Balkrishna Industries

(BLKI.BO / BIL IN)

SMALL & MID CAP RESEARCH

Rating	**OUTPERFORM***
Price (31 Jan 14, Rs)	326.00
Target price (Rs)	450.00[1]
Upside/downside (%)	38.0
Mkt cap (Rs mn)	31,510.7 (US$502.7 mn)
Enterprise value (Rs mn)	53,383
Number of shares (mn)	96.66
Free float (%)	41.7
52-week price range	341.5–201.0
ADTO - 6M (US$ mn)	0.11

**Stock ratings are relative to the coverage universe in each analyst's or each team's respective sector.*
[1]Target price is for 12 months.

Research Analysts

Anantha Narayan
91 22 6777 3730
anantha.narayan@credit-suisse.com

Vikash Patwari
9122 6777 3747
vikash.patwari@credit-suisse.com

Revenue recovery and cost advantage make a good combination

- **We initiate coverage on Balkrishna Industries with an OUTPERFORM rating and a TP of Rs450, 38% potential upside.** It manufactures 'off-highway tyres' used in agricultural and industrial vehicles. It exports over 85% of its tyres, mainly to Europe and North America, with a 4.5% share in the OHT market.
- **Revenue growth can accelerate after two years, driven by new segments and likely bottoming out of demand.** The start-up of the Bhuj plant by 2015 (85%+ additional capacity) should help the company target the larger-diameter mining/construction segment, where it is under-represented. Inventory destocking (from 2H FY13) coming to a close, increasing confidence among agriculture equipment dealers, a pick-up in US construction activity, and a global economic surge could mean demand will pick up soon.
- **Lower operating cost is a key advantage.** BKT competes with global majors and unlike most, it focuses solely on OHT. OHT is labour intensive (due to higher SKUs) and BKT has a significant cost advantage—labour cost is 6% of revenue versus 20-25% for others. Its tyre prices are consequently 15-25% lower and yet it makes significantly higher margins.
- **Attractive absolute and relative valuations.** BKT trades at a slight discount to its seven-year average P/E and EBITDA (and well below its pre-2009 levels) and trades at a discount to its global comps. We estimate FY13-16 EBITDA CAGR of 18%. Rubber prices could remain low. Our TP is based on 5x FY16E EBITDA, a discount to the seven-year average. A prolonged demand slowdown and the failure of new products are **key risks**.

Financial and valuation metrics

Year	3/13A	3/14E	3/15E	3/16E
Revenue (Rs mn)	33,939.3	35,264.6	40,294.3	46,852.6
EBITDA (Rs mn)	6,833.3	8,329.8	9,551.6	11,197.5
EBIT (Rs mn)	5,711.3	6,730.7	7,410.9	8,506.0
Net profit (Rs mn)	3,499.1	4,318.4	4,647.1	5,343.2
EPS (CS adj.) (Rs)	36.20	44.68	48.08	55.28
Change from previous EPS (%)	n.a.			
Consensus EPS (Rs)	n.a.	40.2	44.0	50.0
EPS growth (%)	30.1	23.4	7.6	15.0
P/E (x)	9.0	7.3	6.8	5.9
Dividend yield (%)	0.46	0.46	0.61	0.77
EV/EBITDA (x)	7.4	6.4	5.1	3.8
P/B (x)	2.2	1.7	1.4	1.1
ROE (%)	27.4	26.2	22.4	20.9
Net debt/equity (%)	130.7	117.7	73.7	41.0

Source: Company data, Credit Suisse estimates

Focus charts

Figure 1: BKT has less than 5% market share

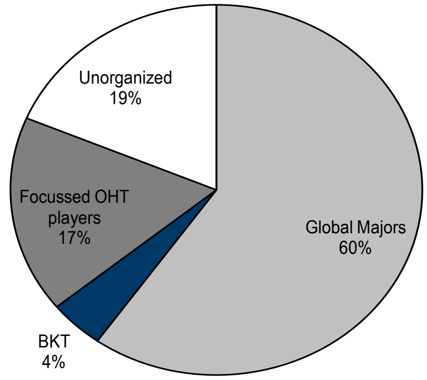


Figure 2: Export-focused tyre manufacturer

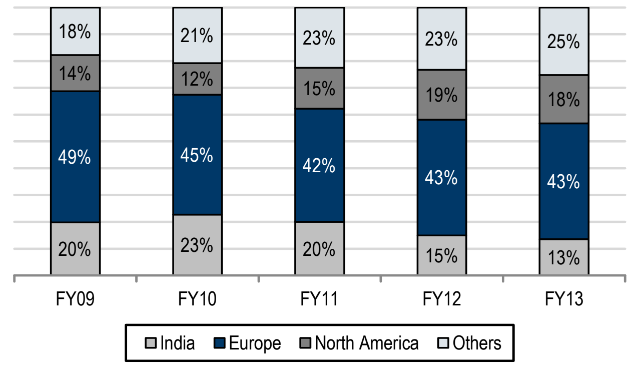


Figure 3: Low exposure to earthmoving/construction

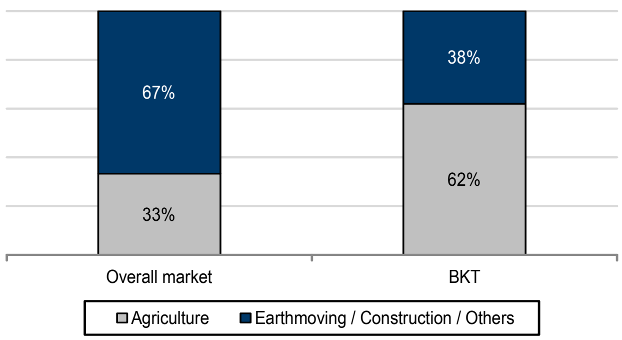


Figure 4: New capacity to be used to target this segment

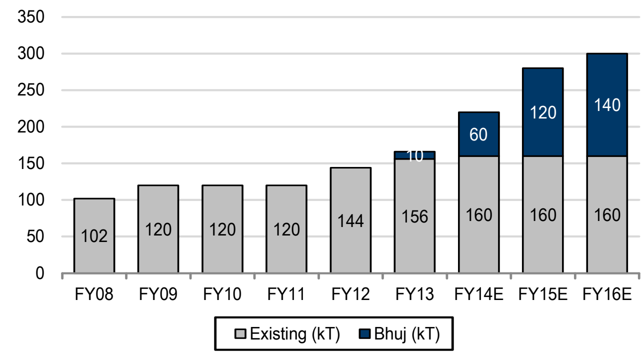


Figure 5: We estimate bottoming of growth in FY14

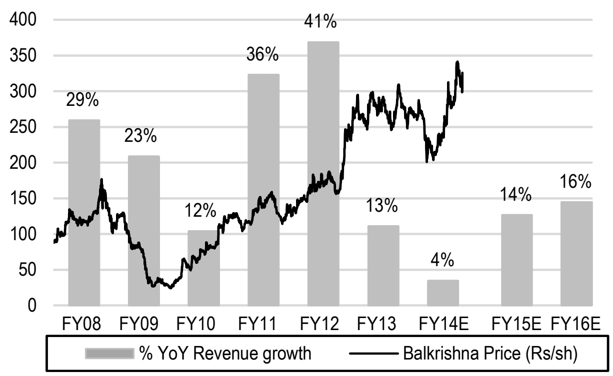


Figure 6: Lower employee cost is a key advantage

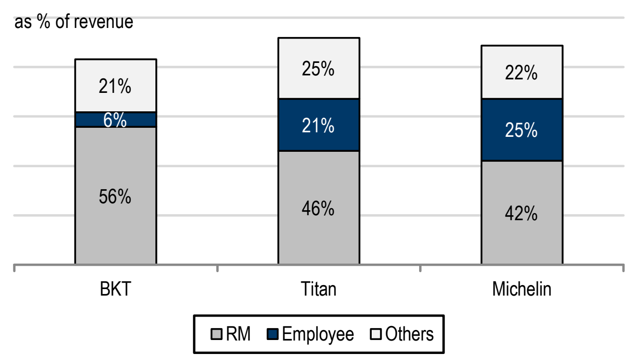


Figure 7: Rubber a key cost; rubber price has been muted

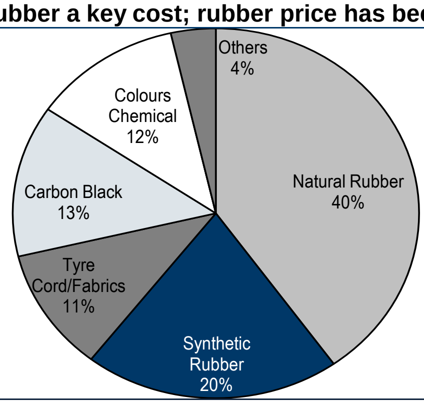
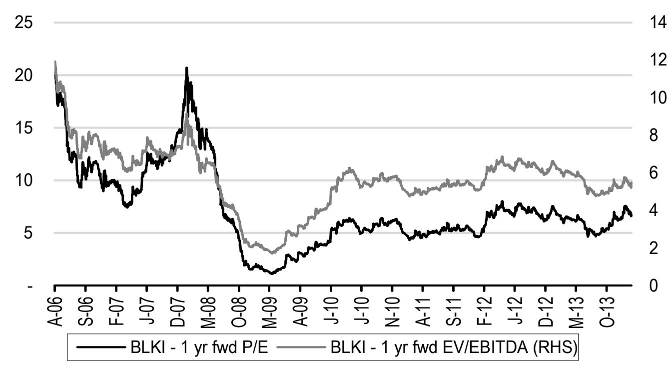


Figure 8: Valuations well below pre-2009 levels



Source: Company data, IBES, Credit Suisse estimates

Revenue recovery and cost advantage make a good combination

New segments and likely bottoming of demand can drive growth

BKT is focused solely on 'off-highway' tyres catering to agricultural and industrial segments. A low 4.5% share of the global market can ensure reasonable room for growth for several years (Michelin's OHT segment, which is 30% of the industry, saw an 8% CAGR between 2007 and 2013E). While earthmoving/construction forms two-thirds of the global market, BKT derives only a third of its revenue from this segment. It will complete a new 140 kT facility at Bhuj (about 85% of existing capacity) in CY15 which would be used to target this segment. It has an R&D team of over 50 engineers working on larger-sized tyres for this segment. About 90% of capex for this expansion has already been incurred.

Less than 5% market share; market has seen an 8% CAGR over 2007-13

Its revenue growth has slowed since 2H FY13 due to the global economic sluggishness, growth declines in agricultural and construction segments, and inventory destocking. With some signs of improved sentiment in agricultural equipment, some initial pick-up in US construction activity, some upturn in mining output and anecdotal examples of low inventory, demand could likely be bottoming out.

New segments, low inventory and a pick-up in construction and mining activity could drive growth

Lower operating cost is a key advantage

BKT competes with global tyre companies, such as Bridgestone and Michelin, and speciality companies, such as Titan. It focuses solely on OHT whereas global tyre companies obtain only 10-15% of revenues from such tyres. Given higher SKUs (BKT has over 2,000) and the consequent frequent mould changes, OHT manufacturing is labour intensive. Given its Indian manufacturing base, employee costs form only 6% of revenue versus 20-25% for the other global players. Consequently, it is able to sell its products at a 15-25% discount and yet report higher EBITDA margins. Lower prices are a significant selling advantage for BKT. It aims to manufacture larger-sized tyres from its new Bhuj plant to cater to the earthmoving/construction segment. These tyres can potentially have even higher margins.

Employee costs form 6% of revenue vs 20-25% for peers

Earnings have some sensitivity to the INR as a large proportion of production is billed in the USD or EUR. USD-denominated costs form about 50% of revenue and it has USD-denominated ECBs of US$275 mn. It does not hedge its USD exposure. We estimate a 1% INR depreciation will increase net income by 1.5 to 2%.

Attractive absolute and relative valuations

BKT trades at a slight discount to its seven-year average P/E and EBITDA (and well below its pre-2009 levels) and trades at a slight discount to its global comps. Our TP is based on 5x FY16E EBITDA, a slight discount to the seven-year average. We estimate FY13-16 EBITDA CAGR of 18%—FY15 earnings growth is slightly muted due to the spike in interest costs and depreciation associated with the new facility.

18% EBITDA CAGR, 22% ROE, 1.4x book, falling D/E, 5x EV/EBITDA

Raw materials form 70% of total costs, of which natural rubber is 40%. Low rubber prices have helped margins and a change seems unlikely in the near term. BKT's balance sheet is robust. We expect net debt/equity to fall from 1.3x in FY13 to 0.4x in FY16. It has an FY15E ROE of 22% and trades at 1.4x book. Its working capital requirements compare favourably to global majors as it does not hold inventory for its sales through distributors (85% of total sales)—it works on a make-to-order basis.

Key risks are the sustained sluggishness in global demand and the failure of its new larger-diameter tyres.

