

Balkrishna Industries Q1FY21

Financial Results & Highlights

Brief Company Introduction

Balkrishna Industries Limited (BKT) is a tire manufacturing company based in Mumbai, India. Balkrishna Industries manufactures off-highway tires used in specialist segments like mining, earthmoving, agriculture and gardening in five factories located in Aurangabad, Bhiwadi, Chopanki, Dombivali and Bhuj. In 2013, it was ranked 41st among the world's tire makers.

Balkrishna Industries is currently an OEM vendor for heavy equipment manufacturers like JCB, John Deere and CNH Industrial. The company currently enjoys 2% market share of the global off-the-road tire segment.

Standalone Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	962	1265	-23.95%	1424	-32.44%
PBT	162	254	-36.22%	339	-52.21%
PAT	122	176	-30.68%	257	-52.53%
Consolidated Financials (In Crs)					
	Q1FY21	Q1FY20	YoY %	Q4FY20	QoQ %
Sales	979	1273	-23.10%	1438	-31.92%
PBT	172	255	-32.55%	346	-50.29%
PAT	132	177	-25.42%	265	-50.19%

Detailed Results:

1. The revenue for the quarter declined 23% YoY in consolidated terms.
2. PBT was down 36% and 23% YoY in standalone and consolidated terms in Q1.
3. Consolidated PAT fell 25% YoY in the quarter.
4. Sales volumes for the quarter came in at 38,096 tons which were down 25% YoY.
5. The EBITDA margin improved 240 bps YoY to 26.7% in Q1.
6. Net forex gain for Q1 was at Rs 13 Cr vs Rs 24 Cr a year ago.
7. The company remains debt-free with current cash holding at Rs 1175 Cr as of 30th June 2020.
8. The previously guided CapEx programs are on track for the company.
9. The company announced an interim dividend of Rs 3 per share.

Investor Conference Call Highlights

1. The non-agriculture segment is moving slowly on account of low commodity prices and end-user demand while the agriculture segment is showing strong demand across all geographies.
2. The rise in EBITDA margin was mainly on account of lower absorption of fixed cost owing to lower production and sales.

3. The market share for BKT in India currently is 7% and it is steadily increasing in this segment.
4. Around 40-45% of domestic sales are from tractors.
5. The management remains confident of achieving flat revenues for the year. BKT will continue to maintain the percentage of spend in sponsorships and other promoting methods at current levels which is at 2-3% of sales.
6. Domestic growth was flat in Q1 while exports starting rising from June.
7. The management does not expect much change in RM prices going forward. It has also mentioned that there will no further pricing action in FY21.
8. Volumes produced for the quarter was at 41,576 tons.
9. The management expects the non-Agri segment to pick up as construction and mining activities resume across the world.
10. Volumes sold in the EU were at 20,000-21,000 tons while India has volumes of 9,400 tons. The USA saw volumes of 3000-4000 tons.
11. 65% of volumes for Agri tires while 32% were for OTR. The remaining 3% was for smaller sized tires.
12. OEM was at 27% while the replacement was at 70%.
13. EU Agri segment market share for BKT is at 12-15%. The same figure in the USA is at 7-10%.
14. The management is aspiring for BKT to improve in the non-Agri segment like mining, etc to reach its goal of 10% overall industry market share.
15. The company does not expect any import duty restriction to come into place for imported rubber.
16. There has been no change in channel inventory in Q1. The current channel inventory in the USA & EU is at 2-3 months.
17. Around 15% of carbon black output is being sold on the marketplace.
18. The company's medium-term target is to increase the proportion of sales from India from the current level of 20-22%.
19. The industry is widely expected to grow at a CAGR of 4-5%.
20. The management expects EBITDA margins to remain close to 28-30% in the year ahead.
21. There are currently no gaps in the distribution for BKT in India and it is able to maintain a Pan India network of SKUs.
22. The management has stated that it does not take any actions to set realizations and change in realizations is largely dependent on forex changes given no pricing action.
23. The company is currently facing no issues in the supply chain both for sourcing and dispatching.
24. The current prices are fully reflecting the softening in commodity prices.

25. The management has stated that the company has made good inroads in the mining sector in the USA and is getting repeat orders and rising market share in the sector. The current market share in this sector is at 2-3% which BKT hopes to increase to 5-6% in the next 2-3 years.

Analyst's View:

BKT has been a rising player in the off-road tires business for years now. The company has seen a tepid Q1 mainly due to the disruption in sales from COVID-19. It has however been able to increase EBITDA margins YoY. The addition of the carbon black plant is expected to bring about additional margin appreciation for the company bringing the guidance for FY21 at 28-31%. Although the company was hit by supply chain disruptions due to the lockdown it didn't hamper its sales in the EU & USA since the channel inventory here is at 2-3 months. It remains to be seen whether there are any other economic shocks to come from COVID-19 and whether the company's projections of rising demand from Agri and non-Agri sectors pans out as expected. Nonetheless, given the company's sustained margin performance, its resilient market share in a slow global market, and the rapid rise of the company in India, Balkrishna Industries is a good tire stock to watch out for.

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