

THE BEST STOCK TO ADD TO YOUR PORTFOLIO THIS MONTH IS HERE!

JULY 2020

Balkrishna Industries

We analyze 4000 stocks; we choose around 50 and out of that we give you the best stock to invest every month. We will also tell you when you need to sell and book profits. So, you will get 1 stock every month, totaling to 12 stocks every year and active selling advice on them.

SO HOW DO WE CHOOSE THIS STOCK?

- Shortlisting basis our top Mojo Scores
- Doing detailed Investment Case
- Looking at the future of this company and sector
- Single focus on maximizing returns with minimal risk



09 July 2020

- By research team
(research@marketsmojo.com)

**MARKETS
MOJO**

STOCK OF THE MONTH

Balkrishna Industries

CMP	Rs. 1,267.50 Price as of 9 July 2020
Decision	BUY

SUMMARY

- Balkrishna Industries is the largest Off-Highway Tyres (OFT) player in the country with an excellent financial track record
- One of the most popular Tyre company among investors
- The company has guided to maintain the same sales volume but with better margins in FY21 due to backward integration and softer raw material prices
- More than half of the company's revenue comes from Europe. In the last two years, Europe faced the problem of the heatwave and drought, resulting in subdued demand for the company's product, but this year's outlook on Europe is better
- The company does not have long term borrowings in the book giving great comfort during an uncertain time
- Cash flow from operation for FY20 increased to Rs 1164 crore as against Rs 813 crore of FY2019
- The company enjoys a healthy ROE of 19 percent
- FII's, as well as DII's, have increased their stake in the company for the quarter ended in March 2020. They owned almost 30 percent stake in the company
- Our technical indicator suggests a bullish trend

WHO SHOULD BUY

Risk Appetite	Medium Risk
Expectations	High Return
Portfolio Sector Exposure	<30% (Tyres)
<i>If sector exposure > 30%, use Portfolio Optimizer tool</i>	

STOCK INFO

BSE	502355
NSE	BALKRISIND
Market Cap	Large Cap (Rs. 24,502 Cr.)
Sector	Tyres
52 w H/L (Rs.)	677.60/1,324.65
Average Vol (6M)	Rs. 8.76 Lac.
Equity Capital (Rs.)	38.66 Cr.
Book Value per share (Rs.)	260.10

STOCK PERFORMANCE

Price as of 09 July 2020

Period	1M	YTD	1Y	3Y
Balkrishna Inds.. (%)	12.6	27.9	74.4	48.7
Sector Index (%)	6.9	1.3	16.5	-13.2
Sensex (%)	8.2	-10.9	-5.1	17.2

KEY RATIOS

PE ratio	25.91
PB ratio	4.87
Dividend Yield	1.74%
ROE	18.79%
ROCE	16.04%
D/E	0.17
EPS	13.69
EPS (diluted)	13.69

To receive this report every month, subscribe to Mojo Professional

09 July 2020

- By research team
(research@marketsmojo.com)

INVESTMENT ARGUMENT

When global growth is being revised downward, it makes sense to invest in a company where downside risk is low, but the upside is better. Balkrishna Industries management has guided that they will do almost the same sales volume in FY21 as they did in the FY20. But realization per kg is expected to be better-around Rs 245 per kg against Rs 243 per kg last year. Also, management indicated that it would have a better EBITDA margin in FY21 due to backward integration and softer raw material prices. In terms of raw material, natural rubber accounts for 35 percent of the cost, while crude derivatives 65 percent. Both these raw materials prices are softer. We expect a higher operating profit for the company in the current financial year driven by higher realization and lower input costs. The management has guided the gross margin to 58.60 percent in FY21, compared to 56.6 percent of FY20. The company went in for backward integration of carbon black, which was completed in FY20. The benefits of the same will reflect in the current financial year.

Balkrishna Industries is an Off-Highway Tyre manufacturer. Unlike other Indian tyre manufacturers, it does not manufacture tyres for Cars, two-wheelers, or CVs. Hence, it's a different company from other tyre manufacturers. Also, 80 percent of its revenue comes from exports, while the balance 20 percent is domestic. The company enjoys higher margins on exports. China is not a big player in the OFT tyres, and hence there is no threat from Chinese exporters. Also, OFT tyres require labour intensive processes giving an edge to the company over European competitors.

