

## Strong performance but expensive valuations...

**About the stock:** Timken India is into manufacturing, distribution and sale of anti-friction bearings, primarily tapered roller bearings, cylindrical roller bearing and other bearing components and accessories.

- They are also in power transmission product brands & partner with renewable energy companies to power some of world's largest wind mills
- Timken offers products to defence, mining, aerospace, agriculture, rail, energy and automotive industry
- It has state-of-the-art manufacturing plants in Jamshedpur, Jharkhand and Bharuch, Gujarat
- It has a revenue breakup of 75% from domestic sales and 25% from export

**Q2FY22 Results:** Timken reported decent Q2FY22 results.

- Revenue for the quarter came in at ₹ 557.9 crore, up 42% YoY & 19.3% QoQ (vs. I-direct estimate of ₹ 540.4 crore)
- Absolute EBITDA came in at ₹ 123.8 crore, up 33.5% QoQ (I-direct estimate of ₹ 96.4 crore)
- Tracking its operating performance, Timken ended the quarter with a PAT of ₹ 79.2 crore (vs. I-direct estimate of ₹ 59.7 crore)

**What should investors do?** Timken has a strong balance sheet coupled with decent growth prospects but this is reflected in the price.

- We continue to maintain our HOLD rating on the stock

**Target Price and Valuation:** We value Timken at ₹ 2240 i.e. 45x P/E on FY24E EPS

**Key triggers for future price performance:**

- Recovery in Indian economy led by mining and industrial segment
- Strong rebound in CV cycle
- Superior RoIC trend of >25%

**Alternate Stock Idea:** Apart from Timken, we also like NRB Bearings in our capital goods coverage universe.

- It offers a play on needle roller bearings, which are largely used in auto applications
- BUY with a target price of ₹ 175 per share

## TIMKEN

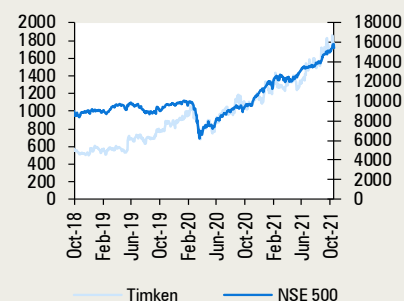
### Particulars

Particular	Amount
Market Capitalization (₹ crore)	15,119
Total Debt (FY21) (₹ crore)	33
Cash and Inv (FY21) (₹ crore)	174
EV (FY21) (₹ crore)	14,977
52 week H/L (₹) (BSE)	2045 / 1054
Equity capital (₹ crore)	75.2
Face value (₹)	10.0

### Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	67.8%	67.8%	67.8%	67.8%
FII	3.1%	2.9%	2.8%	2.8%
DII	10.2%	11.4%	12.7%	13.6%
Others	18.9%	17.9%	16.7%	15.8%

### Price Chart



### Recent event & key risks

- Revival in auto industry and increasing demand on EVs
- **Key Risk:** (i) High input cost

### Research Analyst

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	1,664.4	1,617.8	1,410.5	6.1	1,853.6	2,277.3	2,746.0	24.9
EBITDA	288.6	363.3	251.8	9.2	374.4	466.8	582.1	32.2
EBITDA margin (%)	17.3	22.5	17.9		20.2	20.5	21.2	
Net Profit	148.6	246.1	143.2	9.3	231.5	301.0	373.7	37.7
EPS (₹)	19.8	32.7	19.0		30.8	40.0	49.7	
P/E (x)	101.7	61.4	105.6		65.3	50.2	40.5	
P/BV	11.3	9.6	11.3		9.8	9.8	9.8	
EV/EBITDA (x)	52.4	40.5	59.5		39.3	31.6	25.3	
RoCE (%)	15.7	18.6	13.7		19.4	25.1	31.2	
RoE (%)	11.1	15.6	10.7		15.1	19.6	24.3	

## Key takeaways of recent quarter & conference call highlights

### Q2FY22 Results: Decent Performance led by pickup in economy

- Timken India reported a good set of numbers in Q2FY22, with revenues and gross margins in line with our estimates but there was a surprise on EBITDA margins, which were slightly higher due to lower other expenses. We believe a smart recovery in auto & industrial segment and new product launches in power transmission space resulted in an overall strong performance
- Revenue for the quarter came in at ₹ 557.9 crore, up 42% YoY & 19.3% QoQ (vs. I-direct estimate of ₹ 540.4 crore)
- Gross margins contracted ~90 bps YoY & ~20 bps QoQ. Timken registered an EBIDTA margin of 22.2% vs 19.8% YoY & 21.1% QoQ (vs. I-direct estimate of 17.8%). Surprise in EBITDA margin come in due to lower other expenses. Absolute EBIDTA came in at ₹ 123.8 crore, up 33.5% QoQ (I-direct estimate of ₹ 96.4 crore)
- Employee cost increased 15.2% YoY and remained flat QoQ at ₹ 35 crore, Other expenses increased 37.8% YoY, 9.4% QoQ at ₹ 88.4 crore
- Tracking its operating performance, PAT came in at ₹ 79.2 crore (vs. I-direct estimate of ₹ 59.7 crore), up 58.6% YoY and 39.6% QoQ

