

Balkrishna Industries Ltd.

Company Overview

Balkrishna Industries Ltd. (BIL) manufactures Off-Highway Tyres (OHTs) that are used in vehicles meant for agricultural, industrial, construction, and earth-moving purposes.

The company operates in a niche market segment and does not have any pure-play competitor in the Indian domestic market.

BIL primarily caters to the export market with nearly 80% of its products sold to Europe, Americas & RoW. Company is a 4-star rated export house.

BIL products are marketed under the brand name BKT, while sub-brands Agrimax and Earthmax cater to Agriculture and Off the road (OTR) segments respectively.

Company is the 6th largest producer of OHT tyres in the world, with a market share of approximately 6% globally, and an existing production capacity of nearly 3 Lakh TPA.

Products/ Services

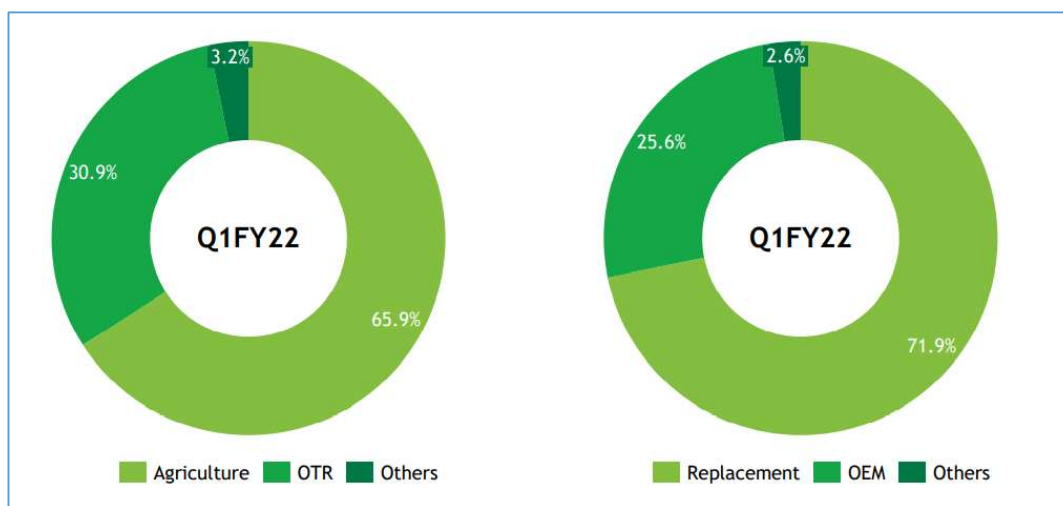
The key product range of the Company is Specialty Tires commonly known as “Off Highway Tires” which caters to Agriculture, Industrial, Construction, Earthmoving, Mining, Port, Lawn and Garden and All-Terrain Vehicle (ATVs) Tires. BIL has 3 broad sub-segments which are as follows:



While the sub segment agriculture is largely non-cyclical in nature, the other sub segments (industrial, OTR) are generally considered as cyclical and the performance of it is largely linked to overall economic outlook of the world.

The tyre segment is highly technical & capital intensive and known as “large varieties low volume segment” where any credible player needs to maintain large number of Stock Keeping Units (SKUs) to meet the diverse requirement of its customers worldwide. BKT has over 2,700 stock-keeping units to ensure timely order execution.

Apart from this, it needs to service its clients pre & post sales.



BIL: Segmental & Channel sales, Q1FY22.

The market for Company's range of tires is mainly Europe, America, Australasia and India.

The Company also manufactures Carbon Black which is mainly used for captive and partly sold in Market has been well accepted in terms of quality.

Existing Capacity & Expansion Plans

Product	Existing capacity
Tyre Manufacturing	2,85,000 Lakhs MTPA
Carbon Black Manufacturing	1,15,000 MTPA
Wind farm	5 MW

Expansion Plans

BIL is just about to conclude a large capex cycle (~Rs 2,000 crore in FY19-21E) and has announced a fresh capex programme amounting to another Rs 1,900 crore in the next 18-24 months. It comprises

- (i) brownfield tyre expansion for Rs 800 crore by H2FY23E (adds 50,000 MT per annum capacity to take total capacity to 3.35 lakh MT pa; ~four-year payback period),
- (ii) carbon black expansion for Rs 650 crore by H1FY23E (takes capacity to 2 lakh MT pa from present 1.15 lakh MT pa; includes 30,000 MT pa for advanced carbon material; ~five-to-six-year payback period), and
- (iii) modernisation capex of Rs 450 crore by H1FY23E; ~five-year payback period.

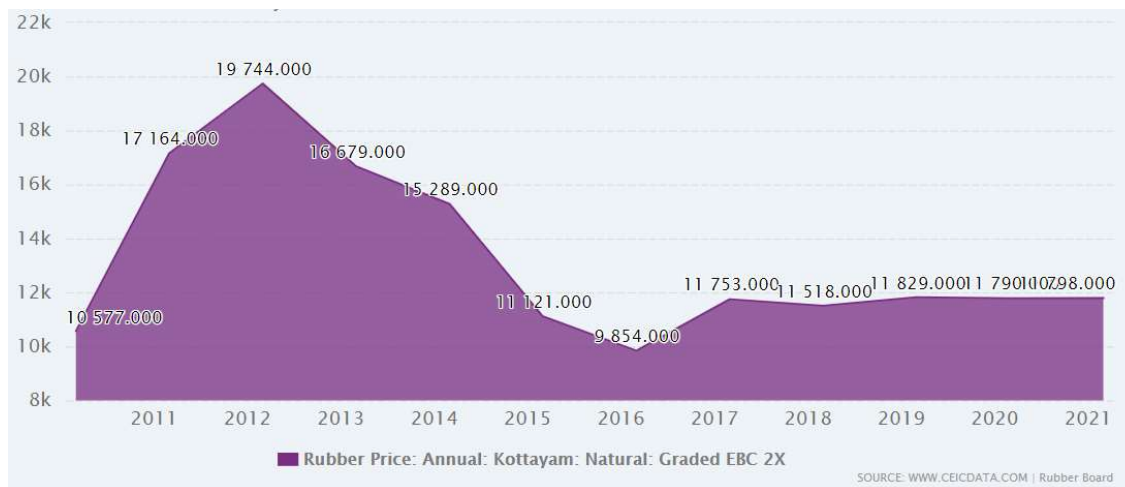
Expanded capacities (to be funded via internal accruals and some debt if needed) are set to ease supply concerns amid strong future demand outlook.