Balkrishna Industries BLKI.BO / BIL IN

Price (31 Jan 14): **Rs326.00**, Rating:**: OUTPERFORM**, Target Price: **Rs450.00**, Analyst: **Anantha Narayan**

Target price scenario			
Scenario	**TP**	**%Up/Dwn**	**Assumptions**
Upside	510.00	56.44	Revenue growth of 20% over FY15-16 and EBITDA margin expansion of 100-150 bp
Central Case	450.00	38.04	Revenue growth of 15% over FY15-16 and slight expansion in EBITDA margin
Downside	250.00	(23.31)	Revenue growth of 5% over FY15-16 and EBITDA margin compression of 150-200 bp

Key earnings drivers	3/13A	3/14E	3/15E	3/16E
% YoY revenue growth	12.5	3.9	14.3	16.3
EBITDA margin (%)	20.1	23.6	23.7	23.9

Income statement (Rs mn)	3/13A	3/14E	3/15E	3/16E
Sales revenue	**33,939**	**35,265**	**40,294**	**46,853**
Cost of goods sold	24,047	23,408	26,613	30,958
SG&A	756	811	927	1,078
Other operating exp./(inc.)	2,303	2,716	3,203	3,620
EBITDA	**6,833**	**8,330**	**9,552**	**11,197**
Depreciation & amortisation	1,122	1,599	2,141	2,691
EBIT	**5,711**	**6,731**	**7,411**	**8,506**
Net interest expense/(inc.)	273.7	319.4	577.0	661.6
Non-operating inc./(exp.)	(99.6)	98.2	124.8	156.6
Associates/JV	—	—	—	—
Recurring PBT	**5,338**	**6,510**	**6,959**	**8,001**
Exceptionals/extraordinaries	—	—	—	—
Taxes	1,839	2,191	2,311	2,658
Profit after tax	**3,499**	**4,318**	**4,647**	**5,343**
Other after tax income	—	—	—	—
Minority interests	—	—	—	—
Preferred dividends	—	—	—	—
Reported net profit	**3,499**	**4,318**	**4,647**	**5,343**
Analyst adjustments	—	—	—	—
Net profit (Credit Suisse)	**3,499**	**4,318**	**4,647**	**5,343**

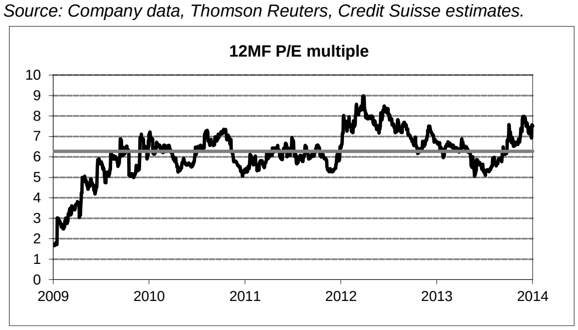
Cash flow (Rs mn)	3/13A	3/14E	3/15E	3/16E
EBIT	**5,711**	**6,731**	**7,411**	**8,506**
Net interest	(273.7)	(319.4)	(577.0)	(661.6)
Tax paid	(1,439)	(1,953)	(2,088)	(2,400)
Working capital	802	(243)	(558)	(1,274)
Other cash & non-cash items	1,124	1,599	2,141	2,691
Operating cash flow	**5,924**	**5,815**	**6,329**	**6,862**
Capex	(11,105)	(8,758)	(1,319)	(1,278)
Free cash flow to the firm	**(5,180)**	**(2,943)**	**5,010**	**5,584**
Disposals of fixed assets	—	—	—	—
Acquisitions	—	—	—	—
Divestments	—	—	—	—
Associate investments	—	—	—	—
Other investment/(outflows)	—	—	—	—
Investing cash flow	**(11,105)**	**(8,758)**	**(1,319)**	**(1,278)**
Equity raised	—	—	—	—
Dividends paid	(169.6)	(169.1)	(225.4)	(281.8)
Net borrowings	4,548	4,000	(4,125)	(4,125)
Other financing cash flow	44.7	98.2	124.8	156.6
Financing cash flow	**4,423**	**3,929**	**(4,226)**	**(4,250)**
Total cash flow	**(758)**	**986**	**784**	**1,334**
Adjustments	—	—	—	—
Net change in cash	**(758)**	**986**	**784**	**1,334**

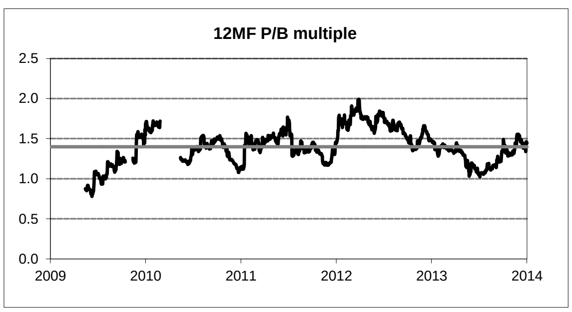
Balance sheet (Rs mn)	3/13A	3/14E	3/15E	3/16E
Cash & cash equivalents	2,782	3,768	4,552	5,886
Current receivables	5,197	5,797	6,845	8,321
Inventories	4,567	4,831	5,520	6,401
Other current assets	5,451	5,070	4,568	4,334
Current assets	**17,997**	**19,465**	**21,484**	**24,941**
Property, plant & equip.	13,353	16,123	27,545	26,589
Investments	31.2	31.2	31.2	31.2
Intangibles	0.60	0.60	0.60	0.60
Other non-current assets	10,126	14,515	2,270	1,813
Total assets	**41,507**	**50,134**	**51,331**	**53,374**
Accounts payable	4,149	4,348	4,968	5,761
Short-term debt	—	—	—	—
Current provisions	—	—	—	—
Other current liabilities	228.9	269.1	325.4	381.8
Current liabilities	**4,378**	**4,617**	**5,293**	**6,142**
Long-term debt	21,640	25,640	21,515	17,390
Non-current provisions	—	—	—	—
Other non-current liab.	1,060	1,298	1,522	1,780
Total liabilities	**27,077**	**31,555**	**28,330**	**25,312**
Shareholders' equity	**14,430**	**18,579**	**23,001**	**28,063**
Minority interests	—	—	—	—
Total liabilities & equity	**41,507**	**50,134**	**51,331**	**53,374**

Per share data	3/13A	3/14E	3/15E	3/16E
Shares (wtd avg.) (mn)	96.7	96.7	96.7	96.7
EPS (Credit Suisse) (Rs)	**36.2**	**44.7**	**48.1**	**55.3**
DPS (Rs)	1.50	1.50	2.00	2.50
BVPS (Rs)	149	192	238	290
Operating CFPS (Rs)	61.3	60.2	65.5	71.0

Key ratios and valuation	3/13A	3/14E	3/15E	3/16E
Growth(%)				
Sales revenue	12.5	3.9	14.3	16.3
EBIT	28.8	17.8	10.1	14.8
Net profit	30.1	23.4	7.6	15.0
EPS	30.1	23.4	7.6	15.0
Margins (%)				
EBITDA	20.1	23.6	23.7	23.9
EBIT	16.8	19.1	18.4	18.2
Pre-tax profit	15.7	18.5	17.3	17.1
Net profit	10.3	12.2	11.5	11.4
Valuation metrics (x)				
P/E	9.0	7.3	6.8	5.9
P/B	2.18	1.70	1.37	1.12
Dividend yield (%)	0.46	0.46	0.61	0.77
P/CF	5.32	5.42	4.98	4.59
EV/sales	1.48	1.51	1.20	0.92
EV/EBITDA	7.37	6.41	5.07	3.84
EV/EBIT	8.82	7.93	6.54	5.06
ROE analysis (%)				
ROE	27.4	26.2	22.4	20.9
ROIC	13.0	12.1	12.3	14.3
Asset turnover (x)	0.82	0.70	0.78	0.88
Interest burden (x)	0.93	0.97	0.94	0.94
Tax burden (x)	0.66	0.66	0.67	0.67
Financial leverage (x)	2.88	2.70	2.23	1.90
Credit ratios				
Net debt/equity (%)	131	118	74	41
Net debt/EBITDA (x)	2.76	2.63	1.78	1.03
Interest cover (x)	20.9	21.1	12.8	12.9

Source: Company data, Thomson Reuters, Credit Suisse estimates.





Source: IBES

New segments and likely bottoming of demand can drive growth

Niche tyre player

Focused manufacturer of OHT tyres, 85%+ of revenue from exports

Balkrishna Industries (BKT) is a significant manufacturer of 'off-highway tyres.' These tyres are different from the conventional ones for passenger vehicles, commercial vehicles or other standard automobile products. These are used by industrial vehicles (construction, earth-movers—under the brand Earthmax), agricultural vehicles (tractors, trailers, farm equipment—under the brand Agrimax), vehicles for defence and other purposes. The company has a wide product range with over 2,000 SKUs.

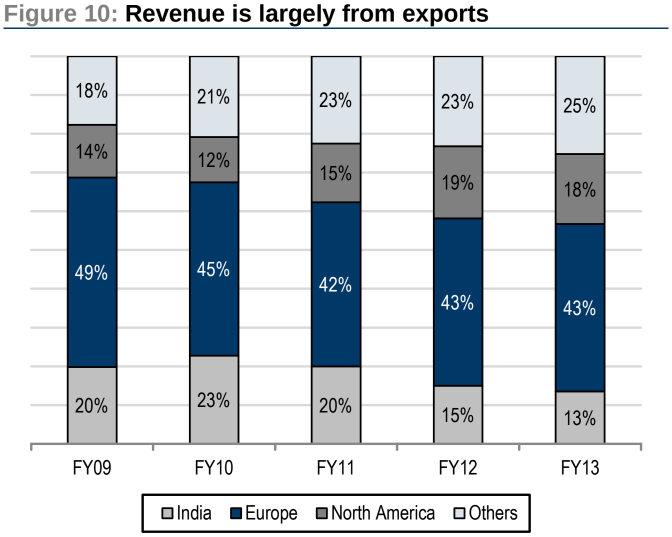
This company is largely an exporter of tyres—about 87% of its products are sold outside India, predominantly in Europe and North America.

Agricultural tyres constitute nearly two-thirds of its revenue.

Figure 9: **Niche tyre player focused on the off-highway tyre segment**

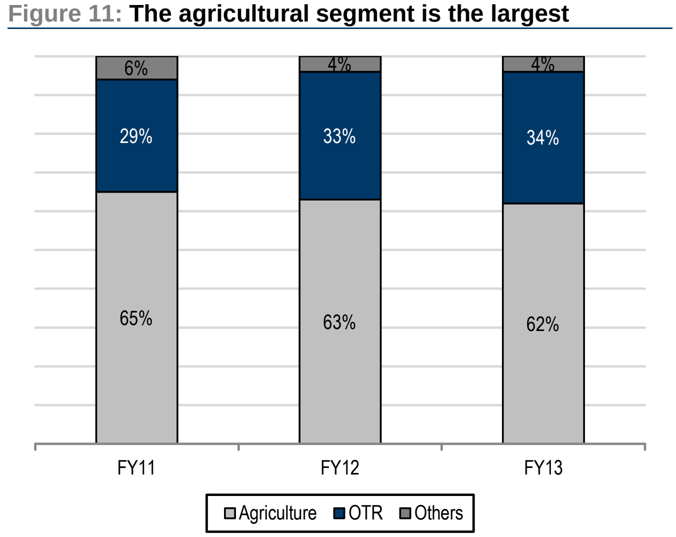
Source: Company data

Figure 10: **Revenue is largely from exports**



Source: Company data

Figure 11: **The agricultural segment is the largest**

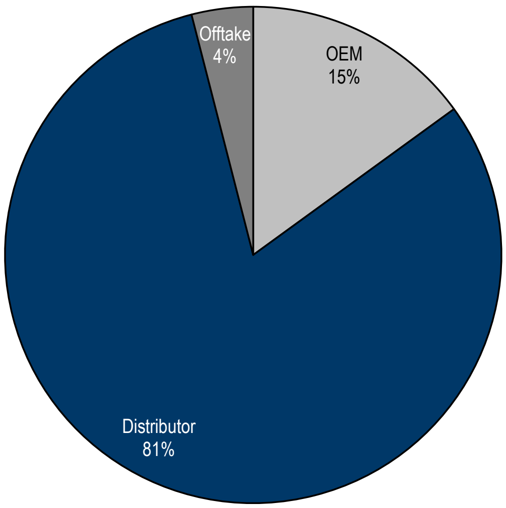


Source: Company data

About 80% of BKT's tyre sales are through 200 distributors located in more than 120 countries. 15% is sold directly to global OEMs under the brand name of BKT, and the remainder is through contract manufacturing agreements. The company supplies to leading OEMs, such as JCB, John Deere and Volvo.

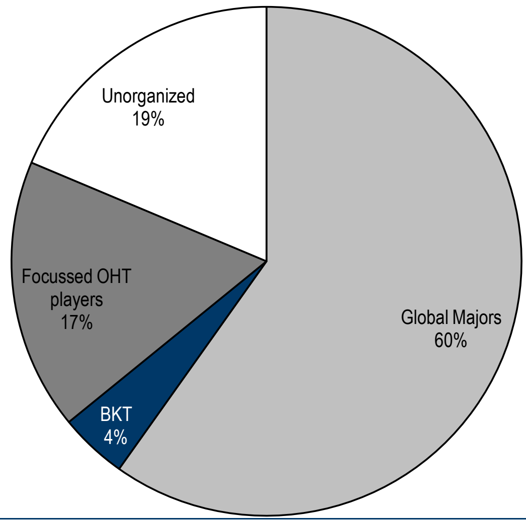
The company is primarily focused on the replacement market. It works almost entirely on a make-to-order basis, wherein the distributors place orders and BKT supplies the tyres in two to three months. The inventory risk thus lies with the dealers. Payment is received in some instances from distributors in advance or just after shipping. Credit is offered, however, to OEMs which is a much smaller proportion of their overall business. Overall working capital requirement is comparable with major global peers.

