



Research



RESEARCH:: COMPANY:: BALKRISHNA INDUSTRIES LIMITED

7TH March 2010

Long Term Buy

Approx price	= Rs620
Target price	= Rs970
Estimated EPS	= 100-105
Projected PE	= 9.5-10.25
Investment period	=12 months
Potential Upside	=57%

Stock Info (TTM Basis)

Sector	Tyres
Market cap (Rs Mn)	11845.5
Face value	Rs10
Book value	Rs242.02
EPS	87.6
Cash EPS	119.84
Dividend	60%
Sales Growth	2.7
RONW	35.70%
Debt to equity	1.15
52 week H/L	653/120
Avg. Daily Vol (2wk)	3238
Chairman	D Poddar
Incorporation	1961
Listed At	NSE/BSE
Equity capital	193.3mn
Promoter Holding	54.37%
FII's/MF Holding	16.58/14.91%

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COMPANY PROFILE

BIL is the flagship company of Rs. 20bn Siyaram Poddar Group. It is one of the world's leading manufacturers of "Off- Highway Tyres" (High End Tyres). To cater the customized demand in the segment, BIL has over 1800 stock keeping units for agricultural, industrial, construction, earthmovers, all terrain vehicles and turf care applications. The Company's plants are located at Bhiwadi, Chopanki and Waluj, with an installed capacity of 4.06 million tyres per annum.

Key Highlights:

BIL has a presence in the niche Off-Highway Tyre segment, with a market share of over 3% in the Rs. 495bn industry.

BIL maintains a high operating margin of over 25%, with its ability to pass on the rise in input costs, we believe that the margins will improve further.

The main emphasis is on the replacement market that accounts for 70% of the company's total revenue and is expected to grow at a healthy rate of 12-15%.

Future Outlook

At the current price of Rs 620, the stock is available at 6.15x of its FY10E earnings, 5.94x of its FY11E earnings and 5.48x of its FY12E earnings. cWe recommend BUY with a price target of Rs970, given that the company's future shows potential.

Particulars (Mn)	FY09	FY10E*	FY11E*	FY12E*
Revenue	12239.46	12930.05	14067.89	15615.36
Expenditure	10604.00	9140.55	10053.90	11393.25
PBIDT	2022.60	3789.5	4013.9	4222.11
Interest	375.00	191.00	261.71	234.2
Depreciation	565.20	645.42	697.3	678.5
PBT	1082.40	2953.08	3054.89	3309.41
Tax	379.40	1004.1	1038.66	1125.20
PAT	703.00	1948.98	2016.23	2184.21
EPS	36.37	100.83	104.31	113.00
CEPS	65.61	134.22	140.38	148.10
OPM (%)	13.36	27.38	26.40	25.48
NPM (%)	5.74	15.18	14.33	13.99

*expected

Key Roadblocks:

Exchange Rate Risk:

Balkrishna Industries Limited is exposed to foreign exchange risk as it is an export-oriented company that accounts for more than 90% of the total revenue of the company. It also procures some part of its raw material from overseas markets.

Raw Material prices:

Volatility in prices of natural rubber, synthetic rubber and carbon black, major raw material for the production of tyres is a major concern for the company. Any adverse movement in the prices of raw material can significantly affect the margins of the company.

Too much dependence on European region:

Nearly 63% to the export revenue is derived from Europe, any fall in the demand for company's products from that region could create serious problem for the company.

FCCB:

The outstanding FCCBs at the end of the year were US\$ 22 million carrying a coupon of 4.5%, due in December 2010. The conversion price has been set at Rs 1375 per share by applying a pre-determined Dollar rate of Rs 45.66.

QUARTERLY ANALYSIS:

Particulars (Mn)	Dec-09	Dec-08	Var% Y-o-Y	Sep-09	Var% Q-o-Q
Net Sales	3455.5	3211.1	7.61	3012	14.72
Add: Other Income	67.6	12.2	454.10	11.8	472.88
Total Income	3523.1	3223.3	9.30	3023.8	16.51
Less: Expenditure	2591.3	2710.8	-4.41	2127.1	21.82
PBIDT	931.8	512.5	81.81	896.7	3.91
Less: Interest	43.7	101.6	-56.99	49	-10.82
Less: Depreciation	166.3	147.2	12.98	161.7	2.84
PBT	721.8	263.7	173.72	686	5.22
Less: Tax	245.7	91.6	168.23	233	5.45
PAT	476.1	172.1	176.64	453	5.10
Less: Extraordinary items	0	0	-	-20.5	-100.00
Adj. PAT	476.1	172.1	176.64	473.5	0.55
EPS	24.63	8.90	176.64	23.44	5.10
CEPS	33.23	16.52	101.19	31.80	4.51
OPM%	25.01	18.46	-	29.38	-
NPM%	13.78	6.35	-	15.04	-