Locations

Product	Plant Location
Tyre Manufacturing	<ul style="list-style-type: none"> B-66, Waluj MIDC, Waluj Industrial Area, Aurangabad 431 136 (Maharashtra) SP-923, RIICO Industrial Area, Phase-III, P.O. Bhiwadi 301 019 Dist: Alwar (Rajasthan) A-300-305 & E-306-313 RIICO Industrial Area, Chopanki P.O. Bhiwadi 301 707, Dist: Alwar (Rajasthan) Bhuj Bhachau Road, S.H.No.42, Village Padhdhar, Taluka Bhuj 370 105, Dist: Kutch (Gujarat)
Carbon Black Manufacturing	<ul style="list-style-type: none"> Bhuj Bhachau Road, S.H.No.42, Village Padhdhar, Taluka Bhuj 370 105, Dist: Kutch (Gujarat)
Wind farm	<ul style="list-style-type: none"> Village Soda Mada, Tehsil: Fatehgarh 345 027, Dist: Jaisalmer (Rajasthan)
Mould Unit	<ul style="list-style-type: none"> C-21, M.I.D.C, Phase No. I, Dombivali (E) 421 203, Dist: Thane (Maharashtra)

Raw Materials

The Company's major raw material is Natural and Synthetic Rubber, Carbon Black and Nylon fabric.



Historical rubber prices, India

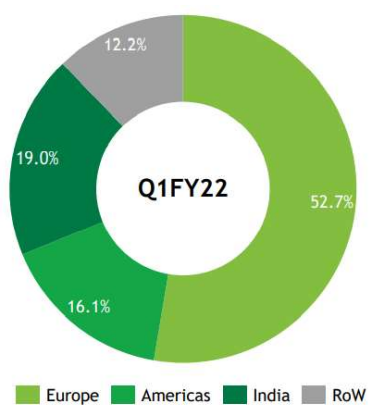
Key Clients

Balkrishna Industries is an OEM vendor for heavy equipment manufacturers like JCB, John Deere, CNH Industrial, SAME, Volvo, etc. More elaborate list is below:



Domestic / Exports

As of FY21, revenue from exports contributed to more than 78% of the consolidated sales. BIL enjoys the status of a “Four start export house”.



BIL: Geographical sales, Q1FY22

Europe is the biggest market for BIL, contributing to more than half of Q1FY22 sales. India contributed to nearly a fifth of Q1FY22 revenues, followed by Americas & RoW.

Industry Overview

The global tyre industry is valued at ~\$150bn. OHT is a subsegment of the overall tyre market and generates sales of \$13-\$15bn annually. Whereas most of the tyre demand comes from passenger vehicles (2-wheelers, 4-wheelers) and commercial vehicles (e.g., trucks), OHT is a niche segment that constitutes tyres used in agriculture, construction, mining and earthmoving. The tyres are characterised by their large size, rugged nature and requirement of having to operate on uneven terrains. OHT demand is cyclical and linked with global economic growth. For instance, the demand contracted in 2009 and between 2012-2016 when global GDP growth was poor. However, over longer periods of time OHT demand has grown 2-5% per annum, driven by growth in agriculture, construction and mining activities.

Market segments

The market can be divided into Agri vs OTR segments and OEM vs Replacement segments

Agriculture tyres account for ~30% of the global OHT market whereas Off-The-Road (OTR) tyres (which comprises industrial, construction and mining applications) comprises ~70% of the market. The agriculture market is less cyclical and more correlated with crop prices, farm incomes and weather conditions. The OTR segment is more cyclical and is impacted by construction and mining activity.

The market can also be divided between OEM (Original Equipment Manufacturers) and replacement sales. OEM constitutes sales directly to manufacturers of equipment for the agriculture, construction, mining sectors. Replacement sales constitutes sales to end users that purchase tyres after their original tyres get worn out. OEM sales for OHT manufacturers are a function of relationships with OEMs, product approvals and sales of equipment. Replacement sales are driven by replacement cycles of the tyres (typically 2-3 years), distribution reach of OHT manufacturers and brand building efforts.

Typically, there is a 50-50 split between OEM and replacement for large OHT manufacturers.

Key players

The industry is fairly consolidated with the top 8 players accounting for ~85% of the global market share

The largest players in the OHT industry are Michelin, Goodyear, Continental, Pirelli and Bridgestone, which together account for 50-60% of the market. BKT has a ~6% share of the market, making it the sixth largest player (as of 2018). Small unorganised players constitute 15% of the market.

