

General Information of the Company

Company Name : Balkrishna Industries Limited

BSE Code : 502355

NSE Symbol : BALKRISIND

Registered Office: B-66, Waluj MIDC, Waluj Industrial Area, Aurangabad 431 136 (Maharashtra)

Corporate Office : BKT House, C/15, Trade World, Kamala Mills Compound,
Senapati Bapa Marg, Lower Parel (W), Mumbai 400 013 (Maharashtra)

PLANTS

Tire Manufacturing :

- B-66, Waluj MIDC, Waluj Industrial Area, Aurangabad 431 136 (Maharashtra)
- F-19/20, Gut no 62, 65, 66, Waluj MIDC, Village Wadgaon Kolhati, Aurangabad 431 136 (Maharashtra)
- SP-923, RIICO Industrial Area, Phase-III, P.O. Bhiwadi 301 019, District - Alwar (Rajasthan)
- A-300-305 & E-306-313 RIICO Industrial Area, Chopanki P.O. Bhiwadi 301 707, District - Alwar (Rajasthan)
- Bhuj Bhachau Road, S.H.No.42, Village Padhdhar, Taluka Bhuj 370 105, District - Kutch (Gujarat)

Carbon Black Manufacturing:

Bhuj Bhachau Road, S.H.No.42, Village Padhdhar, Taluka Bhuj 370 105, District - Kutch (Gujarat)

Wind Farm:

Village Soda Mada, Tehsil: Fatehgarh 345 027, District - Jaisalmer (Rajasthan)

Mould Manufacturing:

C-21, M.I.D.C, Phase No. I, Dombivali (E) 421 203, District - Thane (Maharashtra)

BANKERS:

Standard Chartered Bank, State Bank of India, Kotak Mahindra Bank, IndusInd Bank Limited, Citibank N.A, The Hongkong and Shanghai Banking Corporation Limited.

Description of the company

The key product range of the Company is Specialty Tires commonly known as “Off Highway Tires” which caters to Agriculture, Industrial, Construction, Earthmoving, Mining, Port, Lawn and Garden and All-Terrain Vehicle (ATVs) Tires. The marketing activities of the company spread over five continents and 160 countries. The market for Company’s products is mainly Europe, America, Australia and India. Exports account for 83% of the company’s sales, only 17% of the sales are domestic sales. Europe accounts for 54% of the company's sales, 17% is the US and the rest of the world is 12%. The company has 3200 stock keeping units all over the world. The company is putting some efforts towards sustainable production by investing in renewable energy sources and waste reduction, the particulars of it can be seen in its website.

Shareholdings and Shares Information

The company has 19,33,17,190 shares in total, out of which 1.97 percent of shares were held by small shareholders who hold less than or equal to 500 shares each. These small shareholders constitute 97.51 percent of all shareholders. The promoters of the company held 58.29 percent of shares and the foreign portfolio investors held 14.05 percent of shares. Other major shareholders include mutual funds held 11.64 percent and Qualified institutional buyers held 6.68 percent of shares.

Credit Rating

The company got credit rating of AA by Care Ratings Limited, it is for the financial year 2021-2022, during this period the company has issued 5000 rated, listed, unsecured, redeemable, non-convertible Debentures of face value of Rs. 10 lakhs each aggregating to Rs. 500 crores, for this the company got the above mentioned credit rating.

Recent Capital Expenditure

The company announced the capital expenditure of 1900 crores during the financial year 2020-2021, it will be spent by 2023-2024. Out of these 1900 crores, 800 crores towards establishment of new tyre plant, 650 crore for capacity building of Carbon black and Captive energy plants and 450 crores for the purposes of modernisation, automation and technical upgradation. The funding for this is done by internal accruals and part of it is done by debt. The debt instrument is given under the side heading credit rating. The internal accruals are equity instruments which are cash flows and receivables.

Risk Analysis

The company's major raw materials are Natural and Synthetic Rubber, Carbon Black and Night Fabric. Due to high demand of all raw materials, global supply chain disruption and the shutting down of some raw material manufacturers, the supply and the the prices of the raw materials negatively effected. To mitigate these risks the company took significant steps. Those include: 1) The company want to increase the prices of its products over a period of time, 2) The company is doing R & D to identify alternative sources of Natural Rubber and 3) The company setted up its own Carbon Black manufacturing unit as a part of backward integration to ensure easy way to available Carbon Black.