Balkrishna manufactures tyres for Agriculture, Industrial, Construction, and Mining industries. The significant revenue comes from Agriculture tyres accounting for 61 percent of the revenue (FY20) while other tyres account for balance 39 percent. The company is confident that, despite the slowdown in the world economy, demand for Agri tyres should be good in the current financial year. Europe is the biggest market for the company as it accounts for 51 percent of the revenue, while the US accounts for 17 percent, India 20 percent, and balance is the Rest of the world. Europe, in the last two years, had faced an issue of heatwave and drought. Due to this, demand for Agri tyres was subdued. But this year, Europe is not facing heatwave problems as indicated by the management in March 2020 conference call. Hence, they expect demand for Agri tyres to be better than last year. Europe did not see complete lockdown, unlike India, and Agriculture was classified as an essential activity. Due to this impact has been minimal on the company's performance.

In India, too demand for Agri tyre is likely to be good due to better rabi crop and likely above-average southwest monsoon. Even the government's huge stimulus package for agriculture will be added advantage for companies like Balkrishna Industries.

The company has a sound financial track record with no long-term borrowings (it does have short term borrowings) and very robust cash flows from operation in FY20 gives us great comfort to recommend the stock. Its operating cash flow from operations increased to Rs 1164 crore in FY20 against last year's figure of Rs 813 crore. This is despite the fact that the company had to close operation in the last seven days of March 2020 due to lockdown.

For the year ended March 2020, total income was at Rs 4898 crore (down as compared to FY19 of Rs 5335 crore) while EBITDA was at Rs 1381 crore (as compared to Rs 1430 crore), but PAT improved to Rs 945 crore (as compared to Rs 782 crore). The PAT is better due to deferred tax bringing down the overall tax amount. For FY21, management has guided that effective tax rate will be 25.71 percent (against 16percent in FY20). That extent, PAT will see some pressure in FY21.

At present, the company has a score of 78. The company boasts of Good Quality with a positive Current Financial Trend. In terms of valuation, it's Very Expensive, but looking at its strong financial numbers and very healthy ROE can justify the very expensive valuation. Its fancy among institutional investors, will ensure that it commands a premium. Technical indicators are bullish, suggesting further upside.

We recommend buying on the counter.

To receive this report every month, subscribe to Mojo Professional

09 July 2020

- By research team
(research@marketsmojo.com)

Exhibit 1

Balkrishna Inds. vs Benchmark (Returns)

