Rating matrix

Rating	:	Hold
Target	:	₹ 700
Target Period	:	12 months
Potential Upside	:	1%

What's changed?

Target	Changed from ₹ 645 to ₹ 700
EPS FY18E	Changed from ₹ 17.5 to ₹ 15.9
EPS FY19E	Changed from ₹ 20.7 to ₹ 19.3
Rating	Unchanged

Quarterly performance

	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Revenue	260.5	275.8	-5.6	231.0	12.8
EBITDA	37.6	49.0	-23.3	23.8	58.2
EBITDA (%)	14.4	17.8	-334 bps	10.3	414 bps
PAT	25.7	27.5	-6.5	13.3	93.6

Key financials

₹ Crore	FY16	FY17	FY18E	FY19E
Net Sales	1,051	1,056	1,217	1,403
EBITDA	162	158	194	229
Net Profit	92	97	108	131
EPS (₹)	13.5	14.3	15.9	19.3

Valuation summary

	FY16	FY17	FY18E	FY19E
P/E	51.1	48.3	43.3	35.8
Target P/E	51.9	49.0	43.9	36.4
EV / EBITDA	28.7	29.7	24.0	20.1
P/BV	9.0	7.7	6.8	6.0
RoNW (%)	18.2	16.0	15.7	16.6
RoCE (%)	27.8	22.7	24.2	25.5

Stock data

Particular	Amount
Market Capitalization (₹ crore)	4,691
Total Debt (FY17) (₹ crore)	8
Cash and Investments (FY17) (₹ crore)	11
EV (₹ crore)	4,689
52 week H/L (₹)	747 / 510
Equity capital (₹ crore)	68.0
Face value (₹)	10.0

Price performance

Return %	1M	3M	6M	12M
Timken India	(4.7)	14.4	33.7	29.6
FAG Bearings	(8.2)	9.7	11.4	15.7
NRB Bearings	(5.3)	4.1	5.9	0.6
SKF India	(0.7)	4.6	23.3	27.0

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Timken India (TIMIND) ₹ 690

Capex utilisation to be key...

- Timken India (TIL) reported dismal Q4FY17 numbers. The company reported a significant decline in topline, EBITDA and PAT numbers. This was mostly due to a continued miss in exports (6% decline YoY)
- Revenues came in at ₹ 260.5 crore, down 4.2% YoY and below our estimate of ₹ 295 crore. We had estimated muted topline growth of 8.8% YoY
- EBITDA declined 23.3% YoY. EBITDA margins for Q4FY17 came in at 14.4% vs. 17.8% in Q4FY16. We expected EBITDA margins of 16.5% for the quarter
- However, PAT declined only 6.5% YoY due to high other income during the quarter. Absolute PAT came in at ₹ 25.7 crore. The company has declared a dividend of ₹ 1 per share

Disruptions in Chennai delay capex related asset realignment

For TIL, Q4FY17 turned out to be a fourth weak quarter due to a drop in exports. This was primarily on account of delay in transportation of assets (machines) from the Chennai to Jamshedpur facility of the company due to the 'Cyclone Vardah'. As per management commentary, all the assets have been relocated and are now up and running. The company is currently witnessing strong demand from its exports business and expects it to grow at a healthy rate going forward. Accordingly, we expect exports revenue to grow at 17% CAGR in FY17-19E. Going ahead, TIL is also expected to be a key hub for export to various customers of Timken entities. Historically also, Timken's strong export revenue growth has enabled it to combat a muted domestic business. TIL's exports segment logged growth of ~17% CAGR in FY12-16 when the domestic segment witnessed muted growth of ~1% over the same period. Going forward, we expect export revenues to grow to ~₹ 463 crore by FY19E. Export revenues are expected to contribute 33% to the topline in FY19E.

Domestic growth drivers – renewable, off-highway, DFC, railways

In domestic markets, TIL has been witnessing a pick-up in segments like renewable, CVs & off-highway, railways and after-market segment. The management continues to remain optimistic on these segments, going forward. In the DFC segment, TIL is eyeing significant business from the higher demand of new wagons. The opportunity from this segment has been pegged at ~₹ 120 crore/annum. Even in the locomotive segment, the company has established itself as a key supplier of bearings. The company is also witnessing demand from the newer segments like the Indian Navy. All these are likely to accelerate domestic revenues for the company, going forward. We expect domestic business revenues to witness 14.4% CAGR in FY17-19E to ₹ 940.7 crore.

