

Balkrishna Industries (BKT) – Investment Thesis

Recommended Date: 27 Jan 2026

Price: 2408

Action: BUY

1. Global Leadership in a Pure-Play Off-Highway Tyre Manufacturer:- BKT is a globally recognized pure-play Off-Highway Tyre (OHT) manufacturer, catering to agriculture, construction, mining & industrial applications. Established in 1987, BKT has built a strong export-led business model with ~100% revenue from OHT, differentiating it from diversified tyre peers. Segmentally, Agriculture and OTR account for ~58% & 38% of revenues respectively and Channel wise, replacement and OEM contribute ~71% & 28% respectively, providing resilience across cycles. Geographically, Europe (~39%), India (~35%) and the U.S. (~15%) form a diversified revenue mix, positioning BKT as a proxy for global Agri-mechanisation, infrastructure and mining activity.

2. Capacity Expansion to Drive Market Share Gains:- BKT is executing a well-sequenced capacity expansion strategy. With the ongoing 35,000 MTPA OHT capex and de-bottlenecking, total achievable tyre capacity is expected to reach ~425,000 MTPA, enabling BKT to target ~8% global OHT market share. The capacity expansion is demand-led and focused on higher-margin value-added products. Importantly, management has reiterated that projects are progressing as per schedule, providing confidence in execution and volume scalability over the next few years.

3. Strategic Growth Capex and Diversification Playbook:- Company has committed INR 3,500 crore of growth capex over the next 3 years across carbon black, rubber tracks & new tyre categories, reflecting a deliberate derisking strategy. Carbon black capacity will expand from 2L MTPA to 3.6L MTPA by early 2026. This enhances raw material security, cost efficiency and sustainability, while also strengthening BKT's position as a reliable carbon black supplier to domestic and global tyre manufacturers.

4. Entry into New Tyre Verticals with Controlled Risk:- BKT plans a modular and calibrated entry into Passenger Car Radial (PCR) and Commercial Vehicle Radial (CVR) tyres, initially targeting the Indian replacement market. The CV radial pilot is scheduled for Q4FY26, followed by PCR in Q3FY27, with gradual ramp-up. Management has clearly positioned this as a measured diversification, avoiding aggressive capital deployment while leveraging existing manufacturing and distribution strengths. This strategy reduces long-term dependence on a single geography or product category without compromising balance sheet discipline.

5. Strong Financial Discipline, Cash Flows and Balance Sheet:- BKT's financial quality remains a key investment pillar. Promoter holding has remained stable at 58.3% since FY18, reflecting alignment and confidence. Cash flow metrics are robust, with CFO-to-PAT conversion consistently between 106%–141% and CFO-to-EBITDA at 72%–92% over the last three years. Despite heavy capex, leverage remains conservative: as of September 2025, net debt stood at just INR 456 crore, supported by strong liquidity. Capital Work-in-Progress of INR 1,757 crore underscores visible growth execution, with FY26 capex guidance of 2,000–2,200 crore implying a lighter H2 as commissioning progresses.

6. Near-Term Headwinds and Key Short-Term Risks:- Short-term risks are well-identified and largely external. The most material headwind is the U.S. tariff hike to 50%, prompting BKT to pause U.S. shipments rather than absorb margin erosion. While this protects profitability, it results in near-term volume loss (U.S. was ~10–15% of revenues). Europe (~40% of revenues) is facing cyclical demand headwinds, though management indicates conditions are stabilizing with market share intact. Additionally, EUDR compliance costs will be fully reflected from Q3 onward; however, management expects the impact to be offset by softer raw material prices, keeping margins broadly stable QoQ. Mix-related pressure remains a risk as India share rises and U.S. contribution declines temporarily.

7. Investment Rationale: Why Select BKT Now: We have selected BKT at this stage as a 12-month medium-to-long-term investment opportunity, despite near-term volatility. The company offers a rare combination of global leadership, strong cash flows, disciplined capex and balance-sheet strength. Importantly, **BKT is a proxy for Europe and India growth in agriculture, mining and infrastructure (specially replacement cycle).** In anticipation of a potential India–EU trade agreement, market sentiment toward Europe-dependent exporters could improve materially, benefiting BKT's valuation perception. Any easing of U.S. tariffs could also trigger a swift volume rebound driven by pent-up demand, providing **upside optionality**. While short-term headwinds persist, the risk-reward is skewed favourably given BKT's execution track record, strategic diversification and long-term structural growth drivers.

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