Figure 12: **BKT—revenue largely from distributors**



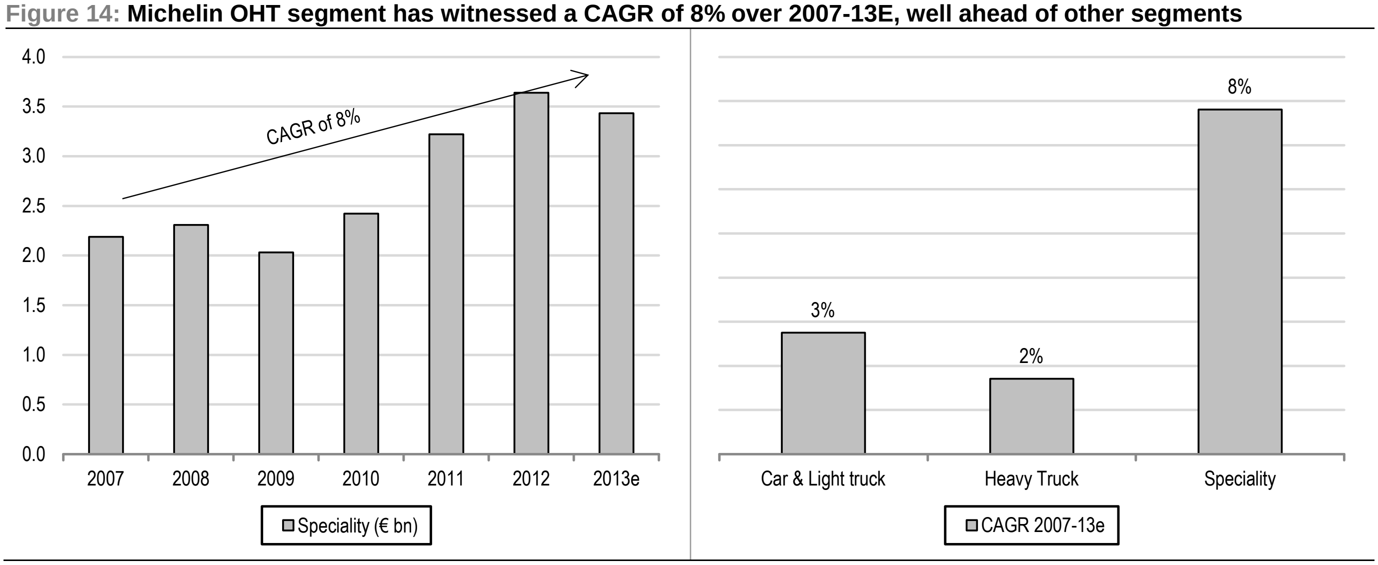
Source: Company data

Figure 13: **Pureplay OHT players have about 23% share**



Source: Company data, Credit Suisse

Figure 14: **Michelin OHT segment has witnessed a CAGR of 8% over 2007-13E, well ahead of other segments**



Source: Company data

Balkrishna has just 4.5% share in the OHT market…

The global speciality tyre industry has a size of around US$15 bn with much of the market being serviced by global tyre majors, such as Bridgestone, Michelin and Continental among others. Focused OHT players (such as Titan, Balkrishna and Alliance) have about 23% market share and have been steadily gaining market share. BKT has only a 4.5% market share of the entire speciality tyre market as of now. Michelin's OHT segment (which constitutes 30% of the global OHT industry) has seen a CAGR of 8% between 2007 and 2013E.

…and the company is targeting new segments

About two-thirds of the speciality tyre market caters to earthmoving and construction segments—BKT, in contrast, has only 34% exposure to this segment. Thus, BKT is under-represented in the mining/construction segment relative to its size. Management is hence focused on filling the gaps in its offerings as an avenue for growth.

Two-thirds of the market is from mining/construction, BKT gets one-third of revenue from this segment

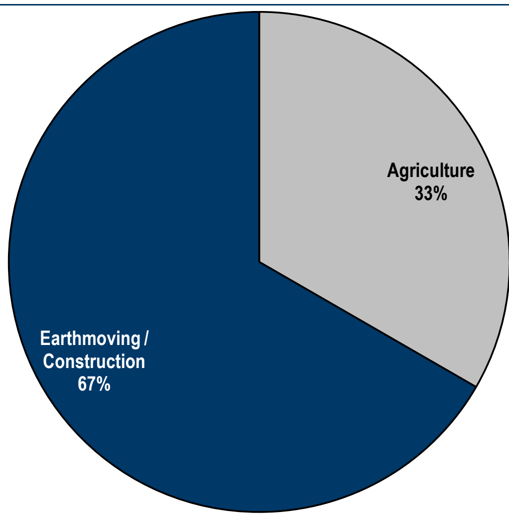
BKT's market share in the US radial tyre market is low compared to bias tyres. With the full commissioning of the Bhuj plant, BKT would be able to expand its presence in radial tyres with its newer OTR variant. Again, given that these larger-diameter OTR tyre sales are driven by OEMs, BKT is also expanding its reach with OEMs.

BKT is setting up a greenfield plant at Bhuj with a capacity of 140 kT which will be fully commissioned by the end of FY16 in a phased manner. The expected available capacity by end-FY14 is 60 kT versus the 20 kT available as at end-Sep 2013. Of the Rs25 bn capex, Rs23.2 bn has been spent and about 40% of this has already been capitalised. The capex on the Bhuj plant has been revised upwards from the initially estimated Rs18 bn, mainly due to INR depreciation—70% of project funding has been tied up through USD-denominated ECBs. The company will focus on large-diameter (51") off-the-road (OTR) tyres at its new Bhuj capacity given demand for such tyres in the US. Given the higher SKUs that the OHT manufacturers have and the high customisation required, typical capacity utilisation for OHT plants is about 70-80% across this industry. This capacity expansion should be sufficient to meet BKT's volume growth requirements for the next three to four years, assuming annual volume growth of about 13%.

BKT is setting up 85% additional capacity to tap this segment; 90% of capex over

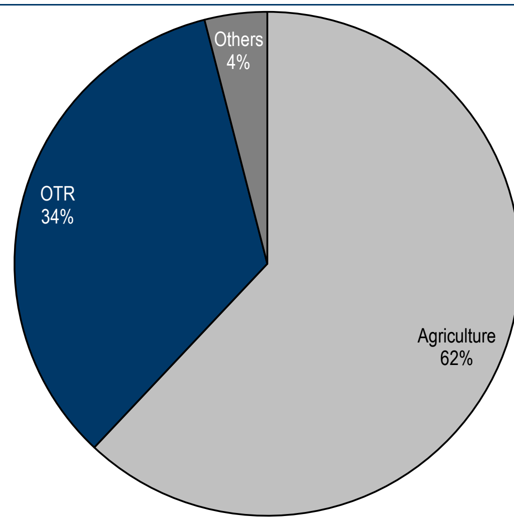
BKT has a dedicated R&D team of more than 50 engineers. The company has a high-tech mould manufacturing facility at Dombivali (Maharashtra) which was recently upgraded and expanded. BKT puts it tyres through extensive field trials before commercialisation.

Figure 15: **Earthmoving/construction constitutes about two-thirds of the market…**



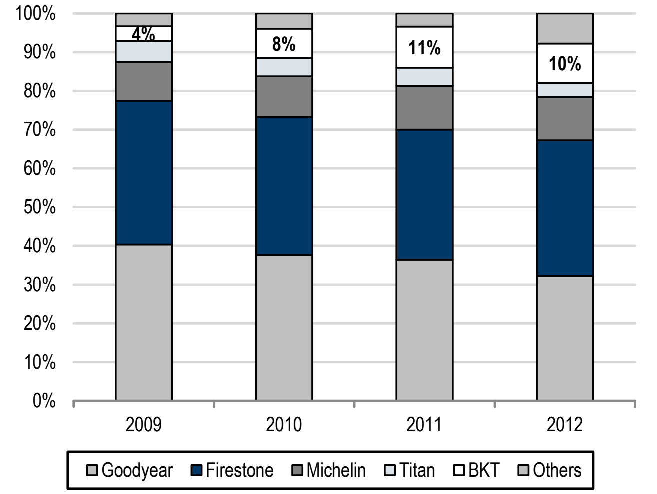
Source: Company data, Credit Suisse estimates

Figure 16: **…whereas it forms only about a third of BKT's revenue**



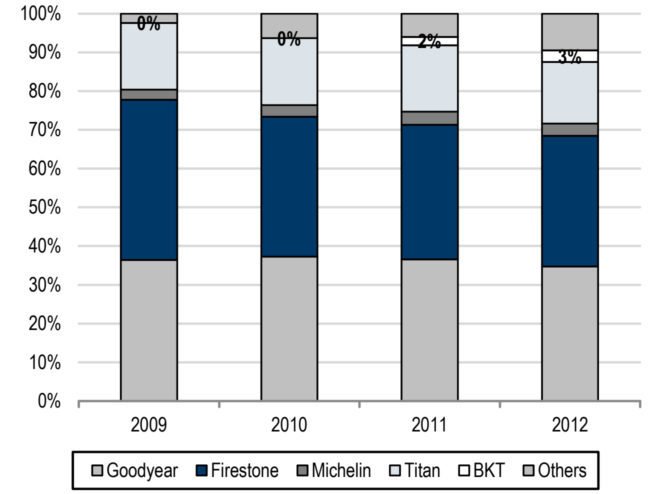
Source: Company data

Figure 17: **Share of the US radial tyre market is still low…**



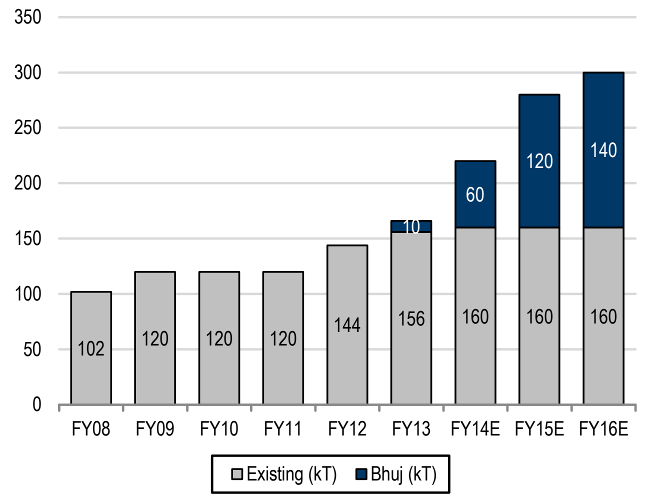
Note: for North America market. Source: Modern Tire Dealers

Figure 18: **…as it is for the US OEM market**



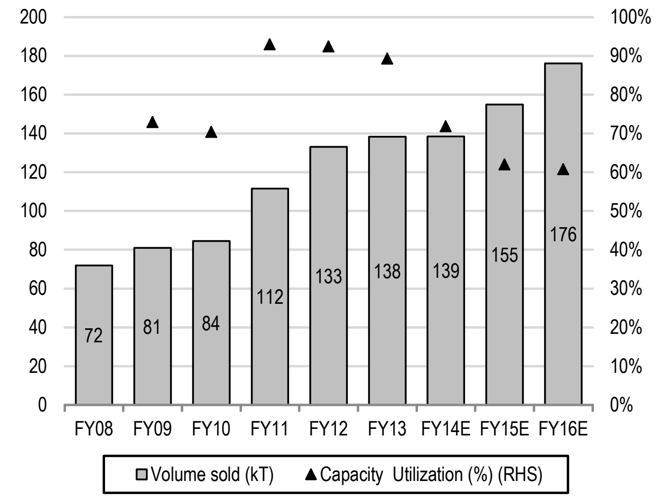
Note: for North America market. Source: Modern Tire Dealers

Figure 19: **Capacity ramp-up due to the Bhuj expansion**



Source: Company data, Credit Suisse estimates

Figure 20: **Capacity expansion sufficient for 3-4 years**



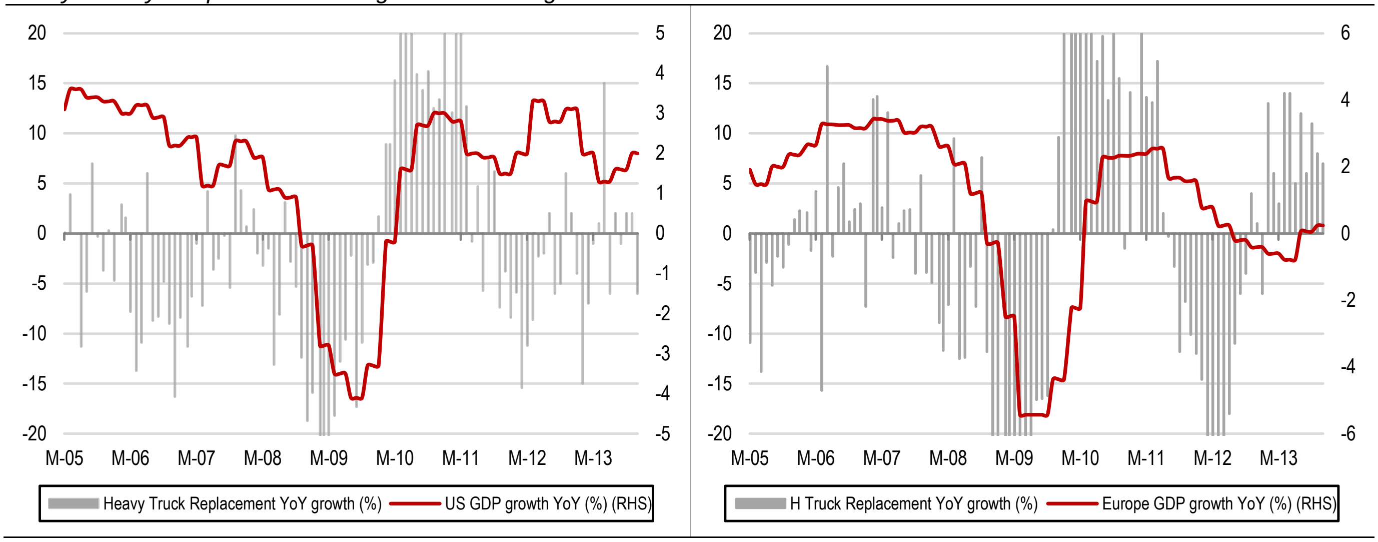
Source: Company data, Credit Suisse estimates

Likely bottoming out of demand

The volume slowdown from 2H FY13 for BKT has been broad-based, led by (1) destocking by dealers, (2) a decline in the agriculture segment in the US, and (3) a significant slowdown in the construction segment. We expect the agriculture sector to remain steady and a recovery in the construction market. New product launches, market share gains in existing markets, and the establishment and expansion of its presence in newer markets such as Russia and the CIS could drive its growth.