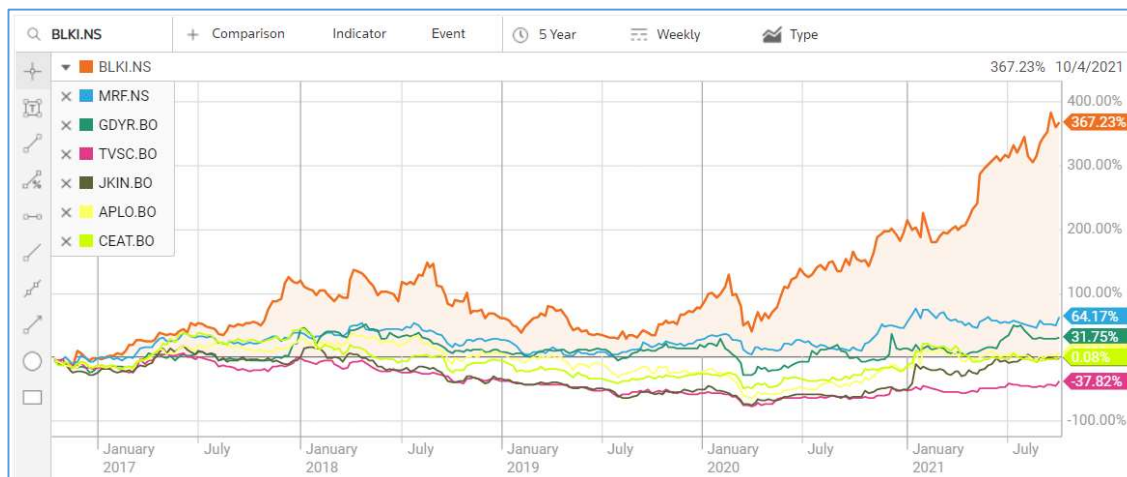
Source: finmedium.com, economictimes.indiatimes.com

Competitors

	Balkrishna Inds	MRF	Goodyear India	TVS Srichakra	JK Tyre & Indust	Apollo Tyres	CEAT
Mcap	49129.63	36404.83	2417.16	1814.65	3748.87	14893.12	5522.25
PER	27.72	27.05	15.11	18.49	8.40	40.57	14.59
PSR	8.50	2.25	1.35	0.94	0.41	0.86	0.73
PBR	8.19	2.71	2.88	2.20	1.40	1.30	1.67
Dividend Yield	0.67%	0.17%	9.35%	1.27%	1.31%	1.49%	1.32%
1Y Sales Gro. Rate	20.20%	10.67%	17.15%	14.60%	16.23%	9.72%	12.26%
3Y Sales Gro. Rate	9.18%	2.62%	2.48%	-3.42%	3.24%	5.44%	6.60%
5Y Sales Gro. Rate	12.31%	-4.34%	0.70%	-2.36%	5.70%	7.98%	6.77%
10Y Sales Gro. Rate	7.51%	5.77%	2.07%	3.26%	3.39%	4.07%	5.77%
1Y NP Gro. Rate	22.70%	-10.23%	53.38%	-10.23%	111.82%	-26.49%	86.83%
3Y NP Gro. Rate	16.97%	4.11%	1.59%	-13.98%	69.10%	-21.50%	21.99%
5Y NP Gro. Rate	21.45%	-12.64%	2.62%	-16.86%	-7.33%	-20.79%	-0.25%
9Y NP Gro. Rate	17.83%	8.38%	8.65%	7.31%	-229.13%	-1.73%	42.19%
1Y OPM	31.33%	17.36%	12.39%	12.26%	15.02%	16.27%	12.47%
3Y OPM	27.79%	15.79%	9.49%	10.97%	12.07%	13.16%	11.10%
5Y OPM	27.64%	16.39%	10.65%	11.79%	11.94%	12.97%	10.99%
10Y OPM	24.98%	15.82%	9.80%	10.87%	11.48%	13.19%	10.99%
1Y NPM	20.36%	7.90%	7.61%	3.81%	3.51%	2.01%	5.68%
RoE	19.63%	9.52%	16.23%	8.96%	11.95%	3.06%	13.03%
RoA	14.42%	5.66%	9.80%	4.56%	2.92%	1.36%	5.31%
RoCE	24.21%	13.70%	20.91%	12.33%	13.15%	5.93%	13.53%
D/E	0.17	0.15	0.02	0.25	1.74	0.56	0.46
Interest Cover	154.04	10.49	63.38	6.87	2.80	6.08	5.55
Receivable Days	47.56	50.91	55.22	46.20	63.17	28.97	44.20
Inventory Days	59.31	66.37	27.14	80.09	71.75	69.62	54.31
WC Cycle	85.67	-20.53	107.15	38.25	25.69	5.06	-44.01
Tax Rate	24.27%	26.47%	25.61%	24.50%	37.60%	37.60%	10.66%
5Y (OCF - PAT)	565.9	5769.31	181.34	397.03	3287.85	5327.96	2367.8
5Y FCF	2055.46	3193.96	474.25	205.95	15.79	-6981.64	-463.24
10Y FCF	2713.99	5981.39	575.15	757.24	388.27	-3867.96	675.04
Issued Capital GR	8.01%	0.00%	0.00%	0.00%	2.04%	2.60%	1.87%

- Tyres business is cyclical, however, BIL due to its unique product positioning has been a contrast. Unlike any of its peers, BIL experienced steady growth in top-line as well as bottom-line consistently over the past 10 years.
- Operating margins are 2 – 3 times its competitors.
- Same is true for profitability, both asset returns and return on shareholders capital are 2-3x its peers.
- Virtually debt free company
- Valuations however are understandably richer compared to its peers

Comparison of stock-price performance



Source: Reuters

Over the past 5 years, stocks of tyre companies have given flattish returns. The only exception has been BIL which generated absolute returns of 367% over the same period.

