CRISIL Ratings

Rating Rationale

September 01, 2023 | Mumbai

Balkrishna Industries Limited

Ratings reaffirmed at 'CRISIL AA/Positive/CRISIL A1+'

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Rating Action

Total Bank Loan Facilities Rated	**Rs.1000 Crore**
Long Term Rating	**CRISIL AA/Positive (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limitedâ€™s Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its â€˜CRISIL AA/Positive/CRISIL A1+â€™ ratings on the bank facilities of Balkrishna Industries Limited (BIL).

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The ratings continue to reflect BILâ€™s established market position in the off-highway tyres (OHT) segment and strong operating efficiencies. Revenues grew by 18% on-year in fiscal 2023 to Rs 9,760 crore, driven by higher realisations amidst elevated rubber and freight costs; also supported by a 4% increase in volume sales. While an inventory pile up at the distributorâ€™s end mainly in the European market (contributes to 51% of sales) restricted volume growth, the same was partially compensated through a strong volume growth in the Indian and American regions (contributes to 22% & 18% of sales respectively). The global demand for OHT has been flat for the past three quarters and is expected to remain muted this fiscal.

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While BIL traditionally commands an industry-leading operating profitability, the same hit a decadal low of 19.9% in fiscal 2023, due to limited pass-through of the elevated rubber and freight prices. With input prices having softened, earnings before interest, depreciation, taxes and amortization (Ebitda) margin has recovered to 23% in the first quarter of fiscal 2024. Further recovery is expected through operating synergies. BIL also benefits from the backward integrations undertaken in terms of setting up a new carbon black plant as well as 20-megawatt power plant for captive power consumption.

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While volume sales could remain muted this fiscal, supported by healthy profitability, BILâ€™s financial risk profile continues to remain strong; with a networth of Rs 7,556 crore as of March 31, 2023. Despite incurring a total capital expenditure (capex, including maintenance and R&D expenses, net of depreciation) of over Rs 3,500 crore in the last two fiscals towards capacity expansion of its tyre plant, carbon black plant and for automation and upgradation; the company only has outstanding long-term borrowings of Rs 1,038 crore as of March 31, 2023, resulting in strong debt metrics. The company continues to maintain a strong liquidity in the form of cash and investments of about Rs 2,245 crore as of June 30, 2023.

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The above-mentioned strengths are however partially offset by vulnerability of operating performance to fluctuations in raw material prices, susceptibility to regulatory actions in importing countries, and to volatility in foreign exchange (forex) rates.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has combined the business and financial risk profiles of BIL and its subsidiaries. This is because all the entities, collectively referred to as BIL, are in the same business and have operational synergies.

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Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- **Established market position:** Market share in the international OHT segment has increased steadily over the years to about ~6% currently, on the back of association with major global original equipment manufacturers, wide distribution network in more than 160 countries, and a varied product portfolio. The recently commissioned enhanced plant capacity in 2023 should help BIL better leverage the benefits of low-cost manufacturing. Over time and supported by its widening distribution network as well as ability to cater to niche small order lots, the company has also diversified its geographical presence from being a majorly Europe focussed player (contributes 51% of revenues), to other geographies in Latin America, and North America (currently contributing to around 18% of revenues). This stands the company in good stead, as was seen in fiscal 2023, when exports to non-Europe region did well and helped BIL register reasonable revenue growth.

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- **Healthy operating efficiency:** Manufacturing OHT is a labour-intensive process, and the company benefits from its presence in low-cost locations and hence, strong operating efficiency. As employee cost is lower than those of most global peers, BILâ€™s products are competitively priced. Also, the company has maintained its operating profitability of over 27% for the seven years, barring fiscal 2023, when it dipped to 19.9% which is still healthy, and better than its peers. Backward integration efforts into carbon black, and access to higher captive power augur well for the companyâ€™s operating efficiencies. Besides, BIL is also able to quickly cater to small niche order lots from clients, which permits for higher margins as well.
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- **Robust financial risk profile:** The companyâ€™s strong cash generating ability and prudent funding of capex over the years has helped solidify its balance sheet and shore up liquidity as well. Despite dip in operating profitability and continuing partly debt funded capex, debt metrics such as debt/EBITDA and interest cover were healthy at 1.72 times and 43 times in fiscal 2023, compared with 1.12 times and over 250 times respectively in fiscal 2022. Capex

needs are expected to be moderate going forward with completion of major spend, and the company is expected to generate cash accruals of atleast Rs 1,500 crore annually. This will ensure debt metrics continue to improve while liquid surplus in the form of cash and investments (currently at Rs. 2,245 crore) remains comfortable.

