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Upbeat US Outlook Improves Traction for Balkrishna Inds

Higher volumes may translate into better margins on account of higher plant utilisation

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ET Intelligence Group: The volume visibility of Balkrishna Industries, a manufacturer of off-highway tyres (OHT) used in mining and agriculture applications, is likely to improve considering a strong demand outlook in its export markets given the encouraging commentary by major companies including Caterpillar and Michelin.

The US-based Caterpillar raised it earning guidance by 23% to $10.25-11.25 per share for the current year following investments by several mining customers in new projects as well as for replacement of existing tyres. Balkrishna is one of the OHT suppliers to Caterpillar.

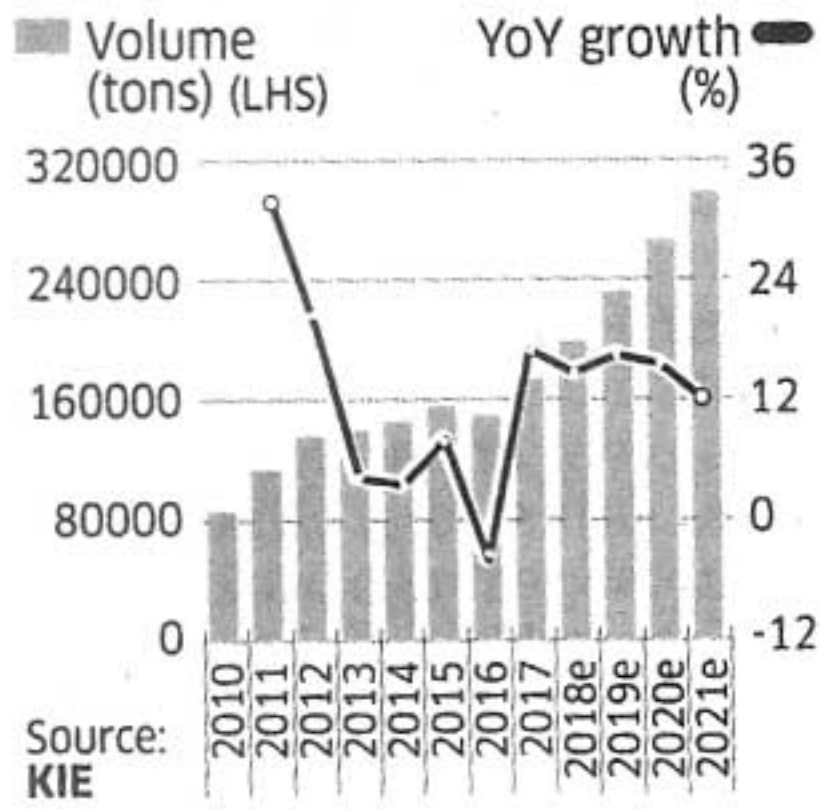
Michelin, a French tyre manufacturer, also expects speciality tyres sales volume to grow by 7-10% for 2018. Its revenue from the speciality tyres segment rose by 22% in the dollar terms in the first quarter of 2018.

The global OHT market is worth $12 billion and consists of off-road tyres (OTR) and agriculture tyres. Balkrishna Industries exports nearly 90% of its output overseas. Agriculture applications contribute nearly two-thirds to its sales volume while the rest is derived from the OTR segment which includes construction, mining and industrial applications. Balkrishna Industries has a market share of about 3% in the OTR segment and 10% in agriculture segment globally.

The improved traction in the OHT segment will support volume growth in the long-term and help the company gain market share. The company's management has guided for 12-15% volume growth annually over the next 10 years. Its products are 20-30% cheaper than the global peers.

Balkrishna Inds

Volume growth trend



Source: KIE

For FY18, the company has guided for a volume of 190,000-195,000 tonnes after the September quarter results, which implies volume growth of 10-13% year-on-year. In the first nine months of FY18, the volume grew by 15% to 145,211 tonnes. Analysts expect volume growth of 16% and 15% for FY19 and FY20.

The higher volumes may translate into better operating margin before depreciation (EBITDA margin) on account of higher utilisation of its factories. The new unit of Bhuj, which can produce 140,000 tonnes of OHT every year, is one of its most efficient plants. Hence the increasing production from the Bhuj plant in the total volume may improve margin.

Besides this, the company is setting up black carbon plant with annual capacity of 60,000 tonnes with an investment of ₹150 crore. This will result in backward integration since its operations require 50,000 tonnes of carbon black.

The backward integration could add around 100-150 basis points to the margin. In the first nine months of FY18, it had EBITDA Margin of 29.8%.

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