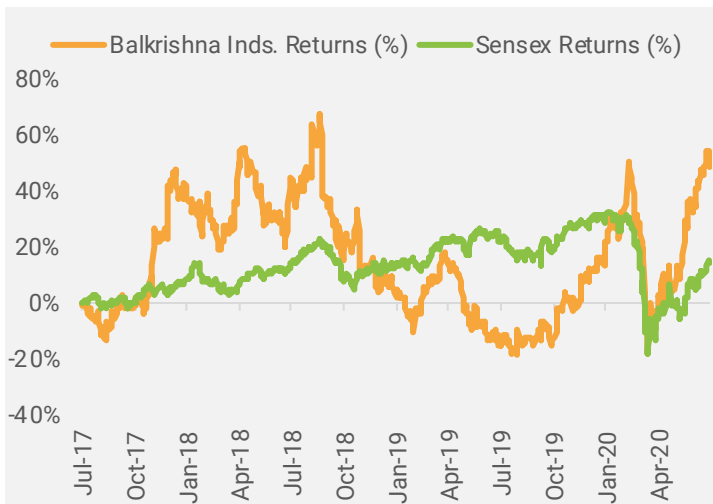


Exhibit 2

Balkrishna Inds. Price Movement

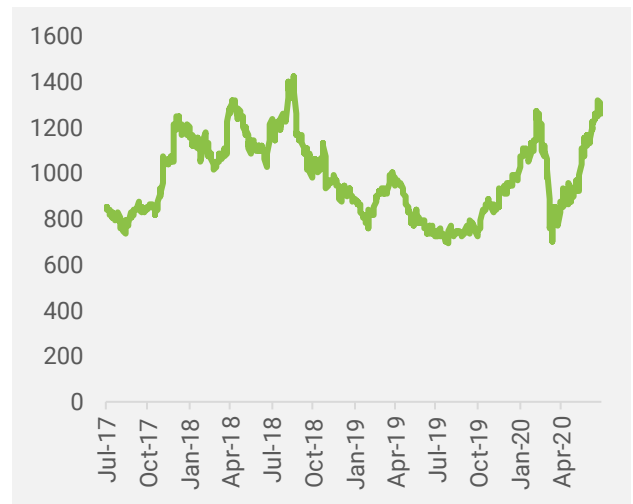


Exhibit 3

Sales Growth

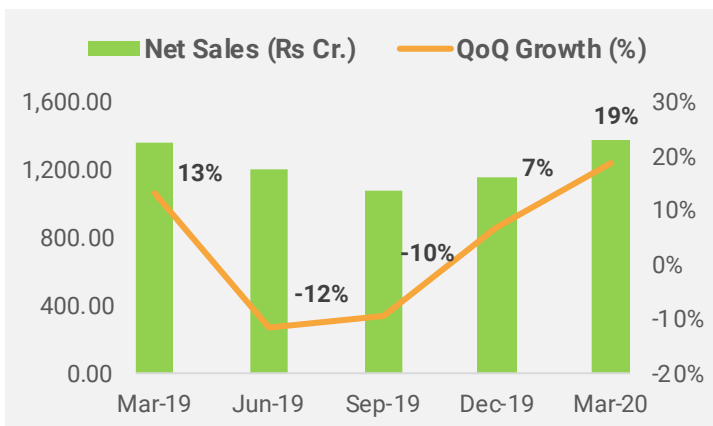


Exhibit 4

Gross Profit Margin

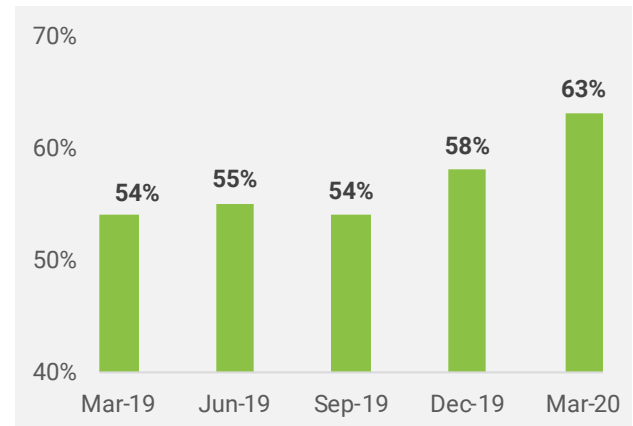


Exhibit 5

EBITDA Growth

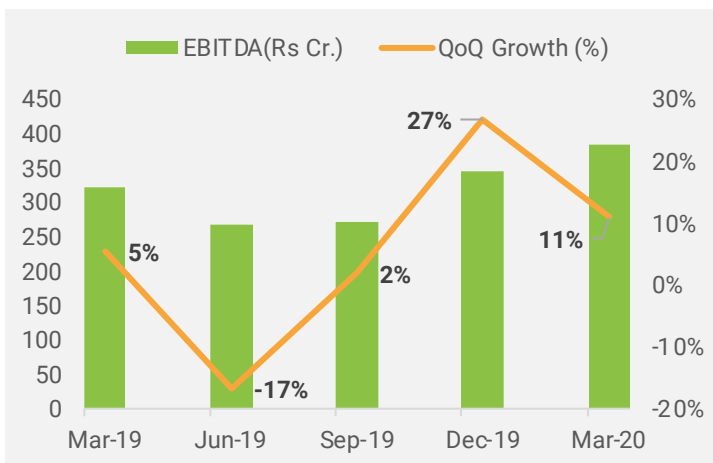
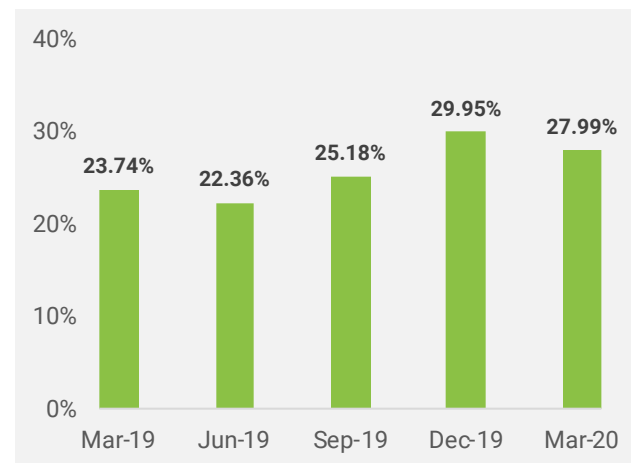


Exhibit 6

EBITDA Margin



To receive this report every month, subscribe to Mojo Professional

09 July 2020

- By research team
(research@marketsmojo.com)

