

Decent set of operational numbers...

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

Q3FY22 Results: Timken reported decent Q3FY22 results.

- Revenue for the quarter came in at ₹ 510 crore, up 33% YoY (due to low base) & down 8.6% QoQ (vs. I-direct estimate of ₹ 608.7 crore)
- Absolute EBIDTA came in at ₹ 114.1 crore, down 7.8% QoQ (I-direct estimate of ₹ 129.7 crore)
- Tracking its operating performance, Timken ended the quarter with a PAT of ₹ 69.8 crore (vs. I-direct estimate of ₹ 83.2 crore), down 11.9% QoQ

What should investors do? Timken has a strong balance sheet coupled with decent growth prospects.

- We change our rating from HOLD to BUY

Target Price and Valuation: We value Timken at ₹ 2405 i.e. 48x P/E on FY24E EPS

Key triggers for future price performance:

- Announcement to manufacture 400 new Vande Bharat train in three years
- 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 ₹ 220 per share

TIMKEN

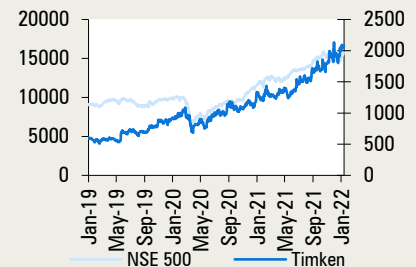
Particulars

Particular	Amount
Market Capitalization (₹ crore)	15,059
Total Debt (FY21) (₹ crore)	33
Cash and Inv (FY21) (₹ crore)	174
EV (FY21) (₹ crore)	14,917
52 week H/L (₹) (BSE)	2156 / 1206
Equity capital (₹ crore)	75.2
Face value (₹)	10.0

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	67.8%	67.8%	67.8%	67.8%
FII	2.9%	2.8%	2.8%	2.7%
DII	11.4%	12.7%	13.6%	13.9%
Others	17.9%	16.7%	15.8%	15.7%

Price Chart



Recent event & key risks

- Revival in auto industry (CV & PV) and increasing demand on EVs
- Announcement of 400 new trains
- **Key Risk:** (i) High input cost

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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	2,000.1	2,352.2	2,766.9	25.2
EBITDA	288.6	363.3	251.8	9.2	404.0	505.7	589.3	32.8
EBITDA margin (%)	17.3	22.5	17.9		20.2	21.5	21.3	
Net Profit	148.6	246.1	143.2	9.3	253.2	325.8	376.7	38.1
EPS (₹)	19.8	32.7	19.0		33.7	43.3	50.1	
P/E (x)	101.3	61.2	105.2		59.5	46.2	40.0	
P/BV	11.2	9.6	11.2		9.8	9.8	9.8	
EV/EBITDA (x)	52.1	40.4	59.2		36.4	29.1	24.9	
RoCE (%)	15.7	18.6	13.7		21.1	27.1	31.3	
RoE (%)	11.1	15.6	10.7		16.4	21.1	24.4	

Key takeaways of recent quarter

Q3FY22 Results: Weak Performance on Industrial Segment

- Timken India reported decent set of numbers in Q3FY22, with revenues below our expectation due to performance being a laggard on the industrial segment side. However, gross margins are better than our estimates, which also resulted in higher-than-expected EBITDA margins
- Revenue for the quarter came in at ₹ 510 crore, up 33% YoY (due to low base) & down 8.6% QoQ (vs. I-direct estimate of ₹ 608.7 crore)
- Gross margins expanded ~210 bps YoY & ~180 bps QoQ. Timken registered an EBITDA margin of 22.4% vs 17.5% YoY & 22.2% QoQ (vs. I-direct estimate of 21.8%) Surprise in EBITDA margin come in due to higher gross margins. Absolute EBITDA came in at ₹ 114.1 crore, down 7.8% QoQ (I-direct estimate of ₹ 129.7 crore)
- Employee cost increased 29.9% YoY (due to low base) & down 1.3% QoQ basis and was at ₹ 34.5 crore. Other expenses declined 2.2% QoQ and were at ₹ 86.5 crore
- Tracking its operating performance, Timken ended the quarter with a PAT of ₹ 69.8 crore (vs. I-direct estimate of ₹ 83.2 crore), down 11.9% QoQ