**Exhibit 1: Variance Analysis**

Year	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ(%)	Comments
Income from Operation	557.9	540.4	392.2	42.2	467.9	19.3	Strong performance led by better new products
Cost of materials consumed	183.4	180.0	138.0	32.9	159.9	14.7	
Purchase of stock-in-trade	147.9	142.1	74.2	99.4	144.8	2.2	
Change in inventories	(20.6)	(10.8)	2.8		(45.1)		
Employee cost	35.0	36.5	30.3	15.2	34.7	0.7	
Other expenses	88.4	96.2	64.2	37.8	80.8	9.4	
EBITDA	123.8	96.4	82.7	49.8	92.8	33.5	
EBITDA Margin (%)	22.2	17.8	21.1	111 bps	19.8	236 bps	Margins sustain led by cost optimasation and price hikes and lower other Expenses
Other Income	3.8	3.0	2.2	70.6	2.9	30.9	
Depreciation	20.5	18.5	17.7	15.8	19.9	2.9	
Interest	0.4	0.2	0.3	50.0	0.4	(2.5)	
PBT	106.7	80.7	67.0	59.4	75.4	41.6	
Taxes	27.5	21.0	17.0	61.8	18.6	47.7	
PAT	79.2	59.7	49.9	58.6	56.7	39.6	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	Actual		FY22E		FY23E		FY24E			
	FY21	Old	New	% Change	Old	New	Change	old		New
₹ crore										
Revenue	1411	1763	1854	5.1	2090	2277	9.0	2398	2746	14.5
EBITDA	252	339	374	10.4	428	467	9.1	508	582	14.6
EBITDA Margin (%)	17.9	19.2	20.2	97 bps	20.5	20.5	2 bps	21.2	21.2	(0.0)
PAT	143	212	231	9.2	273	301	10.2	327	374	14.3
EPS (₹)	19.0	28.2	30.8	9.1	36.3	40.0	10.2	43.5	49.7	14.2

Source: ICICI Direct Research

## Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Net Sales	1,411	1,854	2,277	2,746
Total Operating Income	1,411	1,854	2,277	2,746
% Growth (Operating Income)	-13%	31.4	22.9	20.6
Other Income	19.6	20.0	35.0	40.0
<b>Total Revenue</b>	<b>1,430</b>	<b>1,874</b>	<b>2,312</b>	<b>2,786</b>
Cost of materials consumed	449	597	729	873
Purchase of stock-in-trade	402	450	535	632
Change in inventories	(65)	(19)	(23)	(27)
Employee cost	119	135	178	214
Other Expenses	254	315	392	472
<b>Total expenditure</b>	<b>1,159</b>	<b>1,479</b>	<b>1,810</b>	<b>2,164</b>
<b>EBITDA</b>	<b>252</b>	<b>374</b>	<b>467</b>	<b>582</b>
% Growth (EBITDA)	-31%	48.7	24.7	24.7
Interest	1.4	2.3	2.3	2.3
PBDT	270	392	500	620
Depreciation	75	77	90	111
PBT	195	315	410	509
Tax	52	84	109	135
<b>PAT</b>	<b>143</b>	<b>231</b>	<b>301</b>	<b>374</b>
% Growth (PAT)	-42%	61.7	30.0	24.2
EPS	19.0	30.8	40.0	49.7

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Profit after Tax	143.2	231.5	301.0	373.7
Depreciation	74.9	76.8	89.6	110.8
Interest	1.4	2.3	2.3	2.3
Other income	(19.6)	(20.0)	(35.0)	(40.0)
Prov for Taxation	51.9	83.9	109.1	135.4
Change in Working Capital	(18.5)	(64.1)	(92.9)	(102.8)
Taxes Paid	(59.5)	(83.9)	(109.1)	(135.4)
<b>CF from Op activities</b>	<b>174</b>	<b>226</b>	<b>265</b>	<b>344</b>
(Purchase)/Sale of Fixed Assets	(184.9)	41.4	(300.0)	(150.0)
(Purchase)/Sale of Investments	112.0	-	-	-
Other Income	19.6	20.0	35.0	40.0
<b>CF from Inv activities</b>	<b>(53)</b>	<b>61</b>	<b>(265)</b>	<b>(110)</b>
Changes in Networth	(0.2)	-	-	(0.0)
Interest	(1.4)	(2.3)	(2.3)	(2.3)
Dividend paid	(376.1)	(37.6)	(37.6)	(37.6)
<b>CF from Fin activities</b>	<b>(378)</b>	<b>(40)</b>	<b>(40)</b>	<b>(40)</b>
Changes in Cash	(244.6)	260.3	(40.0)	194.1
Opening Cash/Cash Equivalent	418.8	174.2	434.5	394.5
Closing Cash/ Cash Equivalent	174.2	434.5	394.5	588.6

