

NIVESH DISCOVERY – ‘Product Features’

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- 2) These reports are prepared on the basis of desk research and information available in public domain.
- 3) These reports may or may not be followed by any specific event update.
- 4) All futuristic projections are based on author’s assumptions.
- 5) Recommendations given under ‘Nivesh Discovery’ are suited for aggressive investors only – seeking high risk return.

Current	Previous
CMP : Rs.675	
Rating : BUY	Rating : NR
Target : Rs.983	Target : NR

(NR-Not Rated)

STOCK INFO	
BSE	502355
NSE	BALKRISIND
Bloomberg	BIL IN
Reuters	BLKI.BO
Sector	TYRES
Face Value (Rs)	2
Equity Capital (Rs mn)	193
Mkt Cap (Rs mn)	65,225
52w H/L (Rs)	855/367.85
1m Avg Daily Volume (BSE & NSE)	88,048

Source: BSE, NSE India, Capitaline, Company, IndiaNivesh Research

SHAREHOLDING PATTERN	%
(as on Dec. 2014)	
Promoters	58.30
FIIIs	13.41
DIIIs	15.99
Public & Others	12.30

Source: BSE, NSE India, Capitaline, Company, IndiaNivesh Research

STOCK PERFORMANCE (%)	1m	3m	12m
BKT	4.46	-18.56	89.26
NIFTY	6.34	5.57	45.53

Source: BSE, NSE India, Capitaline, Company, IndiaNivesh Research

Balkrishna Industries Limited (BKT) is engaged in the manufacture of ‘Off Highway Specialty Tyres’. The specialty tyres manufactured by ‘BKT’ is used in vehicles for Agriculture, Industrial, Heavy Material Handling, Construction, Earth Moving (OTR), Port, Mining, Forestry, Lawn & Garden Equipment along with All Terrain Vehicles (ATV). BKT is headquartered in Mumbai. It was established in 1987, since then ‘BKT’ has become a leading manufacturer of Off-Highway tyres having global presence across 130 countries.

Key rationales for accumulating ‘BKT’:

- 1) **The company is a global player in the Off-Highway tyre industry commanding around 6% market share according to latest available update.** It has four subsidiaries in Europe and North America to assist in sales and marketing activities covering around 130 countries worldwide through a network of distributors to sell its products.
- 2) **BKT has five state-of-the-art production facilities employing over 6000 people offering an extensive catalogue of over 2,300 products on Off-highway tyres to meet customer (both manufacturer and end user) specification and needs.** It manufactures all types of Tractor, Machinery, Trailer, Dozer, Loader, Dumper, Crane, Scraper, All Terrain Vehicles along with Lawn and Garden equipment tyres.
- 3) **The company operates in a segment which has high entry barrier.** It takes long period of around 2 ½ to 3 years to build a facility of around 1,50,000 MTPA for ‘Off Highway Specialty Tyres’. Large variety of product offering is required while the business essentially remains a low volume one. Passenger car or Commercial Vehicle tyre manufacturer are not competitors of ‘Off-Highway Specialty Tyre’ manufacturer as both are distinctly different segments.
- 4) **‘BKT’ has undertaken massive green field capacity ramp up.** It is in the process of setting up a manufacturing facility of 1,40,000 MPTA at ‘Bhuj’, from which partial production has already commenced. According to management around 80% of construction is over and entire facility will be available in next few months. The company is presently sitting on a capacity of over 2,50,000 MTPA which is likely to reach 3,00,000 MPTA in next few months on completion of ‘Bhuj’ facility.
- 5) **Gross sales grew at a CAGR of over 22% in last three years outperforming industry average growth of 4% to 5% by a wide margin in an otherwise tough environment. Management seemed confident of maintaining revenue growth run rate while improving on margins.** Around 85% of total sales come from exports. According to management ‘it was better product and geographical mix which helped ‘BKT’ maintain high growth trajectory. Though company’s product are priced higher than those coming from Chinese factories; better product quality kept ‘BKT’ above Chinese competition. Presently around 51% of revenue comes from Europe, 20% from America and 29% from rest of world.

