

CMP: ₹4540

Target: ₹5550 (22%)

Target Period: 12 months

BUY

August 8, 2025

One offs mar margins, Outlook steady...

About the stock: SKF India, engaged in manufacturing of diverse product range of bearings, seals & lubrication systems, holds a strong position in catering after-market and other maintenance products

- Company's ~53% of revenues come from industrial segment while ~39% of revenues come from automotive segment. Balance ~8% of sales is from exports and other services. After-market segment contributes ~34% of total revenue.
- Consolidated revenue of the company has grown by 12% CAGR during the period FY20-25 while EBITDA and PAT have grown by 16% and 14.4% CAGR respectively over the same period.

Q1FY26 performance: SKF reported a mixed set with Revenue growing 6.4% YoY to ₹1283 crore. From a segment perspective, Industrials reported strong 13% YoY growth while auto and exports were flat YoY. However, EBITDA and PAT margins declined 319 bps and 365 bps to 13% and 9% respectively. EBITDA was mainly impacted by demerger expenses and forex loss. Thus, EBITDA and PAT came in at ₹167 crore and ₹118 crore down 15% and 26% respectively.

Investment Rationale:

- Industrial segment decent while auto will pick up going ahead:** In Q1FY26, industrial segment exhibited 13% YoY growth mainly led by segments like railways/wind/renewables/general machinery and the same is likely to grow going ahead. Auto and Exports were flat during Q1FY26 but going ahead with recovery in auto sector, increase in wallet share with key customers and new capacity will derive in auto segment growth. We model in revenue CAGR of 11.4% over FY25-FY27E.
- Margins to moderate in the interim on account of Demerger:** In Q1FY26 the EBITDA margins declined by 361 bps YoY to 13% on account of demerger expenses (Rs 18.3 crore), forex loss (Rs 13 crore) and higher employee expenses. The management alluded to the fact that demerger expenses would continue over next 4 quarters and have a bearing on margins. We have built in margins of 14.1% and 15.6% In FY26E and FY27E respectively.

Rating and Target Price

- We believe margin pressure on account of one-time event (demerger) is transitional. The demerger in our view will unlock value for shareholders. With a strong capex programme over FY27-FY29, we believe, SKF will continue to deliver steady growth without burdening the balance sheet. We maintain BUY rating with a target of 5550 (38x FY27E EPS)

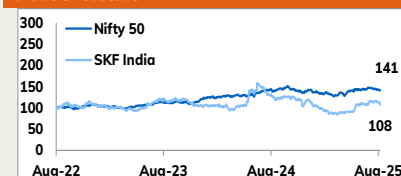
Market data

Particular	Rs. in crore
Market Cap	22,781.0
Total Debt (FY25)	0.0
Cash and Inv (FY25)	718.8
Enterprise Value	22,062.2
52 week H/L (Rs./ share)	5601/3544
Equity capital	49.4
Face value (Rs./ share)	10.0

Shareholding pattern

%	Sep-24	Dec-24	Mar-25	Jun-25
Promoter	52.6	52.6	52.6	52.6
FII	8.3	8.3	8.2	7.6
DII	27.3	27.2	26.5	26.6
Public	11.9	11.9	12.7	13.3

Price chart



Key risks

- Slowdown in domestic business
- Rise in input costs can impact margins as most of the orders are fixed price orders

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Key Financial Summary

(Rs. Crore)	FY22	FY23	FY24	FY25	3 Year CAGR FY22-25	FY26E	FY27E	2 Year CAGR FY25-27E
Revenue	3,665.9	4,304.9	4,570.1	4,919.9	10.3	5,451.0	6,102.3	11.4
EBITDA	555.7	749.3	709.8	723.3	9.2	766.8	951.8	14.7
EBITDA margin	15.2	17.4	15.5	14.7		14.1	15.6	
Net Profit	395.1	524.8	551.8	565.8	12.7	594.8	726.2	13.3
EPS (Rs)	79.9	106.2	111.6	114.4		120.3	146.9	
P/E (x)	56.3	42.4	40.3	39.3		37.4	30.6	
EV/EBITDA (x)	39.3	28.4	29.6	29.7		27.8	22.3	
RoCE (%)	27.6	30.8	27.1	28.8		27.0	28.6	
RoE (%)	21.0	22.4	20.6	21.8		20.3	21.5	

Source: Company, ICICI Direct Research

Key concall highlights

- The company's revenue grew 6% YoY to ₹1283 crore mainly from Industrials (53% revenue mix) which grew 13% YoY whereas, Automotive (39%) remained flat and exports (8%) declined 1% YoY.
- On the industrials front – railways (High speed rail and metro), wind and heavy industries (metals and general machinery) led the growth. The company also saw slight uptick from Real estate and Large infra projects undertaken by the government. Company expects industrials to continue to do well.
- The automotive was largely flat (-0.4%) due to change in 2W models of customers and also due to overall decline in commercial vehicle and passenger vehicles. The exports were hit (-1%) due to tariff uncertainty and slowdown in industries in South East Asia and Americas. The company expects automotive to grow as the new capacity becomes operational. The capacity is under construction now and is expected to operationalise in FY27E.
- The PBT margins were down 520 bps YoY due to multiple factors namely, a) demerger related costs b) rise in employee related cost (annual hike); c) rise in depreciation and lastly d) weaker rupee leading to forex loss during the quarter. The trading volume was also higher during the quarter which impacted margins as trading margins is lower. The Demerger related expenditures were partly one time and partly are expected to continue until H1FY27E.
- The NWC declined sequentially due to decline in inventory however it increased YoY due to rise in receivables and rise in volume of business. The cashflow improved 13% on a YoY basis.
- The company will demerge the Industrial and Automotive business. Both businesses operate in different macro environment, have separate customer needs and difference in manufacturing philosophies. The demerger will enable management to have independent focus on respective businesses, improve efficiency through tailored innovation. Improve agility and responsiveness to business needs and lastly more visibility for investors of each business segment.