Exhibit 7
PAT Growth

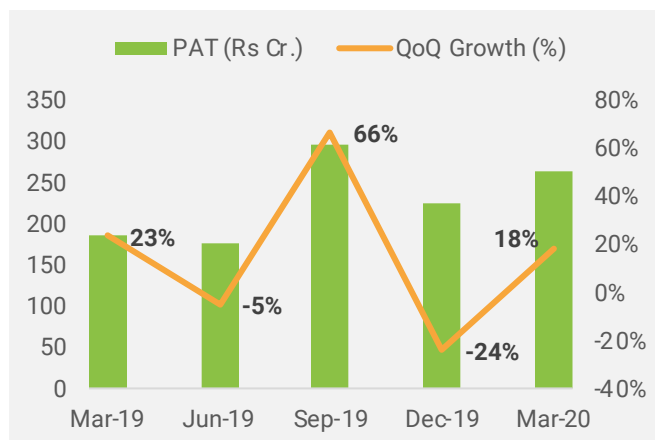


Exhibit 8
PAT Margin

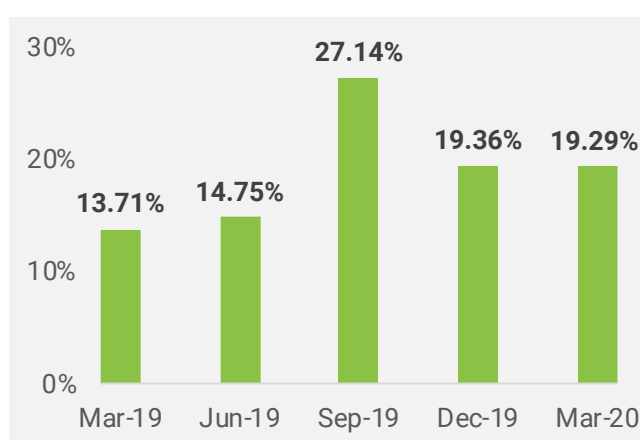


Exhibit 9
Variance Analysis

	Mar'20	Dec'19	Sep'19	Jun'19	Mar'19	Comments
Total Operating income	1,372.27	1,155.76	1,084.28	1,198.93	1,356.03	Grew YoY as well as QoQ
Total Expenditure (Excl Depreciation)	988.23	809.63	811.24	930.89	1,034.05	Increased QoQ but decreased YoY
Operating Profit (PBDIT) excl Other Income	384.04	346.13	273.04	268.04	321.98	
Other Income	65.49	30.65	80.74	73.9	40.67	
Operating Profit (PBDIT)	449.53	376.78	353.78	341.94	362.65	Increased QoQ and YoY
Interest	2.41	2.38	2.06	2.05	2.35	
Depreciation	100.81	96.13	91.93	84.74	82.28	
Profit Before Tax	346.31	278.27	259.79	255.15	278.02	Increased QoQ and YoY
Tax	81.61	54.47	-34.52	78.31	92.08	
Profit After Tax	264.7	223.8	294.31	176.84	185.94	Grew 42% YoY

Exhibit 10
Margins

	Mar-20	Dec-19	Sep-19	Jun-19	Mar-19	Avg. (4 Qtrs.)	Comments
GPM	63%	58%	54%	55%	54%	55%	Higher than Average (4 Qtrs) - Promising
OPM	28%	30%	25%	22%	24%	25%	Higher than Average (4 Qtrs) - Promising
NPM	19%	19%	27%	15%	14%	19%	Higher than Average (4 Qtrs) - Promising

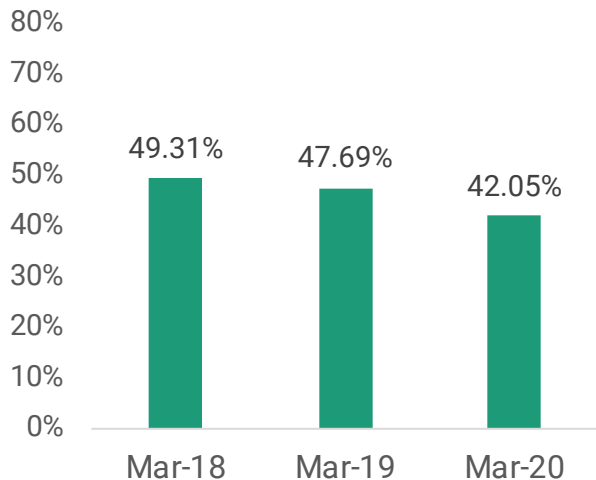
To receive this report every month, subscribe to Mojo Professional

09 July 2020

- By research team
(research@marketsmojo.com)