This is because, earnings growth for tyre manufactures over the same period has been negative. BIL however has been a stark contrast, generating a 20% CAGR in earnings over the same period.

BIL's business advantage

Low-cost manufacturing setup

OHT is a labour-intensive industry and labour costs constitute 25-30% of revenue for leading players like Michelin and Continental. For BKT, this is just 5% given that its manufacturing facilities are in India. This allows it to price its products lower than competitors and still maintain its margins.

Wide distribution network

The company's distribution network is spread across 160 countries. It has a wide product range of 2,700+ SKUs to cater to the diverse needs of different markets. A well-functioning, wide distribution network along with after sales service is something that will be difficult for a new entrant to replicate.

Resilient business model

BIL sales have shown resilience irrespective of economic cycles. The agriculture sub-segment which caters to 65% of sales is largely non-cyclical in nature. Further customers have tendency to move towards cost-effective brands from premium brands during down cycles to cut costs.

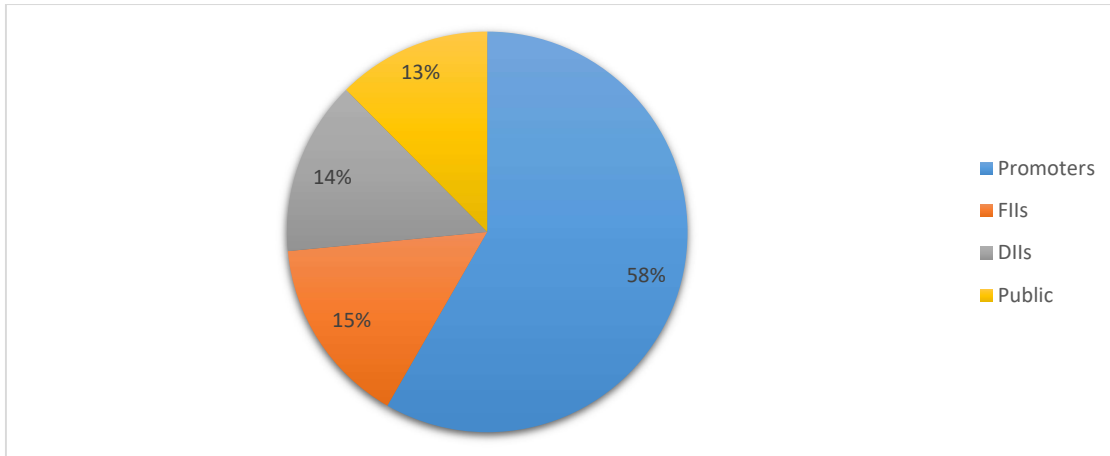
Ability to scale up operations

BIL has successfully undertaken a series of capex programs to expand capacity and increase market share both globally and domestically. Management aims to double market share from 5-6% currently to around 10%, globally.

Shareholding

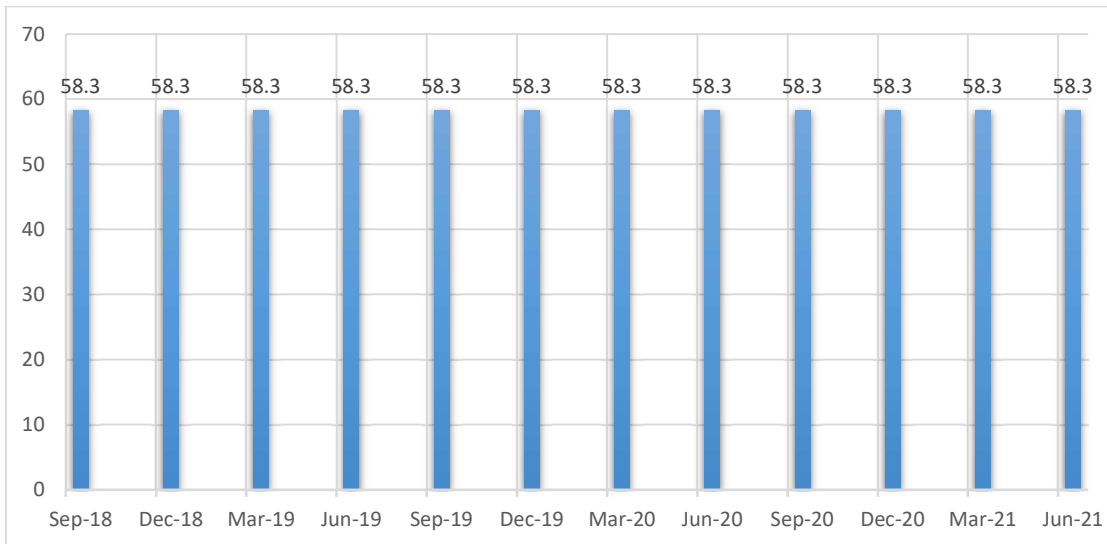
Promoter holding & recent changes

As of June 2021, Indian Promoters own 58%. Institutional holding is high. FIIs & DIIs hold 15% and 14% respectively, while general public holds around 13%.



Historical changes in promoter holdings

Promoter holding remained steady over the past 12 quarters.



Management Analysis

Key Managerial Personnel (KMP)

Remuneration

KMP remuneration is around 75 crores in total against an FY21 NP of 1155 crores, which is around 6.5%, therefore in compliance with the laws.

Key management personnel compensation comprised the following :		
(₹ in Lakhs)		
Particulars	Year ended 31st March, 2021	Year ended 31st March, 2020
Remuneration**		
Mr. Arvind Poddar	3,742	2,776
Mr. Rajiv Poddar	3,732	2,769
Mr. Vipul Shah	71	68
Mr. Madhusudhan Bajaj	101	-
Mr. Basant Bansal	101	179
Recovery of Expenses		
Mr. Arvind Poddar	-	3
Surrender Of Insurance Policy		
Mr. Arvind Poddar	-	565
Mr. Rajiv Poddar	-	424

** Excluding Provision for gratuity and leave encashment

Employee feedback

Employee review is quite positive for BIL.

