# Balkrishna Industries Limited

July 03, 2024

| Facilities/Instruments | Amount (₹ crore) | Rating[1] | Rating Action |
|---|---|---|---|
| Non-convertible debentures | 325.00<br>(Reduced from 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 its established market position in the Global 'Off Highway Tyre' (OHT) market, being the largest Indian company to export OHT, diversified product portfolio, sales to both original equipment manufacturers (OEMs) and replacement market, and geographically diversified operations catering to more than 160 countries. The rating also factors in the extensive track record of 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.

However, the rating is constrained by competitive intensity in the global OHT market, exposure to currency risk, exposure to volatility in raw material prices, and changes susceptible to 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

- Improving total net debt/PBILDT to 0.60x on a sustained basis.
- Strong volume growth and healthy PBILDT margin of 26-28% on a sustained basis.

### Negative factors

- Delaying implementation of major capex programme within the specified timelines.
- Deteriorating 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 improvement of operating margins in FY24, which is expected to continue going forward as well due to the company's demonstrated ability to undertake price hikes to combat commodity inflation as and when required and report healthy operating margins. The Positive outlook also factors in the comfortable capital structure and debt coverage metrics which are expected to further improve going forward considering steady cash accruals and absence of significant capex plans in the medium term. Stable demand environment and healthy operating margins is expected to result in further improvement of the company's business and financial risk profile.

## Detailed description of key rating drivers:

## Key strengths

### Diversified revenue profile and geographical presence

The company has diversified revenue profile and caters to agricultural and industrial segments (which includes tyres for mining and construction activities, etc). In FY24, nearly 61% of the revenue was derived from the agricultural segment (PY: 63%) and 39% of the revenue was derived from other than agricultural segment (PY: 37%). The company has presence in both the original equipment manufacturer (OEM) and replacement segments. The replacement segment generally offers higher margins. In FY24, nearly 71% (PY: 70%) of the revenue was derived from the replacement segment. The company also has well-diversified geographical presence with over 47% 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.

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

**Healthy TOI and improvement in operating margins aided by backward integration of carbon black**

In FY24, the company's revenue from operations continued to remain healthy though declined by around 4% YoY led by marginal de-growth in sales volumes by 3% due to destocking at dealer's level in H1FY24 in key export markets and balance considering fall in realisation in Q1FY24 to pass on the benefit of softening in raw material prices. Currently, the company continues to enjoy around 5-6% 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 FY24, operating margins improved to 24.07% from 19.43% in FY23 considering improved product mix and stable raw material prices.

**Comfortable capital structure and debt coverage indicators**

The company's capital structure is comfortable with robust debt coverage indicators as evinced by overall gearing of 0.35x at the end of FY24 (PY: 0.44x). The improvement in overall gearing was mainly due to lower working capital debt as on March 31, 2024 and accretion of profits to reserves. CARE Ratings observes, going forward, debt coverage indicators are expected to further improve as the company is expected to continue generate healthy cash accruals and reduce debt with NCD and ECB repayments. Majority of capex requirements are generally met through internal accruals without much reliance on external funding and no substantial capex requirements is envisaged in the medium term beyond regular maintenance capex of ₹500-600 crore p.a. 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 nearly 20x in FY24 (PY: ~40x).

## **Liquidity**: Strong

The company's liquidity position is strong as evinced by cash and liquid investments of ₹1,428.99 crore as on March 31, 2024. The company has non-current investments of ₹1,336.66 crore out of which quoted non-current investments stood at ₹699.38 crore as on March 31, 2024. The company is expected to earn cash accruals of over ₹2,000 crore in FY25. As against the same, the company has principal term debt repayment obligations of ₹350 crore in FY25 out of which ₹175 is already repaid in Q1FY25.

