Balkrishna Industries Limited

September 29, 2021

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Non-Convertible Debentures	500.00	CARE AA; Stable (Double A; Outlook: Stable)	Assigned
Total Instruments	500.00 (Rs. Five Hundred Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the proposed Non-convertible Debenture issue of Balkrishna Industries Limited (BIL) factor in the established market position of the company in the Global 'Off Highway Tyre' (OHT) market, being the largest Indian company to export OHT tyres, diversified product portfolio catering to agricultural and industrial segments, sales to both Original Equipment Manufacturers (OEMs) and replacement market and geographically diversified product portfolio catering to over 160 countries. The ratings also factor in the extensive track record of the promoters of operating in the OHT segment, robust financial risk profile characterized by strong debt coverage indicators, strong operating margins aided by backward integration of carbon black and strong liquidity position.

The overall gearing of the company stood at 0.17x as on March 31st 2021 (PY: 0.19x) and the interest cover stood at over 157x in FY21 (PY: 130x). The debt coverage indicators are likely to remain strong going forward as well despite capex of Rs.1,900 crore planned over the next 2 years as the same is expected to be funded through internal accruals. The company reported ~18% increase in Total Operating Income (TOI) in FY21 aided by 12.6% volume growth and reported operating margin of 31.8% in FY21 due to positive operating leverage. The ratings also factor in the upside of recovery in the economic activities globally which is expected to translate into higher revenues for the company.

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 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

- *Improvement in Total Debt/PBILDT to 0.30x on a sustained basis*
- *Improvement in operating ROCE to 25% on a sustained basis*

Negative Factors

- *Delay in implementation of capex programme within the specified timelines.*
- *Deterioration in Total Debt/PBILDT to 1.25x on a sustained basis*

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 FY21, nearly 64% of revenue was derived from the agricultural segment (66% in Q1FY22) and 32% of revenue was derived from industrial segment (31% in Q1FY22). The company has presence in both the OEM and replacement segments. Replacement segment generally offers higher margins. In FY21, nearly 70% of the revenue was derived from the replacement segment (72% in Q1FY22). The company also has well diversified geographical presence with nearly 50% of the revenue coming from Europe. The company caters to over 160 countries worldwide with over 2,700 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 Total Operating Income (TOI) and strong operating margins aided by backward integration of carbon black

In FY21, the company reported improvement in the Total Operating Income by 18% aided by 12.6% volume growth over FY20 and price hikes taken in Q4FY21 in response to commodity inflation. Although at present the company has ~5-6% market share

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

in the global specialty market, the market share is expected to increase to ~10% over the next 4-5 years through capacity expansion and greater penetration especially in North America.
The company has robust operating margins due to backward integration of carbon black. Backward integration of carbon black not only helps in reducing the input cost but also transportation cost. Going forward, the operating margins are expected to be maintained in the range of 28-30%.

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 0.17x as on March 31st 2021 (PY: 0.19x). The capex requirements of the company are generally met through internal accruals without 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 157x in FY21 (238x in Q1FY22).

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. Prices of key raw material account for ~60% of its aggregate production costs. The rubber prices have elevated in the past six months or so and moderated to an extent in Q2FY22. Although price increases are taken from time to time, the operating margins continue to remain susceptible to 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.
Further, as most of the raw materials and capital equipment are imported, the company is exposed to foreign currency risk; albeit, it enjoys natural hedge as most of its revenues are also in foreign currency.

Exposure to project risk
The company has planned capex of Rs.1,900 crore over FY22 and FY23 towards capacity expansion and modernization. The company would be undertaking tyre capacity expansion by 50,000 MTPA at Bhuj expected to be completed by H2FY23. Further, it would also be undertaking expansion in the carbon black facility and setting up of additional power plant which would be completed by H1FY23. Further, it would also be undertaking modernization, automation and technology upgradation at existing facilities which is expected to increase the efficiency and productivity of existing facilities. The company has adequate internal accruals to fund the capex, however it continues to remain exposed to 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 US in March 2017. For BIL, the rate of duty is 5.36%. This is not likely to have material impact on the overall revenue, as the company has well diversified geographical presence with less revenue exposure to North America. Further, 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 Rs.447 crore as on March 31, 2021. The current as well as non-current investments stood at Rs.1,557 crore as on June 30, 2021. The unutilized working capital limits stood at Rs.490 crore as on August 31, 2021. The company is expected to earn healthy cash flows in FY22. As against the same, the company has negligible repayment obligations in FY22.

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' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology: Consolidation
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology - Manufacturing 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 2,700 SKUs as on March 31, 2021.

The company primarily caters to over 160 counties in the exports markets of Europe, America, Australasia. The company has 5 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 3,35,000 MTPA. Further, the company also has backward integration for its carbon black requirements, additionally it is also sold in the market. The company is also undertaking tyre capacity expansion at Bhuj entailing capital outlay of Rs.800 crore and that of carbon black and power plant entailing capital outlay of Rs.450 crore which is expected to be completed by FY23.

Brief Financials (Rs. crore)-Consolidated	FY20 (A)	FY21 (A)	Q1FY22 (UA)
Total operating income	4,942.58	5,825.29	1,885.08
PBILDT	1,405.28	1,853.59	593.38
PAT	959.65	1,177.53	330.56
Overall gearing (times)	0.19	0.17	*
Interest coverage (times)	130.24	157.62	237.35

*A: Audited; UA: Unaudited; *details not 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 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 (Rs. crore)	Rating assigned along with Rating Outlook
Proposed Debentures-Non Convertible Debentures	-	-	-	-	500.00	CARE AA; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Debentures-Non Convertible Debentures	LT	500.00	CARE AA; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / 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

Annexure 5: Bank Lender Details for this Company: NA

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% subsidiary to BKT EXIM US, INC.

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

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About CARE Ratings:
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