Platform	Score	No. of reviews
Indeed.co.in	4.1	27
Ambitionbox.com	4	249
Glassdoor.co.in	3.6	35
Jobbuzz.timesjobs.com	3.2	45

Scuttlebutt

An FIR was filed by an employee of BIL accusing 10 senior officials, including the MD of harassment. BIL responded by filing a counter FIR against the employee, accusing him of breach of trust.

The concerned employee was 58 years and reportedly had sought retirement on health grounds. Management on the other hand wanted him to continue due to past records, and feared that he might join a rival company.

[Mumbai: Rejecting his plea to quit, seniors kidnap, drag 58-year-old to office - India News \(indiatoday.in\)](https://indiatoday.in/news-buzz/story/mumbai-rejecting-his-plea-to-quit-seniors-kidnap-drag-58-year-old-to-office-2020-12-10)

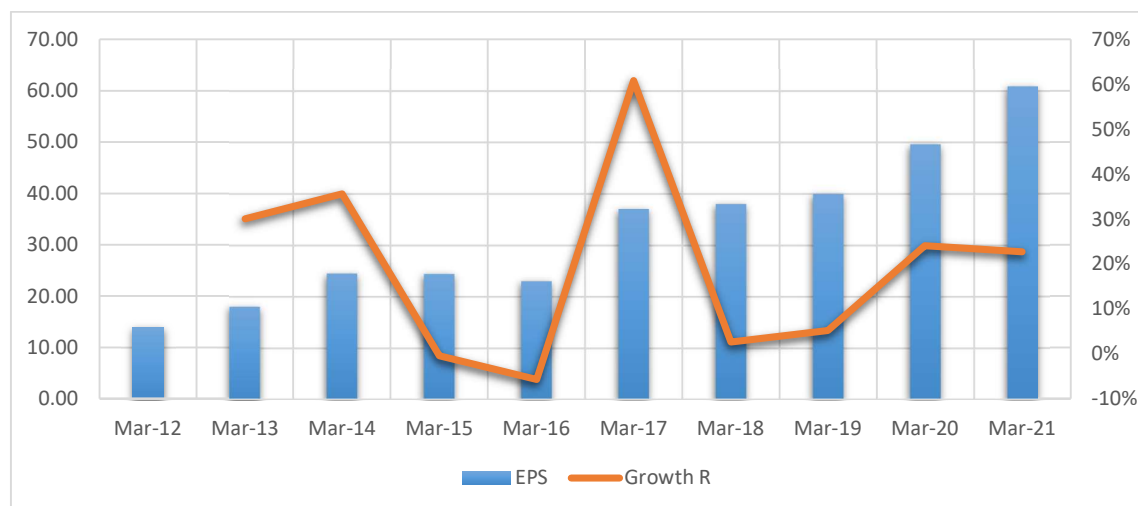
[Mumbai: Balkrishna Industries hits back, says Rajat Bidaye 'breached company trust' - India News \(indiatoday.in\)](https://indiatoday.in/news-buzz/story/mumbai-balkrishna-industries-hits-back-says-rajat-bidaye-breach-company-trust-2020-12-10)

Financials

Summary of 10-year financials of Balakrishna Industries Ltd.

