

RESULT UPDATE

SMALL CAP

Share Data

Reuters code	BLKI.BO
Bloomberg code	BIL IN
Market cap. (US\$ mn)	167
6M avg. daily turnover (US\$ mn)	0.1
Issued shares (mn)	19
Target price (Rs)	594

Performance (%)	1M	3M	12M
Absolute	8	21	154
Relative	16	15	45

Valuation ratios

Yr to 31 Mar	FY10E	FY11E
EPS (Rs)	87.8	84.8
+/- (%)	131.7	(3.3)
PER (x)	4.6	4.8
PBV (x)	1.2	1.0
Dividend/Yield (%)	1.5	1.5
EV / Sales (X)	0.9	0.7
EV / EBITDA	3.4	3.5

Major shareholders (%)

Promoters	55
FII's	23
MF's	12
Public & Others	10

Financial highlights

(Rs mn)	2QFY09	2QFY10	YoY(%)	1HFY09	1HFY10	YoY%	FY09	FY10E	YoY (%)	FY11E	YoY (%)
Net Sales	3,200	3,012	(5.9)	6,172	6,028	(2.3)	13,999	14,075	0.5	15,775	12.1
EBITDA	556	916	64.7	1,267	1,791	41.4	2,047	3,525	72.2	3,369	(4.4)
EBITDA Margin (%)	17.4	30.4	-	20.5	29.7	-	14.6	25.0	-	21.4	-
Other Income	(59)	(19)	(67.5)	(354)	111	(131.2)	64	50	-	120	-
Interest	97	49	(49.3)	173	102	(40.8)	384	253	(34.0)	252	(0.4)
Depreciation	138	162	17.6	259	320	23.9	586	687	17.2	691	0.5
PBT	263	686	161.3	482	1,479	206.7	1,141	2,634	130.8	2,547	(3.3)
Tax	92	233	154.4	168	503	200.1	409	938	129.1	907	(3.3)
Adj. PAT	171	453	165.1	315	976	210.3	732	1,696	131.7	1,640	(3.3)
Adj. PAT margin (%)	5.3	15.0	-	5.1	16.2	-	5.2	12.1	-	10.4	-
EPS (Rs.)	8.8	23.4	165.1	16.3	50.5	210.3	37.9	87.8	131.7	84.8	(3.3)
P/E (x)	-	-	-	-	-	-	10.7	4.6	-	4.8	-

Note: Quarterly numbers are on standalone basis.

Balkrishna Industries

Maintain BUY

Price: Rs 405

BSE Index: 15,896

31 October 2009

2QFY10 Result – Sterling performance

Balkrishna Industries' (BKT) standalone quarterly revenue performance was in line with expectations. The net sales declined ~6% YoY and stayed flat sequentially. However, the operating performance improved by around 140 bps sequentially. The key reason for the improvement was lower than expected raw material costs on account of higher inventory. The decline in the input costs, of nearly 500 bps QoQ, also helped mitigate the impact of an increase in the employee costs and other expenses. Although there was an 8% sequential decline in the interest costs, a mark-to-market foreign exchange loss of Rs 31 mn on the company's forex loan book led to a sequential decline of ~14% in the net earnings to Rs 453 mn. The net earnings, however, increased by 165% on a YoY basis.

Outlook and valuation

As indicated by the company, there is unlikely to be any significant improvement in the volume during FY10. However, since the company is largely into the replacement market, it is likely to be able to increase product prices to counter the increase in prices of key raw material like rubber and crude derivatives. Also, the company has hedged its dollar and euro sales for FY10 at higher rates than last year and this will help in improving realisations. Out of the company's total current capacity, ~25% is for radial products. The company plans to keep improving this mix in favour of radials as they offer higher margin. Therefore, some of the pressure on margin due to the rising input prices is likely to be offset by the roll-out of new value added products like all-steel radial OTR over the next few quarters. Considering 1H performance, we have revised our earnings estimate for full year upwards. At the current price of Rs 405, the stock trading at 4.6x FY10E revised earnings of Rs 87.8 and 4.8x FY11E revised earnings of Rs 84.8. We maintain Buy rating on the stock with a revised target price of Rs 594.

