

Margins to improve on increasing localisation...

About the stock: SKF India is one of the leading bearing manufacturers known for its deep groove ball bearings and has a presence across the industrial & auto sector.

- Auto & industrial have been contributing 50% each to SKF's topline over the years, with a slight tilt on either side depending on macros
- SKF boasts a debt free balance sheet, coupled with consistent RoCE & RoICs upwards of 20%

Q4FY23 Results: Revenue in line but margins lower than estimates.

- Revenue increased 5.4% YoY (+1.6% QoQ) to ₹ 1094.7 crore; in line with estimates
- EBIDTA margin at 15.3% (lower than estimate of 17.2%) was largely flattish YoY as higher other cost negated the impact of lower raw material cost
- EBIDTA came in at ₹ 167.0 crore (vs. estimate of ₹ 190.7 crore); up 4.7% YoY but down 9.3% QoQ
- PAT increased 12.3% YoY (+5.4% QoQ) to ₹ 122.9 crore

What should investors do? SKF is poised to benefit substantially from the healthy domestic demand from industrial segments led by a further revival in private capex and pick-up in demand from the automotive segment

- We continue to remain positive and retain our **BUY** rating on the stock

Target Price and Valuation: We value SKF at ₹ 5055 i.e. 40x P/E on FY25E EPS.

Key triggers for future price performance:

- Focus on increasing localisation in industrial bearings segment
- Participation in freight wagons tenders from railways, expanding network of dealers and launches of new products
- Expanding share of after-market sales to help in margin improvement

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

- Timken is well placed to benefit from focus on indigenisation, pick-up in industrial capex and increasing traction from auto & railways
- BUY with a target price of ₹ 3740 per share



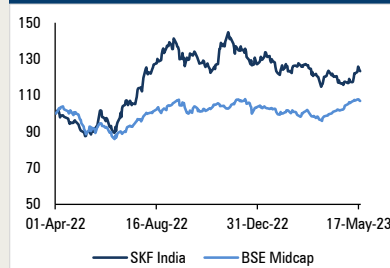
Particulars

Particular	Amount
Market Capitalization	21,581
Total Debt (FY23) (₹ crore)	0
Cash and Inv (FY23) (₹ crore)	958
EV (FY20) (₹ crore)	20,623
52 week H/L (₹) (BSE)	5171 / 3124
Equity capital (₹ crore)	49.4
Face value (₹)	10

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	52.6	52.6	52.6	52.6
FII	6.5	6.4	6.5	6.5
DII	25.5	26.1	26.0	26.2
Others	15.4	15.0	14.9	14.8

Price Chart



Recent event & key risks

- Revival in demand from auto industry, industrials & railways
- Key risk:** i) Further slowdown in exports ii) Commodity inflation

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Vijay Goel
vijay.goel@icicisecurities.com

Key Financial Summary

	FY20	FY21	FY22	FY23	3 Year CAGR FY20-23	FY24E	FY25E	2 Year CAGR FY23-25E
Revenue (₹ crore)	2,841.6	2,707.0	3,665.9	4,304.9	14.9	4,864.5	5,521.2	13.2
EBITDA (₹ crore)	349.5	456.4	555.7	749.3	29.0	865.9	1,032.5	17.4
EBITDA margin	12.3	16.9	15.2	17.4		17.8	18.7	
Net Profit (₹ crore)	289.0	334.0	395.1	524.5	22.0	624.9	753.6	19.9
EPS (₹)	58.5	67.6	79.9	106.1		126.4	152.4	
P/E (x)	74.8	64.8	54.7	41.2		34.6	28.7	
EV/EBITDA (x)	60.1	46.3	38.2	27.6		23.6	19.5	
RoCE (%)	20.3	27.0	27.6	30.8		30.6	31.0	
RoE (%)	15.2	21.4	21.0	22.4		22.8	23.0	