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Weaknesses:

- **Vulnerability to fluctuations in input prices:** Prices of key raw materials, natural and synthetic rubber (raw materials account for approximately 70% of BILâ€™s production costs), are volatile as they depend on global demand, area under cultivation and crude oil prices. BILâ€™s operating profitability declined to 19.9% in fiscal 2023 from 27.2% in fiscal 2022, because of a lag in passing on rising input and ocean freight cost to customers. Thus, operating performance is highly correlated to crude oil prices and the companyâ€™s ability to pass on price increases to customers will remain the key monitorable.Â

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- **Exposure to regulatory risks:** In March 2017, the US Department of Commerce issued an order levying countervailing duty of 5.36% on BIL. Though the impact of this levy is limited, given that only around 15% of revenue accrues from North America, BILâ€™s exposure to regulatory risks persists and will remain a key monitorable.

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- **Volatility in forex rates:** Around 60% of the raw material is imported. Also, the entire borrowings are in foreign currency, exposing BIL to the risk of sharp fluctuations in forex rates. However, with the bulk of revenue coming in from exports, the exposure to forex risk is largely naturally hedged. Further, the companyâ€™s net receivables are covered by staggered forward contracts.

Liquidity: Strong

BIL's liquidity is strong, supported by adequate cash accruals of about Rs 1,500 crore expected over the medium term as compared to long term debts of only about Rs 1,038 crore, raised at low cost. Furthermore, the company has strong liquidity with cash, investments in liquid funds and unencumbered cash & bank balance of Rs. 2,245 crores as on June 30, 2023. Bank limits have been utilized moderately at about 73% in the past 15 months ended May 2023. Cash accruals will more than suffice to meet capex needs of Rs. 550-600 crore each in fiscal 2024 and 2025, as well as long term repayments of Rs. 350 crores in fiscal 2025.

Outlook: Positive

BIL is expected to continue consolidating its strong market position globally, and sustain its industry leading operating margins, supported by backward integration initiatives, notwithstanding the temporary tepid business environment, especially in key export markets. The company is also expected to sustain its strong balance sheet and solid liquidity, due to its steady cash generating ability and only moderate capital spending plans

Rating Sensitivity factors

Upward factors

- Steady revenue growth and stable operating profitability of 24-25%
- Improvement in return on capital employed (RoCE) backed by healthy profitability and completion of capacity expansion plans.
- SustainedÂ robust financial risk profile, with healthy capital structure and liquid surplus.

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Downward factors

- Revenue de-growth and decline in operating profitability below 15%, impacting cash generation.
- Weakening in the financial risk profile and liquidity, because of large capex or acquisition

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Environment, social and governance (ESG) profile

CRISIL Ratings believes the ESG profile of BKT supports its already strong credit risk profile.

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The tyres sector has a significant impact on the environment because of the high greenhouse gas emission of its core operations as well as waste generation. The sector has a social impact because of its large workforce. BKT has continuously focused on mitigating its environmental and social impact.

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Key ESG highlights

- All the companyâ€™s plants are implementing various projects to reduce greenhouse gas emissions. The company constantly monitors green energy production processes and outcomes as well as the implementation of emission reduction programs.
- All the plants have safety committees which identify work-related hazards and assess risks on periodic basis. Any identification of work-related hazard or risk is appropriately addressed as part of the process.
- Governance structure is characterised by 50% of the board comprising independent directors and having extensive disclosures.