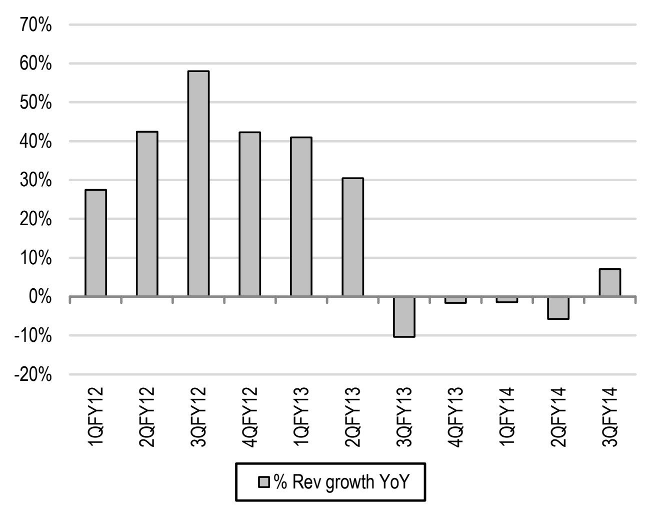
Figure 21: Expected uptick in tyre demand with GDP growth

Heavy truck tyre replacement YoY growth vs GDP growth YoY



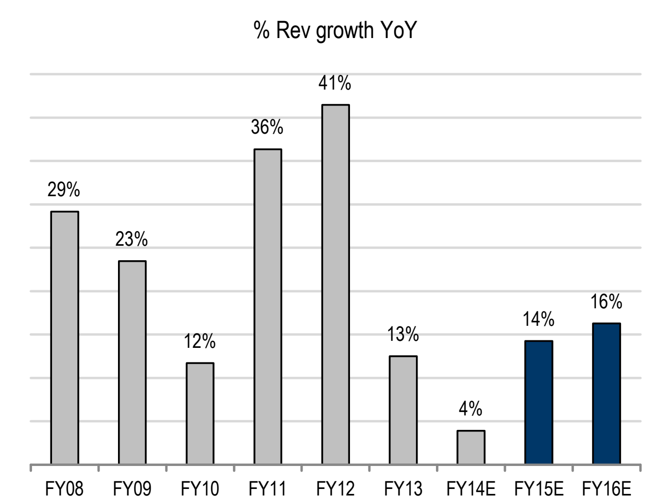
Source: Company data, Bloomberg

Figure 22: BKT—revenue slowdown started in 2H FY13



Source: Company data

Figure 23: BKT—we estimate bottoming of growth in FY14



Source: Company data, Credit Suisse estimates

Steady agriculture, and a recovery in construction/earthmoving

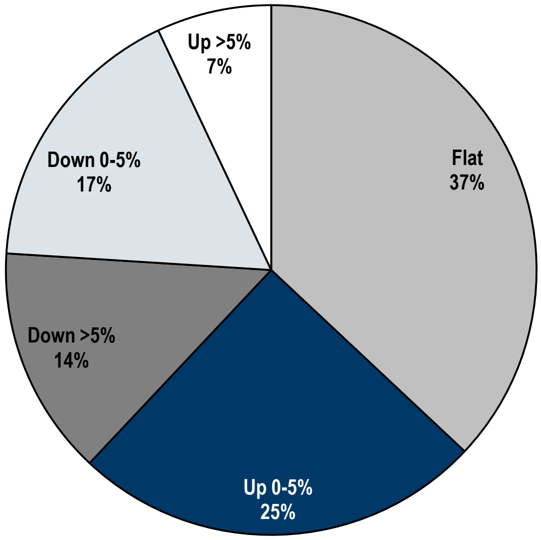
BKT gets two-thirds of its revenue from the agricultural segment and a third from the construction segment.

We expect the agricultural segment to remain steady

Sentiment of agriculture equipment dealers is positive

We believe that the agricultural segment got hurt by inventory destocking. As per the Ag Equipment Intelligence Survey of October 2013, dealers seem confident. About 70% of the survey respondents expected flat-to-positive demand trends in 2014. USFDA expects 2014 demand for low and medium horsepower equipment to remain steady in North America. Given higher dependence on livestock and dairy for the European agricultural sector, demand from Europe is expected to remain steady.

Figure 24: **Ag dealer expectation for equipment sales in 2014 vs 2013**



Source: Titan investor presentation.

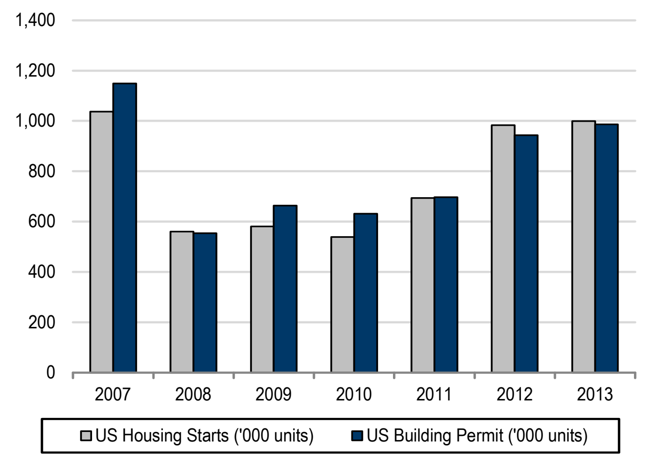
Construction spending could pick up in the North American market

The construction segment has declined sharply due to the general economic slowdown in various geographies.

Data on US construction and highway spending suggest some pick-up

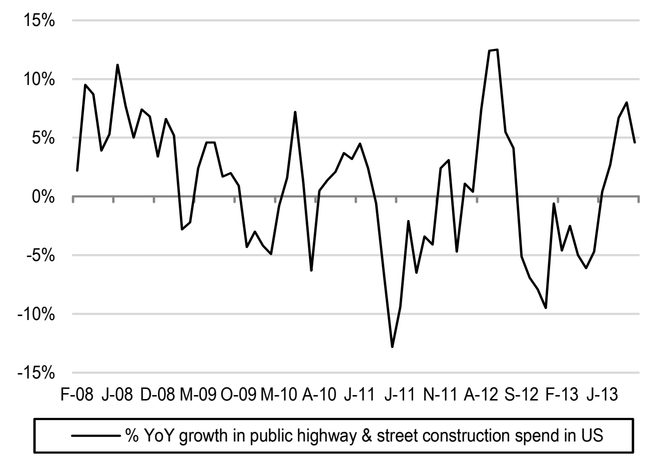
Residential and non-residential US construction, constituting 70% of US construction spending, is expected to improve in 2014 given the double-digit growth in housing starts and building permits as per the US Census Bureau. Non-residential growth may also improve with a pick-up in industrial spending in line with the improving US economy. Despite federal government spending curbs, with a recovery in state and local tax revenue collection, highway spending, which constitutes the largest component of public spending, is expected to recover. Highway contract awards in the US show robust growth.

Figure 25: **Pick-up in housing starts and housing permit**



Source: Bloomberg

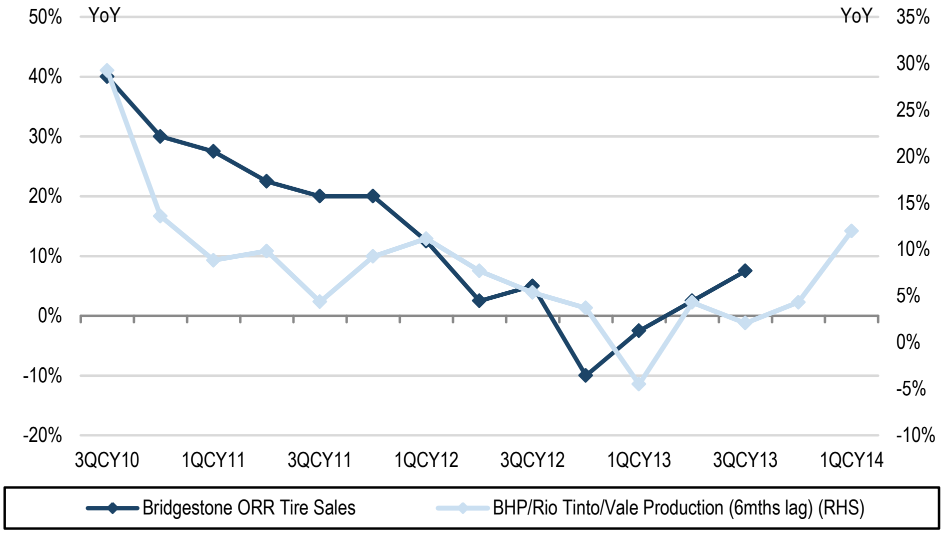
Figure 26: **Pick-up in highway spending, a large component of public spending**



Source: Bloomberg

Figure 27: Demand from earthmoving tyre segment to improve

% YoY growth in production at global major mining co. vs YoY growth in Bridgestone mining tyre sales



Note: (1) Average YoY growth in production, with a two-quarter time lag, (2) YoY growth in Bridgestone tyre sales is for ultra large ORR tyres and large tyres. Source: Company data, Credit Suisse estimates

Earthmoving segment could recover

Mining activity is expected to pick up

First, as BKT hardly has any OEM business in mining, the impact of lower capex in the mining market, which remains muted and is a concern, is limited for BKT. The company is more impacted by the production (or mining output), which impacts replacement demand for such tyres and demand usually follows with a lag. Thus, we could see demand in the earthmoving segment picking up with an uptick in mining output. CS' global commodity team estimates production volume of key resources (iron ore, coal, copper, aluminium and alumina) will grow steadily over 2013-15. Iron ore production, for example, is expected to rise by about 13% in 2014.

Inventory restocking can aid revenue growth

Anecdotal evidence points to inventory levels coming down

BKT's order book, which was typically around four to six months a year back, has seen a significant decline to about 1.5-2 months over the past four quarters. BKT reports its order book as months required to supply current outstanding orders based on the current sales run-rate. The order book decline has resulted due to the destocking at the dealer level and muted demand. With the slowdown in passenger and commercial vehicle tyre sales, the dealers' ability to hold on to OHT tyres was also impacted. It appears that dealer inventory is low and any uptick in demand could significantly help BKT's volume growth given strong restocking demand initially.

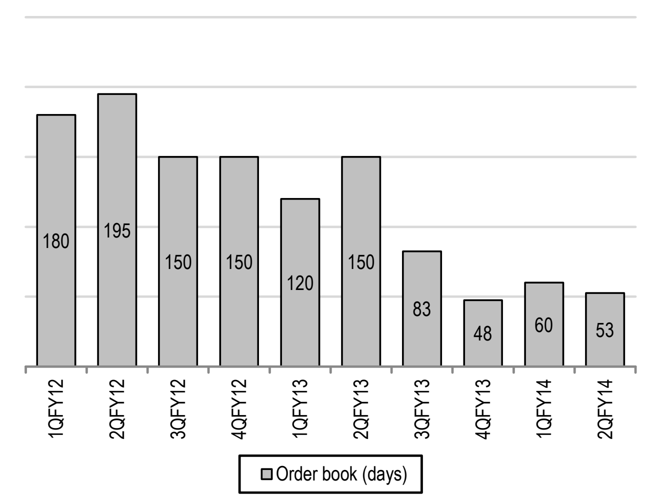
While exact data on the current inventory position is unavailable, recent comments from management teams of various global tyre manufacturers point towards the near-term restocking of inventory.

Figure 28: **Management comments on inventory destocking**

Company	Period	Management commentary
Titan	May-13	Channel destocking is taking place within the construction industry.
Michelin	Jul-13	At some point, inventories will be reduced and build-up will start. It may happen in the coming months but exact timing is uncertain.
John Deere	Aug-13	The construction equipment market has been weak and the company continues to reduce inventories. The company expects to complete the inventory reduction by end-2013 and expects strong demand outlook for the segment in 2014.
Michelin	Oct-13	Expect the specialty market to see different trends—a very positive agricultural trend, somewhat better earthmover OE sales, infrastructure growing from an extremely low base, and mining would be flattish.
Caterpillar	Jan-14	2013 was a year of inventory correction for both the company and the dealers. The company reduced its inventory by almost US$3 bn and dealers reduced their inventories by more than US$3 bn. Management does not believe that inventory changes will be a big story in 2014 as it was in 2013.

