Balkrishna Industries

ON A ROLL ON THE BACK OF IMPROVEMENT IN DEMAND

HERE IS WHY

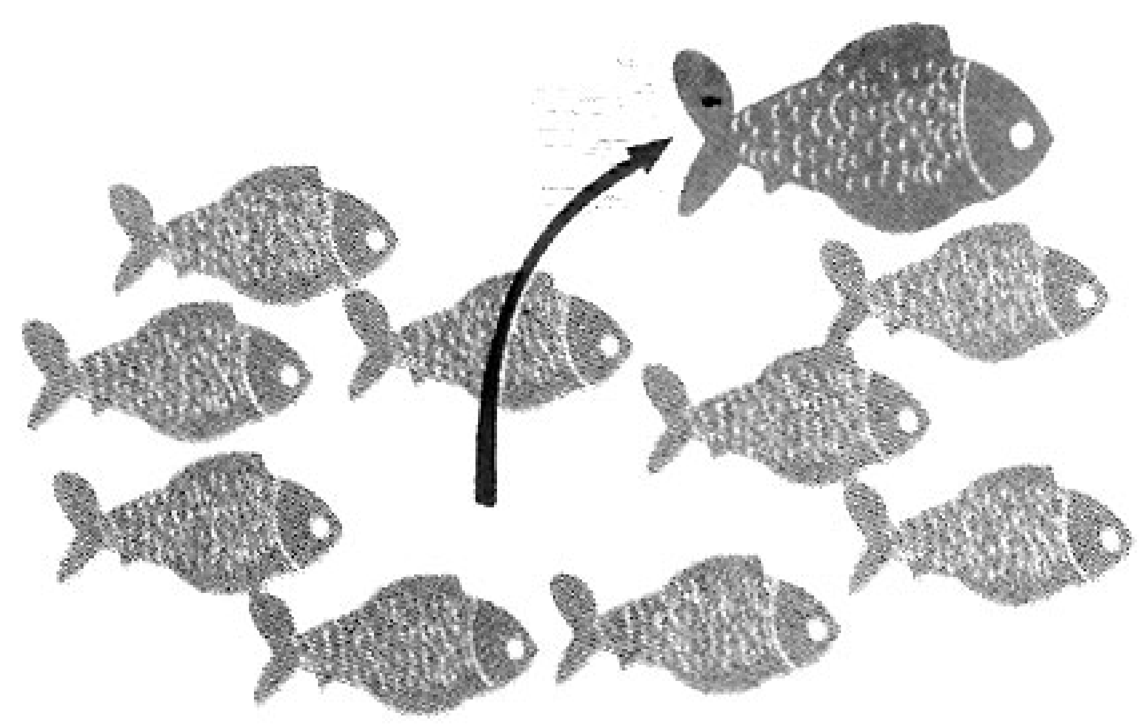
Demand improvement across geographies and segments

Robust R&D capability

To set up a 60,000-tonne capacity carbon black plant

Balkrishna Industries (BKI) operates mainly in the business segment of tyres. BKI is India's leading player in the global 'Off Highway Tyre (OHT)' market, which includes agricultural, industry, material handling, forestry, lawn and garden, construction and earth moving tyres. The company caters to demand in over 130 countries through distribution network in Americas, Europe and the rest of the world.

The management has indicated demand improvement across geographies and segments, especially in the US, since the growth forecast in the US has been revised upwards on the back of tax cuts and stronger than expected activity in 2017. The company's manufacturing base comprises plants at Aurangabad, Bhiwadi, Chopanki and Bhuj. The company is investing ₹1.5 billion to set up 60,000 MT p.a. carbon black plant (at its Bhuj plant) to improve supply chain in terms of quality and timing. The company plans to commence operations by the end of FY19. BKI recently inaugurated its R&D centre that will allow the company to work closely with OEMs with deeper penetration, thus increasing its market share. The continued demand for tyres for farming equipment in Europe is expected to lend more credence to volume visibility at BKI as it derives nearly 63 per cent of its sales from farm equipment machinery. The company's sales volume for the quarter was 49,553 metric tonnes, growing 23 per cent YoY, its highest in at least 18 quarters. This was on the back of 35 per cent rise in business from farm equipment manufacturers in Europe and 17 per cent growth in Off-the-Road (OTR) tyres in the mining sector. The company has guided for volume growth of 11-13 per cent to 190,000-195,000 tonnes for the current fiscal, which looks achievable given the traction in demand for OHT tyres.



