

April 24, 2024

Outlook remains strong...

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 ~55% of revenues come from industrial segment while ~33% of revenues come from automotive segment. Balance ~12% of sales is from exports and other services. After-market segment contributes ~34% of total revenue
- Consolidated revenue of the company has grown by 14.9% CAGR during the period FY20-23 while EBITDA and PAT have grown by 29.0% and 22.0% CAGR respectively over the same period

Investment Rationale:

- Strongly positioned with focus on key higher-growth segments:** SKF has been prioritising on key higher-growth segments like renewable energy, railways, mining, e-powertrains etc in industrials segment and electric vehicles in automotive segments. Industrials & Railways (including replacements & after-market) contribute ~56% to total revenues while ~34% is contributed by automobile segment (including replacements & after-market). The company is strongly focused on capturing the larger pie of the looming sizable growth opportunity and increasing its overall market share in these selective key segments like railways, e-powertrains, electric vehicles, metros, mining etc
- Increasing localisation with focus on growing share of services & after-market business; Emphasis on continuous advancement of products:** With by a strong focus on increasing localisation of products (in industrial segment where the local content % is relatively lower as compared to automotive) and continuous improvement in its product/solutions portfolio (led by implementing new technologies & innovation), we believe that SKF India would benefit significantly in coming period in terms of strengthening the full value chain, reducing lead time and overall cost structure. Moreover, company continues to focus on increasing its share of this margin-accretive after-market segment in both industrials and automotive segments (after-market segment share stood at ~38% of total revenues as of FY23)

Rating and Target Price

- SKF India is well placed to ride the strong demand cycle in domestic bearings market, led by its focus on high-growth sectors, new product developments and increasing localisation of products. We believe company's operational and financial performance to improve considerably in the coming period. We estimate revenue, EBITDA and PAT to grow at ~10%, ~16% and ~17% CAGR respectively over FY24E-26E
- We maintain our BUY on SKF India with a target price of ₹ 6060 per share (based on 40x FY26E EPS)

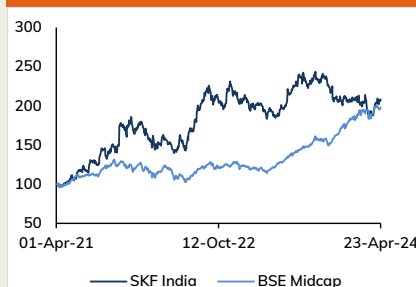
Particulars

Particular	Amount
Market Capitalization	22,861
Total Debt (FY23) (Rs crore)	0
Cash and Inv (FY23) (Rs)	958
EV (FY23) (Rs crore)	21,903
52 week H/L	5535 / 4024
Equity capital (Rs crore)	49.4
Face value (Rs)	10

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	52.6	52.6	52.6	52.6
FII	6.4	6.5	6.6	6.8
DII	29.4	29.2	29.0	29.0
Others	11.6	11.8	11.8	11.7

Price Chart



Key risks

- Slowdown in domestic automotive and industrial segments
- Availability and prices of raw materials
- Adoption of new technologies

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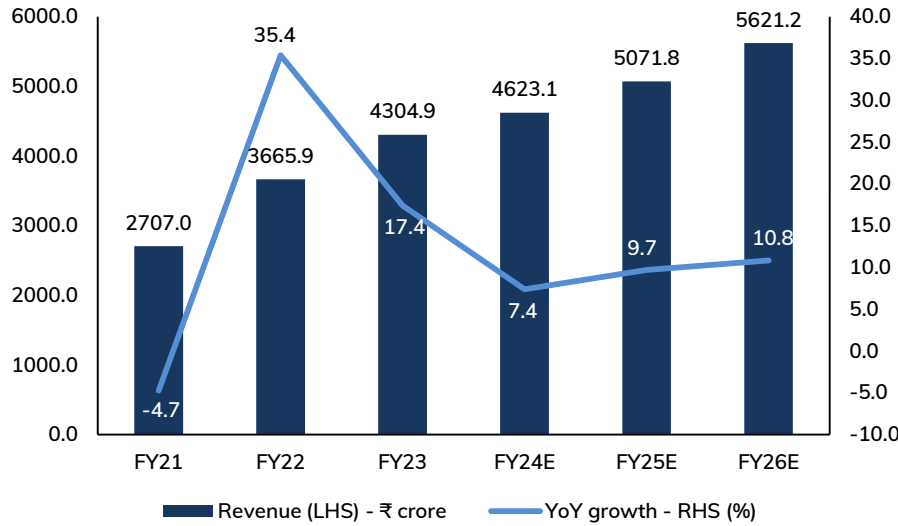
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Key Financial Summary