## Key weaknesses

**Volatility susceptible to raw material prices and currency risk**

The principal raw materials for BIL are natural rubber, synthetic rubber, carbon black, and other chemicals. Raw material cost accounts for around 65% of its total cost of sales. The average price of rubber marginally softened and remained stable at ₹156 per kg in FY24 as compared to ₹157 per kg in FY23. Natural rubber prices in the domestic market have been rising y-o-y since September 2023. Although price increases are taken from time to time, 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. As most of the raw materials and capital equipment are imported, the company is exposed to the foreign currency risk; 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 voted to keep in place antidumping and countervailing duties on off-the-road tyres from India. 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.

## 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 high concern) compliance certificate for all the products manufactured by it. BIL was the first tyre company to adhere to REACH compliance environmental requirement of European union.
- Regular audits are conducted at the suppliers' facilities to verify compliance to quality, safety, and sustainability standards.
- The company is focused on improving environmental practices and taking adaptability measures on climate change-related risks. The company is focused on increasing use of renewable energy sources solar, low carbon-based fuel, and others. Several initiatives have been undertaken towards reducing the environmental footprint at the manufacturing sites. The use of low Sulphur alternate fuel for steam generation and Condensate Recovery system in Boiler for energy generation are some measures to improve its performance. Treatment of wastewater from the plants is closely monitored and the Bhuj plant of the company has zero liquid discharge.
- As a member of Global Platform for Sustainable Natural Rubber (GPSNR), BIL gains access to a platform that standardises sustainability reporting and digital platforms for compliance with the European Deforestation Regulation (EUDR), set to take effect in December 2024.

### 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 schools, 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.
- Presently, the Board consists of two women directors and 50% of its board comprises independent directors (four of eight directors).

## Applicable criteria

Consolidation
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Auto Components & Equipments

## About the company and industry

### Industry classification

| Macro-economic Indicator | Sector | Industry | Basic Industry |
|---|---|---|---|
| Consumer discretionary | Automobile and auto components | Auto components | Tyres & rubber products |

Incorporated in 1961, BIL is engaged in manufacturing specialty tyres, known as 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, 2024. The company primarily caters to more than 160 countries in the exports markets of Europe, America, and 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 tyre plants stood at 360,000 MTPA. The company also has backward integration for its carbon black requirements; additionally, it is also sold in the market.

| Brief Financials (₹ crore) | FY23 (A) | FY24 (Abridged) |
|---|---|---|
| Total operating income | 9,983.73 | 9,368.87 |
| PBILDT | 1,940.04 | 2,255.37 |
| PAT | 1,057.40 | 1,471.49 |
| Overall gearing (times) | 0.44 | 0.35 |
| Interest coverage (times) | 40.15 | 19.98 |

A: Audited; Note: 'these are latest available financial results'

**Status of non-cooperation with previous CRA:**
Not applicable

**Any other information:**
Not applicable

**Rating history for last three years:** Annexure-2

**Covenants of rated instrument / facility:** 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 (DD-MM-YYYY) | Coupon Rate (%) | Maturity Date (DD-MM-YYYY) | Size of the Issue (₹ crore) | Rating Assigned along with Rating Outlook |
|---|---|---|---|---|---|---|
| Non-convertible debentures | INE787D08021 | 28-Oct-2021 | 5.67 | 25-Apr-2025 | 325.00 | CARE AA; Positive |

Note: In Q1FY25, NCD amounting to ₹175 crore was repaid.

## Annexure-2: Rating history for 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 2024-2025 | 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 |
| 1 | Debentures-Non-convertible debentures | LT | 325.00 | CARE AA; Positive | - | 1)CARE AA; Positive (04-Jul-23) | 1)CARE AA; Positive (06-Jul-22) | 1)CARE AA; Stable (29-Sep-21) |

LT: Long term

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

Not available

## Annexure-4: Complexity level of 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 all entities consolidated

| Sr No | Name of the entity | Extent of consolidation | Rationale for consolidation |
|---|---|---|---|
| 1 | BKT Tyres Limited | Full | Wholly owned subsidiaries with strong linkages |
| 2 | BKT EUROPE S.R.L. | | |
| 3 | BKT Tires (CANADA) INC. | | |
| 4 | BKT USA INC | | |
| 5 | BKT Tires INC | | |

**Note on complexity levels of 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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