

Excellent 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 in Jharkhand and Bharuch in Gujarat
- It has a revenue breakup of 75% from domestic sales and 25% from export

Q4FY22 Results: Timken reported excellent Q4FY22 results.

- Revenue for the quarter came in at ₹ 667.4 crore, up 40% YoY & 30.9% QoQ (vs. I-direct estimate of ₹ 553.7 crore)
- Absolute EBIDTA came in at ₹ 179.8 crore, down 57.6% QoQ (I-direct estimate of ₹ 110.7 crore)
- Tracking its operating performance, Timken ended the quarter with PAT of ₹ 121.3 crore (vs. I-direct estimate of ₹ 68.1 crore), up 73.9% QoQ

What should investors do? Timken has a strong balance sheet coupled with decent growth prospects led by strong growth in railways, wind and exports.

- We maintain our **BUY** rating

Target Price and Valuation: We value Timken at ₹ 2810 i.e. 45x P/E on FY24E EPS

Key triggers for future price performance:

- Announcement of 400 Vande Bharat train, 90,000 wagons in next three years
- Recovery in Indian economy led by mining and industrial segment
- Strong capex cycle, strong traction from wind and services segment

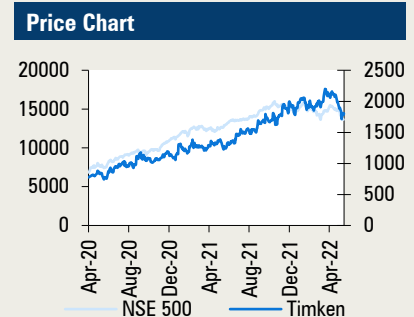
Alternate Stock Idea: Apart from Timken, we also like NRB Bearings in our capital goods coverage universe.

- 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)	17,458
Total Debt (FY22) (₹ crore)	30
Cash and Inv (FY22) (₹ crore)	70
EV (FY22) (₹ crore)	17,418
52 week H/L (₹) (BSE)	2332 / 1303
Equity capital (₹ crore)	75.2
Face value (₹)	10.0

Shareholding pattern				
	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	67.8%	67.8%	67.8%	67.8%
FII	2.8%	2.8%	2.7%	2.9%
DII	12.7%	13.6%	13.9%	13.0%
Others	16.7%	15.8%	15.7%	16.3%



- Recent event & key risks**
- Revival in auto industry (CV) and increasing demand wind energy
 - Announcement of 90,000 wagon
 - **Key Risk:** (i) High input cost

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	1,664.4	1,617.8	1,410.5	6.1	2,203.2	2,609.2	3,013.3	28.8
EBITDA	288.6	363.3	251.8	9.2	510.6	613.2	708.1	41.2
EBITDA margin (%)	17.3	22.5	17.9		23.2	23.5	23.5	
Net Profit	148.6	246.1	143.2	9.3	327.1	412.0	469.8	48.6
EPS (₹)	19.8	32.7	19.0		43.5	54.8	62.5	
P/E (x)	117.5	70.9	121.9		53.4	42.4	37.2	
EV/EBITDA (x)	60.5	47.0	69.0		34.1	28.4	24.6	
RoCE (%)	15.7	18.6	13.7		25.3	32.3	36.9	
RoE (%)	11.1	15.6	10.7		19.7	24.9	28.4	

Key takeaways of recent quarter

Q4FY22 Results: Excellent performance in industrial segment

- Timken India reported an excellent set of numbers in Q4FY22, with revenues better than our expectation due to exceptional performance on industrial segment side. Gross margins are also better than our estimates. This coupled with lower employee cost and other expenses resulted in higher than expected EBITDA margins
- Revenue for the quarter came in at ₹ 667.4 crore, up 40.4% YoY & 30.9% QoQ (vs. I-direct estimate of ₹ 553.7 crore)
- Gross margins expanded ~160 bps YoY & ~500 bps QoQ. Timken registered an EBITDA margin of 26.9% vs 18.3% YoY & 22.4% QoQ (vs. I-direct estimate of 19.9%) Surprise in EBITDA margin come in due to higher gross margins, lower employee cost and other expenses. Absolute EBITDA came in at ₹ 179.8 crore, up 57.6% QoQ (I-direct estimate of ₹ 110.7 crore)
- Employee cost increased 10.6% YoY & 5.5% QoQ basis and was at ₹ 36.4 crore, Other expenses increased 18.3% QoQ to ₹ 102.3 crore
- Tracking its operating performance, Timken ended the quarter with a PAT of ₹ 121.3 crore (vs. I-direct estimate of ₹ 68.1 crore), up 73.9% QoQ

