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## Oil price crash, lockdowns to have adverse impact...

### Capital Goods – T&D, EPC & Product Companies

Companies like Larsen & Toubro and KEC with exposure to the Middle East and North Africa (MENA) region are expected to get impacted by the recent more than 60% fall in crude oil prices to US\$22/barrel. This is expected to impact overall orders/awarding from the MENA region. Companies like Elgi Equipments, AIA Engineering, Thermax, Engineers India and Kalpataru Power with exposure to international geographies like Europe, Middle East, China for sales or essential raw material may get impacted. However, lockdowns in India, UK, Europe and other geographies due to Covid-19 are expected to have a significant impact on operations and execution of major capital goods companies leading to major supply chain disruptions.

### Oil price crash to impact capital goods order pipeline...

The recent fall in crude oil prices of more than 60% to US\$22/barrel is expected to impact overall orders/awarding from the MENA region owing to demand destruction fears amid excess supply. Companies like L&T and KEC with exposure to the MENA region are expected to be moderately impacted. The Middle East region contributes ~13% to the order book and 14% to consolidated revenues of L&T. KEC International has exposure of ~₹ 2100 crore order book from MENA region, which is 9.5% of order book and 10% to revenue. However, Engineers India had around 25% overseas revenue in FY19 while 54% of 9MFY20 order inflow came in from overseas market.

### Lockdown across geographies to hit business for 3-6 months

Lockdowns across geographies including India are expected to have a significant impact on revenues and profits of capital goods companies with a near washout Q1FY21E and a gradual revival in H2FY21E. Companies with international (Europe, US, China, etc) would be hit even harder as these geographies are highly impacted by Covid-19 and unlikely to recover soon. Kalpataru Power's 42% order book, (mainly T&D) is exposed to international markets while for AIA Engineering, more than 70% of its revenue comes from exports markets. Rest of the world contributed 47% to Elgi Equipment's FY19 revenue mainly from Europe, US and Australia, which will be substantially impacted amid lockdown situation due to the ongoing Coronavirus outbreak. Total ~30-40% of Thermax' revenue comes from exports business with operational and sales exposure in countries like Denmark, Europe, Indonesia, etc, which could get impacted by disruption due to the Coronavirus outbreak across major economies globally. Order pipelines/ tendering activities may pause for at least six months affecting order intake by 20-30% in FY21E while supply chain disruption, stress on working capital would significantly reduce cash flows and profits for capital goods companies in FY21E.

### Valuation & Outlook

It is difficult to assess the real magnitude of the Coronavirus outbreak and oil price crash at the moment as it is yet to peak out. However, it is likely to washout three to six months of revenue and profits in domestic market while hitting hard companies dependent on or with exposure to countries in Europe, US, Middle East and China with uncertainty in the near future posing higher risk. Capital goods companies may see significant strain on order intake, executions, working capital, balance sheets, cash flows and profits in FY21E. Accordingly, we factor in the additional risk and revise our earnings estimates. We recommend **BUY** on L&T, KEC, Thermax and Bharat Electronic, considering their strong balance sheet.

#### Key Highlights

- Lockdowns across geographies including India to have significant impact on revenues and profit of capital goods companies with near washout Q1FY21E and gradual revival in H2FY21E.
- The recent fall in crude oil prices of more than 60% to US\$22 per barrel is expected to impact overall orders per awarding from MENA region
- Declining auto sales to affect demand from OEMs, thus impacting profitability of bearing companies

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Exhibit 1: Revise targets: Capital Goods – T&amp;D, EPC and Product companies

Company	Earlier			Now	
	Target Price	Rating	CMP	Target Price	Rating
L&T	1370	Buy	800	1150	Buy
Thermax	910	Buy	735	850	Buy
KEC International	335	Buy	178	245	Buy
Kalpataru Power	285	Hold	188	200	Hold
AIA Engineering	1605	Hold	1305	1260	Hold
Elgi Equipment	180	Hold	114	115	Hold
Greaves Cotton	140	Hold	68	75	Hold
Bharat Electronics	115	Buy	73	90	Buy
Engineers India	52	Reduce	60	52	Reduce

