

Timken India (TIMIND)

Going strong...

- Timken India (TIL) reported strong Q3FY19 numbers. TIL is now reporting merged entity numbers, i.e. Timken + (erstwhile) ABC Bearings
- For Q3FY19, revenues came in at ₹ 384.9 crore, up 38.1% YoY. We expected revenues of ₹ 349.2 crore (25% growth)
- Gross margins were at 45.6% vs. 36.9% YoY. EBITDA margins were at 14.4% vs. 7.4 YoY. Gross margins, EBITDA margins were lower in Q3FY18 due to a change in product mix and high input prices during the quarter. We believe the same has now corrected in Q3FY19
- Accordingly, absolute EBITDA and PAT grew 168.1% and 188.2% to ₹ 55.6 crore and ₹ 26.4 crore, respectively

Amalgamation complete, TIL gets entry into new segments

The TIL-ABC deal concluded with effective date of August 30, 2018 wherein the latter's shares dissolved, merged into TIL's equity. ABC shareholders received five shares of TIL for every eight shares they hold in the company. This merger marks TIL's entry into new segment: wheel-end bearings. Bearings can broadly be categorised into three segments, viz. differential, pinion and wheel-end segment. In the first two categories, TIL has a high market share of 60-100%. However, in the last category, the company does not have any presence. The market size of this segment is ~₹ 400 crore. TIL did not make inroads into this segment, as it was flooded with Chinese players. However, post H1FY17; the company witnessed a significant improvement in this segment. This was primarily due to an increase in 'performance guarantee' requirement by the major consumer from this segment. ABC has a significant presence in this segment, which will now allow TIL to foray in this segment.

Capex now operational, new opportunity to open up in railways

TIL has executed capex for railway bearings and tapered railway bearings at a cost of ₹ 125 crore and ₹ 64 crore, respectively. Both capacities are now operational. In the railway segment, TIL expects new opportunities to open up in the 'passenger coach' segment. Replacement of bearings - cartridge tapered roller bearings (CTRB) in place of existing spherical roller bearings for existing coaches plus demand for CTRB bearings for new coaches is likely to augur well for TIL, going forward. **Additionally, Indian Railways is also planning to outsource 'maintenance of bearings' for existing wagons/locomotives to large OEMs. TIL being a frontrunner in this space, intends to capitalise on this as well.**

Utilisation of under capacities, operational synergies – key monitorable

ABC has significant unused capacities in the tapered roller segment (~40%). TIL intends to use this by catering to the lucrative export market, an area where it has a strong presence. Access to new markets and geographies along with operational synergies from the merged entity are likely to be key monitorables from here on. Going forward, we expect both segments, domestic and exports, to grow at a CAGR of 12.6% and 16.5%, in FY19E-21E, respectively. We expect revenue, EBITDA and PAT to grow at 13.9%, 16.2% and 21.1%, respectively, in FY19E-21E. We expect strong EBITDA growth as we estimate utilisation of 75% and 80% in FY20E and FY21E, respectively. We value the company at 29x FY21E EPS to arrive at target price of ₹ 640. We maintain **BUY** rating on the company.

Rating matrix	
Rating	: Buy
Target	: ₹ 640
Target Period	: 12 months
Potential Upside	: 19%

What's changed?	
Target	Unchanged
EPS FY20E	Changed from ₹ 21.4 to ₹ 18.1
EPS FY21E	Introduced at ₹ 21.9
Rating	Unchanged

Quarterly performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	384.9	278.6	38.1	413.8	-7.0
EBITDA	55.6	20.7	168.1	70.4	-21.1
EBITDA (%)	14.4	7.4	700 bps	17.0	-258 bps
PAT	26.4	9.2	188.2	34.6	-23.5

Key financials				
₹ Crore	FY18	FY19E	FY20E	FY21E
Net Sales	1,234	1,613	1,828	2,091
EBITDA	163	237	274	320
Net Profit	92	112	136	165
EPS (₹)	13.5	14.9	18.1	21.9

Valuation summary				
	FY18	FY19E	FY20E	FY21E
P/E	39.9	36.1	29.8	24.6
Target P/E	47.3	42.8	35.3	29.2
EV / EBITDA	22.4	15.3	13.3	11.1
P/BV	5.2	3.3	3.0	2.7
RoNW (%)	13.1	9.0	10.0	10.8
RoCE (%)	18.9	12.6	14.3	15.7