Figure 1

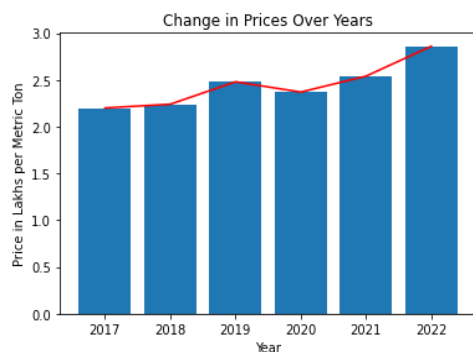
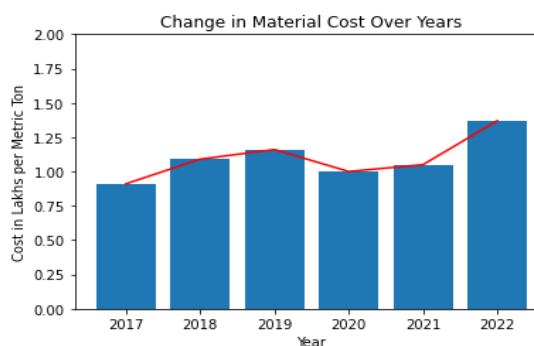
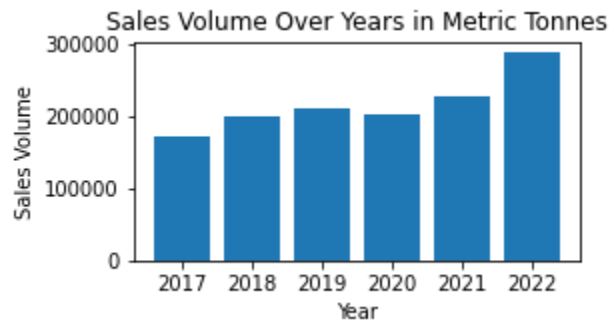


Figure 2



From figures 1 and 2 above we can see that as the company expected in its annual report, the raw materials price increased very sharply, so that the cost of material increased. To mitigate that, the company in its annual report said that it wants to increase the price. Maybe that's why the price after covid years is increasing here.

Figure 3



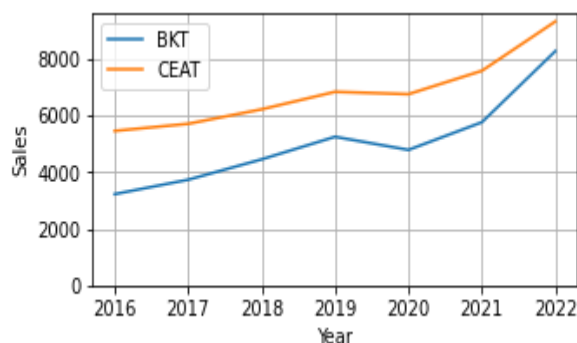
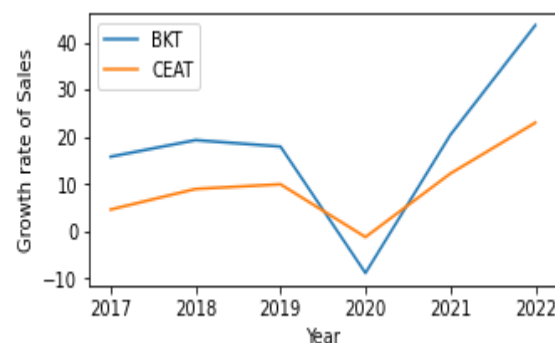
The covid affected the firm very much, as we see in figure 3, the sales volume before covid was increasing, but during covid, the sales volume fell down, now the company is recovering from covid effect, we can see that from the increase in the sales volume after covid years.

The other major risk the firm can have is the foreign exchange risk, the capital and raw material needed for the firm is mostly imported from other countries. In this situation, if there are a lot of fluctuations in the foreign exchange value, it will impact the company on a large scale. But, the advantage for the company here is that the most of the sales of the companies is to foreign countries. In that way, the company is the net gainer of foreign currency. However, the decrease in foreign exchange value to current year value can affect the investment decisions of the company, its sales revenue may decrease because of that. So, it has an inherent foreign exchange risk. To mitigate this risk, the company entered into a forward derivative contract to hedge the foreign currency risk of highly payable forecast transactions using forward contracts. The forward contract is nothing but getting into an agreement with the financial institution saying, the future sales price should be at that contract level, if the price is not at that level, the financial institution pays the company the remaining amount and if the sales price is more, then the company will pay the financial institution. It is a way to mitigate the risk of fluctuations in the foreign exchange.

