

Balkrishna Industries likely to run into rough terrain

Street positive on prospects despite near-term woes

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The Balkrishna Industries stock has shed close to 3 per cent since its September quarter results, on account of weak numbers and downward revision of growth guidance.

The firm, which makes 'off highway tyres' (OHT), reported a 19 per cent decline in revenues, which was almost twice the level estimated by analysts. While volumes were down 13 per cent, average selling prices, too, contributed to the decline as they fell 6 per cent.

Further, the firm indicated that it faced headwinds, especially in tyre sales to the agricultural sector, given the weak demand conditions in Europe as well as uncertainty over the

ongoing US-China trade war. After reporting a 12 per cent fall in volumes in the first half, the firm believes the second half will be better.

After guiding for 3-5 per cent volume growth at the beginning of FY20, the company has now revised its guidance to a marginal decline.

Though revenues declined sharply, higher gross margins helped improve operating performance. Margin expansion was on account of lower raw material costs, higher foreign exchange realisation, and cost savings from its captive black plant.

Analysts believe gross margin gains are sustainable, as long as raw material costs remain at current levels. The management has maintained that margins

will fall in the band of 25-28 per cent, despite weak demand outlook and higher marketing spend.

Despite the near-term worries, brokerages are positive on the company's prospects. Analysts at Axis Capital say the company has scope to increase its market share in the OHT segment.

They also believe the company will be able to sustain its margin profile on improving product mix and backward integration. High return ratios and free cash flow generation add to the appeal of the business.

Though target prices of ₹900 translate into a gain of 7 per cent, investors should await meaningful volume improvement, given the demand headwinds, before considering the stock.