CHOICE SCRIP

1 YEAR INVESTMENT HORIZON

Best of LAST ONE Year				
Name of Company	Reco Price (₹)	Exit/CMP Price (₹)	Absolute Gains (%)	Annual Returns (%)
Bajaj Holdings	2064.05	2546	23.35	137.80
Aarti Industries	778.7	931.05	19.56	108.33
Tata Sponge Iron	815.25	1124.45	37.93	103.45
Tata Metaliks	667.8	826.2	23.72	89.89
Symphony	1429.8	1672	16.94	64.19

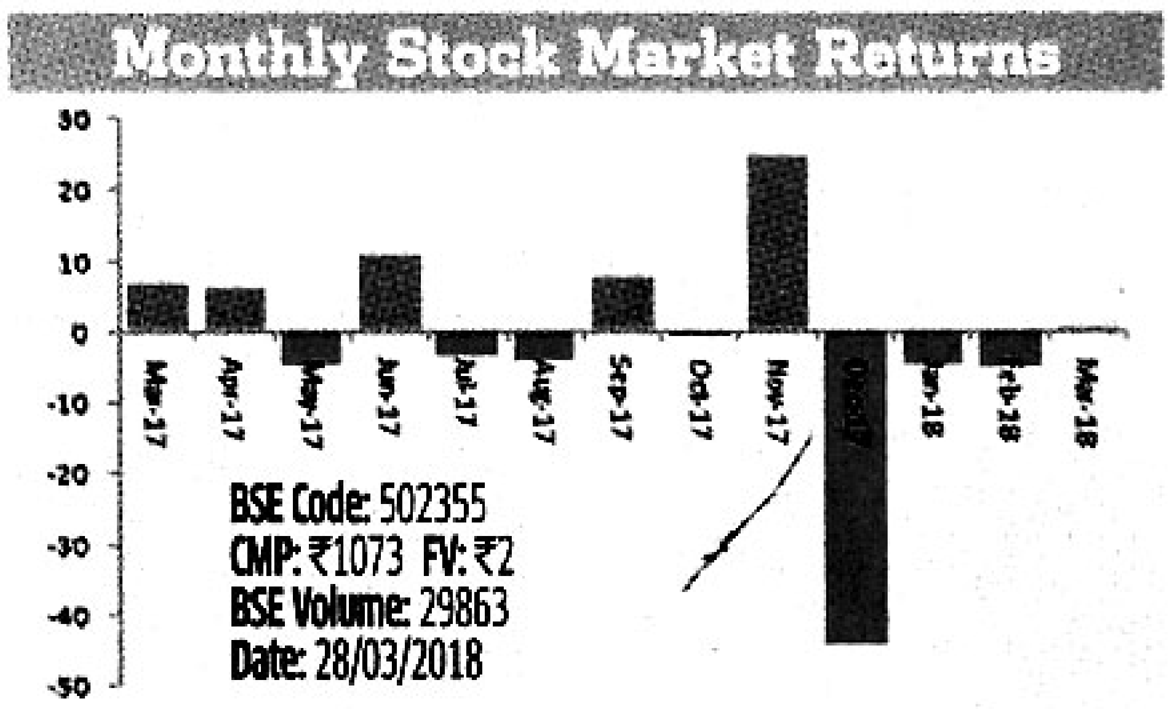
The buoyancy in demand can be gauged from revenue growth of other leading global OHT companies like Michelin, Trelleborg and Titan International, which have been witnessing decent improvement in revenue growth.

BKI is gradually increasing its presence in the OTR segment. In order to tap mining segment, it has launched mining tyres larger than 39-inch using its own R&D. The product has been well-accepted in both the OEM and replacement markets.

BKI's standalone revenue for the quarter stood at ₹1161 crore, showing a growth of 26 per cent YoY. The standalone EBITDA for the quarter was at ₹352 crore, showing a growth of 14 per cent YoY. The operating margins in December 2017 dropped to 30.3 per cent from 33.4 per cent a year ago due to one-off expenditure on shifting of plant and machinery to Bhuj plant from Waluj. The company's profit after tax for the quarter stood at ₹189.50 crore, an increase of 2.25 per cent YoY.