Financial Analysis of the Company

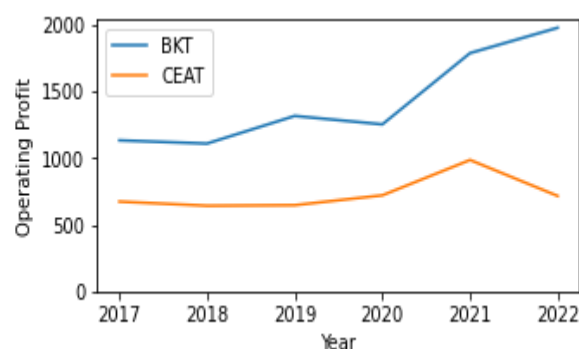
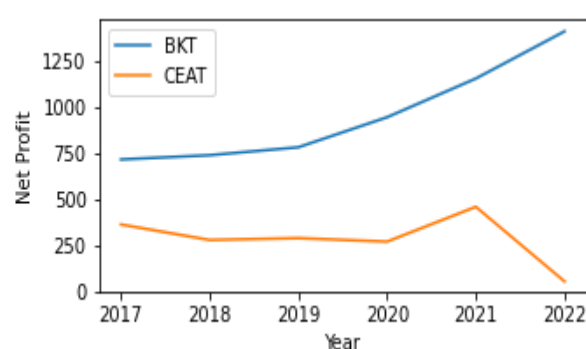
Sales

The figures 4 and 5 below represent sales and growth rate in sales respectively. There, comparisons for BKT tyres and CEAT tyres were given. By seeing that picture we can notice that the growth rate in sales revenue is negative for both companies in the period 2020. The 2020 downturn is attributed to covid. Other Than that period, sales revenue is increasing year by year for both companies, but for BKT, that increase is very sharp compared to CEAT tyres. We can see that by looking at figure 5. Sharp rise in sales revenue is a good sign but the true picture would be known by looking at the profit after tax.

Figure 4**Figure 5**

Operating Profit and Net Profit

Operating profit is the profit before tax, interest and depreciation, whereas net profit is the profit after tax. Net profit is the actual profit that comes into the hands of the owners.

Figure 6**Figure 7**

From figures above we can see that both operating profit and net profit are higher for BKT compared to CEAT tyres even though the sales revenue for CEAT is higher than BKT. It may be because of two possible reasons. One is the ability to transfer the cost to customers, that is to increase the price, the second is by reducing expenses by increasing efficiency, capacity utilization and capacity building. Those all are signs of a healthy business.

Other Financial Ratios

Table1

Year	Average assets	Average Equity	Net Profit Margin	Assets Turnover Ratio	Leverage	ROE
2022	944862.5	646588	0.171	0.874	1.461	21.8%
2021	738570	549832.5	0.201	0.779	1.343	21.0%
2020	658050.5	481474.5	0.197	0.726	1.367	19.6%

The table 1 is the return on equity and its breakups for BKT tyres, in 2022, the net profit margin decreased for the company, but the high asset turnover ratio and leverage made ROE higher in this period compared to previous periods. Whereas, as we see in Table 2, for CEAT tyres, very low net profit margin resulted in low return on equity. The CEAT tyres leverage is

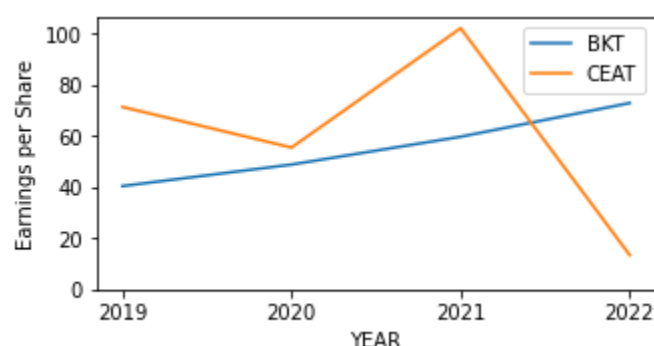
very high such that the interest payment for the company is very high, that makes profit after tax and net profit margin very low. The interest payment as a percent of operating profit for BKT in 2022 is 0.4% whereas it is 28.9% for CEAT. So, there should be a balance between high leverage and low leverage. In my opinion BKT is maintaining that balance.