Exhibit 1: Variance Analysis

Year	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ(%)	Comments
Income from Operation	510.0	608.7	383.6	33.0	557.9	-8.6	Decent Performance, Laggard on Industrial segment side
Cost of materials consumed	193.8	194.8	130.9	48.0	183.4	5.7	
Purchase of stock-in-trade	128.9	164.4	124.3	3.7	147.9	-12.9	
Change in inventories	(47.8)	(18.3)	(40.4)		(20.6)		
Employee cost	34.5	39.0	29.9	15.5	35.0	(1.3)	
Other expenses	86.5	99.2	71.8	20.4	88.4	(2.2)	
EBITDA	114.1	129.7	67.1	70.1	123.8	(7.8)	
EBITDA Margin (%)	22.4	21.3	17.5	489 bps	22.2	19 bps	Margins sustain led by cost optimisation and higher gross margins
Other Income	2.8	3.8	1.8	54.7	3.8	(25.7)	
Depreciation	21.6	20.0	18.8	15.1	20.5	5.6	
Interest	0.3	0.2	0.3	3.4	0.4	(23.1)	
PBT	95.0	113.3	49.8	90.6	106.7	(11.0)	
Taxes	25.2	30.0	12.7	99.2	27.5	(8.5)	
PAT	69.8	83.2	37.2	87.7	79.2	(11.9)	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	Actual		FY22E		FY23E		FY24E			
	FY21	Old	New	% Change	Old	New	Change	old	New	change
₹ crore										
Revenue	1410.5	1853.6	2000.1	7.9	2277.3	2352.2	3.3	2746.0	2766.9	0.8
EBITDA	251.8	374.4	404.0	7.9	466.8	505.7	8.3	582.1	589.3	1.2
EBITDA Margin (%)	17.9	20.2	20.2	0 bps	20.5	21.5	100 bps	21.2	21.3	10 bps
PAT	143.2	231.5	253.2	9.4	301.0	325.8	8.3	373.7	376.7	0.8
EPS (₹)	19.0	30.8	33.7	9.4	40.0	43.3	8.3	49.7	50.1	0.8

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement					₹ crore
(₹ Crore)	FY21	FY22E	FY23E	FY24E	
Net Sales	1,411	2,000	2,352	2,767	
Total Operating Income	1,411	2,000	2,352	2,767	
% Growth (Operating Income)	-13%	41.8	17.6	17.6	
Other Income	19.6	20.0	30.0	37.0	
Total Revenue	1,430	2,020	2,382	2,804	
Cost of materials consumed	449	644	753	891	
Purchase of stock-in-trade	402	486	541	636	
Change in inventories	(65)	(20)	(24)	(28)	
Employee cost	119	146	176	208	
Other Expenses	254	340	400	470	
Total expenditure	1,159	1,596	1,846	2,178	
EBITDA	252	404	506	589	
% Growth (EBITDA)	-31%	60.5	25.2	16.5	
Interest	1.4	2.3	2.3	2.3	
PBDT	270	422	533	624	
Depreciation	75	77	90	111	
PBT	195	345	444	513	
Tax	52	92	118	137	
PAT	143	253	326	377	
% Growth (PAT)	-42%	76.8	28.7	15.6	
EPS	19.0	33.7	43.3	50.1	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					₹ crore
(₹ Crore)	FY21	FY22E	FY23E	FY24E	
Profit after Tax	143.2	253.2	325.8	376.7	
Depreciation	74.9	76.8	89.6	110.8	
Interest	1.4	2.3	2.3	2.3	
Other income	(19.6)	(20.0)	(30.0)	(37.0)	
Prov for Taxation	51.9	91.8	118.1	136.5	
Change in Working Capital	(18.5)	(96.2)	(77.2)	(90.9)	
Taxes Paid	(59.5)	(91.8)	(118.1)	(136.5)	
CF from Op activities	174	216	310	362	
(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	30.0	37.0	
CF from Inv activities	(53)	61	(270)	(113)	
Changes in Network	(0.2)	-	-	(0.0)	
Interest	(1.4)	(2.3)	(2.3)	(2.3)	
Dividend paid	(376.1)	(52.7)	(67.7)	(90.3)	
CF from Fin activities	(378)	(55)	(70)	(93)	
Changes in Cash	(244.6)	234.9	(29.5)	156.3	
Opening Cash/Cash Equivalent	418.8	174.2	409.1	379.5	
Closing Cash/ Cash Equivalent	174.2	409.1	379.5	535.9	