Source: Company, ICICI Direct Research

### Key assumptions for EPC companies...

- Revenue and profit for two months of Q4FY20E and Q1FY21E are likely to be a complete washout. However, some revival is expected from H2FY21E
- Supply chain disruption due to restriction on various movements are expected to impact delivery and dispatches for three to six months for T&D companies like KEC and Kalpataru Power
- EBITDA margins are expected to get impacted due to a halt in order execution for three to six months at various sites leading to negative operating leverage for the first three to four months of FY21E
- Order inflows from the government and private sector are expected to get delayed or deferred for at least three to six months while it may be impacted by at least a year from industrial/ private sector as they may have to rework plans amid domestic and global slowdown
- Working capital, balance sheet, cash flows are expected to get impacted for at least six months affecting profitability at EPC companies while it is expected to revive in H2FY21E
- Government orders or finalisations may take longer as the government is utilising all its resources to fight Covid-19 for at least three months putting a strain on government finances. This will also affect government budgets for critical sectors like infrastructure, power, T&D and may be reworked in the medium term

## Larsen &amp; Toubro (L&amp;T)

Currently, the Middle East region contributes ~13% to the order book and 14% to consolidated revenues of L&T. The international order book (including Middle East) contributes ~23% to the order book with exposure to Middle East, African countries, Bangladesh and Sri Lanka. The recent crude oil price crash by more than 30% to sub-US\$35 per barrel is expected to impact the future hydrocarbon ordering pipeline in the Middle East. Subsequently, it may have an adverse impact on order intake, order book, execution in India, Middle East, which could have a spiralling effect with an increase in working capital and receivables in the region amid economic slowdown, tight liquidity and vendor support. On the other hand, operations and revenue of IT subsidiaries of L&T (LTTS, MindTree, L&T Infotech) with exposure to Europe, US and China are likely to get impacted. Subsequently, we revise our estimates factoring in the additional risk. We revise our target price to ₹ 1150/share (standalone business at 17.0x FY22E EPS) and maintain **BUY** rating.

## Exhibit 2: L&amp;T Middle East Exposure

Middle East Region	FY18	FY19	9MFY20
Middle East Revenue (₹ Crore)	24571.7	24394.2	14168
As % of Total revenue	20.5%	17.3%	14.0%
Middle East Order Book (₹ Crore)	44202	34037.5	39819
As % of Total Order book	16.8%	11.6%	13.0%
International order book (Incl. ME)	62500.0	63300.0	72600
International order book (Incl. ME) as % of Total OB	23.8%	21.6%	23.7%

Source: Company, ICICI Direct Research

## Exhibit 3: SoTP valuation of L&amp;T

Company (₹ per share)	Bull case	% of total	Base Case	% of total	Bear Case	% of total
Base Business	989	65.9	861.9	75.0	583.1	78.2
L&T Finance Holdings	39	2.6	32	2.7	24	3.3
L&T IT Subsidiaries	156	10.4	102	8.8	54.8	7.3
L&T Power Developm	18	1.2	8.6	0.7	7.7	1.0
L&T MHI JV	13	0.9	5.7	0.5	5.7	0.8
L&T IDPL	176	11.7	79.0	6.9	33.7	4.5
Other E&C, MIP & E&E	29	1.9	16.3	1.4	15.0	2.0
Hydrocarbon	30	2.0	6	0.5	1	0.1
Others	49.6	3.3	37.9	3.3	20.4	2.7
<b>Total</b>	<b>1499</b>	<b>100.0</b>	<b>1150</b>	<b>100.0</b>	<b>746</b>	<b>100.0</b>

