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Capex plan deflates Balkrishna Ind

Will affect cash flows, say analysts

OUR BUREAU

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The shares of Balkrishna Industries (BKT) plunged 8 per cent on Monday, as markets gave a thumbs down to its ambitious ₹1,700-crore capex plan. After hitting a low of ₹1,255, the stock closed at ₹1,263.45, down 7.4 per cent, on the BSE.

The board of directors on Saturday approved a capex plan of up to $100 million (₹700 crore) for setting up a greenfield tyre plant in the US through a wholly-owned subsidiary to be set up, Balkrishna Industries informed the bourses, and added that ₹1,000 crore will be spent towards increasing the capacity in Waluj and Bhuj in India. This is in addition to the current capex for the ongoing carbon black plant, it said.

The entire capex of ₹1,700 crore would be funded via a mix of debt and internal accruals. The capex plans in India and the US will be completed within a period of 30 months, the statement added.

Analysts fear this will affect cash flows of BKT in the next couple of years and feel the expansion in the US is unwarranted at this stage.

De-rating possibility

Kotak Securities has downgraded the stock to 'Reduce' from 'Neutral' with a price target of ₹1,300. "We find the decision to set up capacity in the US a little surprising as India's low labour cost lends BKT its main competitive edge over global peers leading to the company's higher profitability and return ratios," it said.

While the currently announced capacity in the US is relatively small, if BKT adopts the strategy of setting up more capacity overseas to gain market share, then its return ratios could come down significantly leading to a de-rating of the stock, Kotak warned further.

Greenfield project

In India, the company will set up a greenfield project in Waluj (Maharashtra) on 22 acres freehold land owned by the company, which is within a five-km radius of the current plant location. The capex at Waluj will be about ₹500 crore including a co-generation plant and in-house warehousing facilities for raw materials and finished goods.

The new facilities will enhance the company's operational efficiencies leading to recurring savings in operations, it said. The existing plant will continue to operate till the new plant becomes operational. There would be no change in capacity.