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	1,469	1,727	2,013	
Total Shareholders fund	1,344	1,544	1,802	2,089	
Goodwill	181	181	181	181	
Total debt	33	45	45	45	
Other liabilities	57	57	57	57	
Total Liabilities	1,434	1,646	1,905	2,191	
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	367	432	508	
Sundry debtors	371	400	470	553	
Cash	174	409	380	536	
Loans & Advances	1	0	0	0	
Inv+Other current assets	40	40	40	40	
CL& Prov.	455	385	443	511	
Net Current Assets	501	832	879	1,127	
Total Assets	1,434	1,646	1,905	2,191	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per Share Data				
EPS	19.0	33.7	43.3	50.1
Cash EPS	29.0	43.9	55.2	64.8
BV	178.6	205.3	205.3	205.3
DPS	50.0	7.0	9.0	12.0
Cash Per Share	42.7	52.9	52.9	52.9
Operating Ratios(%)				
EBITDA Margin	17.9	20.2	21.5	21.3
PBT / Net Sales	12.5	16.4	17.7	17.3
PAT Margin	10.2	12.7	13.9	13.6
Inventory days	95.4	67.0	57.0	48.4
Debtor days	96.1	73.0	62.1	52.8
Creditor days	117.7	70.2	59.7	50.8
Return Ratios(%)				
RoE	10.7	16.4	21.1	24.4
RoCE	13.7	21.1	27.1	31.3
RoIC	26.4	39.0	49.6	57.1
Valuation Ratio(%)				
P/E	105.2	59.5	46.2	40.0
EV / EBITDA	59.2	36.4	29.1	24.9
EV / Net Sales	10.6	7.3	6.2	5.3
Market Cap / Sales	10.7	7.5	6.4	5.4
Price to Book Value	11.2	9.8	9.8	9.8
Solvency Ratio(%)				
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 (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1953	2,270	Buy	274045	81.9	54.7	55.7	23.8	35.7	35.1	7.4	8.0	9.3	18.8	12.0	11.7
Siemens Ltd	2432	2,550	Buy	86608	29.5	37.3	45.0	82.5	65.2	54.0	13.9	15.9	17.4	10.1	11.7	12.9
AIA Engineering (AIAENG)	1865	1,895	Hold	17591	59.7	56.8	59.9	31.2	32.8	31.1	16.4	14.4	14.2	13.3	11.8	11.3
Thermax (THERMA)	1995	1,800	Buy	23772	17.3	26.7	40.0	115.1	74.8	49.9	9.8	11.8	16.4	7.6	9.2	12.7
Kalpataru Power(KALPOW)	407	455	Hold	6297	41.3	25.8	37.8	9.8	15.8	10.8	15.9	15.2	16.7	12.7	9.7	11.8
KEC International (KECIN)	526	535	Hold	13523	21.5	17.2	25.5	24.5	30.6	20.6	19.4	15.9	18.3	16.5	13.1	15.6
Greaves Cotton (GREAVE)	214	150	Hold	4948	0.4	2.4	5.4	477.6	87.5	39.7	6.5	7.2	18.6	3.3	5.1	13.6
Elgi Equipment (ELGEQU)	404	260	Buy	12803	3.2	3.9	6.2	124.9	103.9	65.6	11.7	12.7	18.1	11.8	13.8	18.7
Bharat Electronics (BHAELE)	206	250	Buy	50194	8.5	9.4	11.2	24.3	22.0	18.3	27.2	26.2	28.7	19.1	19.4	21.4
Cochin Shipyard (COCSHI)	340	500	Buy	4472	46.4	44.0	55.6	7.3	7.7	6.1	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	3703	3,960	Buy	18307	67.6	78.1	98.9	54.8	47.4	37.4	27.0	26.5	27.9	21.4	20.6	21.6
Timken India (TIMIND)	2002	2,405	Buy	15059	19.0	37.8	43.3	105.1	59.5	46.2	13.7	21.1	27.1	10.7	16.4	21.1
NRB Bearing (NRBBEA)	168	220	Buy	1628	5.6	8.2	9.8	30.2	20.6	17.3	11.8	15.8	16.8	10.4	13.4	13.9
Action Construction (ACTCON)	239	320	Buy	2846	7.1	9.7	13.9	33.7	24.6	17.2	26.9	22.3	26.2	15.3	14.9	17.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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