

## Margins below expectations; recovery ahead...

**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.

- It is also in power transmission product brands & partner with renewable energy companies to power some of the 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
- Total 72% of revenue is from domestic and 28% from exports

**Q4FY23 Results:** Margins contracted sharply on higher traded sales.

- Revenue increased 20.2% YoY (+31.7% QoQ) to ₹ 802.5 crore
- EBITDA margin contracted 789 bps to 19.1% on higher share of traded goods. Margin improved 204 bps QoQ on positive operating leverage
- EBITDA declined 15% YoY to ₹ 152.9 crore on lower margins
- PAT declined 13.8% YoY to ₹ 104.5 crore but increased 48% QoQ

**What should investors do?** Revenue growth is expected at ~18% CAGR over FY23-25E. EBITDA margin is expected to recover from 20% in FY23 to ~22% by FY25E. We estimate PAT CAGR of 16.3% over the same period

- We maintain our **BUY** rating on the stock

**Target Price and Valuation:** We value Timken at ₹ 3740 i.e. 50x P/E on FY25E EPS.

**Key triggers for future price performance:**

- Demand from the railways segment to pick up further led by execution of large capital outlay over the next three years (for Vande Bharat trains, freight wagons, electric locomotives, etc)
- Recovery in private capex led by mining and industrial segment
- Exports expected to pick up post FY25E with increase in localisation

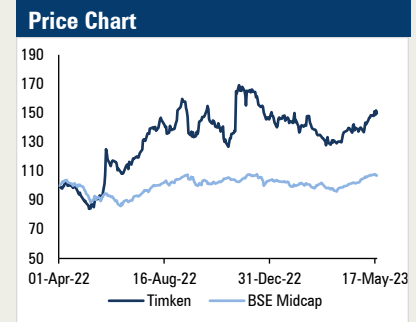
**Alternate Stock Idea:** We also like Anup Engineering in our capital goods coverage.

- Anup Engineering is on the cusp of entering a new trajectory led by new products and capex, which is expected to lead to strong revenue growth
- BUY with a target price of ₹ 1880 per share (20x P/E on FY25E EPS)

## TIMKEN

Particulars	
Particular	Amount
Market Capitalization (₹ crore)	24,408
Total Debt (FY23) (₹ crore)	29
Cash and Inv (FY22) (₹ crore)	162
EV (FY22) (₹ crore)	24,276
52 week H/L (₹) (BSE)	3761 / 1890
Equity capital (₹ crore)	75.2
Face value (₹)	10.0

Shareholding pattern				
	Jun-22	Sep-22	Dec-22	Mar-23
Promoter	67.8	67.8	67.8	67.8
FII	3.6	3.9	4.3	4.0
DII	11.6	11.1	11.2	11.3
Others	17.0	17.2	16.8	17.0



- Recent event & key risks**
- Revival in demand from auto industry, industrials & railways
  - Key risk:** i) Further slowdown in exports ii) Contraction in margins

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### Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Net Sales	1,617.8	1,410.5	2,203.2	2,806.6	20.2	3,311.8	3,907.9	18.0
EBITDA	363.3	251.8	510.6	560.4	15.5	680.6	846.1	22.9
EBITDA margin (%)	22.5	17.9	23.2	20.0		20.6	21.7	
Net Profit	246.1	143.2	327.1	390.7	16.7	457.3	562.3	20.0
EPS (₹)	32.7	19.0	43.5	51.9		60.8	74.8	
P/E (x)	99.2	170.6	74.7	62.5		53.4	43.4	
EV/EBITDA (x)	66.1	96.6	47.9	43.3		35.7	8.1	
RoCE (%)	18.6	13.7	25.4	25.0		24.2	24.5	
RoE (%)	15.6	10.7	19.7	19.2		18.4	18.6	

## Key takeaways of recent quarter

**Q4FY23 Results:** Margin contracted sharply on higher traded sales.

- Revenue from operations for the quarter increased 20.2% YoY (31.7% QoQ) to ₹ 802.5 crore; higher than our estimate of ₹ 707.4 crore possibly on account of increase in traded sales. FY23 revenue is up 27.4% YoY to ₹ 2806.5 crore
- Gross margins contracted sharply by 924 bps YoY (105 bps lower QoQ) to 38.5%; mainly on account higher share of traded goods, which carry lower margins. Traded goods were at ₹ 178.3 crore, up ~9% YoY. Total raw material cost was up 41.5% YoY and 34% QoQ. FY23 gross margin was at 40.9% vs. 45.8% in FY22
- Thus, on account of lower gross margins, EBITDA margin also contracted by 789 bps to 19.1% in Q4FY23 (vs our estimate of 20%). However, the margin improved sequentially by 204 bps led by positive operating leverage. FY23 EBITDA margin was at 20.0% vs. 23.2% in FY22
- EBITDA declined 15% YoY to ₹ 152.9 crore on lower margins. However, it was better than our estimate of ₹ 141.5 crore on higher-than-expected revenues. EBITDA for FY23 was up 9.7% YoY to ₹ 560.3 crore
- PAT fell 13.8% YoY to ₹ 104.5 crore (vs. our estimate of ₹ 98.4 crore) but the same increased 48% QoQ. FY23 PAT was up 19.5% YoY to ₹ 390.8 crore

## Earnings Call Highlights

- Revenue mix for FY23: Railways 17%, Mobility 22%, Distribution 17%, Process 16% and Exports 28%
- In the railways segment, Timken sees a big opportunity as the company is producing all varieties of rail bearings in India and supplying to Indian Railways and also global railways
- Pace of growth is relatively better in the railways segment led by more production of wagons or rolling stocks
- Plan of large number of Vande Bharat trains, metros, mini & light metros and replacement of diesel locomotives with electric locomotives are also key demand drivers
- Exports are a bit slow on account of a slowdown in some global markets. This is mainly because of cutting down in inventory levels as end customer demand is not going down significantly. If the US market really goes down in the second half, it certainly would have some impact on export sales. The company is pushing hard for other markets like Europe & Africa
- Currently, the Jamshedpur and Bharuch plant are running at full capacity utilisation
- The company is in the process of adding new capacities for cylindrical roller bearings (CRBs) and spherical roller bearings (SRBs). Total capex for this expansion would be ₹ 600 crore over the next two years
- India is among the best cost manufacturing sources for the parent company. The intent is to procure material from countries that are best in terms of cost structure
- With the manufacturing of SRBs and CRBs in India, exports are also expected to increase

**Exhibit 1: Variance Analysis**

Year	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ(%)	Comments
Income from Operation	802.5	707.4	667.4	20.2	609.4	31.7	Revenue growth was higher than estimates led by higher share of traded goods
Cost of materials consumed	241.7	417.4	197.3	22.5	215.6	12.1	
Purchase of stock-in-trade	178.3	0.0	164.0	8.7	205.1	-13.1	
Change in inventories	73.7	0.0	(12.4)		(52.2)		
Gross Margins	38.5	41.0	47.7	-924 bps	39.5	-105 bps	
Employee cost	39.2	42.4	36.4	7.7	41.8	(6.3)	
Other expenses	116.7	106.1	102.3	14.1	95.4	22.3	
EBITDA	152.9	141.5	179.8	-15.0	103.7	47.4	
EBITDA Margin (%)	19.1	20.0	26.9	-789 bps	17.0	204 bps	Margins impacted primarily due to higher share of low margin traded goods and higher cost of imports
Other Income	6.7	14.0	4.9	36.3	14.4	(53.6)	
Depreciation	21.3	22.0	22.4	-4.9	22.4	(4.9)	
Interest	1.4	0.5	1.3	5.6	0.5	174.6	
PBT	136.9	133.0	161.0	-15.0	95.2	43.8	
Taxes	32.4	34.6	39.7	-18.4	24.6	31.6	
PAT	104.5	98.4	121.3	-13.8	70.6	48.0	

Source: Company, ICICI Direct Research

**Exhibit 2: Change in Estimates**

	FY23	FY24E		FY25E	
₹ crore	Actual	Old	New	Change	New
Revenue	2806.6	3141.3	3311.8	5.4	3907.9
EBITDA	560.4	797.9	680.6	-14.7	846.1
EBITDA Margin (%)	20.0	25.4	20.6	-485 bps	21.7
PAT	390.7	535.7	457.3	-14.6	562.3
EPS (₹)	51.9	71.2	60.8	-14.6	74.8

Source: ICICI Direct Research, Company

## Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Net Sales	2,203	2,807	3,312	3,908
Total Operating Income	2,203	2,807	3,312	3,908
% Growth (Operating Income)	56.2	27.4	18.0	18.0
Other Income	14.3	53.2	40.0	45.0
<b>Total Revenue</b>	<b>2,218</b>	<b>2,860</b>	<b>3,352</b>	<b>3,953</b>
Cost of materials consumed	734	922	1,937	2,247
Purchase of stock-in-trade	586	743	-	-
Change in inventories	(126)	(6)	-	-
Employee cost	141	159	180	205
Other Expenses	358	427	513	610
<b>Total expenditure</b>	<b>1,693</b>	<b>2,246</b>	<b>2,631</b>	<b>3,062</b>
<b>EBITDA</b>	<b>511</b>	<b>560</b>	<b>681</b>	<b>846</b>
% Growth (EBITDA)	102.8	9.7	21.5	24.3
Interest	2.4	2.8	2.8	2.8
PBDT	523	611	718	888
Depreciation	84	87	104	133
PBT	438	524	614	755
Tax	111	133	157	192
<b>PAT</b>	<b>327</b>	<b>391</b>	<b>457</b>	<b>562</b>
% Growth (PAT)	128.5	19.5	17.0	23.0
EPS	43.5	51.9	60.8	74.8