Exhibit 11

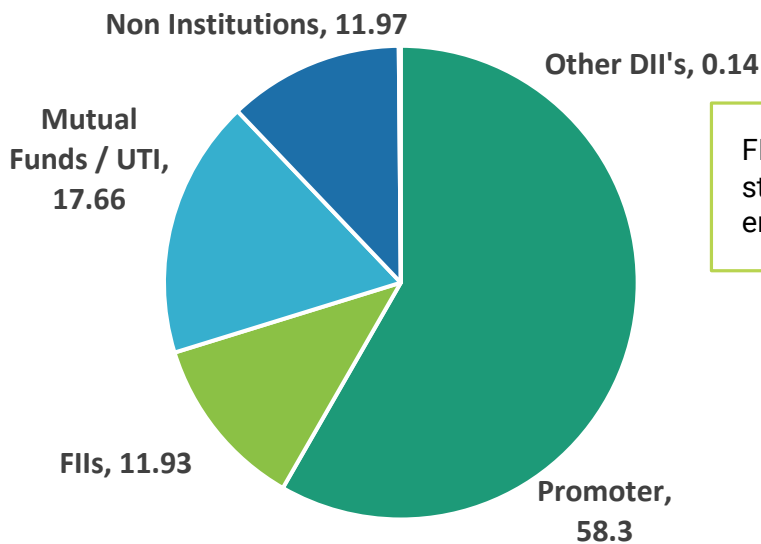
Raw Materials (% Gross Sales)



Total Raw Material Cost (RMC) as % Gross Sales has decreased in the last year

Exhibit 12

Shareholding Snapshot



FIIs, as well as DIIs, have increased their stake in the company for the quarter ended in March 2020.

COMPANY BACKGROUND

Balkrishna Industries Limited (BKT) is a leading manufacturer in the Off-Highway tire market. Balkrishna Industries is currently an OEM vendor for heavy equipment manufacturers like JCB, John Deere and CNH Industrial.

The company currently enjoys 5% market share of the global off-the-road tire segment

It sell its products in 130 countries worldwide through a network of national distributors.

To receive this report every month, subscribe to Mojo Professional

09 July 2020

- By research team
(research@marketsmojo.com)

Disclaimers

Mojo Markets Private Limited ("the Company"), which owns marketsmojo.com ("the website") is engaged in the business of operating the website.

This research report ("Report") is for the personal information of the authorized recipients and is not for public distribution and should not be reproduced or redistributed to any other person or in any form without the Company's prior permission. The information provided in the Report is from publicly available data, which we believe, are reliable. While reasonable endeavors have been made to present reliable data in the Report so far as it relates to both current as well as historical information, the Company does not guarantee the accuracy or completeness of the data in the Report. Accordingly, neither the Company nor its shareholders, directors, officers, employees, advertisers, content providers and licensors are responsible either jointly or severally for any loss or damage that may arise to any person from any inadvertent error in the information contained, views and opinions expressed in the research reports.

Investment in securities is subject to market risks. Past performance should not be construed as a guarantee for future returns and no representation or warranty, express or implied, is made regarding future performance. Investments in equity and equity related securities involve a high degree of risks and the users should be clearly aware that prices of securities as well as the income derived from these securities can fall as well as rise.

The Report also includes the analysis and views of our research team. The Report is purely for information purposes and should not be construed as an investment recommendation or advice or an offer or solicitation of an offer to buy or sell any securities.

The opinions expressed in the Report are those as on the date of the Report and are liable to change from time to time without notice. The Company or any persons connected with it do not accept any liability arising from the use of this Report.

Investors should not solely rely on the information contained in this Report and must make investment decisions based on their own investment objectives, judgment, risk profile and financial position. The recipients of this Report should take professional advice before acting on this information.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to local law, regulation or which would subject the Company and its affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to all category of investors.

The Company is also a SEBI registered Investment Advisor ("IA"). The Company and its associates do not own any securities of the subject company/ies mentioned in the report as on the date of this research report.

The Research team engaged in the preparation of this Report and/or their relatives collectively did not own more than 1% of the equity in the subject company/ies mentioned in this Report (unless otherwise mentioned in such Report) nor did they have any other material conflict of interest on the date of this Report.

None of the members of the research team engaged in preparation of this Report (unless otherwise mentioned in such Report) have served as an officer, director or employee of the subject company in the past twelve months.

No disciplinary action has been taken on the Company by any regulatory authority which can impact the Equity Research Analysis.

We hereby expressly disclaim any implied warranties imputed by the laws of any jurisdiction other than Mumbai. We consider ourselves and intend to be subject to the jurisdiction only of the courts of the Mumbai in India and we shall be governed only by the laws as applicable in India. Even though the site has global access, we are not governed by any laws of any jurisdiction other than India.

To receive this report every month, subscribe to Mojo Professional

09 July 2020

- By research team
(research@marketsmojo.com)