Source: Company, ICICI Direct Research

## Exhibit 4: Key financial summary (Standalone)

Particulars (₹)	FY18	FY19	FY20E*	FY21E*	FY22E*	CAGR (FY20E-FY22E)*
Net Sales	74,454.4	82,057.3	79,672.4	71,152.1	87,609.4	4.9%
EBITDA	7,407.7	7,686.2	6,153.8	5,234.6	7,931.8	13.5%
EBITDA Margin	9.9	9.4	7.7	7.4	9.1	
Net Profit	5,387.1	6,134.9	6,089.8	3,978.1	7,034.2	7.5%
EPS (₹)	38.8	44.2	43.9	28.7	50.7	
P/E (x)	20.6	18.1	18.2	27.9	15.8	
RoNW (%)	11.0	11.8	11.4	7.2	11.8	
RoCE (%)	10.6	10.6	7.8	6.0	9.4	

Source: Company, ICICI Direct Research, \* L&T standalone numbers Adjusting for E&A Business

## KEC International

KEC International has exposure of ~₹ 2100 crore order book to the MENA region, which is 9.5% of the order book and 10% to revenue. This is likely to have an impact on the near term order intake and execution. India lockdown may lead to near wash out in Q1FY21E and recovery in H2FY21E. Subsequently, the interest to sale, working capital may get impacted by the delay in execution or awarding in these markets. We revise our target price to ₹ 245/share, which is at 11.5x on FY22E EPS and maintain **BUY** rating.

### Exhibit 5: KEC's MENA and international exposure

MENA Exposure	FY18	FY19	9MFY20
MENA Revenue	1009	1100	-
MENA as % of Total revenue	10%	10%	-
Total order book (₹ Crore)	17298	20307	22011
MENA Order Book (₹ Crore)	1383.8	1401.2	2100
MENA order book as % of Total OB	8.0%	6.9%	9.5%
International Order Book as % of Total OB	45%	50%	35%

Source: Company, ICICI Direct Research

### Exhibit 6: Key financial summary

Particulars (₹ crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-FY22E)
Net Sales	10,058.0	11,000.9	11,649.4	10,957.9	13,058.1	5.9%
EBITDA	1,006.3	1,149.7	1,184.1	896.7	1,259.4	3.1%
EBITDA Margin (%)	10.0	10.5	10.2	8.2	9.6	
Net Profit	460.5	494.2	528.6	304.7	544.9	1.5%
EPS (₹)	17.9	19.2	20.6	11.9	21.2	
P/E (x)	9.9	9.3	8.7	15.0	8.4	
RoNW (%)	23.1	20.1	18.7	10.2	15.8	
RoCE (%)	24.9	24.8	22.0	15.0	20.0	

Source: Company, ICICI Direct Research

## Kalpataru Power

Total 42% of Kalpataru Power's (KPTL) order book, (mainly T&D) is exposed to international markets like Europe, Middle East, Americas, Australia, Africa and neighbouring countries. This could likely impact working capital, receivables, interest cost over the next year. India lockdown is expected to have a spiralling effect. Overall, delays in project awarding and execution are expected to impact the working capital management, strain on balance sheet. We revise KPTL's target price to ₹ 200/share (standalone business at 8.0x FY22E EPS) and maintain our **HOLD** rating.

Key risk: Project delays, slower order intake, working capital increase, 22.5% of the total shareholding is pledged by promoters (41% of 54.4% promoter holding is pledged), which could further pose liquidity issues amid weak domestic and global market conditions.

### Exhibit 7: Valuation matrix

	Basis of Valuation	Multiple	Total Value (₹ crore)	Per share value (₹)
Base Business	P/E	8x	2,611	169
JMC Projects	40% Holdco discount on market C	67.2% stake	222	14
Other JV's/Investment in BOOT projects	Equity Invested	0.5x	184	12
Investment in Linjemontage (85% Stake)	Book Value	0.5x	71	5
<b>Total</b>			<b>3,017</b>	<b>200</b>

Source: Company, ICICI Direct Research

### Exhibit 8: Key financial summary

Particulars (₹ crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20E-FY22E)
Net Sales	5,741.1	7,115.1	7,552.1	6,864.7	7,499.6	-0.3%
EBITDA	631.2	778.2	763.1	592.9	684.3	-5.3%
EBITDA Margin (%)	11.0	10.9	10.1	8.6	9.1	
Net Profit	321.9	401.3	435.2	284.0	326.4	-13.4%
EPS (₹)	21.0	26.1	28.1	18.4	21.1	
P/E (x)	9.0	7.2	6.7	10.2	8.9	
RoNW (%)	11.6	12.7	11.6	7.2	7.7	
RoCE (%)	17.0	19.6	16.4	11.4	12.1	