On-track capacity expansion programme to drive growth

The company has executed two capital expansion programmes, for the railway bearings segment (₹ 124.7 crore) and for the tapered roller bearing segment (₹ 64.3 crore). As per the management, both expansion programmes are almost over and will be revenue generating by Q1FY18. This is likely to accelerate topline, bottomline growth for the company. We estimate growth of 15.3% and 16.1% in topline and bottomline in FY17-19E, respectively. With an improving growth outlook, we now value the company at 36x FY19E EPS of ₹ 19.3 and arrive at a target price of ₹ 700 (₹ 645 earlier). We continue to maintain **HOLD** recommendation on the stock.

Variance analysis

	Q4FY17	Q4FY17E	Q4FY16	YoY (%)	Q3FY17	QoQ(%)	Comments
Net Sales	260.5	295.6	271.9	-4.2	228.3	14.1	Revenue decline of ~4% YoY due to decline in export revenue and weak domestic markets
Other Operating Income	0.0	4.5	3.9	(100.0)	2.7	(100.0)	
Income from Operation	260.5	300.1	275.8	-5.6	231.0	12.8	
Cost of materials consumed	97.9	108.3	82.6	18.5	63.8	53.5	
Purchase of stock-in-trade	49.2	75.0	72.0	-31.7	79.0	-37.7	
Change in inventories	3.1	(6.0)	4.6		3.7		
Employee cost	19.4	18.9	17.3	12.3	17.1	13.3	
Other expenses	53.2	54.3	50.2	6.0	43.6	22.2	
EBITDA	37.6	49.5	49.0	-23.3	23.8	58.2	
EBITDA Margin (%)	14.4	16.5	17.8	-334 bps	10.3	414 bps	Decline in EBITDA margins due to increase in employee expenses
Other Income	4.3	1.4	0.6		2.2		
Depreciation	8.0	6.2	7.2	11.3	6.9	15.0	
Interest	0.2	0.4	0.4	-50.0	0.2		
PBT	33.8	44.3	42.1	-19.8	18.8	79.3	
Taxes	8.0	15.6	16.6	-51.5	5.5	45.1	
PAT	25.7	28.7	27.5	-6.5	13.3	93.6	PAT declines due to weak operational performance

Source: Company, ICICIdirect.com Research

Change in estimates

₹ crore	Old FY18E	New FY18E	% Change	Old FY19E	New FY19E	% Change	
Revenue	1,281.7	1,217.3	(5.0)	1,466.1	1,403.3	(4.3)	Revised downwards to account for muted performance of FY17.
EBITDA	210.8	193.6	(8.2)	245.5	228.7	(6.8)	
EBITDA Margin (%)	16.4	15.9	-50 bps	16.7	16.3	-40 bps	
PAT	119.0	108.4	(8.9)	141.0	130.9	(7.1)	
EPS (₹)	17.5	15.9	(8.9)	20.7	19.3	(7.0)	

Source: Company, ICICIdirect.com Research

Assumptions

			Current		Earlier		
₹ crore	FY16	FY17E	FY18E	FY19E	FY18E	FY19E	
Domestic Sales of Goods	640	666	760	866	763	862	Revised downwards to account for slower-than-expected recovery
Exports	361	338	395	463	440	510	Revised downwards to account for weak exports in FY17
Maintenance and refurbishment services	49.5	51.8	62.2	74.6	62.6	75.1	
Other	3.2	5.4	6.5	7.8	6.5	7.8	

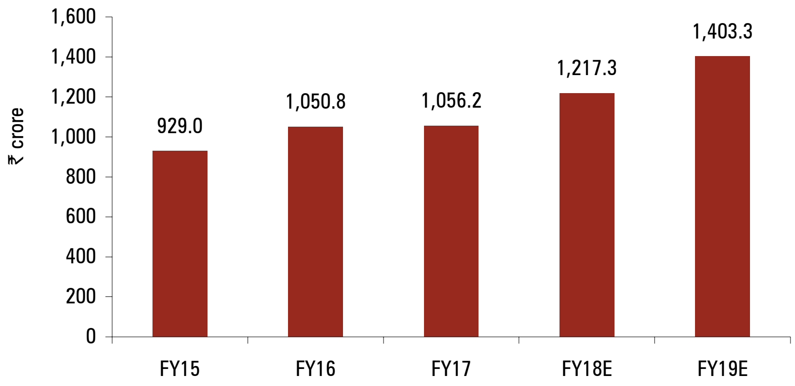
Source: Company, ICICIdirect.com Research