BALKRISHNA INDUSTRIES LTD											Reuters	MCAP	49129.63	CNP	2541.4	# Shares	19.33	FV	2		
10 Y PHL	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Ratios	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Sales	3,013.61	3,390.38	3,768.27	3,813.08	3,236.58	3,723.30	4,443.79	5,209.99	4,811.24	5,783.19	PSR	0.42	0.39	0.62	0.82	0.94	1.80	4.65	3.69	3.18	5.64
OP	512.05	669.01	890.01	727.37	865.84	1,130.97	1,102.56	1,306.23	1,273.94	1,811.49	PER	9.43	7.58	9.87	13.21	13.69	18.69	28.07	24.87	15.95	27.72
OPM	16.99%	19.73%	23.62%	19.08%	26.75%	30.38%	24.81%	25.07%	24.48%	31.32%	PBV	1.14	0.92	1.24	1.37	1.10	1.09	3.06	4.14	3.06	5.44
Interest	29.28	27.52	27.46	47.77	39.85	22.00	14.83	12.44	10.79	11.76	PCF	16.76	2.42	3.89	3.17	2.85	7.91	27.55	23.46	10.05	24.38
Depreciation	86.39	112.20	170.28	243.70	282.32	304.00	311.40	332.61	373.61	416.30	DY			0.83%	0.74%	1.74%	1.15%	0.75%	0.80%	2.53%	1.01%
PBT	400.42	533.80	706.17	713.34	674.25	1,058.60	1,116.04	1,176.56	1,139.52	1,554.92	RoE	24.23%	24.25%	25.04%	20.76%	16.06%	20.23%	18.02%	16.62%	19.16%	19.63%
Tax	131.48	183.89	231.55	240.77	228.53	341.75	380.25	402.91	179.87	377.39	RoA	8.37%	8.43%	9.45%	8.89%	8.26%	12.38%	12.52%	11.94%	14.10%	14.42%
PAT	268.94	349.90	474.62	472.57	445.72	716.85	735.79	773.65	959.65	1,177.53	Asset Turn	3.45	2.54	1.58	1.58	1.13	1.31	1.56	1.87	1.45	1.72
NPM	8.92%	10.32%	12.60%	12.39%	13.77%	19.25%	16.56%	14.85%	19.95%	20.36%	Interest Cover	17.49	24.31	32.41	15.23	21.73	51.41	74.35	105.00	118.07	154.04
EPS	13.91	18.10	24.55	24.45	23.06	37.08	38.06	40.02	49.65	60.92	D/E	1.54	1.50	1.29	1.04	0.68	0.39	0.21	0.19	0.19	0.17
Payout R	5.39%	4.14%	4.07%	4.91%	11.93%	10.79%	21.02%	19.99%	40.29%	27.91%	Cost of Funds	1.7%	1.3%	1.1%	2.0%	2.1%	1.6%	1.7%	1.4%	1.2%	1.2%
Dividend	14.50	14.50	19.33	23.20	53.16	77.32	154.64	154.64	386.60	328.61	Receivable days	59.4	55.9	59.4	55.6	43.4	40.4	39.4	36.2	44.7	47.6
10Y CF	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Inventory/Sales	16.54%	13.47%	15.08%	10.79%	12.30%	12.79%	13.93%	14.56%	12.80%	16.25%
OCF	75.65	549.34	601.67	984.13	1,071.95	846.85	749.94	820.41	1,173.14	1,339.03	# Shares	9.67	9.67	9.67	9.67	9.67	9.67	9.67	9.67	9.67	9.67
Capex		1,110.29	776.26	339.27	322.74	172.55	320.80	751.47	881.05	748.04	FV	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0	2.0
FCF		-560.95	-174.59	644.86	749.21	674.30	429.14	68.94	292.09	590.99	Valuation	PSR	PER	PBV	PCF	PDT	Market	EPS	Growth	Sales	Growth
10Y BS	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21	Current	7.40	35.69	8.19	26.69	0.67%	FY19E	-	-	-	-
Total Assets	3,211.54	4,150.73	5,021.30	5,318.35	5,398.40	5,789.08	5,878.21	6,479.01	6,806.35	8,166.49	Historical	2.22	16.91	2.54	12.54	1.19%	FY20E	-	-	-	-
Total Liabilities	2,101.46	2,707.73	3,126.22	3,042.37	2,623.57	2,246.22	1,794.82	1,825.35	1,798.07	2,166.67	10 Q Results	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Equity (BV)	1,110.08	1,443.00	1,895.08	2,275.98	2,774.83	3,542.86	4,083.39	4,653.66	5,008.28	5,999.82	Sales	1356.03	1198.93	1084.28	1155.76	1372.27	942.61	1577.90	1509.23	1753.45	1802.87
Borrowing	1709.22	2163.98	2438.52	2357.84	1898.3	1390.87	867.47	871.14	932	1001.12	NP	185.94	176.84	294.31	223.80	264.70	131.56	340.94	325.07	379.95	330.56
Cash	369.84	277.97	14.93	434.21	329.96	24.81	33.43	65.63	69.08	77.97	Y Growth	10Y	5Y	3Y	1Y	Q Growth	5Q	4Q	3Q	2Q	1Q
Receivables	490.03	519.67	613.76	581.15	384.95	411.67	479.63	517.10	589.86	751.59	Sales	7.5%	12.3%	9.2%	20.2%	Sales	-21.38%	45.5%	30.6%	27.8%	91.3%
Inventory	498.54	456.74	568.41	411.41	398.26	476.12	618.87	758.71	615.64	939.72	EBITDA	15.1%	15.9%	18.0%	42.2%	NP	-25.61%	15.8%	45.3%	43.5%	151.3%
Fixed Assets	873.05	1,335.33	2,389.00	2,415.39	2,858.78	2,848.73	2,849.14	2,786.25	3,307.51	3,370.32	NP	17.8%	21.4%	17.0%	22.7%						
CWIP	476.74	1,012.55	564.86	634.04	231.07	109.67	118.66	600.41	586.59	855.52	Price										
Tax Rate	32.84%	34.45%	32.79%	33.75%	33.89%	32.28%	34.07%	34.24%	15.78%	24.27%	Price	131.2	137.3	242.4	323.0	315.7	693.1	1068.7	995.5	791.7	1088.5
Investments	2.45	3.32	370.19	444.06	835.87	1349.19	1102.67	1082.55	1062.50	1417.65	SSGR	19.25%	16.71%	11.93%	8.51%	3.86%	11.78%	9.47%	10.28%	6.03%	12.84%

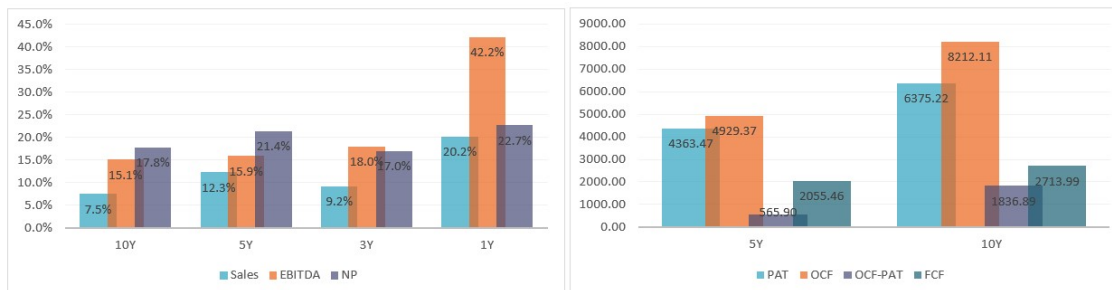
Growth rates



Y Growth	10Y	5Y	3Y	1Y	Q Growth	5Q	4Q	3Q	2Q	1Q
Sales	7.5%	12.3%	9.2%	20.2%	Sales	21.38%	45.5%	30.6%	27.8%	91.3%
EBITDA	15.1%	15.9%	18.0%	42.2%	NP	25.61%	15.8%	45.3%	43.5%	151.3%
NP	17.8%	21.4%	17.0%	22.7%						

Bottom-line growth has been in the 18-22% range (roughly 20%). Although auto-ancillary businesses such as tyres are considered cyclical, the consistency demonstrated by BIL over the years in maintaining steady growth is quite surprising.