Source: Company, ICICI Direct Research

## Thermax

Total ~30-40% of Thermax' revenue comes from the exports business with operational and sales exposure in countries like Denmark, Europe, Indonesia, etc. This could get impacted by the supply chain and operation disruption due to Coronavirus outbreak across major economies of the worlds. The India lockdown is expected to lead to drying up of private capex, orders for at least one year as customer enquiries have significantly fallen or been postponed. On the other hand, international order inflows may impact an already ailing order backlog. Though the real magnitude of outbreak and economy lockdown is difficult to assess, the medium term business outlook for manufacturing space is completely is dismal and will negatively impact the operating performance. However, Thermax's strong balance sheet and strict working capital management style would be a key for revival in long term. We expect adjusted revenue, EBITDA CAGR of -1.8%, 3.5%, respectively, in FY20-22E. We revise our target price to ₹ 850/ share (26.5x on FY22E EPS) and maintain **BUY** rating.

Exhibit 9: Valuation Matrix

Parameter	Value	Base Case	Bear Case
		₹Per share	₹Per share
Standalone	26.5x FY 22E EPS	9,360	786
Equity Invested in Subsidaire:	1x Equity	767	64
<b>Total</b>	<b>Rounded off</b>	<b>10,127</b>	<b>849</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key Financial Summary

Particulars (₹crore)	FY18*	FY19*	FY20E	FY21E	FY22E	CAGR (FY20E-FY22E)
Net Sales	3,867.9	5,175.4	5,731.7	4,449.7	5,527.5	-1.8%
EBITDA	371.4	418.9	427.3	307.1	457.8	3.5%
EBITDA Margin (%)	9.6	8.1	7.5	6.9	8.3	
Net Profit	238.3	275.4	245.2	229.6	351.9	19.8%
EPS (₹)	20.0	23.1	20.6	19.3	29.5	
P/E (x)	36.3	31.4	35.2	37.6	24.6	
RoNW (%)	9.9	11.2	8.4	7.6	10.7	
RoCE (%)	15.3	18.0	14.0	10.3	14.6	

Source: Company, ICICI Direct Research \*Numbers till FY19 includes standalone business with Boiler & Heater business of Thermax which is now classified as discontinued operations from standalone and transferred to its subsidiary TBWES with effect from 1st October 2019 and hence will not be reflected in standalone numbers, instead will be reflected in consolidated numbers and therefore will not be comparable. Hence, we have changed our presentation of forward numbers to consolidated and valued accordingly.

## Elgi Equipments

The India lockdown has added fire to an already ailing industrial and manufacturing activities in the country and is likely to lead to a significant downturn for manufacturing dependent companies like Elgi Equipments with an impact of at least three to six months on operations. The rest of the world contributed 47% to Elgi Equipment's FY19 revenue mainly from Europe, US, Australia, which was substantially impacted and is facing a lockdown situation due to the ongoing Coronavirus situation. We revise our target price to ₹ 115/share (which is at 25x FY22E EPS of ₹ 4.6 per share) and maintain our **HOLD** rating.

## Exhibit 11: Key Financial Summary

(₹crore)	FY19	FY20E	FY21E	FY22E	CAGR (FY20E-22EE)
Revenue	1,863.5	1,686.4	1,129.9	1,502.8	-5.6%
EBITDA	191.8	118.1	50.8	144.3	10.5%
EBITDA Margin (%)	10.3	7.0	4.5	9.6	
Net Profit	103.1	40.8	3.7	72.2	33.1%
EPS (₹)	6.5	2.6	0.2	4.6	
P/E (x)	18.3	46.2	512.3	26.1	
EV/EBITDA (x)	10.4	17.3	41.3	13.9	
RoCE (%)	13.8	6.6	1.5	8.9	
RoE (%)	13.4	5.3	0.5	8.9	
Grow th	36.0	(9.5)	(33.0)	33.0	