Company Analysis

Revenues to grow at 15.3% CAGR during FY17-19E

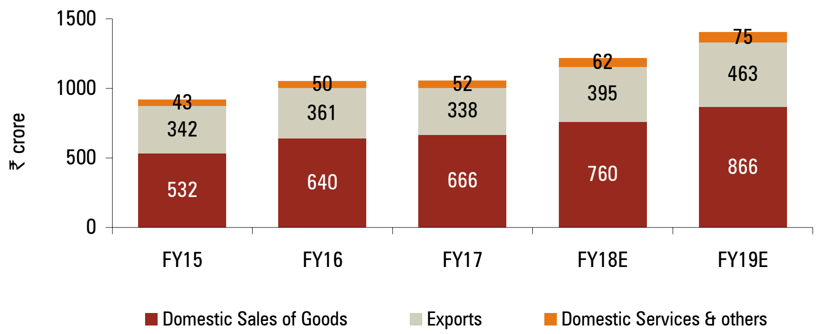
Timken's revenues grew at 6.3% CAGR in FY12-16 led by strong exports, which grew over 17% CAGR during the same period. While export revenues are expected to remain strong in FY16-19E, growth rates are likely to moderate from here. We expect export revenues to grow at 17% in FY17-19E. Domestic revenues are also likely to show higher growth rates on the back of the ensuing economic recovery. The recovery pace across industrial demand has already seen some green shoots from FY17 onwards. We expect domestic revenues to grow at 14.4% (including revenues from services) vs. earlier growth of ~1% in FY12-16. Accordingly, we expect total revenues to grow at 15.3% in FY17-19E to ₹ 1403.3 crore in FY19E.

Exhibit 1: Revenue growth trend



Source: Company, ICICIdirect.com Research

Exhibit 2: Break-up of revenues into various segment



Source: Company, ICICIdirect.com Research

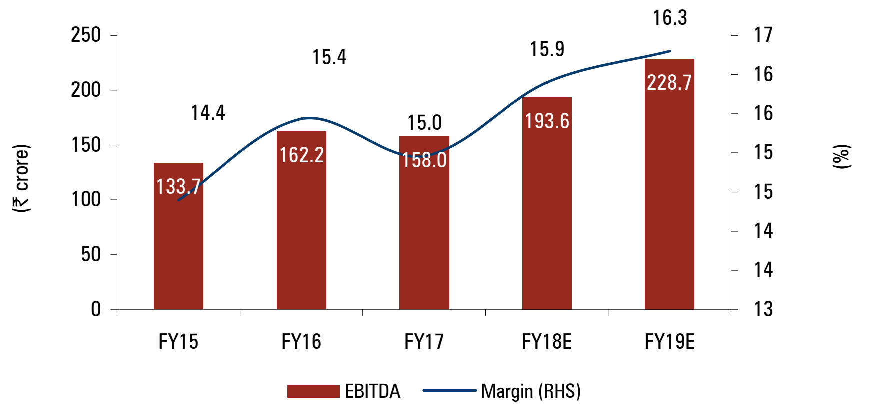
EBITDA to grow at 20.3% CAGR during FY17-19E

EBITDA margins had come down to 9.9% in FY14 vs. 17.5% in CY08 as a result of the rupee depreciation impact on imports and increase in proportion of low margin traded goods in overall sales. TIL has a net import exposure of ~12%

In the recent past, Timken has localised a considerable portion of its steel requirement while a stable currency has enabled the company to post a margin of 15% in FY17. Going forward, we expect margin expansion to continue on account of higher exports. The company's key export geographies include US, China and Russia for railway and freight related bearings. Similarly, Europe remains the key market for passenger car bearings.

For FY17-19E, we expect EBITDA to grow at 20.3% CAGR led by stable revenue growth and improving margins. We expect EBITDA margins to improve from 15% in FY17 to 16.3% in FY19E.