About the Company

Based in Mumbai, BIL manufactures OHTs that are used in vehicles meant for agricultural, industrial, construction, and earth-moving purposes. Achievable capacity across its plant in Bhuj Gujrat, Waluj, Maharashtra, in Bhiwadi and Chopanki (both in Rajasthan) is 3,60,000 tonne per annum(tpa). The company has a wide product profile and sells in more than 160+ countries. It also has over 3,200 stock-keeping units to cater to varied requirements of customers. In fiscal 2023, approximately 79% of revenue was derived from export. Carbon black facility at Bhuj with total achievable capacity of more than 1,50,000 has commenced operations and is running at full achievable capacity.

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The promoter group, Mr Poddar and family continues to hold 58.29% of the company.

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In the first quarter of fiscal 2024, BIL recorded Rs 2,159 crore of revenue and Rs 332 crore in profits after taxes.

Key Financial Indicators

Particulars	Unit	2023	2022
Operating income	Rs. Crore	9760	8295
Profit after tax (PAT)	Rs. Crore	1057	1435
PAT margin	%	10.8	17.3
Adjusted debt/adjusted networth	Times	0.44	0.36
Interest coverage	Times	43	251.3

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure -Â Details of Instrument'Â in this Rating Rationale.

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of allotment	Coupon rate (%)	Maturity Date	Issue size (Rs crore)	Complexity levels	Rating assigned with outlook
NA	Packing Credit	NA	NA	NA	625.0	NA	CRISIL A1+
NA	Cash Credit	NA	NA	NA	20.0	NA	CRISIL AA/Positive
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	140.0	NA	CRISIL AA/Positive
NA	Letter of credit & Bank Guarantee*	NA	NA	NA	215.0	NA	CRISIL A1+

**Interchangeable with packing credit*

Annexure â€“ List of entities consolidated

Name of entities consolidated	Extent of consolidation	Rationale for consolidation
BKT Tyres Limited	Full	Subsidiary
BKT Europe S.R.L.	Full	Subsidiary
BKT USA Inc	Full	Subsidiary
BKT Tires (CANADA) Inc	Full	Subsidiary
BKT Exim US, Inc*	Full	Subsidiary
BKT Tires Inc*	Full	Step down subsidiary

Annexure - Rating History for last 3 Years

Â	Current			2023 (History)		2022Â		2021Â		2020Â		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT/ST	785.0	CRISIL AA/Positive / CRISIL A1+	03-01-23	CRISIL AA/Positive / CRISIL A1+	30-06-22	CRISIL AA/Positive / CRISIL A1+	29-04-21	CRISIL A1+ / CRISIL AA/Stable	30-01-20	CRISIL A1+ / CRISIL AA/Stable	CRISIL A1+ / CRISIL AA/Stable
Non-Fund Based Facilities	ST	215.0	CRISIL A1+	03-01-23	CRISIL A1+	30-06-22	CRISIL A1+	29-04-21	CRISIL A1+	30-01-20	CRISIL A1+	CRISIL A1+

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	20	ICICI Bank Limited	CRISIL AA/Positive
Letter of credit & Bank Guarantee*	25	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A1+
Letter of credit & Bank Guarantee*	60	Standard Chartered Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee*	80	ICICI Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee*	25	Citibank N. A.	CRISIL A1+
Letter of credit & Bank Guarantee*	25	BNP Paribas Bank	CRISIL A1+
Packing Credit	300	Kotak Mahindra Bank Limited	CRISIL A1+
Packing Credit	140	Standard Chartered Bank Limited	CRISIL A1+
Packing Credit	15	The Hongkong and Shanghai Banking Corporation Limited	CRISIL A1+
Packing Credit	40	Citibank N. A.	CRISIL A1+
Packing Credit	80	MUFG Bank Limited	CRISIL A1+
Packing Credit	50	BNP Paribas Bank	CRISIL A1+
Proposed Long Term Bank Loan Facility	140	Not Applicable	CRISIL AA/Positive

**Interchangeable with packing credit*

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition

Rating Criteria for Auto Component Suppliers
CRISILs Criteria for Consolidation
CRISILs Criteria for rating short term debt

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