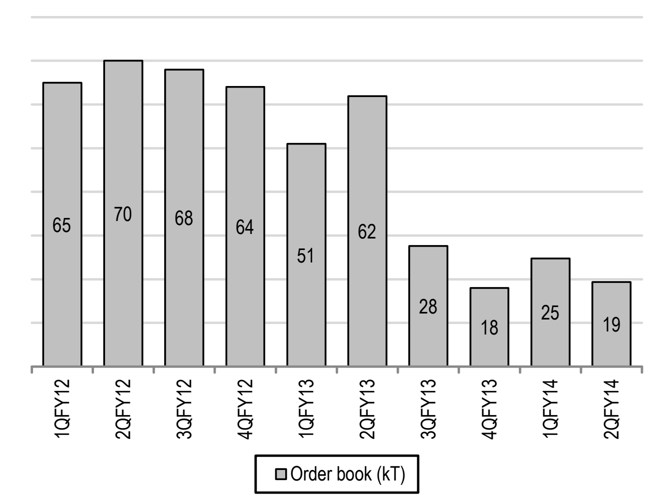
Source: Company data

Figure 29: **BKT—order book in terms of days**



Source: Company data

Figure 30: **BKT—order book in terms of volumes**



Source: Company data

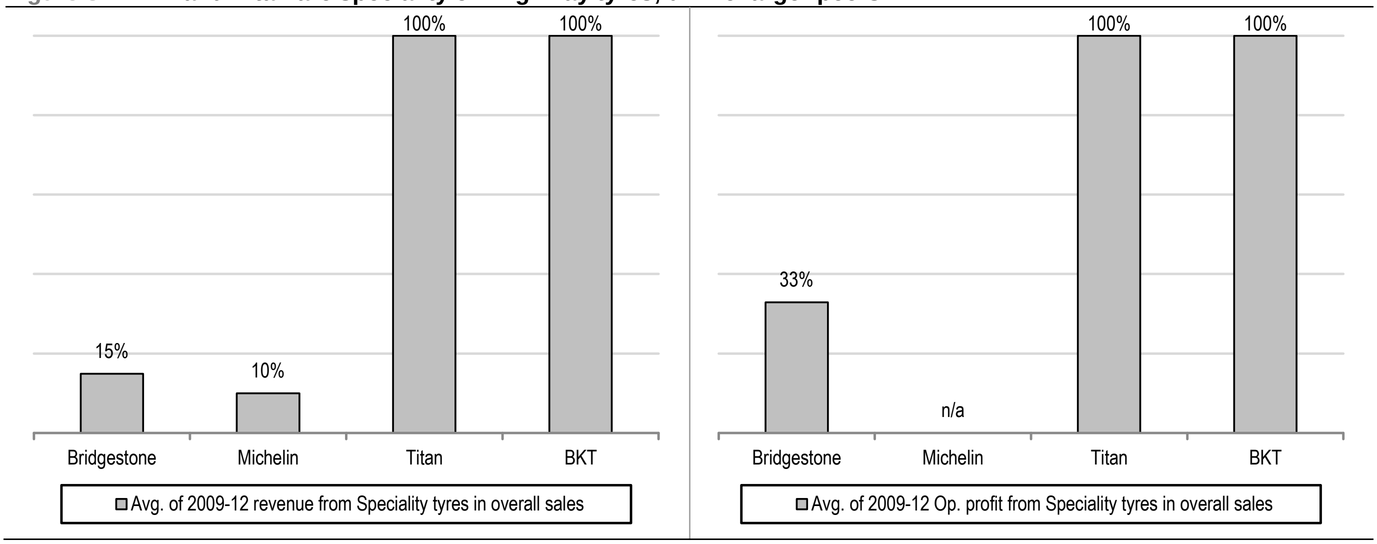
Lower operating cost is a key advantage

BKT is an OHT pure play, unlike larger peers

BKT's key competitors are global tyre companies, such as Bridgestone and Michelin, and others speciality players, such as Titan. For the global tyre companies, off-highway tyres (OHT) constitute a relatively small proportion of overall revenue (about 10-15%). These companies have a bigger presence in passenger, light and heavy truck tyre segments. The operating income contribution could be higher given higher margins of OHT tyres.

Many of BKT's competitors have only 10-15% exposure to OHT

Figure 31: BKT and Titan are speciality off-highway tyres, unlike larger peers



Note: (1) Speciality tyre refers to agricultural, mining, aircraft, two-wheelers and others, (2) n/a refers to not available.
Source: Company data.

OHT segment has significant entry barriers

The segment has entry barriers in terms of technological expertise, manufacturing capacity and product portfolio. OHT tyres are technologically intensive and especially so for radial and larger diameter tyres (large and giant OTRs). Higher SKUs act as a key deterrent for new entrants. BKT has over 2,000 SKUs with about 100-150 getting added every year. Similarly, maintaining, replacing and adding new moulds for such a high number of SKUs is a deterrent for new players and for rapid expansion by the existing players. BKT still operates with relatively low SKUs compared to Bridgestone and Michelin, which are also present in giant OTRs (diameter: 51", 57" and 63") and in other segments such as airlines, motorbikes and military vehicles.

Increasing need for larger and special tyres further enhances the competitive advantage for incumbents

A shrinking labour pool and need to improve yields in agriculture necessitate bigger vehicles with more power. As the machines get bigger, to distribute the load due to a larger machine axle, there is increasing need for larger and special tyres (also radial at times) to exert lower ground pressure and cause minimal crop destruction. This shift towards larger and special tyres is also driven by OEMs. Similarly, in mining, where cost efficiencies have become important given a muted price environment over the past few years, there is demand for larger and efficient tyres. The increasing need for larger and special tyres has further enhanced the competitive advantage for the existing players.

In its new Bhuj plant, BKT is adding capacity for a few of its existing products and more importantly for the larger diameter radial tyres.

Lower labour cost is a key advantage for BKT…

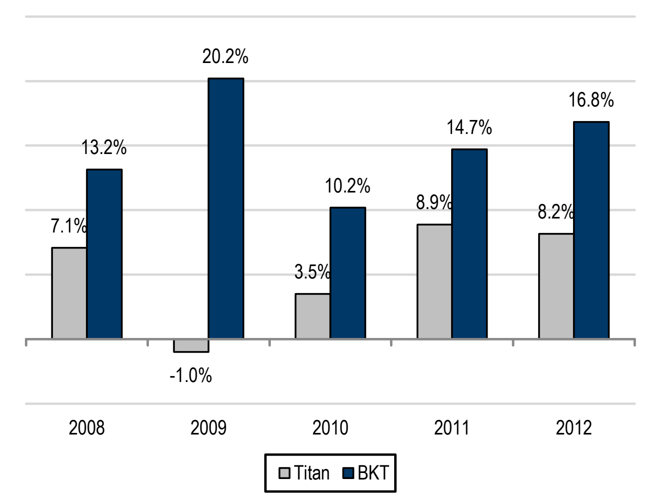
OHT manufacturing is labour intensive, given the frequent mould changes due to the higher customisation and larger SKUs. The cost of manufacturing in Europe and the US is hence high due to higher wages and entitlements. Production in countries such as India provides a significant cost advantage. A case in point is Goodyear's exit in January 2013 from the European farm tyre business as five years of negotiations with the labour representatives there did not yield results.

Labour costs form 6% of BKT's revenue and 20-25% of its competitors'

BKT is able to sell its tyres 20-25% cheaper on average versus global peers. Its EBITDA margins have been volatile due to the impact of rubber prices, but it has been broadly able to maintain margins at about 20% over the past few years. BKT has higher margins compared to Titan given that the latter's manufacturing plants are mostly based out of North America. Labour costs form only 6% of BKT's revenue as against 20%+ for Titan.

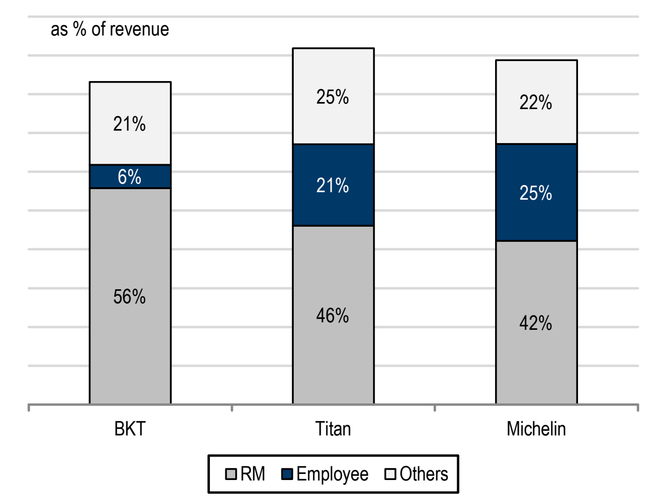
It hence is able to sell at a 20-25% lower price

Figure 32: **Higher EBITDA margin for BKT…**



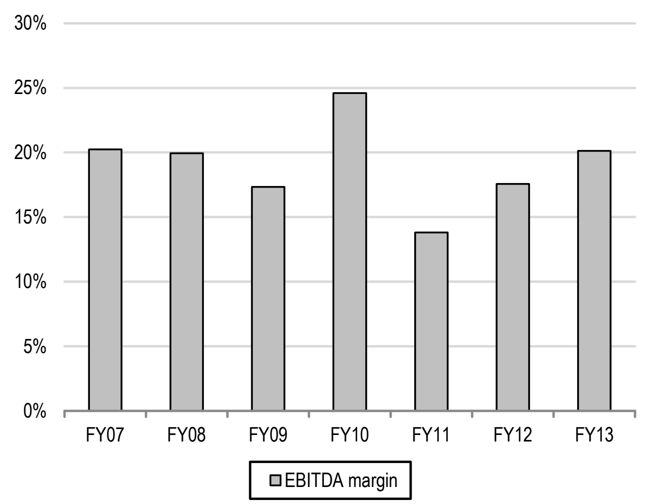
Note: Source: Company data

Figure 33: **…driven by lower labour costs**



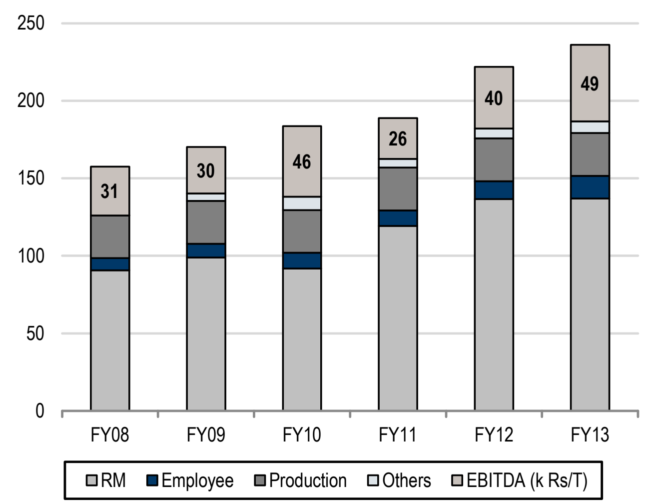
Source: Company data

Figure 34: **BKT has maintained its EBITDA margins**



Source: Company data

Figure 35: **EBITDA and cost mix per unit**



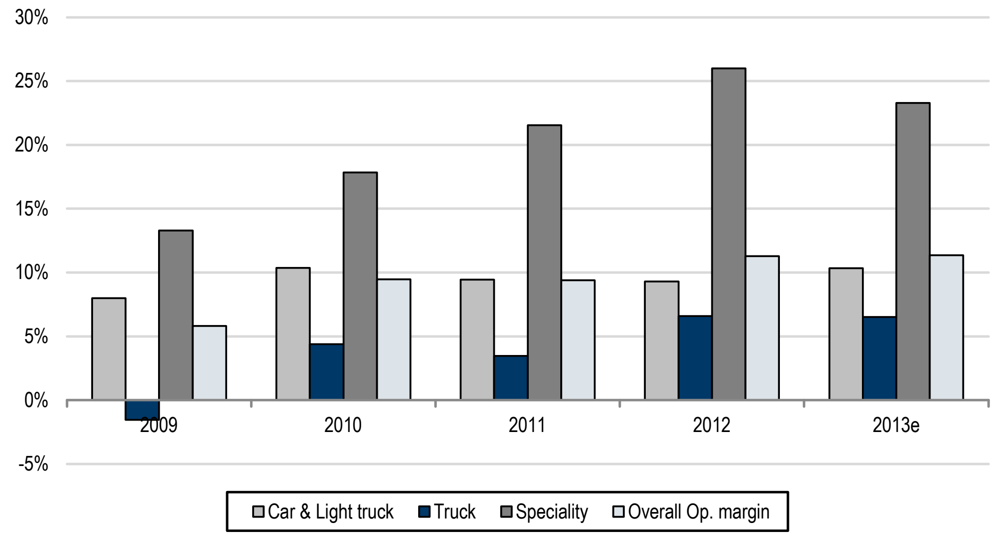
Source: Company data

However, Michelin, despite its manufacturing plants being located at high-cost locations, reports margins comparable to BKT in its OHT segment. This is because of:

- Higher price points due to strong brand, distribution, off-the-shelf availability and better post-purchase servicing, and
- Presence in higher-margin segments such as giant OTRs, which is among the few sub-segments still being exported out of North America.

This highlights the possibility of BKT improving its margins as it gets into larger-sized tyres.