Financial Summary

Exhibit 1: Profit and loss statement					₹ crore
(Year-end March)	FY24	FY25	FY26E	FY27E	
Revenue	4,570	4,920	5,451	6,102	
Growth YoY (%)		8%	11%	12%	
Other Income	102	124	135	150	
Total Revenue	4,672	5,043	5,586	6,252	
Cost of materials consumed	1,160	1,247	1,390	1,556	
Purchase of stock-in-trade	1,633	1,947	1,984	2,247	
Change in inventories	(14)	(178)	(20)	(20)	
Employee cost	343	360	403	452	
Other Expenses	739	820	927	915	
Total expenditure	3,860	4,197	4,684	5,150	
EBITDA	710	723	767	952	
Growth YoY (%)		2%	6%	24%	
Interest	1	1	2	2	
PBDT	810	846	900	1,100	
Depreciation	75	83	96	119	
Profit Before Tax	736	763	804	981	
Tax	184	197	209	255	
PAT	552	566	595	726	
Growth YoY (%)		3%	5%	22%	
EPS	111.6	114.4	120.3	146.9	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement					₹ crore
(Year-end March)	FY24	FY25	FY26E	FY27E	
Profit after Tax	552	566	595	726	
Depreciation	75	83	96	119	
Interest	1	1	2	2	
Other income	(102)	(124)	(135)	(150)	
Prov for Taxation	184	197	209	255	
Cash Flow before WC changes	710	723	767	952	
Change in Working Capital	103	(348)	71	(121)	
Taxes Paid	(184)	(190)	(209)	(255)	
Cashflow from Operations	629	185	628	575	
(Purchase)/Sale of Fixed Assets	(148)	(128)	(300)	(300)	
(Purchase)/Sale of Investments	(107)	(40)	(25)	(49)	
Other Income	102	124	135	150	
Cashflow from Investing	(154)	(45)	(190)	(199)	
Issue/(Repayment of Debt)	-	-	-	-	
Changes in Minority Interest	-	-	-	-	
Changes in Networth	(13)	0	-	-	
Interest	(1)	(1)	(2)	(2)	
Dividend paid	(198)	(643)	(267)	(272)	
Cashflow from Financing	(212)	(643)	(268)	(273)	
Changes in Cash	264	(503)	169	102	
Opening Cash/Cash Equivalent	958	1,222	719	888	
Closing Cash/ Cash Equivalent	1,222	719	888	991	

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet					₹ crore
(Year-end March)	FY24	FY25	FY26E	FY27E	
Share Capital	49.4	49.4	49.4	49.4	
Reserves & Surplus	2,633	2,549	2,876	3,331	
Networth	2,683	2,598	2,926	3,380	
Total Debt	-	-	-	-	
Other non-current liabilities	41	56	56	56	
Total Liabilities	2,723	2,653	2,981	3,436	
Gross Block	969	1,130	1,286	1,586	
Acc: Depreciation	496	580	676	795	
Net Block	472	551	610	791	
Capital WIP	89	56	200	200	
Investments	349	389	414	464	
Inventory	684	873	926	1,053	
Sundry debtors	751	849	894	1,001	
Cash and bank balances	1,222	719	888	991	
Other financial assets	25	7	8	9	
Other current assets	59	121	134	150	
Total Current Assets	2,741	2,569	2,850	3,203	
CL& Prov.	928	910	1,093	1,222	
Net Current Assets	1,813	1,658	1,757	1,981	
Total Assets	2,723	2,653	2,981	3,436	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios					
(Year-end March)	FY24	FY25	FY26E	FY27E	
Per share data (Rs.)					
EPS	111.6	114.4	120.3	146.9	
Cash EPS	126.7	131.2	139.8	170.9	
BV	542.6	525.5	591.8	683.7	
DPS	40.0	130.0	54.0	55.0	
Cash Per Share	100.4	117.2	136.7	160.8	
Operating Ratios (%)					
EBITDA Margin	15.5	14.7	14.1	15.6	
PBT / Net Sales	13.9	13.0	12.3	13.6	
PAT Margin	12.1	11.5	10.9	11.9	
Inventory days	54.6	64.8	62.0	63.0	
Debtor days	60.0	63.0	59.9	59.9	
Creditor days	70.3	64.3	70.0	70.0	
Return Ratios (%)					
RoE	20.6	21.8	20.3	21.5	
RoCE	27.1	28.8	27.0	28.6	
RoC	42.3	33.1	32.0	34.1	
Valuation Ratios (x)					
P/E	40.3	39.3	37.4	30.6	
EV / EBITDA	29.6	29.7	27.8	22.3	
EV / Net Sales	4.6	4.4	3.9	3.5	
Market Cap / Sales	4.9	4.5	4.1	3.6	
Price to Book Value	8.3	8.6	7.6	6.6	
Solvency Ratios					
Debt/EBITDA	-	-	-	-	
Current Ratio	2.9	2.8	2.6	2.6	
Quick Ratio	2.2	1.9	1.8	1.8	

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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