Key takeaways of recent quarter

Q4FY23 Results: Revenue in line but margins lower than estimates

- Revenue for the quarter increased 5.4% YoY (+1.6% QoQ) to ₹ 1094.7 crore (in line with our estimate of ₹ 1106.5 crore). FY23 revenue was up 17.4% YoY to ₹ 4304.9 crore
- Gross margin improved 122 bps YoY to 38.7% (vs. our estimate of 42%); mainly on account of lower raw material cost. FY23 gross margin was at 40.4% against 38.8% in FY22
- EBIDTA margin at 15.3% was largely flattish YoY as other cost remained higher YoY. We had built in EBIDTA margin of 17.2% for the quarter. FY23 EBIDTA margin was at 17.4% against 15.2% in FY22
- Absolute EBIDTA came in at ₹ 167.0 crore (I-direct estimate of ₹ 190.7 crore); up 4.7% YoY but down 9.3% QoQ. FY23 EBIDTA was up 34.8% YoY to ₹ 749.3 crore on strong revenue growth with better margins
- PAT increased 12.3% YoY (+5.4% QoQ) to ₹ 122.9 crore (I-direct estimate of ₹ 138 crore). FY23 PAT was up 32.8% YoY to ₹ 524.5 crore

Exhibit 1: Variance Analysis

Year	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ(%)	Comments
Income from Operation	1,094.7	1,106.5	1,039.0	5.4	1,077.2	1.6	Revenue in line with estimates
Other Income	19.8	13.0	2.1	823.8	13.0	51.7	
Cost of material consumed	264.0	641.8	265.5	(0.5)	257.1	2.7	
Purchases of stock in trade	397.0	0.0	349.1	13.7	415.0	(4.3)	
Change in inventories	10.2	0.0	35.2		-41.6		
Gross margins (%)	38.7	42.0	37.5	122 bps	41.5	-279 bps	Gross margin improved possibly on account of indigenisation of industrial segment
Employee cost	75.8	75.0	75.9	(0.2)	67.4	12.6	
Other expenditure	180.6	199.0	153.8	17.4	195.2	(7.5)	
EBITDA	167.0	190.7	159.4	4.7	184.1	(9.3)	
EBITDA Margin (%)	15.3	17.2	15.3	-9 bps	17.1	-183 bps	EBITDA margin remained flattish YoY as higher others cost negated the impact of RM cost savings
Depreciation	16.9	17.2	15.2	11.3	17.0	(0.8)	
Interest	0.3	0.5	0.7		0.4	(11.1)	
PBT	169.6	186.0	145.7	16.4	179.7	(5.6)	
Taxes	46.7	48.0	36.2	29.1	63.2	(26.1)	
PAT	122.9	138.0	109.5	12.3	116.7	5.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

	FY23	FY24E			FY25E
₹ crore	Actual	Old	New	Change	New
Revenue	4304.9	4992.6	4864.5	-2.6	5521.2
EBITDA	749.3	908.6	865.9	-4.7	1032.5
EBITDA Margin (%)	17.4	18.2	17.8	-40 bps	18.7
PAT	524.5	644.4	624.9	-3.0	753.6
EPS (₹)	106.1	130.3	126.4	-3.0	152.4

Source: ICICI Direct Research, Company

Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Revenue	3,666	4,305	4,865	5,521
Growth YoY (%)	35%	17%	13%	14%
Other Income	34	52	70	90
Total Revenue	3,700	4,357	4,935	5,611
Cost of materials consumed	901	1,042	2,870	3,213
Purchase of stock-in-trade	1,518	1,554	-	-
Change in inventories	(173)	(30)	-	-
Employee cost	286	300	321	348
Other Expenses	579	690	808	928
Total expenditure	3,110	3,556	3,999	4,489
EBITDA	556	749	866	1,032
Growth YoY (%)	22%	35%	16%	19%
Interest	2	2	2	2
PBDT	588	800	934	1,120
Depreciation	57	67	84	95
Profit Before Tax	531	733	850	1,025
Tax	136	208	225	272
PAT	395	524	625	754
Growth YoY (%)	18%	33%	19%	21%
EPS	79.9	106.1	126.4	152.4