On the valuation front, the company has a PE ratio of 31.54x. The company's return on equity (RoE) and return on capital employed (RoCE) stood at 22.35 per cent and 24.70 per cent, respectively. Its debt-to-equity ratio stands at 0.38x. We recommend a **BUY** on the stock.

Monthly Stock Market Returns



Shareholding Pattern December 2017	
Promoters	58.30
Public	41.70
Others	0
Total	100

Last Five Quarters - Standalone (₹/Cr)					
Particulars	Dec '17	Sep '17	Jun '17	Mar '17	Dec '16
Total Income	1106.31	1114.45	1012.77	1002.94	896.43
Other Income	77.74	82.50	92.27	61.72	63.16
Operating Profit	367.73	387.40	308.48	317.09	341.13
Interest	1.89	2.60	5.14	5.27	4.90
Net Profit	189.50	202.98	153.14	137.47	185.69
Equity	38.66	19.33	19.33	19.33	19.33

Phillips Carbon Black

CMP : ₹1094

BSE CODE : 506590

Face Value : ₹10

BSE Volume : 56,976

Phillips Carbon Black (PCBL) is the largest manufacturer of carbon black with a market share of about 40 per cent. Carbon black is used as a reinforcement material in manufacturing tyres.

The company also provides a complete portfolio of products to meet the specific end requirements across rubber, plastics, coatings, inks and other niche industries globally.

The company has an installed capacity of 4,80,000 tonnes across its four plants at Durgapur, Kochi, Mundra and Palej. The rise in coking coal price globally and the consequent rise in coal tar price is expected to limit the production from China. This augurs well for the company.

PCBL's revenue for Q3FY18 stood at ₹612.4 crore, an increase of 26.2 per cent YoY The operating profits for Q3FY18 came in at ₹96.95 crore, a rise of 49.8 per cent YoY. The EBITDA margin expanded by 249 bps YoY to 15.8 per cent in Q3FY18. The net profit after tax for the quarter stood at ₹56.59 crore, rising 280.3 per cent YoY.

The company is trading at a price-to-earnings ratio of 19.65x as against its peer Oriental Carbon & Chemicals (20.73x). The company has been maintaining a healthy dividend payout of 33.05 per cent. The company has reduced debt and has a debt-to-equity ratio of 0.67x.

PCBL has also de-risked its business model from the fluctuations of crude prices, protecting itself from fluctuating profitability as witnessed in the past and adding strength to its business profile and ensuring robust profitability trend to continue, going forward.

We recommend a **BUY** on the stock at the current level.

Last Five Quarters (₹/Cr)

	Sept-17	June-17	Mar-17	Dec-16	Sept-16
Total Income	612.40	597.58	637.32	613.33	538.60
Other Income	3.55	3.62	1.54	0.00	2.02
Operating Profit	100.50	98.24	94.06	92.32	66.76
Interest	6.80	11.60	12.81	13.98	11.55
Net Profit	56.59	50.78	48.16	28.14	14.88
Equity	34.47	34.47	34.47	34.47	34.47

FINANCIAL EXPRESS N. D 03/04/18

Cup lump rubber imports could lead to diseases: Expert

M SARITA VARMA
Thiruvananthapuram, April 2

IMPORTS OF CUP lump rubber to India could end up as imports of microbes triggering devastating diseases that India is so far unacquainted to, said microbiology expert Jacob Mathew. A former director of Rubber Board of India and effluent treatment consultant, Mathew makes this warning even as the Union commerce ministry is gearing up this week to create a facilitation mechanism to ease the import of cup lump rubber for industrial consumers.

"Allowing the cup lump rubber imports would not only be deadly for rubber and several other crops, it could be fatal to human beings too," Jacob Mathew told *FE*. "From immense field-level experiences in the cup lump rubber exporting African countries, I am familiar with the phyto-sanitary conditions in the transit of this material that makes any move to formulate BIS standards for cup lump unscientific. It is a material with variations, heterogeneities and contaminates." For instance, the cup lump rubber is too often breeding ground for the calcium-eating larvae of African Giant Snail or the organism that caused South American Leaf Blight that wiped out the rubber cultivation in Brazil or the fungus causing White Root Disease that was the nemesis to several crops in Sri Lanka, he added.