about 5% to 6% in the Indian market. There is good scope for market capture in India for BKT according to the management.
29. On average selling price and realization is lower for sales in India as compared to export sales.

**Analyst's View:**

BKT has been a rising player in the off-road tires business for years now. The company witnessed a tepid Q1 mainly due to the disruption in sales from COVID-19. It has however been able to increase EBITDA margins and volumes YoY in Q2. The company is also expecting sales volumes to grow marginally in FY21 over FY20 which is a testament to the company's revival post-COVID-19. The company is also looking to shift its product mix more towards larger sizes which are expected to result in marginally lower capacity which the management assures will be enough for growth prospects for the next 2-3 years. It remains to be seen whether there are any other economic shocks to come from COVID-19 and whether the company's projections of rising demand from Agri and non-Agri sectors pans out as expected. Nonetheless, given the company's sustained margin performance, its resilient



market share in a slow global market, and the rapid rise of the company in India, Balkrishna Industries is a good tire stock to watch out for.

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