Stock data	
Particular	Amount
Market Capitalization (₹ crore)	3,671
Total Debt (FY19E) (₹ crore)	52
Cash and Investments (FY19E) (₹ crore)	97
EV (FY19E) (₹ crore)	3,626
52 week H/L (₹) (BSE)	832 / 496
Equity capital (₹ crore)	75.2
Face value (₹)	10.0

Price performance				
Return %	1M	3M	6M	12M
Timken India	(6.8)	6.2	(22.9)	(32.7)
FAG Bearings	(2.4)	3.5	3.7	2.7
NRB Bearings	(7.3)	5.4	6.2	14.8
SKF India	0.2	7.4	11.5	6.0

Research Analyst	
Chirag J Shah	shah.chirag@icicisecurities.com

Sagar K Gandhi
sagar.gandhi@icicisecurities.com

Variance analysis

Year	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ(%)	Comments
Income from Operation	384.9	349.2	278.6	38.1	413.8	-7.0	Ex ABC, TIL's topline has grown 21% YoY
Cost of materials consumed	160.3	151.9	127.2	26.0	182.8	(12.3)	
Purchase of stock-in-trade	72.5	62.9	65.6	10.5	79.0	-8.3	
Change in inventories	(23.5)	(14.3)	(16.9)		(32.2)		
Employee cost	32.7	25.0	23.6	39.0	30.7	6.5	
Other expenses	87.3	70.0	58.4	49.5	83.0	5.2	
EBITDA	55.6	53.8	20.7	168.1	70.4	(21.1)	
EBITDA Margin (%)	14.4	15.4	7.4	700 bps	17.0	-258 bps	
Other Income	3.3	3.1	2.6	26.5	3.3		
Depreciation	20.4	20.0	9.3	118.7	19.8	3.4	
Interest	0.4	0.3	0.3	9.1	0.6		
PBT	38.0	36.6	13.6	179.1	53.4	(28.7)	
Taxes	11.6	12.8	4.5	160.4	18.8	(38.3)	
PAT	26.4	23.8	9.2	188.2	34.6	(23.5)	

Source: Company, ICICI Direct Research

Change in estimates

₹ crore	Estimated	Old	FY20E	%	FY21E
	FY19E		New	Change	Introduced
Revenue	1613	1871	1828	(2.3)	2091
EBITDA	237	320	274	(14.3)	320
EBITDA Margin (%)	14.7	17.1	15.0	-210 bps	15.3
PAT	112	161	136	(15.3)	165
EPS (₹)	14.9	21.4	18.1	(15.2)	21.9

Source: Company, ICICI Direct Research

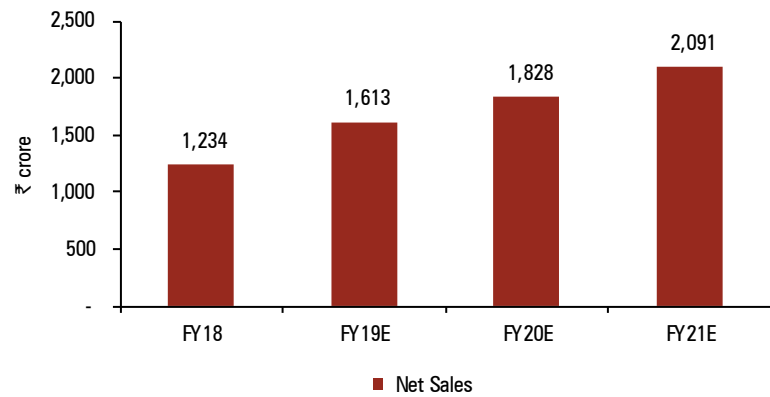
ABC acquisition: Merger of assets & capabilities

- Timken India (TIL), a leader in the niche segments of engineered bearings and mechanical power transmission products, has entered into a definitive agreement to acquire ABC Bearings through a court-approved amalgamation process
- ABC Bearings (ABC) is a manufacturer of tapered, cylindrical and spherical roller bearings and slewing rings. ABC operates primarily out of manufacturing facilities in Bharuch, Gujarat and Dehradun, Uttarakhand
- The TIL-ABC deal is likely to be concluded by March 2018, when the latter's shares will be dissolved and merged into TIL's equity. **The shareholders of ABC will receive five shares of TIL for every eight shares they hold in the company**
- ABC reported topline, EBITDA and PAT of ₹ 190.4 crore, ₹ 32 crore and ₹ 12 crore in FY17, whereas TIL reported topline, EBITDA and PAT of ₹ 1056.2 crore, ₹ 158 crore and ₹ 97.2 crore in FY17, respectively

Superior technological capabilities of TIL coupled with labour cost advantage of ABC is also likely to bring in operational efficiencies for the merged entity. Overall, acquisition of ABC Bearings is likely to expand its capacity, customer base and locally produced product breadth. The same is also likely to improve TIL's ability to increase participation in local and export markets.