Cash Flow

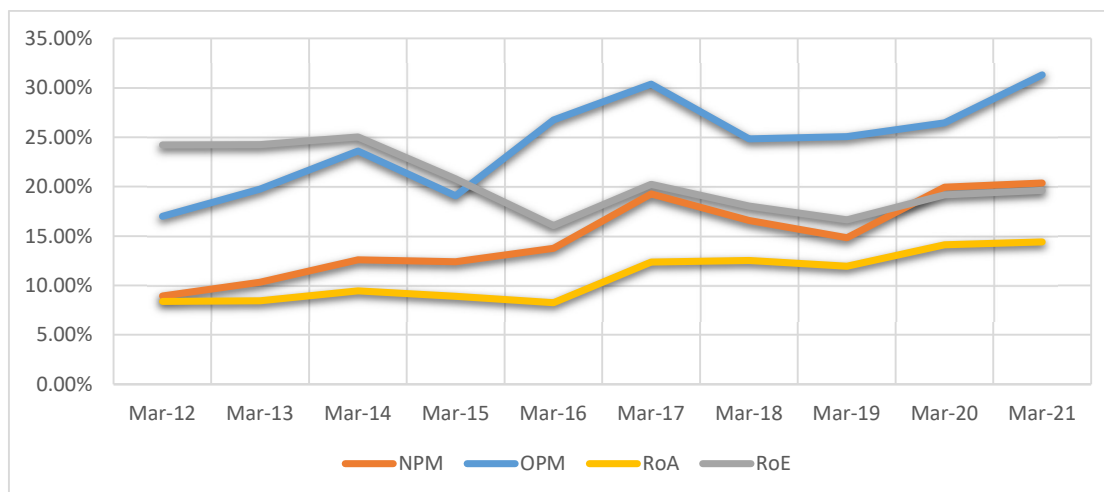


Steady cash flows, with OCF > PAT and decent FCF generation.

Profitability

10 Y PNL	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
OPM	16.99%	19.73%	23.62%	19.08%	26.75%	30.38%	24.81%	25.07%	26.48%	31.32%
NPM	8.92%	10.32%	12.60%	12.39%	13.77%	19.25%	16.56%	14.85%	19.95%	20.36%

Operating & Net margins have been steadily improving over the past 10 years. OPM has expanded from 16.99% to 31.32%, while NPM has grown from 8.92% to 20.36%.



Asset returns have been witnessing steady uptrend with RoA expanding to 14%+ in FY21 from 8% in FY12. RoE stands at 20%, witnessed slight decline from 24% in FY12 – this is primarily due reduction in borrowings: DE declined from 1.54 in FY12 to 0.17 in FY21.

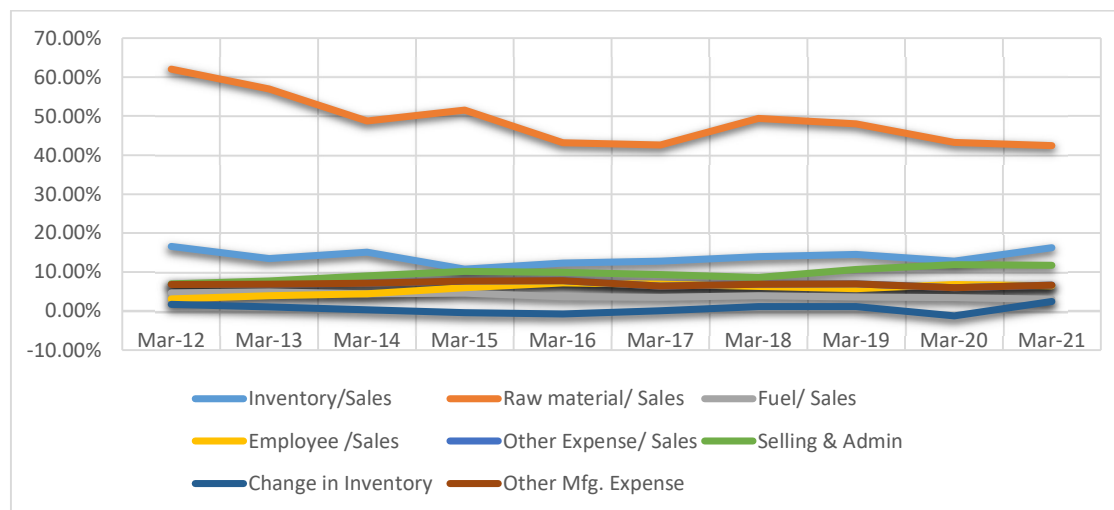
Leverage & Liquidity, debt outlook

Interest cover is over 150x as of FY21 while DE is 0.17. Company is virtually debt free.

Tax rates & benefits if any

10-year average tax rate is 30.84%, while 3-year average rate is 24.77%.

Cost analysis



Raw materials, primarily synthetic rubber constitute the biggest cost (40-50%) for BIL

Cash + Investments

Company has around 18% of its assets in cash and investments. As of December 30, 2020, cash and cash equivalents stood at Rs 1423 crores of which cash accruals were Rs 900 crores.