Figure 36: **Michelin records good margins in speciality tyres due to its brand and larger-sized offerings**



Source: Company data, Credit Suisse estimates

…and this allows BKT to sell at a discount to global peers

While there are some differences in terms of tyre performance, such as maximum speed, traction and others which are difficult to capture, BKT sells its products at a discount to peers.

Figure 37: **BKT sells products at a discount to other peers**

Type	Specification	Company	Weight (lbs)	Price (US$)
Ag	11.2X24 06 GDY SFT105 TURF R-3	Goodyear	75	412
Ag	11.2X24 08 TITAN L/S BAR R-1	Titan	91	290
Ag	11.2X24 04 BRIDG FARM SERV R-3	Bridgestone	58	413
Ag	11.2X24 08 BKT REAR TRAC R-1	BKT	68	231
Ag	12.4R24 A8 GDY DYN TORQ RAD R1	Goodyear	116	749
Ag	12.4X24 08 TITAN L/S BAR R1 TL	Titan	112	299
Ag	12.4X24 08 BKT REAR TRAC R-1	BKT	86	278
Ag	13.6X28 06 ALLIANCE 329 R-3 TT	Alliance	117	555
Ag	13.6X28 08 BKT REAR TRAC R-1	BKT	115	377
Ag	9.5X24 04 FRST ANS ND R-3 TT	Firestone	41	340
Ag	9.5X24 08 BKT REAR TRAC R-1	BKT	56	212
Ag	9.5X22 06 BRIDG FSLM REAR R-1	Bridgestone	50	400
Ag	9.5X22 06 BKT REAR TRAC R-1 TT	BKT	50	241
Industrial	10.5/80X18 10 GDYR SG LUG R-4	Goodyear	70	398
Industrial	10.5/80X18 10 TITAN CONTR R-4	Titan Tire	71	325
Industrial	10.5/80X18 10 BKT IND LUG R-4	BKT	63	281
Industrial	12X16.5 10 GDYR HD2000 III R-4	Goodyear	79	252
Industrial	12X16.5 10 BKT JUMBO TRAX HD (X-WALL)	BKT	93	316
Industrial	31X1550X16.5 08 TITN HD2000 II	Titan	85	456
Industrial	33X1550X16.5 12 BKT POW HD R-4(X-WALL)	BKT	93	353

Note: Updated on 7 January 2014. Source: www.tires-usa.com

Earnings have some sensitivity to the INR

The company does not hedge, though raw materials provide some natural hedge

The INR depreciation can help earnings given that a large part of its production is exported (most of the company's billings are in either the USD or EUR). The company does not hedge USD exposure—it has some extent of natural hedge as rubber and other key raw material costs are USD-denominated. About 80-85% of the raw material cost is USD-denominated, which on an average was about 47% of revenue during FY10-13.

Also, BKT has USD-denominated ECBs of US$275 mn raised in two tranches of US$175 mn and US$100 mn in FY12 and payable from FY16 and FY17, respectively, in three equal tranches. The cost of interest on these loans is LIBOR + 290 bp. The company has not hedged these exposures either.

Overall, a 1% INR depreciation can help increase earnings by 1.5 to 2%.

Attractive absolute and relative valuations

Rubber prices likely to remain low

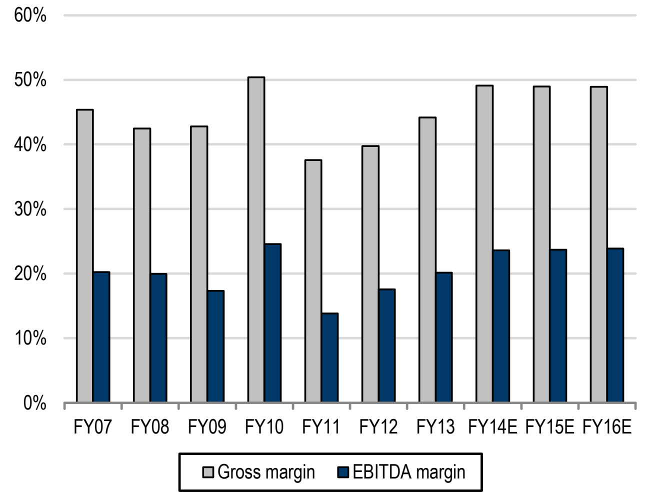
Operating margins are sensitive to raw material costs as the latter forms 70% of the total cost. Rubber is the most significant of raw materials and BKT uses a mix of natural and synthetic rubber. Natural rubber prices are at a depressed level given new supplies from key SE Asian countries from where the company imports most of its rubber. Synthetic rubber and a few of the other cost components are linked to crude prices.

Natural rubber is about 30% of total RM costs

Rubber prices have been under pressure over the past three years given a significant increase in global rubber production and a low demand environment. The decline has been reported despite restrictions on exports, procurement above market price and cutting of ageing trees by governments in Thailand, Indonesia and Malaysia, which account for 70% of the global production. Despite a slight pick-up in demand from the Chinese auto segment, we expect rubber prices to remain muted given existing supply surplus.

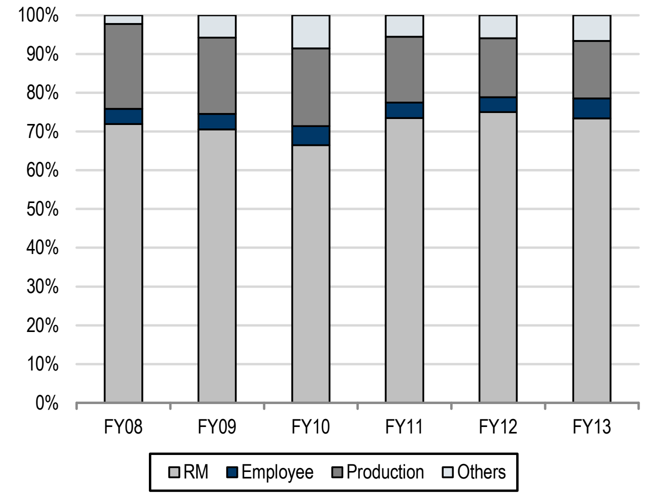
Rubber prices remain weak

Figure 38: Low rubber prices have helped margins



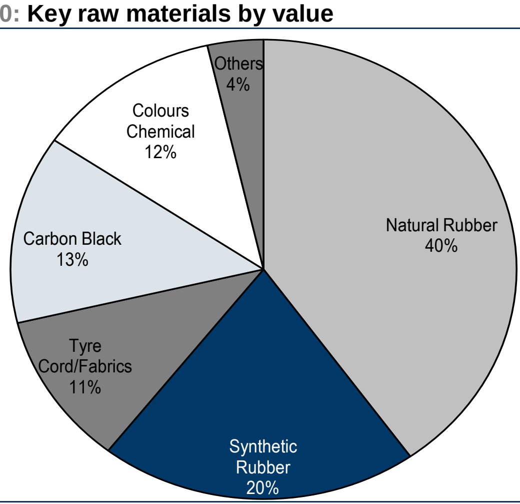
Source: Company data, Credit Suisse estimates

Figure 39: Component of costs



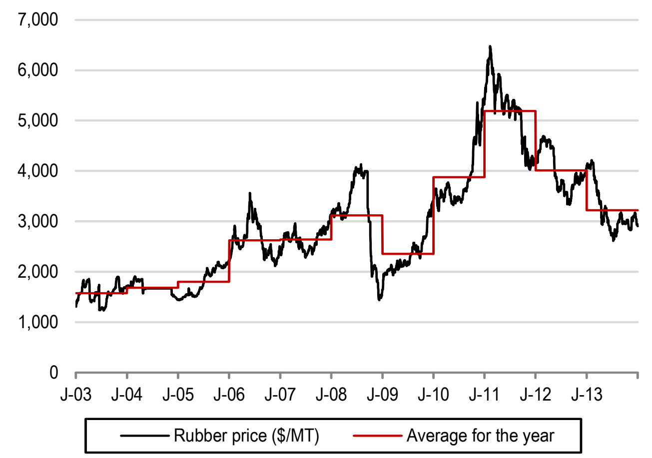
Source: Company data

Figure 40: Key raw materials by value



Note: For FY13. Source: Company data

Figure 41: Natural rubber prices have been weak



Source: Bloomberg

Some longer-term headwinds on margins can be offset by larger radial tyres

Margin pressure due to higher OEM sales will be offset by larger-sized tyres

BKT's management has guided that the proportion of OEM sales may increase from 15% of revenue (in FY13) due to the sale of larger OTR tyres. Given that OEM sales are at a slight discount to replacement market sales, it may impact EBITDA margins somewhat. However, the larger tyre sizes may offset this. The other issue with OEM sales, of course, will be the need to offer credit.

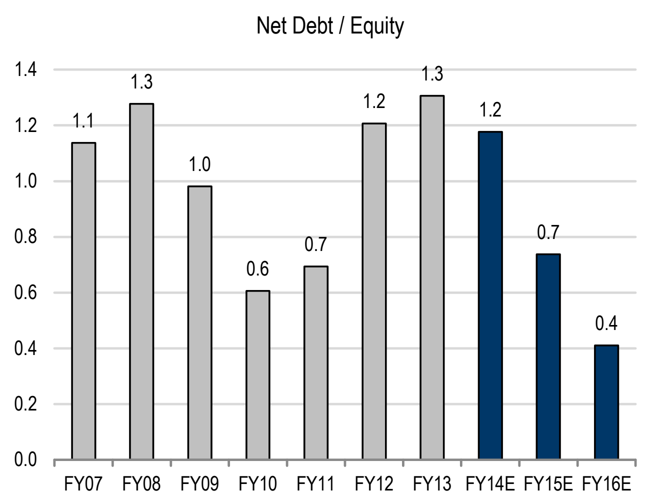
BKT also plans to increase its presence in the Indian market with both radial and bias tyres and will initially focus on the agricultural segment. In the Indian market, it would compete with the conventional tyre brands. While it may obtain a slight premium on account of its brand and its technological expertise, the cost competitiveness that BKT enjoys in the international market may not be significant compared to the local players and this may impact margins negatively.

Focus on higher-margin radial tyres and larger-sized tyres should help BKT to offset the above mentioned margin headwinds. An eventual pick-up in demand should also help pricing and hence margins.

Debt levels set to decline

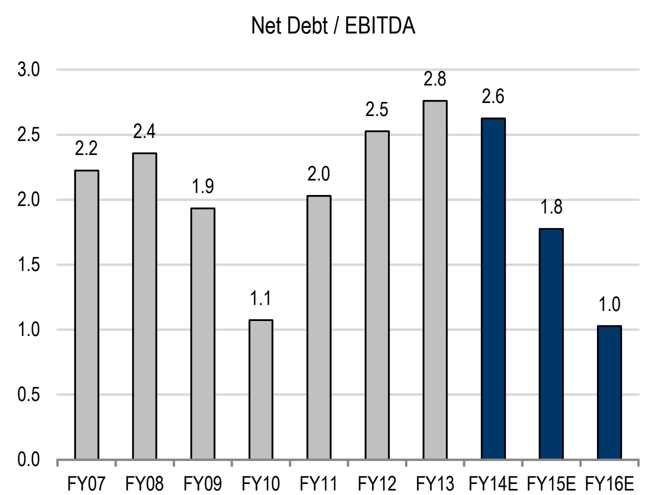
With the completion of the Bhuj expansion and a pick-up in utilisation, we expect net debt as a proportion of equity and EBITDA to decline from FY15 onwards.

Figure 42: **Net debt/equity set to decline…**



Source: Company data, Credit Suisse estimates

Figure 43: **…and so will net debt-to-EBITDA**



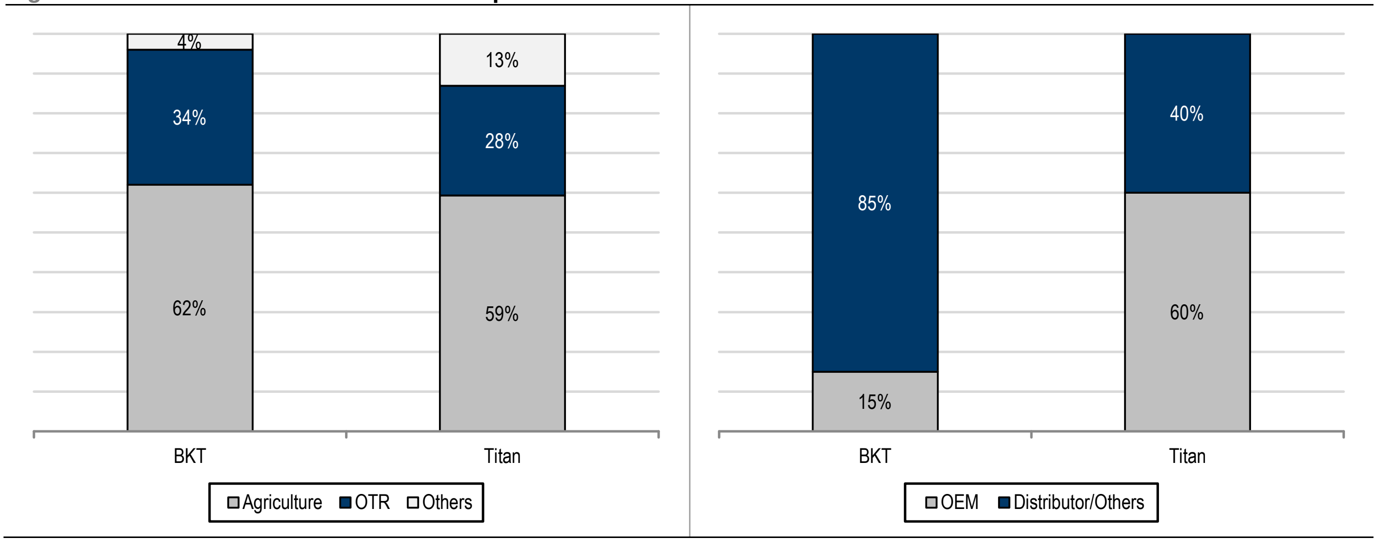
Source: Company data, Credit Suisse estimates

BKT focuses on the distributor-based model

Titan International which operates in North America and in a few countries in Latin America under both the 'Goodyear' and 'Titan' brands, focuses on OHT tyres, like BKT. Similar to BKT, the agricultural segment contributes about 60% of its revenue and OTR contributes about 30%. However, Titan focuses on OEMs and obtains 60% of revenue from them whereas only 15% of BKT's sales go to OEMs directly.

