

BUZZING

STOCK

Balkrishna Industries Ltd.

CMP – Rs.515

Analyst

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Key Stock Data

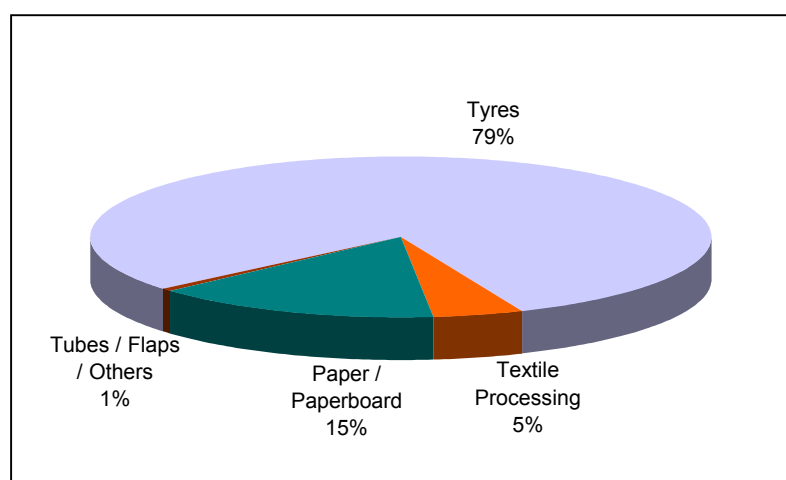
Sensex	12995
Nifty	3717
Sector	Tyres -Large
Bloomberg	BIL@IN
Reuters	BLKI.BO
No. of shares (m)	19
Market Cap (Rs m)	10,838
Market Cap (US\$ m)	242
52-week H/L	Rs.1298/440

Shareholding Pattern (%)

Promoters	54.09
Mutual Funds	11.5
FII's	24.72
Corporate Bodies	0.86
Pubic & Others	8.75

Business Overview:

Balkrishna Industries Ltd. (BIL) is one of the largest exporters of tyres and among the top 10 manufacturers of off-highway automobile tyres globally. It has two tyre-manufacturing plants, one at Waluj, Maharashtra and another at Bhiwadi, Rajasthan. It has a capacity of 70,000 TPA. Balkrishna Industries primarily operates in three business segments: pneumatic tyres, paperboards and processing of textile fabrics. The tyre division contributes the maximum to the company's revenues – roughly ~80%.

Figure 1: Segmental Revenue Mix


Source: Company reports; IDBI Capital Market Services

Globally competitive in OHT:

In the pneumatic tyre business, BIL is focusing on the OHT segment. The company is currently among the top 10 manufacturers of off-highway tyres globally. Globally, the OHT business is valued at \$7.5bn, comprising earthmover tyres, industrial tyres and agricultural & construction equipment tyres. The company is among the top 10 manufacturers in the agricultural and construction segment. Agricultural tyres constitute a major chunk (~70%) of its revenues, while the construction tyres constitute the bulk of the rest.

Globally players like Bridgestone and Michelin have exited the OHT business since it is too fragmented, generates low volumes and is labour intensive. However, Balkrishna Industries has capitalized on its strength in engineering and lower labour costs (compared to companies in Europe) to develop a niche in this speciality tyre segment. The company churns 1600 stock keeping units (SKUs) a year and adds 100 SKUs every year. As a result, the company has always enjoyed higher margins compared with the rest of the industry.

Aggressive Capacity expansion:

Balkrishna Industries has chalked out aggressive capex plans to cater to the growing OHT market. The company plans to scale up its total tyre capacity to 1,00,000TPA by FY07E from the current levels of 70,000TPA. The Capex shall entail an investment to the tune of Rs.2,700m.

Well positioned to ride the outsourcing wave:

The global off-highway tyre market, estimated at \$7.5 – 8bn, offers a unique opportunity to Balkrishna Industries to leverage on its experience in the niche segment and India's low cost of production. The company currently enjoys sound acceptance in the off-highway tyre markets worldwide and has a worldwide distribution network ensuring extensive reach and penetration.

The company is enhancing its presence in North America and Australia to diversify its existing EU-concentrated customer base and is also striving to increase its exports through direct off-take agreements.

Offtake arrangement ensure revenue stability:

The company has an offtake arrangement with Vredestein Banden BV, Nokian Tyres Plc and Trelleborg Wheel Systems for farm and forestry tyres. In addition to manufacturing tyres for these companies, BIL is also designing new products and producing moulds for them. The offtake arrangement constitutes ~ 16% of its OHT revenues.

Q2FY07 – Result Highlights:

Total Revenues at Rs.2,140m grew by 55% on YoY basis. The Operating profits grew by 25% YoY to Rs.410m. However the operating margins declined by 488bps. This dip in margins was primarily due to steep rise in raw material prices. PAT for the quarter stood at Rs.191m, a growth of 25% YoY.

Valuation:

Balkrishna Industries Limited (BIL) is fully poised for growth. The company plans to sell off its paper business and de-merge its textile division in the near future. With a strong presence in the agriculture and construction tyres, BIL has now entered the radial agriculture tyres segment. Going ahead, we believe the softening of rubber and crude oil prices shall boost the margins for the company. The stock is currently trading at 13 x its Q2 FY07 annualized EPS of Rs.39.6.

Financial Snapshot

Balkrishna Industries Ltd.				Rs.m			Ratios (%)			
Financial Year End: March	Q2 FY07	Q2 FY06	Chg. (%)	FY06	FY05	Chg. (%)		FY06	FY05	Chg.(%)
Net Sales	2103	1357	55	6200	4884	27	Debt -Equity	1.05	1.13	(7)
Other Income	51	20	152	58	110	(47)	PBIDTM	24.5	25.2	(3)
Total Income	2154	1377	56	6258	4993	25	PBDTM	22	23	(4)
Total Expenditure	1745	1050	66	4809	3759	28	RoCE	26	34	(23)
PBIDT	410	327	25	1449	1234	18	RoNW	31	43	(27)
Interest	40	28	43	117	78	50				
PBDT	370	300	24	1332	1156	15				
Depreciation	81	65	24	273	215	27				
Tax	81	71	14	319	229	39				
Reported Profit After Tax	191	154	25	691	632	9				
Extra -ordinary Items	0	0	0	0	38	0				
Adj. Profit After Extra-ordinary item	191	154	25	691	594	16				
No. of shares (m)	19	19	-	19	12	-				
EPS (annualised.) (Rs.)	39.6	33.1	-	35.7	51.0	-				
P/E	13.0	15.6	-	14.4	10.1	-				

