



# 5 MINUTE STOCK IDEA

BY SMART SYNC INVESTMENT ADVISORY SERVICES

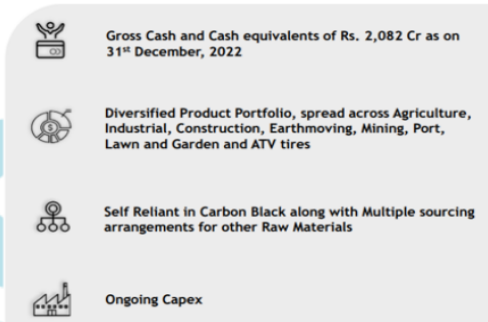
## BALKRISHNA INDUSTRIES (BKT)

### WHAT WE LIKE

**BKT: PUREPLAY OFF-HIGHWAY TIRE MANUFACTURER**

- 01 **Leading "Off-Highway Tire" Exporter**  
BKT is India's Leading player in the Global "Off Highway Tire (OHT)" Market
- 02 **Wide and comprehensive product portfolio**  
Deep understanding of OHT market has led to capabilities to manufacture over 3,200 SKUs
- 03 **Capacities**  
The current achievable capacity is 335,000 MTPA and will increase back to 360,000MTPA by H1FY24 post commissioning of the waluji brownfield project
- 04 **Global reach**  
Sales to over 160 countries through Distribution network in Americas, Europe, India and Rest of the World
- 05 **Strong OEM Presence**  
Strong Partnerships with Global OEM's a testimony of our Brand Acceptance & Performance
- 06 **Experienced Management Team**  
Experienced Management Teams across business divisions and verticals

### RESILIENT BUSINESS MODEL



### LOW COST OF OPERATION BOOSTS MARKET SHARE

Labour cost in India is very cheap compared to the developed world. This enables BKT to sell its products at about 10-15% discount to what other competitors sell in the export market. This has led to having 6% of the global market share in off-highway tires. They have a target of reaching 10% market share in the next 4-5 years. 15 years ago, the price gap between BKT and its competitors was 50%. And it is reducing over the years while BKT is gaining market share. This shows the emergence of the brand, BKT.

### ALL THE MAJOR GLOBAL OEMS ARE THEIR CUSTOMERS



### BORING BUSINESS, STEADY COMPOUNDER

Growth in Key Financial Metrics over the years

SALES	PROFITS	Returns	ROE *
10Y 11	10Y 18	10Y 31	10Y 20
5Y 17	5Y 17	5Y 12	5Y 19
3Y 17	3Y 23	3Y 17	3Y 20
TTM 28	TTM -19	TTM 0	FY22 22

\*In the ROE column, it is avg ROE & not CAGR

### WHAT WE DON'T LIKE

#### RAW MATERIAL PRICE RISK

Cost of rubber consumed accounts for more than 50% of sales, and variations in rubber prices would certainly affect the financial health of the company. Although the company is able to meet its carbon black requirement internally, there are other raw materials for which it has to be dependent on outside vendors. Coupled with that, deriving 80% of revenue from exports also makes them vulnerable to foreign exchange fluctuation. While BKT has demonstrated a responsible policy of hedging regularly and systematically all its Forex exposure, we at SSS believe a sudden movement in forex, given the global uncertainties, can be a spoilsport.

#### SLOWDOWN IN GLOBAL OFF-HIGHWAY TIRE MARKET

Global Off-highway tire in the last decade barely grew at 2-3% CAGR. Post Covid-19, there was a sudden jump, but in the recent concalls, the management has opted for a very cautious stance. In the past, BKT has demonstrated volume growth despite a stagnant market, but now on a higher base, BKT may find it difficult to grow if the market growth tapers.



#### CONCENTRATION IN EUROPE

- Company gets about half of its business through Europe. Hence, when Europe is not doing well, it is difficult for the company to deliver good performance.
- They have started expanding in the US and the Indian market however Europe still forms the bulk of their sales. (49% of the total in Q3FY23)

#### 5 KEY FACTORS HURTING BKT & OTHER EXPORT-FACING MANUFACTURING BUSINESSES IN Q3FY23

- Export demand slowing down
- Destocking from dealers, distributors & others in the system
- Most businesses are high on Capex
- Double-whammy of lower revenues & higher costs hitting the PnL
- Raw Material prices easing out but high-cost inventory is still on the books

We at SSS believe it's a transient problem and normalcy to resume from Q1FY24. But the risk persists.

#### VALUATION

BKT continues to be expensive for the last 7 yrs. At CMP, it is trading at 33 times TTM earnings which by no means is cheap. Given the large capex on the verge of completion, if volumes don't go up, high depreciation coupled with high-cost inventory can pull down the earnings meaningfully like what happened in Q3FY23.

	Q3FY23	Q3FY22	YoY
Sales (MT)	66,480	70,320	-5%
Profit After Tax	100	329	-70%
	4.5%	15.8%	

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