

Balkrishna Industries Q4FY21

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)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	1804	1424	26.69%	1556	15.94%	5919	5031	17.65%
PBT	495	339	46.02%	424	16.75%	1531	1123	36.33%
PAT	372	257	44.75%	322	15.53%	1155	945	22.22%
Consolidated Financials (In Crs)								
	Q4FY21	Q4FY20	YoY %	Q3FY21	QoQ %	FY21	FY20	YoY%
Sales	1815	1438	26.22%	1564	16.05%	5955	5062	17.64%
PBT	503	346	45%	428	17.52%	1555	1140	36.40%
PAT	380	265	43%	325	16.92%	1178	960	22.71%

Detailed Results:

- The revenue for the quarter grew 26% YoY in consolidated terms.
- PBT was up 46% YoY & 45% YoY in standalone and consolidated terms in Q4.
- Consolidated PAT was up 43% YoY in the quarter.
- FY21 figures were also very good with revenues rising 18% YoY while PBT and PAT rose 36% YoY and 23% YoY respectively.
- Sales volumes for the quarter came in at 68,002 tons which were up 17% YoY which was also its highest ever quarterly sales volume.
- The EBITDA margin improved 254 bps YoY to 31.9% in Q4.
- The company announced a final dividend for FY21 of Rs 5 per share.
- Sales breakup in FY21 for the company is:
 - Agri-64%, OTR-32%, Others-4%.
 - Replacement-70%, OEM-26%, Others-4%
 - EU-50%, Americas-15%, India-23%, RoW-13%
- The company remains debt-free with current cash holding at Rs 1475 Cr as of 31st Mar 2021.

Investor Conference Call Highlights

1. FY21 sales volumes were at 227,131 metric tons.
2. The management is guiding for sales volume between 250,000 to 265,000 metric tons in FY22.
3. The greenfield tire project in Waluj is going as scheduled. The project is expected to be completed by 30th September 2021.
4. The total new capex of Rs 1900 Cr is expected to be done by H1FY23.
5. Other income for the quarter stood at INR 20 crores, while unrealized gains stood at INR 23 crores. For financial year '21, other income stood at INR 119 crores, while unrealized gains stood at INR 18 crores.
6. The gross debt stood at INR 893 crores.
7. RM prices are expected to have risen 3-4% in Q1. The company has passed on the price increases to customers by doing a price increase in Jan & April.
8. The management is expecting to see immediate capacity rise from debottlenecking, but it remains confident of delivering on the volume guidance for FY22.
9. Capex guidance for FY22 is Rs 800-850 Cr including maintenance capex.
10. The majority of the Rs 1900 Cr capex is for upgrading and automation of the existing tire plant. CapEx for the carbon plant and the power plant would come a little later.
11. The management expects the OTR contribution to rise to 50% in the next few years.
12. The main reason for the rise in other expenses in Q4 is the spike in logistics costs. Logistics costs are expected to ease by H2FY22.
13. The margin contribution for OTR is the same as the tires from the Agri segment.
14. India sales have grown 29% YoY and the company now has a market share of 4-5% here.
15. The market size in North America is expected to be as big as EU for BKT.
16. The company has also added distribution in the online channel in North America.
17. The management states that the demand from OEMs is rising for both agri and OTR segments.
18. The lead time from going to the customer to getting feedback on products is around 6-9 months for an OEM customer. Thus, the company will have its feedback ready by the time the capacity expansion is done.
19. The management also expects RM prices to rise 4-5% in the next quarter. Availability is not an issue for RM procurement, but logistics is the main issue here.
20. The incremental demand is coming from both old and new distribution points with the old ones accounting for the bulk of it.
21. The company is holding around 38-40 days of inventory at present.
22. The company is currently at 5-6% of the global market share.

23. The total A&P spend in FY21 is around Rs 100 Cr. The company is looking to increase it to Rs 120-125 Cr in the coming years with capacity expansion.
24. The price gap with international competitors is going to narrow going forward but BKT will maintain a min gap of 12-15% while trying to enhance its brand building. Currently, the price difference is around 20-22%.
25. The management has stated that it is looking to maintain an EBITDA margin at 28-30% on a long-term sustainable rate.

Analyst's View:

BKT has been a rising player in the off-road tires business for years now. The company witnessed a phenomenal Q4 with its highest ever quarterly sales volumes ever sold. It has also hiked its volume guidance for FY22 due to a continuous rise in sales. BKT is seeing continuous growth in North America and India markets. It is also looking to keep growing with a steady EBITDA margin of 28-30%. The company is expecting the capex projects to run on schedule. The company is also expecting to see a rise in the OTR segment and both OTR & Agri segments to become equal contributors to sales in a few years. Although RM price inflation is expected in the near term, BKT is looking to pass on any price increases to customers as it has done so since Jan 2021. It remains to be seen how the India market shapes up for BKT in Q1 due to the 2nd wave of COVID-19 and how the company's plans for the new capex pans out. 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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