Sales to OEMs require credit to be offered and have the risk of client concentration. However, BKT does target having a larger presence among OEMs given that this is largely an untapped market for it.

Figure 44: **Titan is more OEM focused compared to BKT**

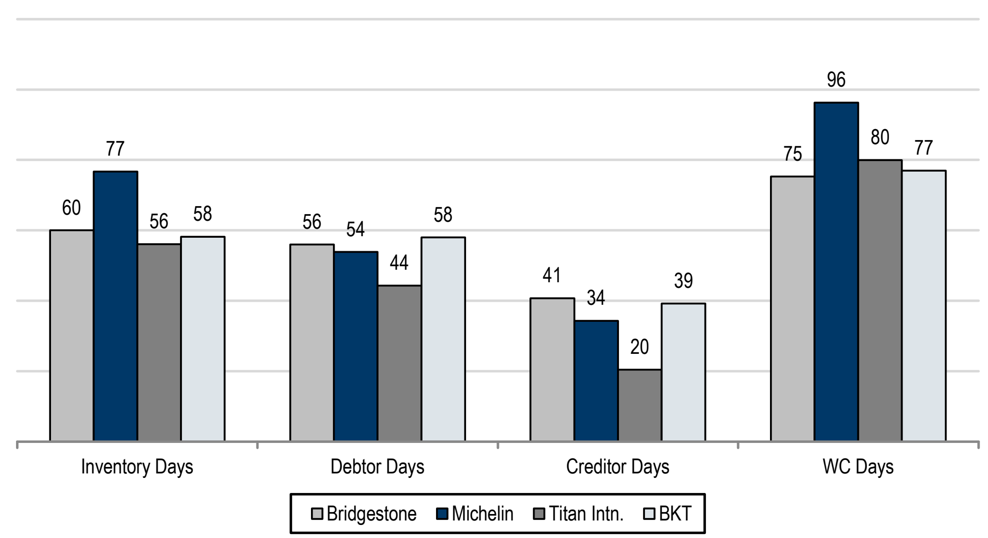


Source: Company data

Working capital in line with global peers'

BKT has a make-to-order system, where it manufactures based only on prior orders and does not maintain inventories in warehouses unlike global players. The typical lead time to manufacture is six to eight weeks and the delivery time is around two to three months. Given that BKT's prices are lower than peers', its customers and distributors plan purchases in advance. The company has to maintain receivables and inventories against sales to OEMs though.

Figure 45: **BKT working capital comparison with peers**



Source: Company data

Trades at a discount to global peers

BKT trades at a discount to global peers. Comparisons with the Indian tyre companies may not be appropriate due to BKT's niche operations and focus on export markets. BKT trades at FY15E P/E of about 7x versus the global peer average of about 11x and that for Titan International of 15x. It has a reasonable RoE of 22% and trades at FY15E P/B of 1.4x.

Our TP is based on 5x FY16E EV/EBITDA, lower than the seven-year average

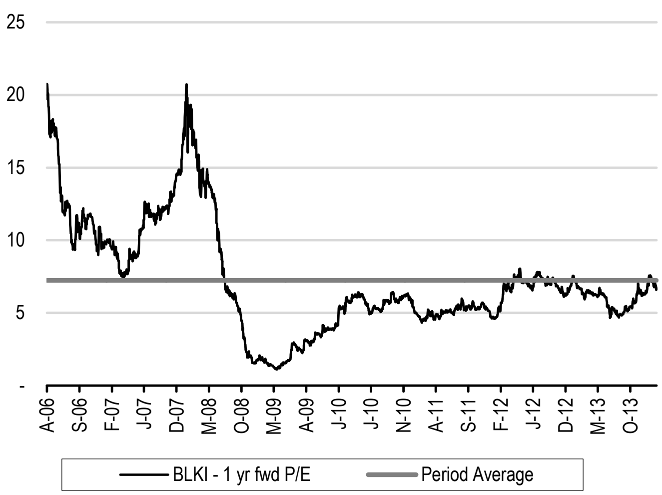
Figure 46: **BKT and peer valuation (consensus estimates)**

Company	Ticker	Year-ending	CCY	CMP (Rs)	Mkt cap (US$ mn)	EV/EBITDA (x) 2013	EV/EBITDA (x) 2014	P/E (x) 2013	P/E (x) 2014	P/B (x) 2013	P/B (x) 2014	RoE (%) 2013	RoE (%) 2014
Balkrishna Indus	BLKI.NS	Mar	INR	326	503	6.0	5.3	7.3	6.8	1.7	1.4	23.2	20.2
MRF	MRF.BO	Sep	INR	19,414	1,314	-	-	10.3	9.5	2.3	1.8	24.7	22.0
Apollo Tyres	APLO.BO	Mar	INR	113	909	3.8	3.5	7.7	7.0	1.5	1.2	19.4	17.8
Ceat	CEAT.BO	Mar	INR	298	171	-	-	4.2	3.8	1.1	0.8	27.1	23.5
Global tyre cos.													
Continental	CONG.DE	Dec	EUR	160	43,079	7.3	6.7	14.4	12.8	3.2	2.7	23.3	22.6
Bridgestone	5108.T	Dec	JPY	3,734	28,660	5.2	4.6	11.0	10.0	1.8	1.5	16.9	15.9
Michelin	MICP.PA	Dec	EUR	78	19,619	5.4	5.1	10.8	9.7	1.5	1.4	15.1	15.2
Hankook Tire	161390.KS	Dec	KRW	61,700	7,075	6.6	5.9	9.6	9.2	1.9	1.6	22.0	19.1
Goodyear Tire	GT.N	Dec	USD	24	5,842	5.1	4.8	9.4	8.5	5.2	3.5	106.1	51.0
Titan Intl	TWI.N	Dec	USD	17	898	-	6.1	17.7	14.7	-	1.3	10.8	14.2
Average						**5.9**	**5.5**	**12.2**	**10.8**	**2.7**	**2.0**	**32.4**	**23.0**

Note: 2013/14 for March ending company refers to FY14/15. Priced as of 31 January 2013. Source: IBES

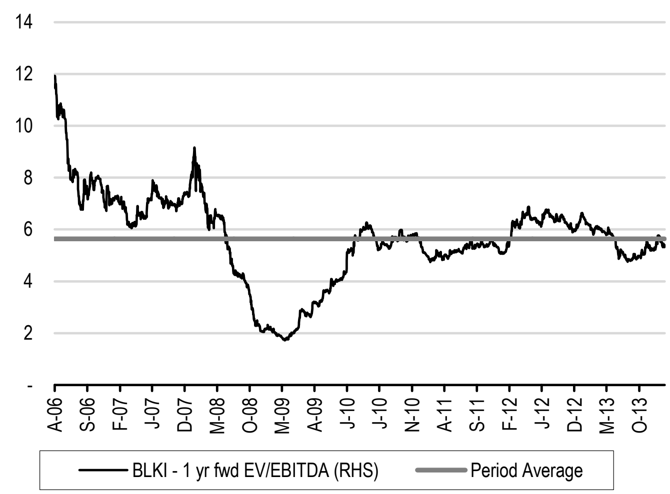
At close to its own historical valuations

Figure 47: **P/E (x)**



Source: IBES

Figure 48: **EV/EBITDA (x)**



Source: IBES and Credit Suisse Research

KKR buyout of Alliance Tire Group

In April 2013, private equity player KKR acquired a controlling stake in Alliance Tire Group (not listed) from Warburg Pincus. Alliance Tire, like BKT, specialises in off-highway tyres. The founder of Alliance Tire, Mr Yogesh Mahansaria, is a former executive director of BKT and left the firm in 2007 to acquire the Israel-based Alliance Tire along with Warburg Pincus. As per press articles (Forbes, Link), KKR's acquisition translated into an EV of over US$700 mn.

Based on various news articles, Alliance Tire has two operating plants—one at Hadera (Israel) with a 35 kT capacity and the other in India at Tirunelveli, Tamil Nadu, with a 61 kT capacity (last expanded in 2012); this is expected to rise to 90 kT in a few years (source: tirebusiness.com, Alliance Tire Group website). Additionally, the company is constructing a greenfield plant in Bharuch, Gujarat, with a 50 kT capacity. Post the expansion (due to end by 2015), total capacity will be 175 kT versus the current operational capacity of 86kT. ATG's tyres are also manufactured at dedicated contract manufacturing facilities in China and Taiwan. In comparison, BKT's operational capacity was 166 kT as at 31 March 2013 and the expected end-FY15 capacity is 280 kT. ATG reported a net revenue of US$480 mn in 2012 against BKT's FY13 revenue of US$600 mn.

Other small businesses

Tyres form about 94% of the company's revenues; the remainder is from paper and synthetic processing through its fully-owned subsidiaries, Balkrishna Paper Mills (BPML) and Balkrishna Synthetics Ltd (BSL). The company recently announced a scheme to de-merge this business and list it through another company, mirroring the ownership in BKT.

There is a small paper and synthetic processing business, which is being separated

BPML (Balkrishna Paper Mills) plant is located at Ambivili village in Maharashtra, manufacturing a variety of coated duplex boards. The company offers white backboards for various packing applications. Its products are used by various industries, such as pharmaceuticals, toiletries, cosmetics and healthcare products, readymade garments, instant food products and others.

BSL (Balkrishna Synthetics), incorporated in 2007, is based in Tarapur in Maharashtra. The company is involved in the business of synthetic processing.

As per the scheme of arrangement which was announced recently, BPML will be merged with Balkrishna Industries (BIL). Then the assets and liabilities of the merged BPML along with the BIL's investment in BSL will be entirely transferred to Nirvikara Paper Mills (NPML). For every nine shares of BIL, one share of the NPML will be issued to BIL's shareholders. As we understand, NPML is a non-operating company and post the transfer and the share issuance, NPML's shareholding would mirror that of BIL. Subsequently, NPML would be listed on the stock exchange.

Key risks

- **Prolonged slowdown in demand.** Demand for the company's tyres has slowed since 2H FY13 due to inventory destocking and a slowdown in demand from agricultural and mining/construction sectors. While an improvement in demand may be around the corner, as we have argued in this report, the timing is uncertain. Prolonged weakness in demand can hurt the stock.

- **Failure of new products.** An important element of the growth story for the company is the launch of new larger tyres targeted at the mining/construction segment. This is a segment where the company has little presence. Its new capacity will also be used for this. The poor acceptance of new products will result in a lack of growth while the expenses of the new facility will be a drag, in our view.

Annexure

Company history

The firm was initially under the management of the Siyaram-Poddar Group—other group companies were Siyaram Silk and Govind Rubber. However, post a business split, Mr Arvind Poddar now controls BKT.

The company commenced operations in late 1988 manufacturing scooter tyres at a plant in Aurangabad (Maharashtra). Later, it entered the CV tyre market. It moved to off-highway tyre manufacturing in 1995.

Shareholding

As at 31 December 2013, the founders own 58.3%, with FIIs and DIIs holding 10.1% and 18.2%, respectively.