Table 2

Year	Average assets	Average Equity	Net Profit Margin	Assets Turnover Ratio	Leverage	ROE
2022	843296	315750.5	0.006	1.104	2.671	1.72%
2021	742502	304607	0.061	1.012	2.438	15.06%
2020	651344	283922	0.041	1.010	2.294	9.53%

A Little Caveat

Figure 8



The advantage with high leverage even though high interest payments is that the equity will be low, that means the number of shares will be low (this is by assuming shares price will be the same irrespective of number of shares). If the number of shares is lower than the profit after tax per share will be higher. That is earnings per share will be higher. We are seeing exactly the same thing in figure 8 above. The earnings per share for CEAT even though it has lower net profits is higher than BKT. Only in 2022 it will be lower than BKT. That means, if two people both are holding equal number of BKT shares whereas the other is holding CEAT shares, the person holding CEAT shares will have higher return (except 2022, from figure 8).

And one final thing we have to keep in mind is the share price. If the share price is higher for BKT than the equal number of shares in BKT costs higher compared to CEAT shares. That means for every rupee one invested in BKT they are getting a lesser return than investing in CEAT. That is what is happening actually, the price per earning ratio of BKT is 33.85% for BKT for the year 2022, whereas this number is 56.13% for CEAT. That doesn't mean BKT is a bad investment because its growth potential is very high, that can be seen by increasing earnings per share year on year in figure 8.

Qualitative aspects of the company

Employees and Remuneration

The company has 3,229 permanent employees as of March, 2022, out of those 39 members are women, that means less than 2 percent or to say in other words, just close to 1 percent of

permanent employees are women. The company has an employee association in place at the plants in Aurangabad, Maharashtra. Only 33% of the permanent employees at this plant are part of the employee association. The company hired 6,578 employees on the temporary / casual / contract basis.

The company was paying 4,554 lakhs to Mr. Arvind Poddar, the chairman and the managing director of the company for the financial year 2022, the salary hike of 21% compared to previous financial year and 819 times the median salary of the employees. Mr. Rajiv Poddar, joint managing director of the company, paid 4,442 lakhs, 798 times the median salary of employees and a hike of 19% compared to the previous financial year. Whereas the median salary of employees is 5.56 lakhs and just 1.76% percent hike compared to previous financial year.

Corporate Social Responsibility

The company's corporate social responsibility is towards promoting education, health and rural development. They do a wide range of activities towards their stated objective such as providing scholarships to students, building infrastructure in schools and providing funds to hospitals. They take this responsibility directly or by partnering with NGOs and social sector organizations working in that area. Their major partners are Tata Memorial Centre, Dr. Babasaheb Ambedkar Vaidyakiya Pratishthan and Muktangan Education Trust. Besides these, they provide donations to other organizations also. They committed 2% of average net profit of the company that is approximately 24 crores towards these every year. They provide approximately 25 crores that is approximately 1.8% of their profit after tax for corporate social responsibility for financial year 2022.

Owings to Micro and Small Enterprises

The company's total outstanding due to small and micro enterprises till march 2022 is 1,638 lakhs. The small and micro enterprises should be paid early otherwise it's difficult for them to sustain, they have credit constrained already in place. So, it is a bad thing from the point of view of qualitative aspects of the company.

Conclusion

The Balkrishna industries have had good financial performance over the years, it has good growth prospects. The investors should keep in mind that the tyre industry is very much exposed to both internal and external shocks such as raw material prices, economic slowdown ect. BKT is trying to mitigate them to some extent but not completely. So, short term investments into it is not a good idea. Long term investments in this will give higher returns keeping in mind the growth prospects of the BKT. It is a very good company to invest in for the long term from the financial point of view. From a qualitative aspect point of view also it is a good company, it is putting some efforts in CSR and also in Sustainability in production. Its CSR efforts are not outstanding but up to the par, its sustainability efforts are good, but other things such as their payments to small and micro enterprises, their inclusivity towards women and their remuneration to employees and work union maintenance etc, they are not so good. Overall it is a good company to invest, but it has to improve in its qualitative dimension to become the better one.