Source: Company, ICICI Direct Research

## Greaves Cotton

Weakness in the domestic 4-W, 3-W OEM segment amid weak consumer sentiments, domestic and global lockdowns are expected to lead to supply chain disruptions and significant decline in auto engine volumes. On the other hand, transition to BS-VI with effect from April 1, 2020 is expected to have a spiralling effect on volumes. Industrial slowdown, weak consumer sentiments are expected to also affect new initiatives business. We revise our target price to ₹ 75 per share (base business at 11.5x on FY22E EPS) and maintain our **HOLD** rating.

## Exhibit 12: Key financial summary

Particulars (₹crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20E-FY22E)
Net Sales	1,792.1	1,987.9	1,818.8	1,406.6	1,711.2	-3.0%
EBITDA	255.3	274.7	227.2	131.0	213.7	-3.0%
EBITDA Margin (%)	14.2	13.8	12.5	9.3	12.5	
Net Profit	202.6	169.3	156.7	73.6	132.2	-8.1%
EPS (₹)	8.3	6.9	6.8	3.2	5.7	
P/E (x)	8.8	10.5	10.8	22.9	12.8	
RoNW (%)	17.7	18.7	19.4	9.5	17.1	
RoCE (%)	25.3	27.4	25.9	12.5	22.6	

Source: Company, ICICI Direct Research

## Exhibit 13: Valuation Matrix

	Basis of Valuation	Multiple	Total Value (₹crore)	Per share value (₹)	Comments
Base Business	P/E	12x	1,521	66	
Ampere (100% Stake)	P/Sales	1.25x	250	10	FY 22E sales at ₹190 crore
<b>Total</b>			<b>1,771</b>	<b>76</b>	

Source: Company, ICICI Direct Research

## Bharat Electronics

The India lockdown is expected to have an impact in Q1FY21E but the anticipated medical devices order from government amid Covid-19 outbreak may lead to some caution in FY21E. Order intake, working capital are expected to witness a significant strain considering slower cash flows from the government, which is currently utilising resource in fighting Covid-19 outbreak. However, overall strong order book of ₹ 54959 crore continues to provide strong revenue visibility. We revise our target price to ₹ 90/share (which is at 13x FY22E EPS) and maintain our **BUY** rating.

## Exhibit 14: Key Financial Summary

(₹crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20E-22E)
Revenues	10,322	12,085	11,355	12,857	14,019	11.1
EBITDA	2,000	2,862	2,080	2,312	2,672	13.3
EBITDA margin (%)	19.4	23.7	18.3	18.0	19.1	
Net Profit	1,399	1,927	1,327	1,436	1,674.3	12.3
EPS (₹)	5.7	7.9	5.4	5.9	6.9	
P/E (x)	12.7	9.2	13.4	12.4	10.6	
EV/EBITDA (x)	8.5	5.9	8.3	7.6	6.4	
RoCE (%)	25.0	30.0	19.9	20.0	21.5	
RoE (%)	18.0	21.4	14.1	14.2	15.3	

Source: Company, ICICI Direct Research

## Engineers India

Domestic execution is expected to get impacted for H1FY21E with some recovery in H2FY21E. Engineers India had around 25% overseas revenue in FY19 while 54% of 9MFY20 order inflow came in from overseas market. We expect revenue and EBITDA to witness a short-term moderation and margin stress amid execution halt due to lockdowns and higher contribution from the turnkey segment and likely slowdown in overseas consultancy market amid global crude oil price crash, which would impact the international and domestic hydrocarbon market and oil demand. We maintain our target price to ₹ 52 per share (that is at 8.5x on FY22E EPS) with a **REDUCE** rating.

Key risks: Any project related headwinds or delays in turnkey segment may further impact revenue growth.