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Share Capital	75	75	75	75
Reserves & Surplus	1,268	1,462	1,725	2,062
<b>Total Shareholders fund</b>	<b>1,344</b>	<b>1,537</b>	<b>1,801</b>	<b>2,137</b>
Goodwill	181	181	181	181
Total debt	33	45	45	45
Other liabilities	57	57	57	57
<b>Total Liabilities</b>	<b>1,434</b>	<b>1,640</b>	<b>1,903</b>	<b>2,239</b>
Gross Block	704	854	1,054	1,304
Acc: Depreciation	321	398	487	598
Net Block	627	456	566	705
Capital WIP	97	150	250	150
Investments	28	28	28	28
Inventory	369	340	418	504
Sundry debtors	371	371	455	549
<b>Cash</b>	<b>174</b>	<b>435</b>	<b>395</b>	<b>589</b>
Loans & Advances	1	0	0	0
Inv+Other current assets	40	40	40	40
CL& Prov.	455	361	430	507
Net Current Assets	501	825	878	1,175
<b>Total Assets</b>	<b>1,434</b>	<b>1,640</b>	<b>1,903</b>	<b>2,239</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
EPS	19.0	30.8	40.0	49.7
Cash EPS	29.0	41.0	51.9	64.4
BV	178.6	204.4	204.4	204.4
DPS	50.0	5.0	5.0	5.0
Cash Per Share	42.7	52.9	52.9	52.9
<b>Operating Ratios (%)</b>				
EBITDA Margin	17.9	20.2	20.5	21.2
PBT / Net Sales	12.5	16.1	16.6	17.2
PAT Margin	10.2	12.5	13.2	13.6
Inventory days	95.4	67.0	54.5	45.2
Debtor days	96.1	73.0	59.4	49.3
Creditor days	117.7	71.0	57.8	48.0
<b>Return Ratios (%)</b>				
RoE	10.7	15.1	19.6	24.3
RoCE	13.7	19.4	25.1	31.2
RoIC	26.4	36.9	46.8	58.5
<b>Valuation Ratios (x)</b>				
P/E	105.6	65.3	50.2	40.5
EV / EBITDA	59.5	39.3	31.6	25.3
EV / Net Sales	10.6	7.9	6.5	5.4
Market Cap / Sales	10.7	8.2	6.6	5.5
Price to Book Value	11.3	9.8	9.8	9.8
<b>Solvency Ratios</b>				
Net Debt / Equity	-	-	-	-
Current Ratio	1.6	2.0	2.0	2.0
Quick Ratio	0.8	1.0	1.0	1.0

Source: Company, ICICI Direct Research

Exhibit:7 ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1950	2,150	Buy	273624	81.9	51.9	52.9	23.8	37.5	36.8	7.4	8.0	9.0	18.8	11.4	11.2
Siemens Ltd	2386	2,550	Buy	84970	28.3	37.9	45.1	84.4	62.9	53.0	13.5	16.3	17.4	9.9	12.1	13.0
AIA Engineering (AIAENG)	1888	2,230	Buy	17808	59.7	60.4	69.7	31.6	31.2	27.1	16.4	15.3	16.1	13.3	12.4	12.9
Thermax (THERMA)	1617	1,800	Buy	19268	17.3	26.7	40.0	93.3	60.6	40.4	9.8	11.8	16.4	7.6	9.2	12.7
Kalpataru Power(KALPOW)	416	455	Hold	6436	41.3	25.8	37.8	10.1	16.1	11.0	15.9	15.2	16.7	12.7	9.7	11.8
KEC International (KECIN)	461	550	Buy	11852	21.5	19.9	32.3	21.4	23.1	14.3	19.4	17.3	21.3	16.5	14.7	18.7
Greaves Cotton (GREAVE)	134	150	Hold	3098	0.4	2.4	5.4	299.0	54.8	24.9	6.5	7.2	18.6	3.3	5.1	13.6
Elgi Equipment (ELGEQU)	222	260	Buy	7035	3.2	3.9	6.2	68.6	57.1	36.1	11.7	12.7	18.1	11.8	13.8	18.7
Bharat Electronics (BHAELE)	223	250	Buy	54336	8.5	9.6	11.3	26.3	23.1	19.8	27.2	27.0	28.7	19.1	19.9	21.4
Cochin Shipyard (COCSHI)	372	500	Buy	5059	46.4	44.0	55.6	8.0	8.5	6.7	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	3843	3,960	Buy	20368	67.6	78.1	98.9	56.8	49.2	38.9	27.0	26.5	27.9	21.4	20.6	21.6
Timken India (TIMIND)	2006	2,240	Hold	12838	19.0	30.8	40.0	105.4	65.1	50.2	13.7	19.4	25.1	10.7	15.1	19.6
NRB Bearing (NRBBEA)	139	175	Buy	1348	5.6	8.0	9.8	24.8	17.4	14.2	11.8	15.8	17.2	10.4	13.1	14.1
Action Construction (ACTCON)	251	320	Buy	2836	7.1	9.7	13.9	35.4	25.9	18.1	26.9	22.3	26.2	15.3	14.9	17.9

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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