Balkrishna Industries Limited has reported a 7.6% jump in the net sales to Rs 3455.5mn during the quarter ended 31st Dec, 2009, as compared to Rs 3211.1mn in the same quarter last year. Jump in sales is backed by higher volumes and realization. The operating profit of the company improved 81.81% to Rs 931.8mn as against Rs 512.5mn during last year, since raw materials as a % of sales fell to 49.65% against 63.54%. The company has reported a massive increase of 176.64% in the net profit to Rs 476.1mn as against Rs 172.1mn during the same quarter last year on account lower interest cost of Rs 43.7mn against Rs 101.6mn and higher base of operating profit.

However on Q-o-Q basis the operating profit margin of the company saw a contraction of 437bps on account of rising rubber prices that have increased the raw material cost as % of sales to 49.65% as against 41.83% during the Sept, quarter 2009. Further the bottom line numbers were strengthening by a small contraction in the interest cost and forex gain of Rs 57mn against the forex loss of Rs 37.00mn.

PAST FIVE YEARS PERFORMANCE

Particulars (Mn)	2008-09	2007-08	2006-07	2005-06	2004-05
Net Sales	12239.46	9957.2	8565.5	5998.4	4584.5
Other income	387.2	307.8	223.1	424.5	398.4
Total Income	12626.66	10265	8788.6	6422.9	4982.9
Less: Expenditure	10604	7930.5	6963.5	4959.9	3800.3
PBIDT	2022.66	2334.5	1825.1	1463	1182.6
Less: Interest	375	269.6	175.1	122.4	83.5
PBDT	1647.66	2064.9	1650	1340.6	1099.1
Less: Depreciation	565.2	438.3	360	273.4	215.4
PBT	1082.46	1626.6	1290	1067.2	883.7
Less: Tax	379.4	570.9	459.1	376.4	308.9
Net Profit	703.06	1055.7	830.9	690.8	574.8
Less: Extraordinary items	-2.4	5.5	-46.5	-2.4	2.9
Adj. Net Profit	705.46	1050.2	877.4	693.2	571.9
Equity Share capital	193.3	193.3	193.3	193.3	193.3
EPS	36.37	54.61	42.98	35.74	46.43
Cash EPS	65.61	77.29	61.61	49.88	63.59
Operating Profit Margins	13.36	20.35	18.70	17.31	17.11
Net Profit margins	5.74	10.60	9.70	11.52	12.54

The company operates mainly in one segment, i.e. Off-Highway Tyres. During the financial year 2009, the net sales of the company increased by 23% to Rs 12239.46mn as against Rs 9957.2mn in previous financial year, as both volumes and net realization were high during the year. Operating profit of the company saw a contraction of 13.36% to Rs 2022.66mn as against Rs 2334.5mn, due to a sharp rise in the natural rubber and carbon black, major raw material for tyre production. Net profit of the company also witnessed a fall of 32% to Rs 705.46mn as against Rs 1050.2mn on account of higher interest and depreciation charges.

Revenue Mix FY09

	Sales	%
Overseas Markets		
Europe	6939.77	63
Others	4074.74	37
Total	11015.51	90
Domestic Sales	1223.95	10
Total	12239.46	100

About 90% of the total revenue comes from overseas market, while domestic turnover constitutes only a small part of the total income of the company. Europe is the major foothold for the company as the farms in this part of the world are large and scientific method of agriculture are adopted, wherein requiring tractors with different types of tyres, over 63% of total exports are derived from European region only. The other major markets for BIL are North America, Middle East, Africa, Australia and Asia.