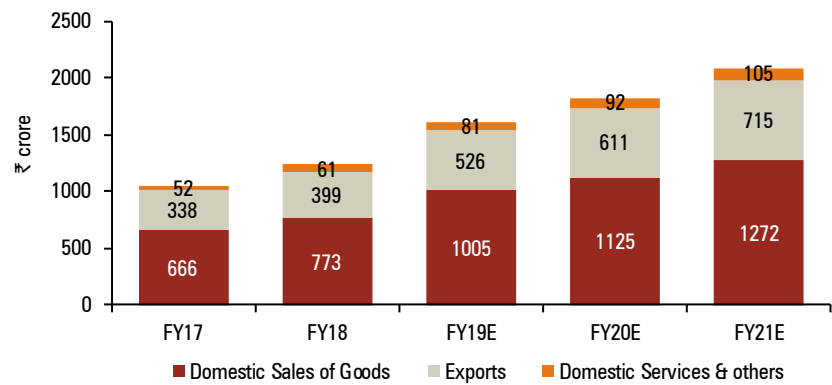
Company Analysis: Story in charts

Exhibit 1: Revenue growth trend



Source: Company, ICICI Direct Research

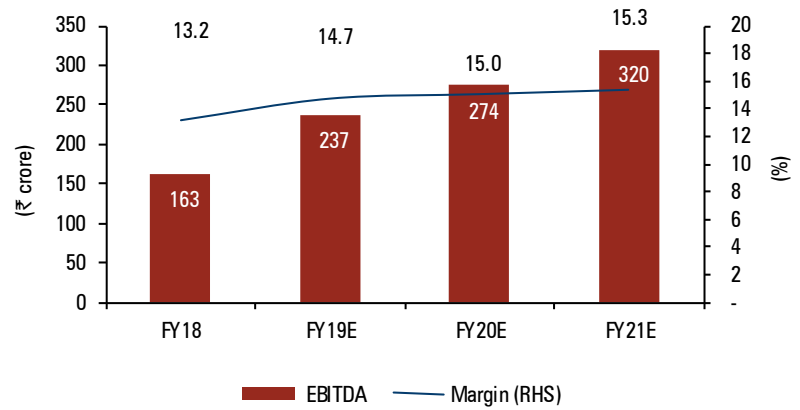
Exhibit 2: Break-up of revenues in various segment



Source: Company, ICICI Direct Research

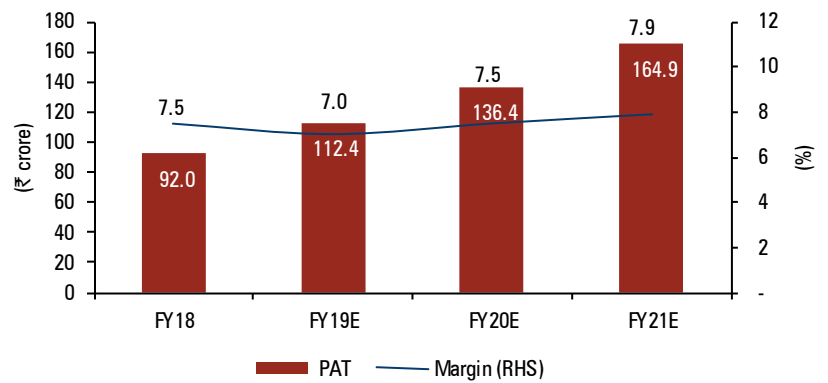
EBITDA growth & EBITDA margin trend

Exhibit 3: EBITDA growth trend



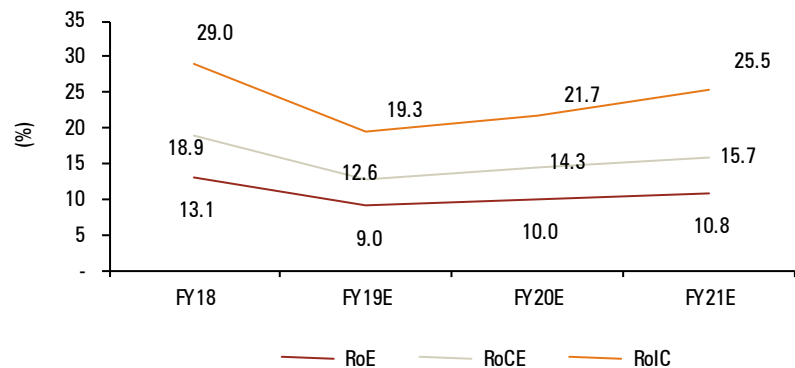
Source: Company, ICICI Direct Research

Exhibit 4: PAT & PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 5: Return ratios trend