(Rs Crore)	FY20	FY21	FY22	FY23	3 Year CAGR FY20-23	FY24E	FY25E	FY26E	2 Year CAGR FY24E-26E
Revenue	2,841.6	2,707.0	3,665.9	4,304.9	14.9	4,623.1	5,071.8	5,621.2	10.3
EBITDA	349.5	456.4	555.7	749.3	29.0	724.2	849.5	983.7	16.5
EBITDA margin	12.3	16.9	15.2	17.4		15.7	16.8	17.5	
Net Profit	289.0	334.0	395.1	524.5	22.0	550.3	644.3	749.0	16.7
EPS (Rs)	58.5	67.6	79.9	106.1		111.3	130.3	151.5	
P/E (x)	79.1	68.4	57.9	43.6		41.5	35.5	30.5	
EV/EBITDA (x)	63.7	49.0	40.4	29.2		30.0	25.3	21.5	
RoCE (%)	20.3	27.0	27.6	30.8		27.1	27.7	27.9	
RoE (%)	15.2	21.4	21.0	22.4		20.4	20.7	20.9	

Source: Company, ICICI Direct Research

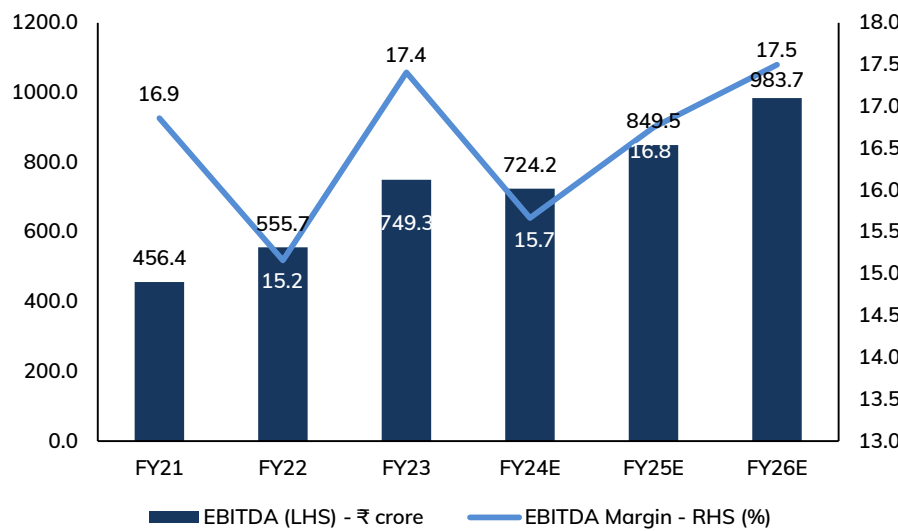
Exhibit 1: Revenue expected to grow 10.3% CAGR over FY24E-26E



We estimate revenue CAGR at 10.3% over FY24E-26E, led by sustained healthy growth in railways & industrials segment, expected pick-up in automotive segment & exports and increasing share in after-market segments

Source: Company, ICICI Direct Research

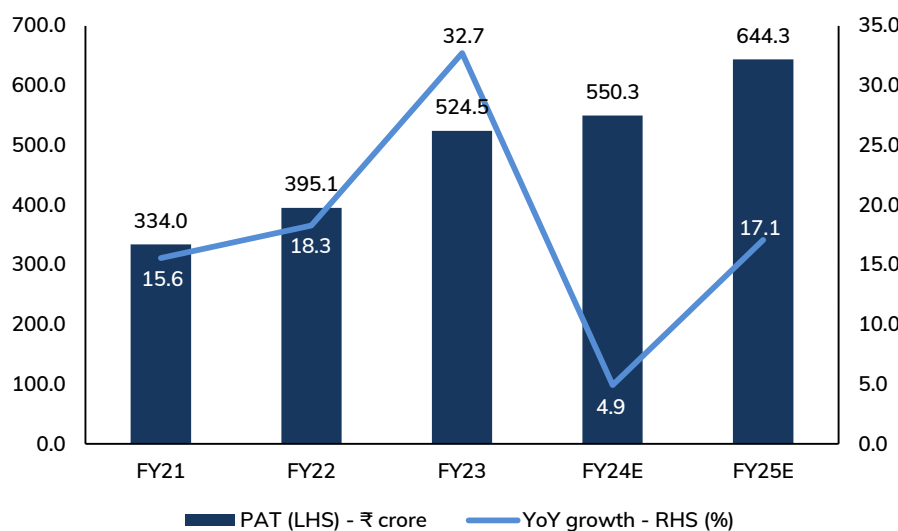
Exhibit 2: EBITDA expected to improve considerably over FY25E-26E



We estimate EBITDA margin to improve considerably in FY25E and FY26E, led by increasing localization and improving share in margin-accretive after-market segment