## Exhibit 15: Key Financial Summary

(₹crore)	FY18	FY19	FY20E	FY21E	FY22E	FY20-22E
Net Sales	1,788	2,444	2,750	2,310	2,703	
Revenue	1,788	2,444	2,750	2,310	2,703	(0.9)
EBITDA	413	366	371	237	338	(4.6)
Net Profit	378	370	370	301	383.1	1.8
EPS (₹)	6.0	5.9	5.9	4.8	6.1	
P/E (x)	9.4	9.6	9.6	11.7	9.2	
Price / Book (x)	1.6	1.6	1.5	1.5	1.5	
EV/EBITDA (x)	2.7	2.4	2.6	4.9	3.2	
RoCE (%)	23.2	21.3	20.7	14.4	17.6	
RoE (%)	16.7	16.3	16.0	12.8	15.8	

Source: Company, ICICI Direct Research

## AIA Engineering

More than 70% of AIA Engineering's revenue comes from exports markets, which could get impacted by the slowdown due to lockdown of several markets in Europe due to the Coronavirus outbreak amid the domestic economic slowdown. Also India sales and operations are expected to get impacted in H1FY21E. Some concerns already remain on AIA for its cautious stance and volume loss of 20000 MT to 25000 MT from a couple of mining customers abroad. Accordingly, working capital management may get impacted. We revise our target price to ₹ 1260/share (which is at 26x FY21E EPS) and maintain our **HOLD** rating.

## Exhibit 16: Key Financial Summary

Particulars (₹ crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20E-FY22E)
Net Sales	2,445.1	3,069.5	2,673.6	2,097.6	2,734.1	1.1%
EBITDA	535.7	660.4	578.0	371.3	574.7	-0.3%
EBITDA Margin (%)	21.9	21.5	21.6	17.7	21.0	
Net Profit	443.6	513.2	505.9	290.9	456.2	-5.0%
EPS (₹)	47.0	54.4	53.6	30.8	48.4	
P/E (x)	27.7	24.0	24.3	42.3	27.0	
RoNW (%)	14.7	14.6	13.9	7.6	11.0	
RoCE (%)	18.4	18.8	16.1	9.3	13.5	

Source: Company, ICICI Direct Research



## Capital Goods – Bearings

## Global macros, national lockdown to impact FY21...

With the nation going into a lockdown for 21 days, production has been halted across the manufacturing sector except for essential services. This is expected to result into an adverse impact on the already struggling bearing companies amid a slowdown in the domestic auto sector. We expect Q4FY20E and H1FY20E to be a complete washout for our bearing coverage universe as a revival in demand for the auto sector still seems far away. The Coronavirus continued to impact the global economy leading to a disruption in supply chain across industries including auto-ancillaries where demand is expected to have a negative impact, the quantum of which would be dependent on how the global macros pan out, going ahead. Accordingly, we factor in the recent developments in the global macros as well as the domestic environment and revise our FY22E estimates.

## Muted auto sales to impact bearing companies...

We expect auto sales for March to be on the same lines as February, i.e. a 19-20% decline across various categories. Overall volatility in the environment has had a negative influence on consumer sentiment and demand. With visible challenges in the near term, the performance of the auto segment of the business for bearing companies is likely to get impacted in the short to medium term. We expect sluggish demand in the auto sector to remain a key overhang for bearing companies.

## Corona outbreak to hamper exports...

Exports are likely to suffer on account of the Coronavirus outbreak that has disrupted the global supply chain affecting economies in an unparalleled fashion. This outbreak is posing a serious risk to the global macro economy coupled with a fall in crude oil prices, which has further weakened the demand scenario. Spillover effects of Chinese production halt will be diverse across our capital goods coverage. Among our bearings coverage universe, NRB, SKF and Timken have ~23%, 10% and 20% share of exports in topline, respectively. We expect companies with a higher share of exports to get negatively impacted in the current scenario. However, the quantum of the impact can only be assessed in coming quarters.