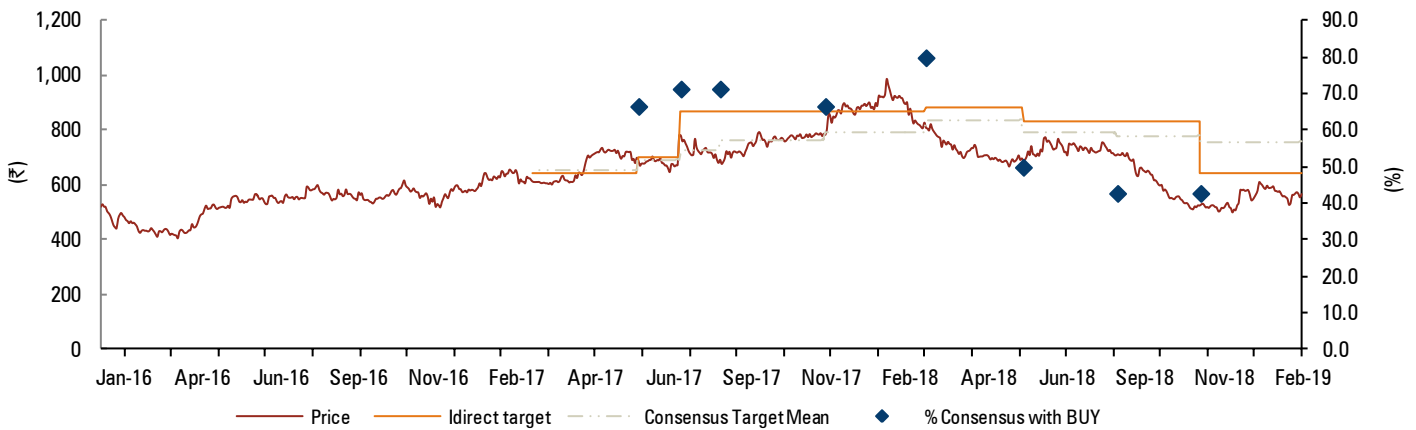
Source: Company, ICICI Direct Research

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 caters to medium and heavy trucks, off-highway equipment, 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. In domestic markets, TIL has been witnessing a pick-up in segments like CVs & off-highway, railways and after-market segment. The management continues to remain optimistic on these segments, going forward. In the railways segment, TIL is eyeing significant business from the higher demand of new wagons and new upcoming opportunities from this segment.

ABC has significant unused capacities in tapered roller segment (~40%). TIL's intends to utilise this by catering to the lucrative export market, an area where TIL has a strong presence. Access to new markets and geographies along with operational synergies from the merged entity is likely to be key monitorable from hereon. Going forward, we expect both its segments, domestic and exports to grow at a CAGR of 12.6% and 16.5%, in FY19E-21E respectively. We expect revenue, EBITDA and PAT to grow at 13.9%, 16.2% and 21.1%, respectively, in FY19E-21E. We expect strong EBITDA growth as we estimated utilisation of 75% and 80% in FY20E and FY21E, respectively. We value the company at 29x FY21E EPS to arrive at target price of ₹ 640. We maintain **BUY** rating on the stock.

Recommendation history vs. consensus



Source: Bloomberg, Company, ICICI Direct Research, Initiated coverage on April 9, 2015.

Key events

Date	Event
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
FY17	Announces acquisition ABC Bearing Ltd

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Last Filing Date	% O/S	Position	Change
1	Timken Singapore Pte. Ltd.	30-09-2018	67.80%	51.00M	0
2	Norges Bank Investment Management (NBIM)	31-12-2017	4.92%	3.70M	+3.70M
3	Sundaram Asset Management Company Limited	31-12-2018	4.20%	3.16M	0
4	Tricot Investments, Ltd.	30-09-2018	2.28%	1.71M	+1.71M
5	HDFC Life Insurance Company Limited	30-09-2018	1.26%	0.95M	+0.15M
6	Reliance Nippon Life Asset Management Limited	31-12-2018	0.83%	0.63M	0
7	L&T Investment Management Limited	31-12-2018	0.64%	0.48M	0
8	Tata Asset Management Limited	31-12-2018	0.60%	0.45M	0
9	UTI Asset Management Co. