Balkrishna Industries Limited (Revised)

July 6, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-Convertible Debentures	500.00	CARE AA; Positive (Double A; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Total Long Term Instruments	**500.00 (₹ Five Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the non-convertible debenture issue of Balkrishna Industries Limited (BIL) factors in the established market position in the Global 'Off Highway Tyre' (OHT) market, being the largest Indian company to export OHT tyres, diversified product portfolio, sales to both original equipment manufacturers (OEMs) and replacement market and geographically diversified catering to over 160 countries. The rating also factors in the extensive track record of the promoters of operating in the OHT segment, robust financial risk profile characterised by strong debt coverage indicators, strong operating margins aided by backward integration and strong liquidity position.

The company reported strong revenue growth in FY22 (refers to the period April 1 to March 31) aided by 27% volume growth and balance through increase in realisations. Although the operating margin deteriorated due to commodity inflation, it continued to be strong at 26.40% in FY22 (PY: 31.82%). The rating also factors in the robust debt coverage indicators of the company with strong interest cover and overall gearing at 0.36x as on March 31, 2022 (PY: 0.17x), albeit it was slightly higher due to higher working capital debt. The debt coverage indicators are likely to remain strong going forward despite a capex of around ₹1,100-₹1,200 crore planned over FY23 which will be funded through internal accruals and debt.

The rating strengths are constrained by competitive intensity in the global OHT market, exposure to currency risk, exposure to volatility in the raw material prices and susceptibility to changes in government regulations of importing countries. The company also remains exposed to the project risk; although this risk is mitigated to an extent due to successful completion of capex programmes in the past. The company also remains exposed to the vagaries of economic downturns.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in the total net debt/PBILDT to 0.30x on a sustained basis.
- Volume growth of atleast 15% on a sustained basis along with healthy PBILDT margin of 26%-28% on a sustained basis.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Delay in implementation of capex programme within the specified timelines.
- Deterioration in the total net debt/PBILDT to 1.25x on a sustained basis.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Outlook: Positive

The revision in the outlook from Stable to Positive factors in the volume growth reported by the company in FY22, which is expected to continue going forward as well due to strong demand in the OHT market, especially from Europe and America due to surge in mining/farming activities. The company has been undertaking capacity expansion in line with the growth in demand and has a strong order book position. Despite commodity inflation, the company continued to have robust operating margin, which is expected to be sustained in the future as well. The continued growth momentum along with healthy operating margin is expected to result in further improvement of business risk profile of the company.

Detailed description of the key rating drivers

Key rating strengths

Diversified revenue profile and geographical presence: The company has diversified revenue profile and caters to agricultural as well as industrial segments (which includes tyres for mining and construction activities, etc). In FY22, nearly 66% of the revenue was derived from the agricultural segment (PY: 64%) and 31% of the revenue was derived from the other OTR segment (PY: 32%). The company has presence in both the original equipment manufacturer (OEM) and replacement segments. The replacement segment generally offers higher margins. In FY22, nearly 69% (PY:70%) of the revenue was derived from the replacement segment. The company also has well-diversified geographical presence with over 50% of the revenue coming from Europe. The company caters to over 160 countries worldwide with over 3,200 Stock Keeping Units (SKUs). The diversification across categories and geographical areas insulates the company to an extent from the vagaries of economic cycles and political scenario.

Improvement in the TOI and strong operating margins aided by backward integration of carbon black: In FY22, the company reported improvement in the total operating income (TOI) by 47% aided by 27% volume growth over FY21 and balance through price hikes taken in response to commodity inflation. Currently, the company continues to enjoy around 5.5% market share in the global specialty market, which is expected to increase over the next four to five years through capacity expansion and more penetration in global markets.

The company has robust operating margins due to the backward integration of carbon black. Backward integration of carbon black not only helps in reducing the input cost but also transportation cost. In FY22, although the margin deteriorated due to commodity inflation, high power and freight costs; it continued to be strong at 26.40%.

Comfortable capital structure and debt coverage indicators: The capital structure of the company is comfortable with robust debt coverage indicators as evinced by overall gearing of 0.36x at the end of FY21 (PY: 0.17x). The increase in overall gearing was mainly due to the increase in working capital debt. The capex requirements of the company are generally met through internal accruals without much reliance on external debt. Thus, the debt coverage indicators are expected to remain strong going forward as well despite upcoming capex. The interest cover indicator was also comfortable at over 241x in FY22. (PY: 157x).

