



5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

BALKRISHNA INDUSTRIES

WHAT WE LIKE

PUREPLAY OFF-HIGHWAY TIRE MAKER

BKT is the leading Off-Highway Tire manufacturer in India. Off-Highway Tires are those tires that are put in vehicles that do not run on street roads or highways and are mainly used in the fields of agriculture, mining & construction. Off-Highway Tire is a niche market in India. However, globally it has a lot of demand in the field of agriculture, mining & construction.



NO DIRECT COMPETITION IN THE LISTED SPACE IN INDIA WITH STRONG DEMAND

The major tire manufacturers in India like MRF, Apollo, CEAT, etc. are focused on the passenger vehicle segment. Alliance Tire Group (ATG), now a fully owned subsidiary of The Yokohama Rubber Co. Ltd., Japan, is the only sizeable competitor of BKT. BKT competes with foreign players- Nokian, Cooper, Goodyear, MASA, Continental, Michelin, etc. Despite high inflation, geopolitical tension, and other adverse factors, the end-user market demand continues to remain strong. Off-highway tire segment observed a higher demand mainly in the mining and agricultural sector.

STRONG CAPEX PLAN

- Commissioned an 800 Cr brownfield tire plant at Bhuj with 50,000 MTPA capacity.
- Carbon Black and Captive Power Plant worth 650 Cr to be commissioned in upcoming months with 55,000 MTPA Carbon Black capacities along with Power Plant.
- With the backward integration process, the company is now able to fulfil 100% of its carbon black consumption from captive usage.
- 450 Cr worth of CAPEX is to be invested in Modernization, Automation and Technology Upgradation at Rajasthan & Bhuj
- A new Coal-based captive power plant of 20MW capacity would be set up along with the existing 20MW plant.
- At the end of FY23, the achievable capacity would be around 360,000 MTPA.

WHAT WE DON'T LIKE

RAW MATERIAL PRICE RISK

Cost of rubber consumed accounts for more than 50% of sales, variation in rubber prices would certainly affect the financial health of the company. Although the company is able to meet its carbon black requirements internally, there are still many raw materials for which it has to be dependent on outside vendors.

INCREASING COSTS

Due to the geopolitical tension, supply chain disturbance, inflation and various other factors, there was a direct impact on the prices and the availability of the raw material. Logistics and freight costs also remained elevated. Apart from this, power costs also remained high. All this led to a dent in EBITDA. EBITDA margins decline from 31.5% to 25.9% from FY21 to FY22 respectively. For Q3FY22 to Q4FY22 it was reduced from 24.4% to 23.7% respectively

HIGH CONCENTRATION IN EUROPE

54% of sales are from Europe, 18% from India & 17% from Americas and the 11% from the Rest of the World. This makes BKT vulnerable to any kind of geopolitical tensions or adverse regulations arising in the EU region.

Balkrishna Industries: Demand worries in Europe to impact margins

Nov 07, 2018 **Business Standard**

The biggest hurdle is the European business, which accounts for half of the overall volumes of the company

REVENUE FROM AGRICULTURE SEGMENT

The agricultural sector is a highly cyclical sector. Any factor that can hamper the Agricultural sector can directly impact BKT. This makes the company vulnerable and highly dependent on climate factors that cannot be controlled.

HIGH VALUATION

The valuation of the company continues to be on the expensive side for the last three to five years. This reduces the MOS of an investor. A high valuation here might signify that higher growth is expected from the company & it is already priced in. In such conditions, if the company is unable to meet the expected growth, (which is a possibility in the current scenario due to Geo political tension, inflation, etc.) then it can pull the valuation multiples down.

At its current price, it is trading at 30 times TTM earning which by no means is cheap.

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