Q4FY22 Earnings Conference Call highlights

- Revenue break-up of FY22 was auto, industrial (railways and power included) 55-60%, exports and services 40-45%. Out of 56% YoY growth volume growth is 35-40% and rest is pricing growth
- The company posted good EBITDA margins, mainly due to the fact that it has passed on the cost increase in raw material, improved product mix (both domestic, exports), capacity utilisation along with increased efficiency. EBITDA margins are expected to tend to remain in this range while steel prices also softening will also aid that
- Timken India exports to Africa, China, US, Europe and Russia. Hence, slowdown & interest rate will not affect the order book of Timken
- Domestic market is seen to be robust. On the back of capex cycle, power, infra and mining looks brighter
- Spherical roller is not produced in India. Timken is working on the possibilities to invest in manufacturing it
- Revenues from the wind segment almost doubles as India owns and operates small power wind mills compared to heavy windmills in other part of the world
- Defence and aerospace, which contributes ~30% of the parent company's revenue will also start to contribute in the near future as Timken India will have access to the parent company's R&D and expertise
- Current capacity utilisation is ~75% and can reach up to 85%. However, the company will focus on improving efficiency rather than expanding the plant. Railways utilisation is lower but 90,000 wagon order will push up the capacity utilisation. Capacity is being added in Baruch for very small size bearing

Exhibit 1: Variance Analysis

Year	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ(%)	Comments
Income from Operation	667.4	553.7	475.4	40.4	510.0	30.9	Decent Performance on Industrial and Services segment side
Cost of materials consumed	197.3	202.2	144.4	36.6	193.8	1.8	
Purchase of stock-in-trade	164.0	114.0	137.2	19.5	128.9	27.2	
Change in inventories	(12.4)	0.0	(9.4)		(47.8)		
Gross Margins	47.7	42.9	42.7	11.7	46.1	3.5	
Employee cost	36.4	36.0	32.9	10.6	34.5	5.5	
Other expenses	102.3	91.4	83.4	22.7	86.5	18.3	
EBITDA	179.8	110.1	86.9	107.0	114.1	57.6	
EBITDA Margin (%)	26.9	19.9	18.3	867 bps	22.4	457 bps	Margins sustain led by cost optimisation, operating leverage and higher gross margins
Other Income	4.9	5.0	7.9	-37.7	2.8	75.0	
Depreciation	22.4	22.0	19.5	15.0	21.6	3.7	
Interest	1.3	0.5	0.6	124.1	0.3	333.3	
PBT	161.0	92.6	74.7	115.6	95.0	69.5	
Taxes	39.7	24.5	21.7	82.7	25.2	57.5	
PAT	121.3	68.1	52.9	129.2	69.8	73.8	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21	FY22E	FY23E	%	FY24E	%		
₹ crore	Actual	Actual	Old	New	Change	old	New	change
Revenue	1410.5	2203.2	2352.2	2609.2	10.9	2766.9	3013.3	8.9
EBITDA	251.8	510.6	505.7	613.2	21.3	589.3	708.1	20.2
EBITDA Margin (%)	17.9	23.2	20.2	23.5	330 bps	21.3	23.5	220 bps
PAT	143.2	327.1	325.8	412.0	26.5	376.7	469.8	24.7
EPS (₹)	19.0	43.5	43.3	54.8	26.5	50.1	62.5	24.7

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	1,411	2,203	2,609	3,013
Total Operating Income	1,411	2,203	2,609	3,013
% Growth (Operating Income)	-13%	56.2	18.4	15.5
Other Income	19.6	14.3	40.0	45.0
Total Revenue	1,430	2,218	2,649	3,058
Cost of materials consumed	449	734	830	964
Purchase of stock-in-trade	402	586	574	648
Change in inventories	(65)	(126)	(26)	(30)
Employee cost	119	141	196	235
Other Expenses	254	358	423	488
Total expenditure	1,159	1,693	1,996	2,305
EBITDA	252	511	613	708
% Growth (EBITDA)	-31%	102.8	20.1	15.5
Interest	1.4	2.4	2.3	2.3
PBDT	270	523	651	751
Depreciation	75	84	90	111
PBT	195	438	561	640
Tax	52	111	149	170
PAT	143	327	412	470
% Growth (PAT)	-42%	128.5	26.0	14.0
EPS	19.0	43.5	54.8	62.5

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	143.2	327.1	412.0	469.8
Depreciation	74.9	84.3	89.6	110.8
Interest	1.4	2.4	2.3	2.3
Other income	(19.6)	(14.3)	(40.0)	(45.0)
Prov for Taxation	51.9	111.1	149.3	170.3
Change in Working Capital	(18.5)	(430.7)	157.8	(88.6)
Taxes Paid	(61.1)	(111.1)	(149.3)	(170.3)
CF from Op activities	172	(31)	622	449
(Purchase)/Sale of Fixed Assets	(184.9)	(23.4)	(235.2)	(150.0)
(Purchase)/Sale of Investments	68.7	-	-	-
Other Income	19.6	14.3	40.0	45.0
CF from Inv activities	(97)	(9)	(195)	(105)
Changes in Networkth	(0.2)	(2.4)	0.0	(0.0)
Interest	(1.4)	(2.4)	(2.3)	(2.3)
Dividend paid	(376.1)	(11.3)	(30.1)	(45.1)
CF from Fin activities	(378)	(16)	(32)	(47)
Changes in Cash	(289.5)	(59.3)	409.3	296.9
Opening Cash/Cash Equivalent	418.8	129.3	69.9	479.2
Closing Cash/ Cash Equivalent	129.3	69.9	479.2	776.1