Income Statement (Consolidated)

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Net sales	11,337	13,999	14,075	15,775
<i>Growth (%)</i>	29.2	23.5	0.5	12.1
Operating expenses	(9,075)	(11,952)	(10,550)	(12,406)
Operating profit	2,261	2,047	3,525	3,369
EBITDA	2,261	2,047	3,525	3,369
<i>Growth (%)</i>	27	(9.5)	72.2	(4.4)
Depreciation	(456)	(586)	(687)	(691)
Other income	163	64	50	120
EBIT	1,969	1,525	2,887	2,799
Interest paid	(276)	(384)	(253)	(252)
Pre-tax profit	1,693	1,141	2,634	2,547
(before non-recurring items)				
Non-recurring items	41	8	0	0
Pre-tax profit	1,733	1,150	2,634	2,547
(after non-recurring items)				
Tax (current + deferred)	(603)	(409)	(938)	(907)
Net profit (before Minority Interest, Pref. Dividend, etc.)	1,130	741	1,696	1,640
Reported PAT	1,119	741	1,696	1,640
Adjusted net profit	1,089	732	1,696	1,640
<i>Growth (%)</i>	24.4	(32.8)	131.7	(3.3)

Balance Sheet (Consolidated)

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Cash & Marketable Securities	103	117	951	1,225
Other current assets	7,094	6,415	6,783	7,746
Investments	39	39	39	39
Net fixed assets	5,826	6,456	7,264	7,555
Total assets	13,063	13,028	15,039	16,565
Current liabilities	2,996	2,868	3,089	3,163
Total Debt	5,452	4,833	5,233	5,183
Other non-current liabilities	442	546	375	375
Total liabilities	8,890	8,247	8,697	8,720
Share capital	193	193	193	193
Reserves & surplus	3,980	4,588	6,148	7,651
Shareholders' funds	4,173	4,781	6,341	7,845
Total equity & liabilities	13,063	13,028	15,039	16,565
Capital employed	10,067	10,160	11,949	13,403

Cash Flow Statement (Consolidated)

Yr end 31 Mar (Rs mn)	FY08	FY09	FY10E	FY11E
Pre-tax profit	1,733	1,150	2,634	2,547
Depreciation	(156)	587	691	695
Chg in working capital	(1,750)	350	99	(837)
Total tax paid	(94)	(3)	(1,350)	(959)
Other operating activities	(11)	–	–	–
Cash flow from oper. (a)	(278)	2,084	2,074	1,445
Capital expenditure	(917)	(1,217)	(1,500)	(985)
Chg in investments	(18)	(0)	–	–
Cash flow from inv. (b)	(935)	(1,218)	(1,500)	(985)
Free cash flow (a+b)	(1,213)	867	574	460
Equity raised/(repaid)	(175)	–	–	–
Debt raised/(repaid)	1,444	(619)	400	(50)
Dividend (incl. tax)	87	(237)	(136)	(132)
Other financing activities	(95)	3	(5)	(5)
Cash flow from fin. (c)	1,260	(853)	260	(187)
Net chg in cash (a+b+c)	47	14	834	274

Key Ratios (Consolidated)

Yr end 31 Mar (%)	FY08	FY09	FY10E	FY11E
Adjusted EPS (Rs)	56.3	37.9	87.8	84.8
Growth	24.4	(32.8)	131.7	(3.3)
Book NAV/share (Rs)	215.6	247.3	328.3	406.3
Dividend/share (Rs)	6.0	6.0	6.0	6.0
Dividend Payout ratio	13.8	18.5	7.8	8.0
Tax	34.8	35.6	35.6	35.6
EBITDA margin	19.9	14.6	25.0	21.4
EBIT margin	17.4	10.9	20.5	17.7
RoCE	21.9	15.1	26.1	22.1
Net debt/Equity	128.2	98.6	67.5	50.4

Valuations (Consolidated)

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
PER	7.2	10.7	4.6	4.8
PCE	5.1	5.9	3.3	3.4
Price/Book	1.9	1.6	1.2	1.0
Yield (%)	1.5	1.5	1.5	1.5
EV/Net sales	1.2	0.9	0.9	0.7
EV/EBITDA	5.8	6.1	3.4	3.5

Du Pont Analysis – ROE (Consolidated)

Yr end 31 Mar (x)	FY08	FY09	FY10E	FY11E
Net margin (%)	9.6	5.2	12.1	10.4
Asset turnover	1.0	1.1	1.0	1.0
Leverage factor	3.0	2.9	2.5	2.2
Return on equity (%)	28.5	16.4	30.5	23.1

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 3. **UNDERPERFORMER:** 0 to -25%
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