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	395	524	625	754
Depreciation	57	67	84	95
Interest	2	2	2	2
Other income	(34)	(52)	(70)	(90)
Prov for Taxation	136	208	225	272
Cash Flow before WC changes	556	749	866	1,032
Change in Working Capital	(423)	167	(116)	(126)
Taxes Paid	(136)	(208)	(225)	(272)
Cashflow from Operations	(3)	708	525	635
(Purchase)/Sale of Fixed Asset	(101)	(100)	(135)	(135)
(Purchase)/Sale of Investments	45	(26)	(31)	(37)
Other Income	34	52	70	90
Cashflow from Investing	(22)	(74)	(96)	(82)
Issue/(Repayment of Debt)	-	-	-	-
Changes in Minority Interest	-	-	-	-
Changes in Networth	(2)	129	-	-
Interest	(2)	(2)	(2)	(2)
Dividend paid	(72)	(198)	(222)	(222)
Cashflow from Financing	(75)	(70)	(224)	(224)
Changes in Cash	(100)	556	204	328
Opening Cash/Cash Equivalent	500	402	958	1,162
Closing Cash/ Cash Equivalent	402	958	1,162	1,490

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(₹ Crore)	FY22	FY23	FY24E	FY25E
Share Capital	49.4	49.4	49.4	49.4
Reserves & Surplus	1,836	2,292	2,694	3,226
Networth	1,886	2,341	2,744	3,275
Total Debt	-	-	-	-
Other non-current liabilities	48	40	40	40
Total Liabilities	1,933	2,382	2,784	3,315
Gross Block	757	846	984	1,119
Acc: Depreciation	355	422	505	600
Net Block	402	424	479	519
Capital WIP	52	63	60	60
Investments	216	242	273	310
Inventory	677	686	800	923
Sundry debtors	687	679	767	870
Cash and bank balances	402	958	1,162	1,490
Other financial assets	68	27	30	35
Other current assets	125	99	112	127
Total Current Assets	1,958	2,449	2,871	3,445
CL& Prov.	695	796	898	1,018
Net Current Assets	1,263	1,652	1,972	2,426
Total Assets	1,933	2,382	2,784	3,315

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per share data (₹)				
EPS	79.9	106.1	126.4	152.4
Cash EPS	91.5	119.6	143.3	171.7
BV	381.4	473.6	555.0	662.4
DPS	14.5	40.0	45.0	45.0
Cash Per Share	71.8	85.3	102.2	121.4
Operating Ratios (%)				
EBITDA Margin	15.2	17.4	17.8	18.7
PBT / Net Sales	13.6	15.9	16.1	17.0
PAT Margin	10.8	12.2	12.8	13.6
Inventory days	67.4	58.2	60.0	61.0
Debtor days	68.4	57.5	57.5	57.5
Creditor days	68.0	64.4	64.4	64.4
Return Ratios (%)				
RoE	21.0	22.4	22.8	23.0
RoCE	27.6	30.8	30.6	31.0
RoIC	32.6	47.9	48.2	51.4
Valuation Ratios (x)				
P/E	54.7	41.2	34.6	28.7
EV / EBITDA	38.2	27.6	23.6	19.5
EV / Net Sales	5.8	4.8	4.2	3.6
Market Cap / Sales	5.9	5.0	4.4	3.9
Price to Book Value	11.5	9.2	7.9	6.6
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Current Ratio	2.7	3.0	3.2	3.3
Quick Ratio	1.7	2.2	2.3	2.4

Source: Company, ICICI Direct Research

RATING RATIONALE

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%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

ANALYST CERTIFICATION

I/We, Chirag Shah, PGDBM and Vijay Goel, PGDBM Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Anoop Goyal

Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.