Board of directors

Figure 49: **Board of directors**

Name	Designation	Others
Arvind Poddar	Chairman & Managing	Part of the founding family
Rameshkumar Poddar	Non-Executive & Non-Independent	Part of the founding family
Sachin Nath Chaturvedi	Non-Executive & Independent	Also director in Jai Corp, Jai Realty Venture, N R Agarwal Industries
Khurshed Doongaji	Non-Executive & Independent	He has worked with ICICI bank—currently also director of Jai Corp
Sanjay Asher	Non-Executive & Independent	
Subhash Chandra Mantri	Non-Executive & Independent	Chartered Accountant
Ashok Saraf	Non-Executive & Independent	Diploma in Business Management—part of Saraf Chemicals
Laxmidas Merchant	Non-Executive & Independent	Chartered Accountant—part of Reliance Industries
Vijaylaxmi A Poddar	Executive	Part of the founding family
Rajiv Poddar	Executive	Part of the founding family
Vipul Shah	Executive	Company Secretary

Source: Company data, Credit Suisse estimates

Financial summary

Figure 50: **Balkrishna—Consolidated financial summary**

Year-end 31 March (Rs mn)	FY08A	FY09A	FY10A	FY11A	FY12A	FY13A	FY14E	FY15E	FY16E
Income statement									
Revenue	**11,337**	**13,999**	**15,637**	**21,322**	**30,166**	**33,939**	**35,265**	**40,294**	**46,853**
% Revenue growth	*29%*	*23%*	*12%*	*36%*	*41%*	*13%*	*4%*	*14%*	*16%*
EBITDA	**2,261**	**2,427**	**3,845**	**2,945**	**5,299**	**6,833**	**8,330**	**9,552**	**11,197**
EBITDA margin (%)	*19.9%*	*17.3%*	*24.6%*	*13.8%*	*17.6%*	*20.1%*	*23.6%*	*23.7%*	*23.9%*
% EBITDA growth	*27%*	*7%*	*58%*	*-23%*	*80%*	*29%*	*22%*	*15%*	*17%*
EBIT	**1,806**	**1,841**	**3,159**	**2,172**	**4,436**	**5,711**	**6,731**	**7,411**	**8,506**
Net interest	224	312	77	103	252	229	221	452	505
Exceptional +/(-)	151	-379	184	812	-180	-145			
Profit before tax	**1,733**	**1,150**	**3,266**	**2,881**	**4,004**	**5,338**	**6,510**	**6,959**	**8,001**
Taxes	605	403	1,076	936	1,315	1,839	2,191	2,311	2,658
% tax rate	*35%*	*35%*	*33%*	*32%*	*33%*	*34%*	*34%*	*33%*	*33%*
Net profit	**1,128**	**747**	**2,190**	**1,945**	**2,689**	**3,499**	**4,318**	**4,647**	**5,343**
Profit margin (%)	*10.0%*	*5.3%*	*14.0%*	*9.1%*	*8.9%*	*10.3%*	*12.2%*	*11.5%*	*11.4%*
Adjusted EPS (Rs/sh)	**11.7**	**7.7**	**22.7**	**20.1**	**27.8**	**36.2**	**44.7**	**48.1**	**55.3**
Cash flow statement									
Profit before tax	1,733	1,150	3,266	2,881	4,004	5,338	6,510	6,959	8,001
Add depreciation	-156	587	547	676	802	1,124	1,599	2,141	2,691
Others adjustments	-573	-371	-1,162	-1,021	-1,291	-1,484	-2,051	-2,212	-2,557
Change in working capital	-995	558	-804	-3,015	-4,281	802	-243	-558	-1,274
Cash flow from operation (A)	**10**	**1,924**	**1,847**	**-479**	**-765**	**5,780**	**5,815**	**6,329**	**6,862**
Change in fixed assets	-917	-1,217	-1,242	-1,336	-6,488	-11,105	-8,758	-1,319	-1,278
Change in other assets	-2	0	0	-2		-7	-8		
Cash flow from invest (B)	**-919**	**-1,217**	**-1,242**	**-1,338**	**-6,488**	**-11,112**	**-8,766**	**-1,319**	**-1,278**
Equity + dividend	-237	-136	-158	-159	-169	-170	-169	-225	-282
Debt	1,444	-626	-49	1,438	10,877	4,548	4,000	-4,125	-4,125
Others	-140	69	116	126	7	45	98	125	157
Cash flow from financing (C)	**1,066**	**-693**	**-90**	**1,404**	**10,716**	**4,423**	**3,929**	**-4,226**	**-4,250**
Net change in cash (A+B+C)	**157**	**14**	**514**	**-413**	**3,463**	**-909**	**978**	**784**	**1,334**
FCFF	**-856**	**778**	**721**	**-1,705**	**-7,213**	**-5,287**	**-2,853**	**5,134**	**5,741**
Balance sheet									
Net worth	**4,173**	**4,781**	**6,814**	**8,614**	**11,101**	**14,430**	**18,579**	**23,001**	**28,063**
Long-term debt	5,452	4,826	4,777	6,215	17,092	21,640	25,640	21,515	17,390
Other long-term liabilities	442	546	576	603	667	1,060	1,298	1,522	1,780
Source of funds	**10,067**	**10,153**	**12,167**	**15,431**	**28,860**	**37,130**	**45,517**	**46,038**	**47,232**
Fixed assets	5,826	6,456	7,151	7,811	13,497	23,478	30,637	29,815	28,402
Long-term investments	23	23	23	25	25	32	32	32	32
Net current assets	**4,218**	**3,674**	**4,992**	**7,595**	**15,338**	**13,620**	**14,848**	**16,191**	**18,799**
Cash & equivalents	119	134	648	236	3,699	2,782	3,768	4,552	5,886
Application of funds	**10,067**	**10,153**	**12,167**	**15,431**	**28,860**	**37,130**	**45,517**	**46,038**	**47,232**
Return ratio									
Adjusted BVPS	43	49	70	89	115	149	192	238	290
RoCE	14%	10%	21%	15%	13%	11%	11%	11%	13%
RoE	30%	17%	38%	25%	27%	27%	26%	22%	21%
Operational									
Sales (kT)	72	81	85	112	133	138	139	155	176
% growth	*28%*	*12%*	*4%*	*32%*	*19%*	*4%*	*0%*	*12%*	*14%*
Realisation (Rs/kg)	138	155	164	173	212	231	240	247	254
% growth	*-11%*	*12%*	*6%*	*6%*	*22%*	*9%*	*4%*	*3%*	*3%*

Source: Company data, Credit Suisse estimates

Companies Mentioned *(Price as of 03-Feb-2014)*

Apollo Tyres (APLO.BO, Rs113.1)
Balkrishna Industries (BLKI.BO, Rs326.0, OUTPERFORM, TP Rs450.0)
Bridgestone (5108.T, ¥3,734)
Caterpillar Inc. (CAT.N, $93.91)
Ceat Ltd (CEAT.BO, Rs298.3)
Continental (CONG.DE, €159.75)
Deere & Co. (DE.N, $85.96)
Firestone Diamon (FDI.L, 3.875p)
Goodyear Tire (GT.OQ, $23.66)
Hankook Tire (161390.KS, W61,700)
KKR and Co LP (KKR.N, $24.11)
MRF (MRF.BO, Rs19413.75)
Michelin (MICP.PA, €78.32)
Titan Intl (TWI.N, $16.76)
Volvo (VOLVY.PK, $13.2)

Disclosure Appendix

Important Global Disclosures

I, Anantha Narayan, certify that (1) the views expressed in this report accurately reflect my personal views about all of the subject companies and securities and (2) no part of my compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report.

The analyst(s) responsible for preparing this research report received Compensation that is based upon various factors including Credit Suisse's total revenues, a portion of which are generated by Credit Suisse's investment banking activities

As of December 10, 2012 Analysts' stock rating are defined as follows:

Outperform (O) : The stock's total return is expected to outperform the relevant benchmark*over the next 12 months.

Neutral (N) : The stock's total return is expected to be in line with the relevant benchmark* over the next 12 months.

Underperform (U) : The stock's total return is expected to underperform the relevant benchmark* over the next 12 months.

**Relevant benchmark by region: As of 10th December 2012, Japanese ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. As of 2nd October 2012, U.S. and Canadian as well as European ratings are based on a stock's total return relative to the analyst's coverage universe which consists of all companies covered by the analyst within the relevant sector, with Outperforms representing the most attractive, Neutrals the less attractive, and Underperforms the least attractive investment opportunities. For Latin American and non-Japan Asia stocks, ratings are based on a stock's total return relative to the average total return of the relevant country or regional benchmark; Australia, New Zealand are, and prior to 2nd October 2012 U.S. and Canadian ratings were based on (1) a stock's absolute total return potential to its current share price and (2) the relative attractiveness of a stock's total return potential within an analyst's coverage universe. For Australian and New Zealand stocks, 12-month rolling yield is incorporated in the absolute total return calculation and a 15% and a 7.5% threshold replace the 10-15% level in the Outperform and Underperform stock rating definitions, respectively. The 15% and 7.5% thresholds replace the +10-15% and -10-15% levels in the Neutral stock rating definition, respectively. Prior to 10th December 2012, Japanese ratings were based on a stock's total return relative to the average total return of the relevant country or regional benchmark.*

Restricted (R) : In certain circumstances, Credit Suisse policy and/or applicable law and regulations preclude certain types of communications, including an investment recommendation, during the course of Credit Suisse's engagement in an investment banking transaction and in certain other circumstances.

Volatility Indicator [V] : A stock is defined as volatile if the stock price has moved up or down by 20% or more in a month in at least 8 of the past 24 months or the analyst expects significant volatility going forward.

Analysts' sector weightings are distinct from analysts' stock ratings and are based on the analyst's expectations for the fundamentals and/or valuation of the sector* relative to the group's historic fundamentals and/or valuation:

Overweight : The analyst's expectation for the sector's fundamentals and/or valuation is favorable over the next 12 months.

Market Weight : The analyst's expectation for the sector's fundamentals and/or valuation is neutral over the next 12 months.

Underweight : The analyst's expectation for the sector's fundamentals and/or valuation is cautious over the next 12 months.

**An analyst's coverage sector consists of all companies covered by the analyst within the relevant sector. An analyst may cover multiple sectors.*

Credit Suisse's distribution of stock ratings (and banking clients) is:

Global Ratings Distribution

Rating	Versus universe (%)	Of which banking clients (%)
Outperform/Buy*	42%	(54% banking clients)
Neutral/Hold*	41%	(48% banking clients)
Underperform/Sell*	14%	(43% banking clients)
Restricted	2%	

**For purposes of the NYSE and NASD ratings distribution disclosure requirements, our stock ratings of Outperform, Neutral, and Underperform most closely correspond to Buy, Hold, and Sell, respectively; however, the meanings are not the same, as our stock ratings are determined on a relative basis. (Please refer to definitions above.) An investor's decision to buy or sell a security should be based on investment objectives, current holdings, and other individual factors.*

Credit Suisse's policy is to update research reports as it deems appropriate, based on developments with the subject company, the sector or the market that may have a material impact on the research views or opinions stated herein.

Credit Suisse's policy is only to publish investment research that is impartial, independent, clear, fair and not misleading. For more detail please refer to Credit Suisse's Policies for Managing Conflicts of Interest in connection with Investment Research: http://www.csfb.com/research and analytics/disclaimer/managing_conflicts_disclaimer.html

Credit Suisse does not provide any tax advice. Any statement herein regarding any US federal tax is not intended or written to be used, and cannot be used, by any taxpayer for the purposes of avoiding any penalties.

Price Target: (12 months) for Balkrishna Industries (BLKI.BO)

Method: For our Rs450 target price, we value the stock at 12-month forward EV/EBITDA multiple of 5x which is at slight discount to its 7-year average multiple (and well below its pre-2009 levels).

Risk: Risk for our TP of Rs450: (1) any signficant increase in rubber prices and (2) continued demand slowdown

Please refer to the firm's disclosure website at https://rave.credit-suisse.com/disclosures for the definitions of abbreviations typically used in the target price method and risk sections.

See the Companies Mentioned section for full company names

The subject company (DE.N, CAT.N, APLO.BO, KKR.N) currently is, or was during the 12-month period preceding the date of distribution of this report, a client of Credit Suisse.

Credit Suisse provided investment banking services to the subject company (DE.N, KKR.N) within the past 12 months.

Credit Suisse provided non-investment banking services to the subject company (DE.N) within the past 12 months

Credit Suisse has managed or co-managed a public offering of securities for the subject company (DE.N, KKR.N) within the past 12 months.

Credit Suisse has received investment banking related compensation from the subject company (DE.N, KKR.N) within the past 12 months

Credit Suisse expects to receive or intends to seek investment banking related compensation from the subject company (DE.N, CAT.N, APLO.BO, 5108.T, KKR.N) within the next 3 months.

Credit Suisse has received compensation for products and services other than investment banking services from the subject company (DE.N) within the past 12 months

As of the date of this report, Credit Suisse makes a market in the following subject companies (DE.N, CAT.N, KKR.N).

As of the end of the preceding month, Credit Suisse beneficially own 1% or more of a class of common equity securities of (BLKI.BO, KKR.N).

Important Regional Disclosures

Singapore recipients should contact Credit Suisse AG, Singapore Branch for any matters arising from this research report.

The analyst(s) involved in the preparation of this report have not visited the material operations of the subject company (BLKI.BO, DE.N, CAT.N, 161390.KS, APLO.BO, KKR.N) within the past 12 months

Restrictions on certain Canadian securities are indicated by the following abbreviations: NVS--Non-Voting shares; RVS--Restricted Voting Shares; SVS--Subordinate Voting Shares.

Individuals receiving this report from a Canadian investment dealer that is not affiliated with Credit Suisse should be advised that this report may not contain regulatory disclosures the non-affiliated Canadian investment dealer would be required to make if this were its own report.

For Credit Suisse Securities (Canada), Inc.'s policies and procedures regarding the dissemination of equity research, please visit http://www.csfb.com/legal_terms/canada_research_policy.shtml.

Credit Suisse has acted as lead manager or syndicate member in a public offering of securities for the subject company (DE.N, KKR.N) within the past 3 years.

As of the date of this report, Credit Suisse acts as a market maker or liquidity provider in the equities securities that are the subject of this report.

Principal is not guaranteed in the case of equities because equity prices are variable.

Commission is the commission rate or the amount agreed with a customer when setting up an account or at any time after that.

To the extent this is a report authored in whole or in part by a non-U.S. analyst and is made available in the U.S., the following are important disclosures regarding any non-U.S. analyst contributors: The non-U.S. research analysts listed below (if any) are not registered/qualified as research analysts with FINRA. The non-U.S. research analysts listed below may not be associated persons of CSSU and therefore may not be subject to the NASD Rule 2711 and NYSE Rule 472 restrictions on communications with a subject company, public appearances and trading securities held by a research analyst account.

Credit Suisse Securities (India) Private Limited...Anantha Narayan ; Vikash Patwari

For Credit Suisse disclosure information on other companies mentioned in this report, please visit the website at https://rave.credit-suisse.com/disclosures or call +1 (877) 291-2683.