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- 6) **According to Management future growth be will largely come from America, Emerging markets and India.** In a 9 month period of FY'15 it is observed that share of America's contribution to revenue has increased while that of Europe has declined. It appears to be a smart move on part of management to capture growth opportunities in economies which are doing well enabling them to tide over slow down in Europe its biggest market till date.
- 7) **Going forward we expect domestic market to throw up significant growth opportunities to companies like 'BKT'. With 'Make In India' and 'Make for India' campaigns gaining traction BKT stands poised to reap benefits.** Their new product launches like all steel radial mining tyres, special puncture proof defense tyres and solid tyres fits the bill perfectly in light of India's landscape and Government's resolve to boost the pace of growth. As more mines are available for mining and defense sector opens up it will lead to increased demand of Off-Highway specialty tyres from both replacement and OEM markets.
- 8) *The company did a remarkable job in Q3FY15 by posting Ebitda growth of 16% and Pat growth of 6% on Y-o-Y basis considering the fact that around 51% of sales revenue for 9MFY15 accrued from Europe (It was 53% in H1FY15) while its currency 'Euro' depreciated significantly during the period.* Further, their key raw material rubber is priced in USD which appreciated against INR in the same period. **According to management it was effective currency hedges taken in time which prevented currency related losses.** They have already in place their currency exposure hedged for FY'16.
- 9) **'BKT' enjoys strong cash flow situation.** Its long term debt was at Rs. 1695 crores as on 30th Sept'14 (Short Term Debt stood at Rs.694 crores) which increased to Rs. 1745 crores as on 31st Dec'14 implying an increase of Rs. 50 crores while its cash and equivalents increased by Rs. 189 crores during the aforesaid period and expenditure incurred in Bhuj plant increased from Rs. 2466 crores as on 30th Sept'14 to Rs. 2570 as on 31st Dec'14 out of which Rs.1948 crores has been capitalized. Shareholder's Fund as on 30th Sept'14 stood at Rs. 2068 crores.
- 10) **Going forward management is confident of not only maintaining Ebitda margin of around 25% (for 9MFY15 Ebitda margin was 25.70%) but also improving it through operating efficiencies. Bhuj plant is a strategic fit to achieve higher operational efficiency.** The new plant will result in reduction of logistics, power and fuel costs as it is located close to the Mundra port and also has a rubber mixing plant besides a captive 20MW power plant. Once fully functional which is expected in next 3 to 4 months the company plans to utilize it at 100% capacity level. Management expects to achieve overhead saving of around 2 to 3 percent through this.
- 11) **Management has guided for sales volume of around 1,55,000 MT in FY'15 and 1,70,000 to 1,75,000 MT in FY'16. Further, according to management the benefits of lower input cost of rubber and crude oil will largely come from Q4FY15 due to lag effect.** For 9MFY15 sales volume stands at 114,865 MT. Assuming the company delivers on its guidance, we expect the company to post an EPS of around Rs. 51.52 in FY'15.
- 12) **Assuming 'BKT' deliver sales volume of 1,75,000 MT as guided by management we expect an EPS of Rs. 65.56 in FY'16** through improved blended realization, better product mix, reduced overhead expenses for factors cited above after adjusting for additional depreciation on full commissioning of Bhuj plant. The company has delivered an Ebitda margin of 25.70% for 9MFY15, we have assumed an Ebitda margin of 25.63% for FY15 while for FY16 we have assumed an Ebitda margin of 26.51%. Presently the capacity utilization of company is around 55% to 60% and post completion of Bhuj plant it is likely to remain in the same zone for FY16 going by management's guidance of achieving sales volume of 1,70,000 to 1,75,000 MT. However, benefits of operating leverage will start playing out in full swing from FY17 onwards. **Valuing the company at P/E multiple of 15x for FY'16 the stock target price comes at Rs 983.**

We recommend buy and accumulate on 'BKT' for a target price of Rs 983.

YE March (Rs. Crores)	REVENUE	EBITDA	PAT	EBITDA %	PAT %	EPS (Rs.)	P/E (x)
FY12A	3,017.00	516.00	269.00	17.10%	8.92%	27.48	24.55x
FY13A	3,394.00	673.00	350.00	19.83%	10.31%	36.20	18.64x
FY14A	3,772.00	904.00	475.00	23.97%	12.59%	49.10	13.74x
FY15E	3,776.81	968.00	497.91	25.63%	13.18%	51.49	13.10x
FY16E	4,531.00	1,201.00	634.00	26.51%	13.99%	65.56	10.29x

Source: BSE, NSE India, Capitaline, Company, IndiaNivesh Research

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