Key rating weaknesses

Susceptibility to volatility in the raw material prices and currency risk:

The principal raw materials for BIL are natural rubber and synthetic rubber, carbon black and other chemicals. The prices of raw material account for around 65% of its aggregate production costs. The rubber prices and prices of other raw materials have continued to be at an elevated level since Q4FY21. Although price increases are taken from time to time, the operating margins continue to remain susceptible to the variation in raw material prices. BIL has backward integration for its carbon black, and nearly 80%-85% of its carbon black requirements are met through in-house production.

Furthermore, as most of the raw materials and capital equipment are imported, the company is exposed to the foreign currency risk; albeit, it enjoys natural hedge as most of its revenues are also in foreign currency.

Exposure to project risk: In FY21, the company had announced capex of ₹1,900 crore over FY22 and FY23 towards capacity expansion at Bhuj and expansion in the carbon black capacity. Furthermore, it would also be undertaking modernisation, automation and technology upgradation at the existing facilities, which is expected to increase the efficiency and productivity of existing facilities. In FY22, around ₹1,000 crore of planned capex was concluded, and the balance is expected to be concluded by FY23. The company has adequate internal accruals to fund the capex; however, it continues to remain exposed to the project risk.

Exposed to government regulations of importing countries: The US Department of Commerce had imposed counter-vailing duties on some of the Indian tyre manufacturers who exported OHT to the US in March 2017. For BIL, the rate of duty is 5.36%, which is unlikely to have material impact on the overall revenue, as the company has well-diversified geographical presence with less revenue exposure to North America. Furthermore, India being a low-cost manufacturing hub, the exported tyres continue to be cost-effective. Nevertheless, BIL continues to remain exposed to the impact of government regulations of importing countries.

Liquidity: Strong

The liquidity position of the company is strong as evinced by cash and cash equivalents of ₹730.44 crore as on March 31, 2022. The non-current investments stood at ₹792.00 crore as on March 31, 2022. The company is expected to earn cash accruals of over ₹2,100 crore in FY23. As against the same, the company has negligible repayment obligations in FY23. The repayments for non-convertible debentures (NCDs) would commence from FY25 onwards.

Analytical approach: Consolidated

CARE has considered consolidated financials of BIL and its subsidiaries as the subsidiaries are in the same line of business and have operational synergies. The list of subsidiaries consolidated is presented in Annexure 6 below.

Applicable criteria

Criteria on Assigning 'Outlook' or Credit Watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation
Rating Methodology - Manufacturing Companies
Financial ratios - Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Auto Ancillary Companies

About the company

Incorporated in 1961, Balkrishna Industries Limited (BIL), is engaged in the manufacturing of Specialty Tyres, known as 'Off Highway Tyres' (OHT) which caters to Agriculture, Industrial, Construction, Earthmoving, Mining, Port, Lawn & Garden and All-Terrain Vehicle (ATVs) Tyres with over 3,200 SKUs as on March 31, 2022.

The company primarily caters to over 160 counties in the exports markets of Europe, America, Australasia. The company has five tyre manufacturing plants in India at Waluj (Maharashtra), Bhiwadi, (Rajasthan), Chopanki, (Rajasthan) and Bhuj, (Gujarat) and a carbon black manufacturing facility at Bhuj, (Gujarat), and a mould plant in Dombivli, (Maharashtra). Post brown field Capex, the achievable capacity of tire plants will stand 360,000 MTPA. Furthermore, the company also has backward integration for its carbon black requirements; additionally, it is also sold in the market.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)
Total operating income	5,825.29	8,540.91
PBILDT	1,853.59	2,254.74
PAT	1,177.53	1,435.38
Overall gearing (times)	0.17	0.36
Interest coverage (times)	157.62	241.15

A: Audited

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Debentures-Non-Convertible Debentures	INE787D08021	-	5.67%	April 2025	500.00	CARE AA; Positive

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Positive	-	1)CARE AA; Stable (29-Sep-21)	-	-

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not available

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Debentures-Non-Convertible Debentures	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Annexure-6: List of subsidiaries which are consolidated

Name of the subsidiary	Country of incorporation	% shareholding
BKT Tyres Limited	India	100%
BKT EUROPE S.R.L.	Italy	100%
BKT TIRES (CANADA) INC.	Canada	100%
BKT USA INC.	US	100%
BKT EXIM US, INC.	US	100%
BKT TIRES INC.	US	100% holding of BKT EXIM US, INC.

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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