Exhibit 3: EBITDA growth trend

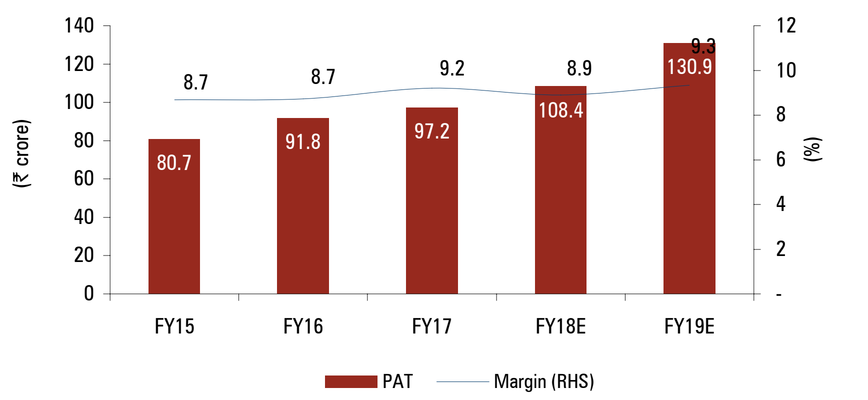


Source: Company, ICICIdirect.com Research

PAT growth of 16.1% CAGR in FY17-19E

We expect TIL to post PAT growth of 16.1% CAGR over FY17-19E led by improved margins. We expect the company to report PAT of ₹ 130.9 crore in FY19E.

Exhibit 4: PAT & PAT margin trend

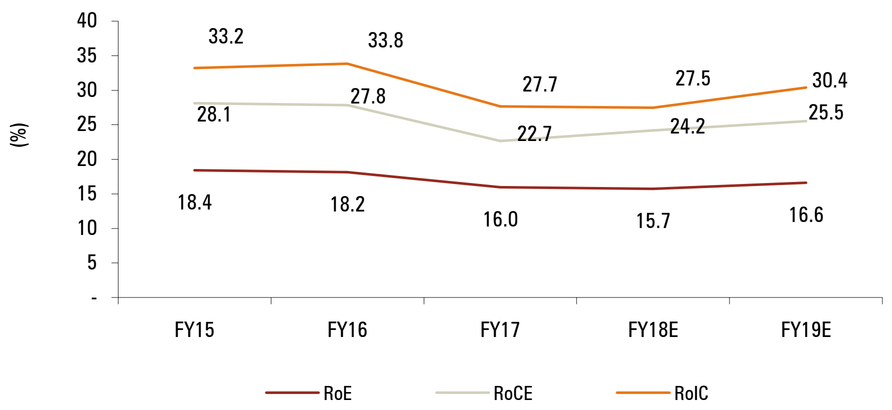


Source: Company, ICICIdirect.com Research

Return ratios to improve led by higher earnings growth

Return ratios have been negatively impacted owing to a sharp decline in margins in CY08-FY14. However, with a recovering performance in FY16 and FY17, we expect return ratios to improve. Going ahead, driven by an earnings pick-up on the back of an economic recovery RoEs and RoCEs are expected to improve to 16.6% and 25.5% in FY19E vs. 16% and 22.7%, respectively, in FY17.

Exhibit 5: Return ratios to improve



Source: Company, ICICIdirect.com Research

Outlook and Valuation

Timken India is one of the leading manufacturers of tapered roller bearings and components in India with a manufacturing facility at Jamshedpur and Raipur, which largely cater to medium and heavy trucks, off-highway equipments, railways markets and exports. The company meets the demand for other types of bearings viz., large size tapered roller bearings, spherical roller bearings, cylindrical roller bearings and speciality ball bearings by sourcing these from other Timken company plants globally. **To augment growth, the company has planned substantial capex as follows;**

1. **Capacity expansion of railway bearings (₹ 125 crore):**

   In order to meet rising global and domestic demand, the company has planned a capacity expansion programme for **railway bearings** at its Jamshedpur plant. The estimated investment for the project will be ₹ 124.7 crore, of which investment in plant and equipment will be ₹ 89.6 crore.