Source: Company, ICICI Direct Research

Exhibit 3: PAT estimated to grow at ~17% CAGR over FY24E-26E



Source: Company, ICICI Direct Research

Financial summary

Exhibit 4: Profit and loss statement					₹ crore
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Revenue	4,305	4,623	5,072	5,621	
<i>Growth YoY (%)</i>	<i>17%</i>	<i>7%</i>	<i>10%</i>	<i>11%</i>	
Other Income	52	90	110	130	
Total Revenue	4,357	4,714	5,182	5,751	
Cost of materials consumed	1,042	1,192	1,293	1,462	
Purchase of stock-in-trade	1,554	1,625	1,775	1,945	
Change in inventories	(30)	31	-	-	
Employee cost	300	339	393	444	
Other Expenses	690	712	761	787	
Total expenditure	3,556	3,899	4,222	4,637	
EBITDA	749	724	850	984	
<i>Growth YoY (%)</i>	<i>35%</i>	<i>-3%</i>	<i>17%</i>	<i>16%</i>	
Interest	2	1	2	2	
PBDT	800	813	958	1,112	
Depreciation	67	75	87	100	
Profit Before Tax	733	739	871	1,012	
Tax	208	188	226	263	
PAT	524	550	644	749	
<i>Growth YoY (%)</i>	<i>33%</i>	<i>5%</i>	<i>17%</i>	<i>16%</i>	
EPS	106.1	111.3	130.3	151.5	

Source: Company, ICICI Direct Research

Exhibit 6: Balance sheet					₹ crore
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Share Capital	49.4	49.4	49.4	49.4	
Reserves & Surplus	2,292	2,644	3,056	3,538	
Networth	2,341	2,694	3,106	3,588	
Total Debt	-	-	-	-	
Other non-current liabilities	40	40	40	40	
Total Liabilities	2,382	2,734	3,146	3,628	
Gross Block	846	999	1,149	1,299	
Acc. Depreciation	422	496	584	684	
Net Block	424	503	565	615	
Capital WIP	63	60	60	60	
Investments	242	260	285	316	
Inventory	686	760	848	955	
Sundry debtors	679	729	800	886	
Cash and bank balances	958	1,144	1,379	1,672	
Other financial assets	27	29	32	35	
Other current assets	99	106	117	129	
Total Current Assets	2,449	2,768	3,175	3,678	
CL& Prov.	796	856	939	1,040	
Net Current Assets	1,652	1,912	2,236	2,637	
Total Assets	2,382	2,734	3,146	3,628	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					₹ crore
(Year-end March)	FY23	FY24E	FY25E	FY26E	
Profit after Tax	524	550	644	749	
Depreciation	67	75	87	100	
Interest	2	1	2	2	
Other income	(52)	(90)	(110)	(130)	
Prov for Taxation	208	188	226	263	
Cash Flow before WC changes	749	724	850	984	
Change in Working Capital	167	(74)	(88)	(109)	
Taxes Paid	(208)	(188)	(226)	(263)	
Cashflow from Operations	708	462	535	612	
(Purchase)/Sale of Fixed Assets	(100)	(150)	(150)	(150)	
(Purchase)/Sale of Investments	(26)	(18)	(25)	(31)	
Other Income	52	90	110	130	
Cashflow from Investing	(74)	(77)	(65)	(51)	
Issue/(Repayment of Debt)	-	-	-	-	
Changes in Minority Interest	-	-	-	-	
Changes in Networth	129	0	-	-	
Interest	(2)	(1)	(2)	(2)	
Dividend paid	(198)	(198)	(232)	(267)	
Cashflow from Financing	(70)	(199)	(234)	(268)	
Changes in Cash	556	186	236	293	
Opening Cash/Cash Equivalent	402	958	1,144	1,379	
Closing Cash/ Cash Equivalent	958	1,144	1,379	1,672	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY23	FY24E	FY25E	FY26E
Per share data (₹)				
EPS	106.1	111.3	130.3	151.5
Cash EPS	119.6	126.4	148.0	171.7
BV	473.6	544.9	628.2	725.7
DPS	40.0	40.0	47.0	54.0
Cash Per Share	85.3	100.4	118.1	138.3
Operating Ratios (%)				
EBITDA Margin	17.4	15.7	16.8	17.5
PBT / Net Sales	15.9	14.0	15.0	15.7
PAT Margin	12.2	11.9	12.7	13.3
Inventory days	58.2	60.0	61.0	62.0
Debtor days	57.5	57.5	57.5	57.5
Creditor days	64.4	64.4	64.4	64.4
Return Ratios (%)				
RoE	22.4	20.4	20.7	20.9
RoCE	30.8	27.1	27.7	27.9
RoIC	47.9	40.8	43.1	45.2
Valuation Ratios (x)				
P/E	43.6	41.5	35.5	30.5
EV / EBITDA	29.2	30.0	25.3	21.5
EV / Net Sales	5.1	4.7	4.2	3.8
Market Cap / Sales	5.3	4.9	4.5	4.1
Price to Book Value	9.8	8.5	7.4	6.4
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Current Ratio	3.0	3.2	3.3	3.5
Quick Ratio	2.2	2.3	2.4	2.6

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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