Cash+Investments	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Assets	3,211.54	4,150.73	5,021.30	5,318.35	5,398.40	5,789.08	5,878.21	6,479.01	6,806.35	8,166.49
Cash+Investments	372.29	281.29	385.12	878.27	1165.83	1374.00	1136.10	1148.18	1131.58	1495.62
As % of assets	11.6%	6.8%	7.7%	16.5%	21.6%	23.7%	19.3%	17.7%	16.6%	18.3%

Credit rating

Rating history for past 3 years:

Instrument	Current			2021 (History)		2020		2019		2018		Start of 2018
	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	710.0	CRISIL A1+ / CRISIL AA/Stable		--	30-01-20	CRISIL A1+ / CRISIL AA/Stable		--	16-10-18	CRISIL A1+ / CRISIL AA/Stable	CRISIL A1+ / CRISIL AA/Stable
					--		--		--	30-07-18	CRISIL A1+ / CRISIL AA/Stable	--
Non-Fund Based Facilities	ST	290.0	CRISIL A1+		--	30-01-20	CRISIL A1+		--	16-10-18	CRISIL A1+	CRISIL A1+
					--		--		--	30-07-18	CRISIL A1+	--

All amounts are in Rs. Cr.

Corporate structure

Subsidiaries, Associates & JVs

Company has one Domestic and Four Overseas Wholly Owned Subsidiary Companies (WOS).

The domestic WOS is known as BKT Tires Limited and the Overseas WOS are BKT EUROPE S.R.L., BKT USA INC, BKT TIRES (CANADA) INC., BKT EXIM US, INC. The Company also has one step down subsidiary in the name of BKT Tires Inc. based in USA which is a 100% subsidiary of BKT Exim US, INC.

Contribution of subsidiaries, JVs & associates to consolidated financials

Contribution of subsidiaries to consolidated financials is negligible.

Subs.	Mar-12	Mar-13	Mar-14	Mar-15	Mar-16	Mar-17	Mar-18	Mar-19	Mar-20	Mar-21
Topline	194.61	201.38	193.27	37.08	16.58	-4.70	-3.21	-34.01	29.24	25.19
EBITDA	6.05	4.01	-3.99	-8.63	10.84	-1.03	-5.44	-8.77	21.94	25.49
Bottomline	-0.06	-6.10	-13.38	-16.43	6.72	0.85	-3.21	-8.35	14.65	22.53
Assets	96	162	147	3	16	33	33	49	75	126
RoA	-0.1%	-3.8%	-9.1%	-490.4%	41.0%	2.6%	-9.7%	-17.0%	19.4%	17.8%

Valuation, earnings estimates

Relative valuations



Valuation	PSR	PER	PBV	PCF	PDY
Current	7.40	35.69	8.19	36.69	0.67%
Historical (5Y average)	3.79	23.06	3.92	19.27	1.25%

Stock is currently trading at 35x trailing earnings.

Risk Analysis

Exposure to volatility in raw material prices

Prices of key raw material, natural and synthetic rubber (raw materials account for approximately 60% of BIL's aggregate production costs), tend to be volatile as they depend on global demand, area under cultivation, and crude oil prices. Consequently, BIL's profitability has been volatile.

Fluctuation in foreign exchange

Around 60% of the raw material is imported. Also, the entire borrowings are in foreign currency, exposing BIL to the risk of sharp fluctuations in forex rates. However, with the bulk of revenue coming in from exports, the exposure to forex risk is largely naturally hedged. Receivables are also covered by forward contracts.

Exposure to regulatory risks

In March 2017, the US Department of Commerce issued an order levying countervailing duty of 5.36% on BIL. Though the impact of this levy is limited, given that only around 10% of revenue comes from North America, BIL's exposure to risks related to regulatory actions by importing countries will persist.

Historical price chart

Free Float market cap is around 20,365 crores in value terms, as on October 2021.

1 Year chart



Duration	1 Year	3 Years	5 Years	10 Years
Stock Price CAGR	73%	37%	35%	40%

Conclusion

BIL is the 6th largest manufacturer of OHT tyres in the world, with around 6% market share, globally. Company is steadily expanding its manufacturing capacity to increase foot-print both globally as well as in the domestic market.

OHT tyre is a niche market segment catering to agriculture, industrial and mining sectors. Agriculture sector constitute 65% of sales and its demand is mostly non-cyclical in nature. As a result, BIL is a non-cyclical play in an otherwise cyclical sector. This has imparted significant resilience to company's financials.

BIL's financial profile is impressive. For the past decade, company's earnings have grown at roughly 20% CAGR. Its operating margins are over 31% and net margins are around 20%. Company is virtually debt free and additionally has nearly 20% of assets in cash & equivalents.

The stock appears to be a good long-term play, although some near-term headwinds may be possible due to the relatively rich valuations.

Disclosure:

ViniyogIndia.com is managed by Biswarup Sinha Ray (hereafter referred to as 'I'), along with employees and partners of B. Sinha Ray Research & Advisory (hereafter referred to as 'We'); collectively, referred to as 'Us'.

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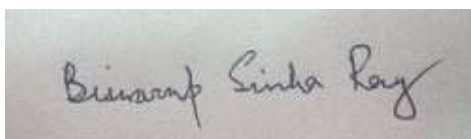
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Biswarup Sinha Ray, 08-OCT-2021.

Investment Advisor, SEBI Registration INA300008614 [Individual]

E: biswarup@viniyogindia.com, T: +91 62912 68415, RO: T-26, 13th Floor, 13D, Genexx Valley, Kolkata – 104.

SEBI ERO: L&T Chambers, 3rd Floor, Camac Street, Kolkata – 17.