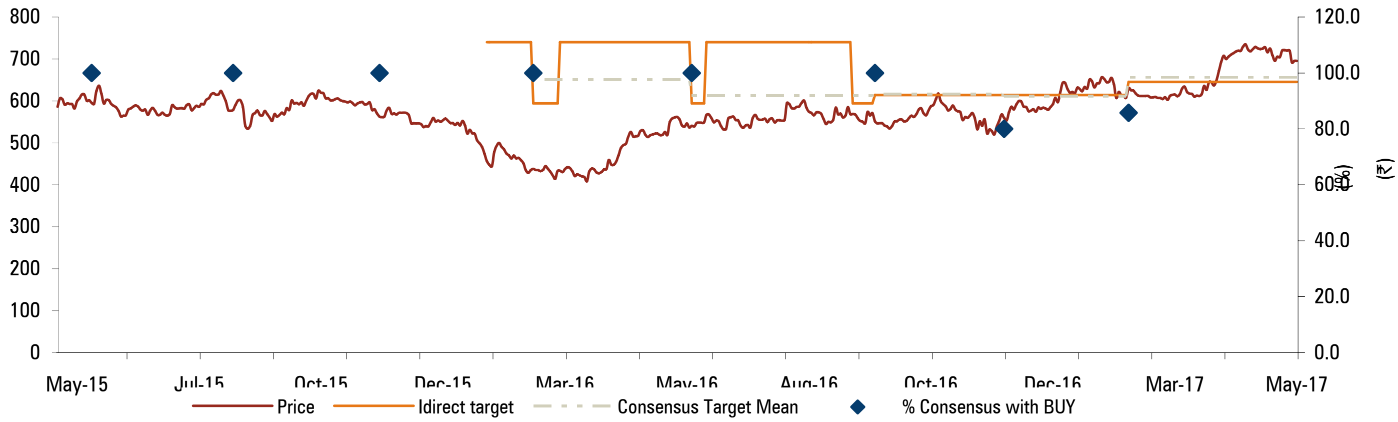
2. **Tapered segment capacity expansion (₹ 64 crore):**

   This project involves expansion of tapered roller bearings 0-8 inches finishing capacity at Jamshedpur through expansion of new cup, cone and roller capacity involving an investment of ₹ 64.3 crore. This investment will primarily be made in plants and equipment.

As per management commentary, both capacity expansion programmes are on track and will be revenue generating by Q1FY18. This is likely to accelerate topline, bottomline growth for the company. We estimate growth of 15.3% and 16.1% in topline and bottomline in FY17-19E, respectively.

Timken has historically traded at premium valuations of over ~30x forward earnings due its niche expertise and strong parentage. With moderate capex and strong balance sheet, we believe TIL is well placed to capture the upcoming opportunity in the railways, DFC, renewable and auto segment in addition to export led growth. **With an improving growth outlook**, we now value the company at 36x FY19E EPS of ₹ 19.3 and arrive at a target price of ₹ 700 (₹ 645 earlier). We continue to maintain **HOLD** rating on the stock.

Recommendation history vs. consensus



Source: Bloomberg, Company, ICICIdirect.com Research, Initiated coverage on 9th April 2015.

Key events

Date	Event
CY10	Led by margin expansion of ~130 bps & topline growth of ~47% YoY on low base, earnings grew ~57% YoY
FY12	Changes its accounting year from callendar year to financial year ending March
FY13	Service centre at Raipur started for repairs of industrial drives
FY13	Raises ₹ 52.2 crore through QIP, done mainly to comply with Sebi's regulation of promoter holding ceiling of 75%
FY14	Impacted by raw material cost due to currency movement, margins plummet to 9.9%
FY15	Earnings rebound led by an improvement in margins and strong exports revenue growth

Source: Company, ICICIdirect.com Research

Top 10 Shareholders

Rank	Name	Last Filing Date	% O/S	Position	Change
1	Timken Singapore Pte. Ltd.	31-Mar-2017	75.00%	51.00M	0
2	Sundaram Asset Management Company Limited	28-Feb-2017	3.89%	2.64M	0
3	Canara Robeco Asset Management Company Ltd.	31-Mar-2017	1.24%	0.84M	0
4	L&T Investment Management Limited	28-Feb-2017	1.12%	0.76M	0
5	Motilal Oswal Asset Management Company Ltd.	28-Feb-2017	0.95%	0.65M	0
6	Tata Asset Management Limited	31-Mar-2017	0.88%	0.60M	0
7	UTI Asset Management Co. Ltd.	28-Feb-2017	0.61%	0.41M	0
8	Dimensional Fund Advisors, L.P.	31-Jan-2017	0.50%	0.34M	-0.00M
9	SBI Funds Management Pvt. Ltd.	28-Feb-2017	0.45%	0.30M	+0.15M
10	HDFC Asset Management Co., Ltd.	28-Feb-2017	0.11%	0.07M	0

Shareholding Pattern

(in %)	Mar-16	Jun-16	Sep-16	Dec-16	Mar-17
Promoter	75.0	75.0	75.0	75.0	75.0
FII	1.7	1.6	1.6	1.4	1.7
DII	9.2	9.5	9.5	9.2	9.4
Others	14.1	13.9	14.0	14.3	13.9