Dividend Payout

Year of Dividend	PAT (Rs Mn)	% of Dividend	Dividend Yield%
2004	304.20	55	4
2005	574.80	100	3.74
2006	690.80	100	1.12
2007	830.90	105	2.31
2008	1055.70	105	1.94
2009	703.06	60	4.34

Balkrishna has been paying handsome dividends from the last 5-6 years. The dividend yield of the company is in between 2.5- 4%. This gives a positive signal of the management's focus on shareholders wealth creation.

BALANCE SHEET: Balkrishna Industries Limited (Rs Million)

	2009	2008	2007	2006	2005
Net Worth	4678.3	4111	3474.5	2875	1579.07
Loans- Term	1503.4	2135.7	1742	2013.4	1146.8
Loans - Working Capital	3224.7	3212.7	2266	955.5	555
Deferred Tax Liability	-523.9	-429.5	-450.6	-374.1	-331.2
Total	9930.3	9888.9	7933.1	6218	3612.07
Net Block Including WIP	6092.7	5518.9	4751.5	3286.6	2407.7
Investments	322.3	341.1	21.8	51.2	20.7
Net Working Capital	3515.3	4028.9	3159.8	2880.2	1184.3
Deferred Revenue Expenses	0	0	0	0	0
Total	9930.3	9888.9	7933.1	6218	3612.7

Peer Comparison:

DOMESTIC PEER GROUP

Particulars(Mn)	Balkrishna Ind.	CEAT	JK Tyres
Market Cap	11845.5	4735.9	7090.90
Sales	12699.8	27500.3	34850.80
PBIDT	3248.2	3216.2	4121.30
Net Profit	1693.4	1907.2	1503.6
PBIDTM (%)	25.58	11.70	11.82
PATM (%)	13.33	6.94	4.32
EPS	87.6	55.7	36.62
P/E	7.05	2.48	4.72
EV/PBIDT	4.92	2.83	4.34

Balkrishna Industries seems attractive when compared to its peers companies, as it is able to operate at higher operating margin of over 25% against the industry average of over 15%, despite the fact that prices of natural rubber is trading in the higher territory.

Figures on TTM Basis

GLOBAL PEERS

Particulars(Mn)	Balkrishna Ind.	Bridgestone*
Sales	12699.80	386002.31
PBIDT	3248.20	6210.30
Net Profit	1693.40	7940.42
PBIDTM (%)	25.58	1.61
PATM (%)	13.33	2.06
EPS	87.6	10.12

**adjusted and approximated*

In comparison to its global peers like Bridgestone and Michelin, its products are cheaper, as its employee cost as a percentage of sales is just 3.5%, compared with 30% against Western players and easy access to natural rubber.

ANALYSIS & REPORT

Why invest in shares of Balkrishna Industries Limited?

SECTOR:

The Off-Highway Tyres as a segment accounts for 10% of the global tyre industry, which is valued around US\$ 11bn. Agricultural, construction, earthmoving and mining industries mainly consume OHT. Given the fact that demand from these industries is highly correlated to the growth of economy, demand for OHT is slated to improve.

Nowadays agriculture is gaining importance in the economic policies of every country. In European regions, which contribute maximum to the total revenue of BIL, Large-sized farms coupled with increased focus on improved productivity, demand for OHT segment is expected to improve further.

COMPANY:

Operating margin:

The company is able to maintain a healthy margin of over 25%, despite higher natural rubber prices. With the ability to pass on the rising raw material prices, the margins are expected to improve further.

Captive Power:

Balkrishna Industries limited has a 5 MW windmill power plant located at Jaisalmer, Rajasthan. The power generated from the plant is used for captive consumption.

Subsidiaries:

The company has four subsidiaries – Balkrishna Paper Mills (100%), Balkrishna Synthetics (100%), BKT EXIM (100%) and Balkrishna Tyres (80%).

FUNDAMENTALS:

Competitive Edge

The company has an edge over other players as it is both innovative and highly competitive. The company rolls out nearly 150 new sizes every year and it takes only 8-10 weeks to come out with a new product. BIL always focuses on being competitive in the industry with its engineering skills.

Low cost of Production:

BIL is one of the most reasonable producers of off-highway tyres, as it has access to low cost raw material and low labour rate system that prevails in the Indian market.

Wide Distribution Network:

The company has a global distribution network ensuring extensive reach and penetration. It has presence in more than 100 countries across the globe.

Notes: Figures and graph sourced from www.bseindia.com , capital market and annual report (2008-09).

END

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