Balkrishna Industries Limited (Revised)

July 04, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Non-convertible debentures	500.00	CARE AA; Positive	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the non-convertible debenture (NCD) issue of Balkrishna Industries Limited (BIL) continues to factor 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 more than 160 countries. The rating also factors in the extensive track record of the promoters in the OHT segment, robust financial risk profile characterised by strong debt coverage indicators, healthy operating margins aided by backward integration and strong liquidity position.

The company reported stable revenue growth in FY23 (refers to the period April 1 to March 31) aided by 4% volume growth and balance through increase in realisations. Although the operating margin declined on account of high-cost raw material inventory due to commodity inflation in FY22 and some part of FY23, it continued to be healthy at 20.32% in FY23 (PY: 26.40%). The rating also factors in the robust debt coverage indicators of the company with strong interest cover and overall gearing at 0.44x as on March 31, 2023 (PY: 0.36x), albeit it was slightly higher due to availing external commercial borrowings (ECBs) and higher working capital debt as on March 31, 2023 on account of the increasing scale of operations. The debt coverage indicators are likely to remain strong going forward despite a capex of around ₹550-₹600 crore planned over FY24 which will be entirely funded through internal accruals. Recovery in operating margins while maintaining the volume growth will remain monitorable.

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 vagaries of economic downturns.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the total net debt/PBILDT to 0.60x on a sustained basis.
- Strong volume growth on a sustained basis along with healthy PBILDT margin of 26-28% on a sustained basis.

Negative factors

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

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) 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.

Outlook: Positive

The Positive outlook factors in the volume growth reported by the company in FY22 and FY23, which is expected to continue going forward as well due to overall stable demand in the OHT market and increasing revenues from US and Indian markets. The company has been undertaking capacity expansion in line with the growth in demand. Despite commodity inflation, the company continued to have healthy operating margins which is expected to improve over the medium term with the softening of raw material prices. The continued growth momentum along with healthy operating margin is expected to result in further improvement of business and financial risk profile of the company.

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

Detailed description of the key rating drivers:

Key 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 FY23, nearly 63% of the revenue was derived from the agricultural segment (PY: 66%) and 37% of the revenue was derived from the other than agricultural segment (PY: 34%). The company has presence in both the original equipment manufacturer (OEM) and replacement segments. The replacement segment generally offers higher margins. In FY23, nearly 70% (PY: 69%) 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 more than 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 FY23, the company reported improvement in the total operating income (TOI) by 18% aided by 4% volume growth over FY22 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 the transportation cost. In FY23, although the margin declined due to carrying high-cost raw material inventory due to commodity inflation in FY22 and some part of FY23; it continued to be strong at 20.32%.

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 0.44x at the end of FY23 (PY: 0.36x). The increase in overall gearing was mainly due to the availing ECB and higher working capital debt as on March 31, 2023 on account of increase in scale of operations. 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 stro ng going forward as well, despite upcoming capex. The interest cover indicator was also comfortable at over 43x in FY23 (PY: 241x).

Capex plans: 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 also planned to undertake modernisation, automation and technology upgradation at the existing facilities to increase the efficiency and productivity of existing facilities. In FY22 and FY23, the entire planned capex of ₹1,900 crore was concluded. For FY24, the company is estimating capex spends of ₹550-600 crore including maintenance capex of ₹250-300 crore and the balance will be spent towards new product development like rubber tracks and giant solid tyres which will help the company in widening its product basket in the end markets , which along with the higher investments being incurred on brand building and marketing will aid the company in increasing its global market share. The company has adequate internal accruals to fund the capex.

Key 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. Raw material cost account for around 60% of its total cost of sales. The rubber prices and prices of other raw materials have continued to be at an elevated level since Q4FY21. However, the rubber and other raw material prices started coming down from Q3FY22. 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 its entire 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.

Exposed to government regulations of importing countries: The US Department of Commerce had imposed countervailing 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. In April 2023, The U.S. International Trade Commission has voted to keep in place antidumping and countervailing duties on off-the-road tires from India. 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 ₹843.90 crore as on March 31, 2023. The company has non-current investments of ₹1,262.11 crore out of which quoted non-current investments stood at ₹860.64 crore as on March 31, 2023. The company is expected to earn cash accruals of over ₹2,100 crore in FY24. As against the same, the company has negligible repayment obligations in FY24. The repayments for NCD and ECB would commence from FY25 and FY26 respectively.

Environment, social, and governance (ESG) risks

CARE Ratings believes that BIL's environment, social, and governance (ESG) profile supports its strong credit risk profile.

Environmental:

- The Company makes a constant effort to incorporate social and environmental concerns while developing products by removing SOHS (substance of high concern) from the compound. All products manufactured are designed to protect environment/social concern.
- The Company has obtained REACH SVHC (Substance of very high concern) compliance certificate for all the products manufactured. BIL was the first tire company to adhere to REACH compliance environmental requirement of European union.
- Regular audits are conducted at the suppliers' facilities to verify compliance to ISO 9001 and ISO 14001 certification.
- The company is focused on improving environmental practices and performance to mitigate climate change. Several initiatives have been undertaken towards reducing the environmental footprint at the manufacturing sites. The use of low Sulphur alternate fuel for steam generate and Condensate Recovery system in Boiler for energy generation are some measures to improve our performance. Treatment of wastewater from the plants is closely monitored and the Bhuj plant of the company has zero liquid discharge.

Social:

- Education, Healthcare and Rural Development forms the core of the company's CSR.
- Under the company's education arm, BIL sponsors education for needy and underprivileged students by providing merit-based scholarships.
- To impart quality environment for education, BIL is also engaged in upgrading infrastructure at school, colleges and universities.
- The company also extends its support by helping under construction schools, colleges or universities, by providing drinking water sanitisation facility, sanitisation in providing training programmes to the teachers.

Governance:

- Company's philosophy on Corporate Governance is founded upon a rich legacy of fair, ethical and transparent governance practices, many of which were in place even before they were mandated by adopting the highest standards of professionalism, honesty, integrity and ethical behaviour of ethical and transparent business operations.
- BIL has over the years followed best practices of Corporate Governance by adhering to practices of trusteeship, transparency and accountability. The Corporate Governance practices followed by the company and its subsidiaries are compatible with international standards and best practices.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Auto Ancillary Companies
Manufacturing Companies
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Automobile and Auto Components	Auto Components	Tyre & Rubber Products

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, 2023. The company primarily caters to more than 160 countries 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), a wind mill at Jaisalmer (Rajasthan), 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, 2022 (A)	March 31, 2023 (Abridged)
Total operating income	8,540.91	10,106.06
PBILDT	2,254.74	2,053.64
PAT	1,435.38	1,057.40
Overall gearing (times)	0.36	0.44
Interest coverage (times)	241.15	42.75

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

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
Non Convertible Debentures	INE787D08021	28-Oct-2021	5.67	25-Apr-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 2023-2024	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
1	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Positive	-	1)CARE AA; Positive (06-Jul-22)	1)CARE AA; Stable (29-Sep-21)	-

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not available

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Annexure-6: List of subsidiaries which are consolidated as on March 31, 2023

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%

*BKT EXIM US, INC is holding company of BKT TIRES INC.

Note on the 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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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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