

Balkrishna Industries Q3FY21

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) | | | | | | | | |
|----------------------------------|--------|--------|--------|--------|--------|--------|--------|--------|
| | Q3FY21 | Q3FY20 | YoY % | Q2FY21 | QoQ % | 9MFY21 | 9MFY20 | YoY% |
| Sales | 1556 | 1191 | 30.65% | 1597 | -2.57% | 4115 | 3608 | 14.05% |
| PBT | 424 | 275 | 54.18% | 451 | -5.99% | 1036 | 784 | 32.14% |
| PAT | 322 | 221 | 45.70% | 339 | -5.01% | 783 | 688 | 13.81% |
| Consolidated Financials (In Crs) | | | | | | | | |
| | Q3FY21 | Q3FY20 | YoY % | Q2FY21 | QoQ % | 9MFY21 | 9MFY20 | YoY% |
| Sales | 1564 | 1186 | 31.87% | 1598 | -2.13% | 4141 | 3624 | 14.27% |
| PBT | 428 | 278 | 54% | 452 | -5.31% | 1052 | 793 | 32.66% |
| PAT | 325 | 224 | 45% | 341 | -4.69% | 798 | 695 | 14.82% |

Detailed Results:

- The revenue for the quarter grew 32% YoY in consolidated terms.
- PBT was up 54% YoY in standalone and consolidated terms in Q3.
- Consolidated PAT was up 45% YoY in the quarter.
- 9M figures were also very good with revenues rising 14% YoY while PBT and PAT rose 33% YoY and 15% YoY respectively.
- Sales volumes for the quarter came in at 59,810 tons which were up 26% YoY.
- Sales volumes for 9M were up 11% YoY which is very good considering the fall in performance in Q1.
- The EBITDA margin improved 70 bps YoY to 31.9% in Q3.
- The company announced a third interim dividend for FY21 of Rs 5 per share.
- Net forex gain for Q3 was at Rs 15 Cr vs a gain of Rs 6 Cr a year ago.
- Sales breakup in 9M for the company is:
 - Agri-64%, OTR-33%, Others-3%.
 - Replacement-71%, OEM-25%, Others-4%
 - EU-49%, Americas-15%, India-23%, RoW-13%

11. The company remains debt-free with current cash holding at Rs 1423 Cr as of 31st Dec 2020.
12. The previously guided CapEx programs are on track for the company.
13. BKT announced new capex programs of Rs 1900 Cr which included:
 - a. Debottlenecking and Brownfield expansion at Bhuj; Expansion to add ~50,000 MTPA capacity; expected completion by H2FY23; Capex cost of up to Rs 800 Cr.
 - b. Expanding carbon black capacity to 200,000 MTPA including 30,000 MTPA of high value advanced carbon material and Power Plant; Capex cost of up to Rs 650 Cr; expected completion by H1FY23.
 - c. Modernization, automation, and technology upgradation of existing facilities; Capex cost of up to Rs. 450cr; expected to be completed by H1FY23.

Investor Conference Call Highlights

1. 9M volumes were at 159,310 MT. the management has increased its volumes guidance for FY21 to 215,000 to 220,000 MT.
2. The new facility for 57-inch ultra large giant all-steel radial tire plant of 5,000 MTPA has been completed.
3. The carbon black plant has been running at full capacity as third-party sales have also commenced and there is strong acceptance for the product.
4. The management has stated that BKT has planned the new capex so that it doesn't face any capacity constraints from FY23 onwards.
5. Production is expected to commence in the greenfield tire plant at Waluj from Q1FY22.
6. The management expects payback in 5-6 years on the new capex in the carbon black plant.
7. The management has stated that the decision to expand carbon black capacity was taken due to good demand in the market for it and possible future requirements.
8. The modernization project will mainly result in manpower reduction and automation of many processes. The impact should not only be reflected in the margin; it will also result in an increase in product quality according to the management.
9. The management has stated that because of the market moving towards radialization, equipment upgradation is necessary. It has also clarified that the automation will only be in material handling and movement processes.
10. Market share in USA and EU are between 5-6% for BKT.
11. Around 25-30% of carbon black capacity is available for third party sales.
12. The margin on carbon black sales is at 15-16% which is the industry norm.
13. The management has stated that since 75-80% of carbon black is for internal consumption, it should not have any adverse impact on the overall margin for BKT.
14. Maintenance capex will vary from Rs 100-200 Cr per year.
15. The management has clarified that the Bhuj plant expansion is high because it will also have the automation and modernization aspect included in it.
16. The management has reassured that the expansion of the carbon black plant is not at the expense of the tire business and the tire business will remain core for BKT. The carbon black expansion is mainly for pre-empting expansion in tire capacity in the future even after 5-7 years. It has also stated that carbon black capacity expansion cannot be done in small increments and that it should yield certain economies of scale and thus the decision to expand it in a large increment was taken.

17. The rated capacity and achievable capacity for carbon black plant are different as the plant is required to be shut down from time to time as per the norms of the pollution boards.
18. The management has stated that mostly the advanced variant of carbon black with a capacity of 30,000 Mt will be for third party sales. The margin in this variant should be 4-5% higher than the lower quality one.
19. The modernization requirement is necessary as some of the plants like the one in Bhiwadi was formed in 2001-03. The management has stated that the requirement for modernization should come up every 7-10 years.
20. Currently carbon black sales account for less than 2% of revenues.
21. The company has not seen any opportunities from announced PLI schemes by the Govt of India.
22. After abandoning the plan for an overseas plant, the company is looking to make its distributors stronger and getting them to stock more material to keep business close to end customers.
23. The company developed small lots for testing which grade of carbon black would be well received and after testing and feedback it concluded to make the advanced carbon black which is basically mid-category that sits above the grade used to make tires and plastic.
24. Starting Q4, the company is also going to take some price increase of 2-3% to negate these enhanced costs and maintain EBITDA margins near 28-30%.
25. The management has also emphasized that the upgrades are also necessary to be able to compete fairly with international giants so that BKT can continue to compete effectively and doesn't get left behind by the market leaders.
26. The usage of the advanced carbon black will be mainly in print and ink grades and certain high-quality plastic grades.
27. Depending on the demand situation, the new capacity can be ramped up to full utilization within 1 quarter after completion.
28. Around half of the new capacity will come in H2FY23 and the rest will come in FY24.
29. Capex done in FY21 to date is at Rs 600 Cr and around Rs 100-120 Cr is expected in Q4. This is including maintenance capex.
30. The company has around 2 months of raw materials inventory at the moment. RM prices have gone up 4-5% in last 2 quarters. BKT is looking to pass on this rise in Q4 and the next quarter.

Analyst's View:

BKT has been a rising player in the off-road tires business for years now. The company witnessed a great Q3 with continued momentum from Q2. It has also hiked its volume guidance for FY21 due to a continuous rise in sales. BKT has also announced a capex plan for Rs 1900 Cr for expansion of the Bhuj plant, expansion of carbon black capacity, and modernization of existing plants. These projects are expected to be completed by H2FY23 and are necessary to maintain momentum and stay competitive according to management. It remains to be seen whether there are any other RM shocks to come for BKT 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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