Source: Reuters, ICICIdirect.com Research

Recent Activity

Investor name		
Investor name	Value (m)	Shares (m)
SBI Funds Management Pvt. Ltd.	+1.37M	+0.15M
IDFC Asset Management Company Private Limited	+0.56M	+0.06M
Kotak Mahindra (UK) Ltd	+0.05M	+0.01M
BlackRock Institutional Trust Company, N.A.	+0.02M	+0.00M

Investor name		
Investor name	Value (m)	Shares (m)
Franklin Templeton Asset Management (India) Pvt. Ltd.	-3.28M	-0.36M
Dimensional Fund Advisors, L.P.	-0.01M	-0.00M
BlackRock Advisors (UK) Limited	-0.00M	-0.00M
Goldman Sachs Asset Management (India) Private Ltd.	-0.00M	-0.00M

Source: Reuters, ICICIdirect.com Research

Financial summary

Profit and loss statement				₹ Crore
(₹ Crore)	FY16	FY17	FY18E	FY19E
Net Sales	1,050.8	1,056.2	1,217.3	1,403.3
Other Operating Income	-	-	-	-
Total Operating Income	1,050.8	1,056.2	1,217.3	1,403.3
% Growth (Operating Income)	*13.1*	*0.5*	*15.3*	*15.3*
Other Income	5.8	9.9	11.0	13.0
Total Revenue	1,056.7	1,066.1	1,228.3	1,416.3
Cost of materials consumed	375.1	334.8	405.4	470.1
Purchase of stock-in-trade	277.0	282.4	329.9	380.3
Change in inventories	(20.6)	6.9	(21.9)	(30.9)
Employee cost	68.2	73.7	82.8	94.0
Other Expenses	189.0	200.5	227.6	261.0
Total expenditure	888.6	898.2	1,023.8	1,174.6
EBITDA	162.2	158.0	193.6	228.7
% Growth (EBITDA)	*21.3*	*(2.6)*	*22.5*	*18.2*
Interest	0.9	0.8	4.0	4.5
PBDT	167.1	167.1	200.6	237.2
Depreciation	22.5	28.9	36.4	38.9
PBT	141.6	138.2	164.2	198.4
Tax	49.9	41.0	55.8	67.4
PAT	91.8	97.2	108.4	130.9
% Growth (PAT)	*13.7*	*5.9*	*11.5*	*20.8*
EPS	13.5	14.3	15.9	19.3

Source: Company, ICICIdirect.com Research

Cash flow statement				₹ Crore
(₹ Crore)	FY16	FY17	FY18E	FY19E
Profit after Tax	91.8	97.2	108.4	130.9
Depreciation	22.5	28.9	36.4	38.9
Interest	0.9	0.8	4.0	4.5
Other income	(5.8)	(9.9)	(11.0)	(13.0)
Prov for Taxation	49.9	41.0	55.8	67.4
Cash Flow before WC changes	-	-	-	-
Change in Working Capital	(32.0)	(10.6)	(46.6)	(55.5)
Taxes Paid	(49.2)	(41.0)	(55.8)	(67.4)
Cashflow from Operating Activities	77.9	106.4	91.1	105.8
(Purchase)/Sale of Fixed Assets	(45.2)	(159.1)	(30.0)	(10.0)
(Purchase)/Sale of Investments	(21.7)	28.4	(5.0)	(10.0)
Other Income	5.8	9.9	11.0	13.0
Cashflow from Investing Activities	(61.1)	(120.8)	(24.0)	(7.0)
Issue/(Repayment of Debt)	1.8	4.1	1.6	-
Interest	(0.9)	(0.8)	(4.0)	(4.5)
Others	-	-	-	-
Cashflow from Financing Activities	0.9	3.3	(2.4)	(4.5)
Changes in Cash	9.5	(22.2)	37.3	62.1
Opening Cash/Cash Equivalent	23.7	33.2	11.1	48.4
Closing Cash/ Cash Equivalent	33.2	11.1	48.4	110.4