Exhibit 17: Revised Targets: Capital Goods - Bearings

Company	Previous		Now		
	Target Price	Rating	CMP	Target Price	Rating
SKF	1,500	Reduce	1,400	1,215	Reduce
Timken India	1,005	Buy	683	820	Buy
NRB Bearings	70	Hold	58	55	Hold

Source: Company, ICICI Direct Research

## SKF

Weakness in the domestic OEM segment is expected to take a toll on the auto segment amid disruptions in the global supply chain, which could negatively impact the industrial segment. We expect SKF to struggle in short to medium term with auto and exports being the key overhangs. We revise our estimates in light of recent developments and maintain our **REDUCE** rating on the stock with a revised target price of ₹ 1215.

## Exhibit 18: Key Financial Summary

	FY18	FY19	FY20E	FY21E	FY22E	CAGR FY20-22E
Revenue (₹crore)	2,750.4	3,034.5	2,910.9	2,736.6	2,807.6	(1.8)
EBITDA (₹crore)	434.8	485.9	355.1	328.4	356.6	0.2
EBITDA margin	15.8	16.0	12.2	12.0	12.7	
Net Profit (₹crore)	295.9	335.8	261.8	236.0	250.3	(2.2)
EPS (₹)	57.6	67.9	52.9	47.7	50.6	
P/E (x)	24.3	20.6	26.4	29.3	27.7	
EV/EBITDA (x)	14.4	13.1	17.6	18.5	17.0	
RoCE (%)	23.7	29.4	19.1	16.2	15.9	
RoE (%)	16.1	19.8	14.0	11.7	11.5	

Source: Company, ICICI Direct Research

## Timken India

Timken India registered strong numbers for Q3FY20, albeit on the back of improved margins as well as on account of decent traction from the railways & export businesses. However, going ahead, we expect demand to remain muted. While there is still uncertainty about the quantum of impact of Covid-19 on the bearing industry, the most recent statistics as well as consumer sentiment point to a downturn. Factoring in the recent developments, we revise our estimates and maintain our **BUY** rating on the stock with a revised target price of ₹ 820.

## Exhibit 19: Key Financial Summary

(₹Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	1,234.0	1,664.4	1,561.2	1,517.6	1,690.4	4.1
EBITDA	163.3	288.6	332.5	294.4	355.0	3.3
EBITDA margin (%)	13.2	17.3	21.3	19.4	21.0	
Net Profit	92.0	148.6	220.6	154.0	206.2	(3.3)
EPS (₹)	13.5	19.8	29.3	20.5	27.4	
P/E (x)	50.5	34.6	23.3	33.4	24.9	
P/BV	6.6	3.8	3.3	3.0	2.7	
EV/EBITDA (x)	28.4	17.8	14.8	16.1	13.2	
RoCE (%)	18.9	15.7	16.8	12.9	14.3	
RoE (%)	13.1	11.1	14.3	9.1	11.0	

