

BUSINESS LINE

ND. 31/8/19

CHOLA SECURITIES

Balkrishna Industries (Sell)

CMP: ₹747

Target: ₹698

In 1QFY20, Balkrishna Industries' (BIL) revenues declined by 12.4 per cent y-o-y to ₹1,190 crore on account of a 10 per cent y-o-y decline in volumes to 51,304 MT and a 3 per cent decline in realisations. The decline in volume can be attributed to deteriorating overseas volumes and in particular in the agricultural tyre segment. The management has guided for a volume growth of 3 per cent -5 per cent for FY20.

Realisations declined during the quarter on account of pass through of raw material cost decline to customers and adverse forex rates.

Valuation: BIL has shelved its \$100 million capex plan due to bleak outlook.

Management expects the weak demand scenario and pricing pressure to persist in FY20. However, the growth guidance for FY20 has been maintained on account of pent up demand from channel.

Currently, the stock is trading at a valuation of around 16.1X FY20E and 14.7X FY21E earnings. We arrive at a revised target price of ₹698 valuing the company at 14X FY21E EPS, and maintain a SELL rating on account of weak demand outlook and macro uncertainties in key markets.

Risks: Higher than expected volume growth, favourable movement in commodity prices.