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
Share Capital	75	75	75	75
Reserves & Surplus	1,268	1,582	1,964	2,388
Total Shareholders fund	1,344	1,657	2,039	2,464
Goodwill	181	181	181	181
Total debt	33	30	45	45
Other liabilities	56	56	56	56
Total Liabilities	1,432	1,742	2,140	2,564
Gross Block	704	854	1,054	1,304
Acc: Depreciation	321	405	495	606
Net Block	627	614	559	698
Capital WIP	97	50	250	150
Investments	71	71	71	71
Inventory	369	586	479	553
Sundry debtors	371	539	522	603
Cash	129	70	479	776
Loans & Advances	1	3	0	1
Inv+Other current assets	40	40	40	40
CL& Prov.	455	410	442	508
Net Current Assets	456	827	1,079	1,464
Total Assets	1,432	1,742	2,140	2,564

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	19.0	43.5	54.8	62.5
Cash EPS	29.0	54.7	66.7	77.2
BV	178.6	220.3	220.3	220.3
DPS	50.0	1.5	4.0	6.0
Cash Per Share	42.7	53.9	53.9	53.9
Operating Ratios(%)				
EBITDA Margin	17.9	23.2	23.5	23.5
PBT / Net Sales	12.5	19.3	20.1	19.8
PAT Margin	10.2	14.8	15.8	15.6
Inventory days	95.4	97.0	81.9	70.9
Debtor days	96.1	89.3	75.4	65.3
Creditor days	117.7	68.0	57.4	49.7
Return Ratios(%)				
RoE	10.7	19.7	24.9	28.4
RoCE	13.7	25.3	32.3	36.9
RoIC	26.4	36.6	44.9	51.3
Valuation Ratio(%)				
P/E	121.9	53.4	42.4	37.2
EV / EBITDA	69.0	34.1	28.4	24.6
EV / Net Sales	12.3	7.9	6.7	5.8
Market Cap / Sales	12.4	7.9	6.7	5.8
Price to Book Value	13.0	10.5	10.5	10.5
Solvency Ratio(%)				
Current Ratio	1.6	2.7	2.7	2.7
Quick Ratio	0.8	1.3	1.3	1.3

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		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1540	1,930	Buy	216093	50.2	65.5	72.9	30.7	23.5	21.1	8.0	10.2	11.1	10.8	12.9	13.2
Siemens Ltd	2304	2,900	Buy	82050	29.5	36.6	48.2	78.1	62.9	47.8	13.9	15.7	18.4	10.1	11.6	13.7
AIA Engineering (AIAENG)	2041	2,570	Buy	19251	64.6	76.3	85.7	31.6	26.7	23.8	16.5	17.2	17.1	13.2	13.7	13.7
Thermax (THERMA)	1967	2,449	Buy	23438	26.2	39.3	54.4	75.0	50.0	36.1	11.3	15.6	19.2	9.0	12.2	14.9
KEC International (KECIN)	371	379	Hold	9538	12.7	15.8	25.3	29.2	23.5	14.7	12.3	13.3	16.9	10.7	11.0	15.4
Greaves Cotton (GREAVE)	142	179	Buy	3283	0.7	2.8	3.3	200.6	51.5	43.0	2.7	10.6	12.5	1.4	7.5	8.9
Elgi Equipment (ELGEQU)	329	390	Buy	10426	5.7	6.6	8.7	57.6	49.9	37.8	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	223	250	Buy	54433	9.4	11.2	12.5	23.9	19.9	17.9	26.2	28.7	28.6	19.4	21.4	21.3
Cochin Shipyard (COCSHI)	327	340	Hold	4301	42.9	38.6	42.3	7.6	8.5	7.7	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	3506	3,720	Buy	17333	77.0	89.6	103.5	45.5	39.1	33.9	26.0	26.5	27.1	20.6	20.0	20.1
Timken India (TIMIND)	2322	2,810	Buy	17466	43.5	54.8	62.5	80.6	64.0	56.1	25.3	32.3	36.8	19.7	24.9	28.4
NRB Bearing (NRBBEA)	118	220	Buy	1144	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	197	230	Buy	2346	9.8	11.5	13.6	20.1	17.1	14.5	22.5	20.9	21.3	15.1	14.5	14.7

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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