Source: Company, ICICI Direct Research

## NRB Bearings

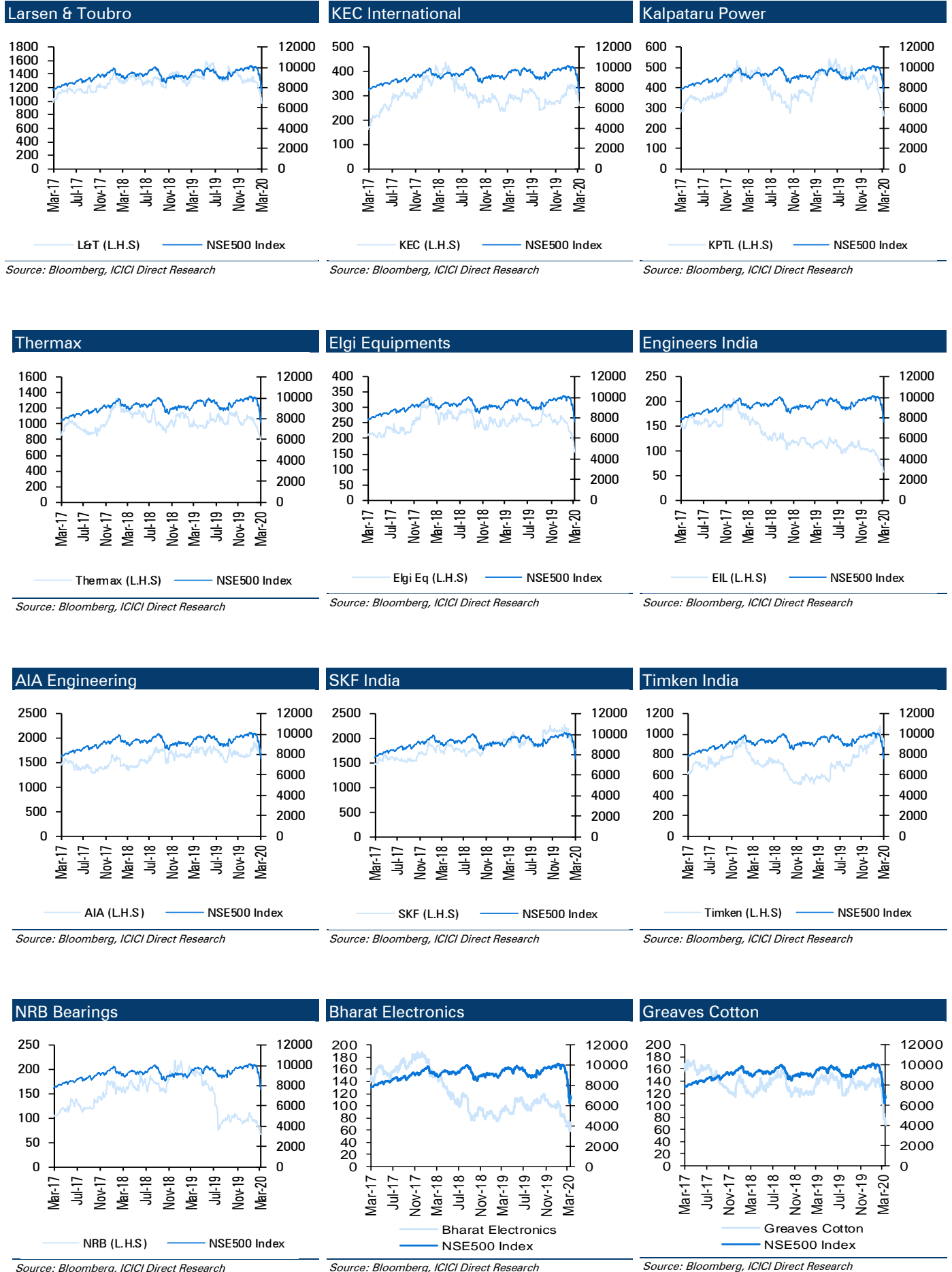
NRB Bearings is expected to continue its muted performance due to weak sentiments in the domestic auto sector (69% of NRB's topline) amid constrained economic expansion. The overall volatility in the environment has had a negative influence on consumer sentiment and demand. While the long term outlook remains positive, there are clear challenges in the immediate short-term as well as medium term. We factor in recent developments in the market as well as the national lockdown. We revise our estimates and ascribe a **HOLD** rating to the stock with a target price of ₹ 55.

### Exhibit 20: Key Financial Summary

(₹Crore)	FY18	FY19	FY20E	FY21E	FY22E	CAGR (FY19-22E)
Revenue	855.1	964.9	744.4	711.9	756.7	0.8%
EBITDA	168.3	185.1	78.2	76.5	93.8	9.6%
EBITDA margin (%)	19.7	19.2	10.5	10.8	12.4	
Net Profit	90.7	108.2	27.7	25.8	35.8	13.6%
EPS (₹)	9.4	11.2	2.9	2.7	3.7	
P/E (x)	6.2	5.2	20.3	21.8	15.7	
EV/EBITDA	4.2	4.3	9.7	9.7	8.1	
RoCE (%)	26.7	21.0	8.1	7.6	9.3	
RoE (%)	24.0	19.5	5.7	5.2	7.0	

Source: Company, ICICI Direct Research

Exhibit 21: Price Charts



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ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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