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Share Capital	75	75	75	75
Reserves & Surplus	1,582	1,962	2,404	2,948
<b>Total Shareholders fund</b>	<b>1,657</b>	<b>2,037</b>	<b>2,479</b>	<b>3,023</b>
Goodwill	181	181	181	181
Total debt	30	29	29	29
Other liabilities	49	42	42	42
<b>Total Liabilities</b>	<b>1,735</b>	<b>2,108</b>	<b>2,551</b>	<b>3,094</b>
Gross Block	1,019	1,095	1,298	1,668
Acc: Depreciation	405	493	596	730
Net Block	614	602	702	938
Capital WIP	50	53	250	80
Investments	89	108	127	150
Inventory	558	569	681	803
Sundry debtors	539	576	679	821
<b>Cash</b>	<b>18</b>	<b>162</b>	<b>149</b>	<b>368</b>
Loans & Advances	3	4	5	5
Inv + Other current assets	141	301	331	391
CL& Prov.	458	448	554	644
Net Current Assets	802	1,164	1,290	1,744
<b>Total Assets</b>	<b>1,735</b>	<b>2,108</b>	<b>2,551</b>	<b>3,094</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	327.1	390.7	457.3	562.3
Depreciation	84.3	87.2	103.9	133.5
Interest	2.4	2.8	2.8	2.8
Other income	(14.3)	(53.2)	(40.0)	(45.0)
Prov for Taxation	111.1	132.8	156.5	192.5
Change in Working Capital	(457.0)	(218.5)	(139.6)	(234.8)
Taxes Paid	(118.2)	(139.6)	(156.5)	(192.5)
<b>CF from Op activities</b>	<b>(65)</b>	<b>202</b>	<b>384</b>	<b>419</b>
(Purchase)/Sale of Fixed Assets	(23.4)	(79.7)	(400.0)	(200.0)
(Purchase)/Sale of Investments	(18.4)	(18.5)	(19.4)	(22.9)
Other Income	14.3	53.2	40.0	45.0
<b>CF from Inv activities</b>	<b>(28)</b>	<b>(45)</b>	<b>(379)</b>	<b>(178)</b>
Changes in Networth	(2.4)	0.8	(0.0)	0.0
Interest	(2.4)	(2.8)	(2.8)	(2.8)
Dividend paid	(11.3)	(11.3)	(15.0)	(18.8)
<b>CF from Fin activities</b>	<b>(16)</b>	<b>(13)</b>	<b>(18)</b>	<b>(22)</b>
Changes in Cash	(111.1)	143.5	(12.9)	219.2
Opening Cash/Cash Equivalent	129.3	18.2	161.7	148.8
Closing Cash/ Cash Equivalent	18.2	161.7	148.8	368.0

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E
<b>Per Share Data</b>				
EPS	43.5	51.9	60.8	74.8
Cash EPS	54.7	63.5	74.6	92.5
BV	220.3	270.8	329.6	401.9
DPS	1.5	1.5	2.0	2.5
Cash Per Share	53.9	65.5	79.3	97.0
<b>Operating Ratios(%)</b>				
EBITDA Margin	23.2	20.0	20.6	21.7
PBT / Net Sales	19.3	16.9	17.4	18.2
PAT Margin	14.8	13.9	13.8	14.4
Inventory days	92.5	72.6	61.6	52.2
Debtor days	89.3	70.1	59.4	50.3
Creditor days	76.0	59.6	50.5	42.8
<b>Return Ratios(%)</b>				
RoE	19.7	19.2	18.4	18.6
RoCE	25.4	25.0	24.2	24.5
RoIC	34.0	38.0	42.9	45.1
<b>Valuation Ratio(%)</b>				
P/E	74.7	62.5	53.4	43.4
EV / EBITDA	47.9	43.3	35.7	28.5
EV / Net Sales	11.1	8.7	7.3	6.2
Market Cap / Sales	11.1	8.7	7.4	6.2
Price to Book Value	14.7	12.0	9.9	8.1
<b>Solvency Ratio(%)</b>				
Current Ratio	2.4	2.4	2.4	2.4
Quick Ratio	1.2	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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