Source: Company, ICICIdirect.com Research

Balance sheet				₹ Crore
(₹ Crore)	FY16	FY17	FY18E	FY19E
Share Capital	68.0	68.0	68.0	68.0
Reserves & Surplus	454.0	540.2	621.2	720.0
Total Shareholders fund	522.0	608.2	689.2	788.0
Minority Interest	-	-	-	-
Total debt	4.3	8.4	10.0	10.0
Other liabilities/Deferred tax liabilit	(3.3)	(3.3)	(3.3)	(3.3)
Total Liabilities	523.0	613.3	695.9	794.7
Gross Block	354.9	444.9	504.9	539.9
Acc: Depreciation	219.3	248.2	284.6	323.5
Net Block	135.5	196.6	220.3	216.4
Capital WIP	20.9	90.0	60.0	35.0
Investments	38.4	10.0	15.0	25.0
Inventory	185.9	188.1	216.8	249.9
Sundry debtors	194.2	189.9	217.4	250.6
Cash	33.2	11.1	48.4	110.4
Loans & Advances	70.0	63.3	72.9	84.1
Other current assets	19.2	12.5	14.4	16.6
CL& Prov.	174.4	148.1	169.2	193.3
Net Current Assets	328.2	316.7	400.7	518.3
Total Assets	523.0	613.3	695.9	794.7

Source: Company, ICICIdirect.com Research

Key ratios				
(Year-end March)	FY16	FY17	FY18E	FY19E
Per share data (₹)				
EPS	13.5	14.3	15.9	19.3
Cash EPS	16.8	18.5	21.3	25.0
BV	76.8	89.5	101.4	115.9
DPS	1.2	1.6	4.0	4.7
Cash Per Share	32.3	36.5	41.9	47.6
Operating Ratios (%)				
EBITDA Margin	15.4	15.0	15.9	16.3
PBT / Net Sales	13.3	12.2	12.9	13.5
PAT Margin	9.0	9.2	8.9	9.3
Inventory days	64.6	65.0	65.0	65.0
Debtor days	67.5	65.6	65.2	65.2
Creditor days	60.6	51.2	50.7	50.3
Return Ratios (%)				
RoE	18.2	16.0	15.7	16.6
RoCE	27.8	22.7	24.2	25.5
RoIC	33.8	27.7	27.5	30.4
Valuation Ratios (x)				
P/E	51.1	48.3	43.3	35.8
EV / EBITDA	28.7	29.7	24.0	20.1
EV / Net Sales	4.4	4.4	3.8	3.3
Market Cap / Sales	4.5	4.4	3.9	3.3
Price to Book Value	9.0	7.7	6.8	6.0
Solvency Ratios				
Net Debt / Equity	-	-	-	-
Current Ratio	2.7	3.1	3.1	3.1
Quick Ratio	1.6	1.8	1.8	1.8

Source: Company, ICICIdirect.com Research

ICICIdirect.com coverage universe (Capital goods)

	CMP			M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E	FY16	FY17E	FY18E
AIA Engineering	1350	1,533	Buy	12420	44.3	50.1	51.9	30.5	26.9	26.0	24.7	21.9	22.4	27.6	22.1	19.6
Thermax (THERMA)	990	800	Hold	10223	29.6	20.6	27.1	33.4	47.9	36.6	15.3	9.8	11.9	14.2	9.2	10.9
KEC International (KECIN)	250	292	Buy	3881	9.0	10.8	14.1	27.8	23.2	17.7	15.3	15.7	16.8	16.3	15.0	16.5
L&T (LARTOU)	1760	1635	Buy	162800	51.4	52.0	51.3	34.2	33.8	34.3	10.1	10.1	11.6	12.5	12.2	13.6
Greaves Cotton (GREAVE)	160	176	hold	3904	6.6	7.1	8.7	24.2	22.5	18.4	18.0	24.5	26.9	19.5	20.8	23.8
VaTech Wabag (VATWAB)	675	630	Buy	2661	16.9	28.7	36.4	29.0	17.1	13.5	17.0	20.4	22.2	9.7	14.8	16.5
NRB Bearing (NRBBEA)	122	115	Hold	1047	4.7	5.3	6.1	23.0	20.4	17.8	14.1	14.9	15.8	15.2	15.7	16.2
Timken India (TATTIM)	690	700	Hold	4691	13.5	14.3	15.9	51.1	48.3	43.3	27.8	22.7	24.2	18.2	16.0	15.7
Grindwell Norton (GRINOR)	380	390	Buy	3543	9.4	11.2	12.6	33.9	28.5	25.3	22.7	25.1	26.9	15.5	17.6	18.9

Source: Company, ICICIdirect.com Research

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