Balkrishna Industries Q4FY20

Financial Results & Highlights

Brief Company Introduction

Balkrishna Industries Limited (BKT) is a tire manufacturing company based in Mumbai, India. Balkrishna Industries manufactures off-highway tires used in specialist segments like mining, earthmoving, agriculture and gardening in five factories located in Aurangabad, Bhiwadi, Chopanki, Dombivali and Bhuj. In 2013, it was ranked 41st among the world's tire makers.

Balkrishna Industries is currently an OEM vendor for heavy equipment manufacturers like JCB, John Deere and CNH Industrial. The company currently enjoys 2% market share of the global off-the-road tire segment.

Standalone Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	1424	1391	2.37%	1191	19.56%	5031	5459	-7.84%
PBT	339	276	22.83%	275	23.27%	1123	1183	-5.07%
PAT	257	185	38.92%	221	16.29%	945	782	20.84%
Consolidated Financials (In Crs)								
	Q4FY20	Q4FY19	YoY %	Q3FY20	QoQ %	FY20	FY19	YoY%
Sales	1438	1397	2.93%	1186	21.25%	5062	5428	-6.74%
PBT	346	278	24.46%	278	24.46%	1140	1177	-3.14%
PAT	265	186	42.47%	224	18.30%	960	774	24.03%

Detailed Results:

1. The revenue growth for the quarter was modest at a 3% rise in consolidated terms.
2. PBT was up 23% and 24.5% YoY in standalone and consolidated terms in Q4.
3. PAT rose 39% YoY in the quarter mainly on account of the reduction in the tax rate and improvement in margins.
4. Sales volumes for the quarter came in at 57,966 tons which were up 5% YoY. It was also the highest ever quarterly sales volume sold by the company.
5. Overall volumes for FY20 fell 4% YoY.
6. The EBITDA margin improved 450 bps YoY to 29.3% in Q4. In FY20, EBITDA margins improved 140 bps YoY to 28.2%.
7. Net forex gain for FY20 was at Rs 131 Cr vs Rs 128 Cr a year ago.
8. The company remains debt-free with current cash holding at Rs 1086 Cr.
9. The previously guided CapEx programs are on track for the company despite some delay caused by COVID-19 disruption.

Investor Conference Call Highlights

- The Capex spending in FY21 is expected to be around Rs 600 Cr.
- The revenue distribution for Q4 & FY20 according to geography is as follows:
    1. EU: (Q4 58%) (FY20 51%)
    2. India: (Q4 17%) (FY20 20%)
    3. USA: (Q4 15%) (FY20 17%)
    4. ROW: (Q4 10%) (FY20 12%)
- The management has stated that demand from retail for the company's products remains stable especially from the construction industry.
- The management has stated that out of the total 2 lac tons of carbon black production, the company will be using only 55000-56000 tons and the rest will be sold to outsiders.
- The company didn't face any difficulty from the partial shutdowns in the EU mainly as agricultural demand remained stable and distributors generally keep 2-3 months of inventory which was enough to meet the immediate demands.
- The RM cost for the company has come down 3-4% QoQ.
- The management remains optimistic about customer demand in FY21 mainly on the back of expectations of good agricultural seasons in the company's principal markets.
- In the 2 ongoing projects in Bhuj and Waluj, the company expects to do CAPEX of Rs 500 Cr in FY21 and the timeline for these projects shouldn't get delayed by more than one quarter off from the regular schedule.
- The company has a run rate of Rs 150 Cr per year for maintenance CAPEX.
- Ad expenses are expected to be Rs 75-90 Cr each year on the sports leagues while ocean freight is around 6-7% of exports. The overall promotional spending is expected to stay stable at around Rs 280 Cr each year.
- The sales volumes breakup according to industry segments is:
    1. Agri: 65%
    2. OTR: 31-32%
    3. Others: 3%+
- The sales breakup between replacement and OEM is 71% and 25% respectively. The offtake is around 4-5%.
- The management gross margins to stay stable near 58-60% in the long term.
- The company sources only 10-12% of raw materials from China.
- The management does not expect any large volatility in raw material prices going forward.

- IN raw materials sourced by the company, 35% is natural rubber, 3% is lead wire and the rest 62% is crude derivatives.
- The incremental margin benefit from carbon black in Fy21 is expected to be around 100-150 bps.
- The company is seeing good traction in France and has also reported a market share gain of 10-20 bps.
- The management has stated that any decrease in raw material prices will be passed on directly to the customers.
- The current capacity utilization level is at 70%.
- The company did not face any major issues from labour migration at any of its plants.
- The company has a market share of 5-6% in India today. Most of this is through replacement. The company is working hard to develop the OEM market in India.
- The industry OEM: replacement mix is 45:55.
- The management is optimistic of maintaining EBITDA margins near 30% in the coming times.
- The EBITDA guidance for FY21 is around 28-30%.

Analyst's View:

BKT has been a rising player in the off-road tires business for years now. The company has done well to bounce back in Q4 and record its highest ever quarterly sales volumes. It has also brought about margin expansion while doing so. The addition of the carbon black plant is expected to bring about additional margin appreciation for the company. Although the company was hit by supply chain disruptions due to the lockdown it didn't hamper its sales in the EU. It remains to be seen whether there are any other economic shocks to come from COVID-19 and whether the expectations of normal agricultural seasons in the company's principal markets pan out in expected manner. Nonetheless, given the company's sustained margin performance, its resilient market share in a stagnant global market, and the rapid rise of the company in India, Balkrishna Industries is a good tire stock to watch out for.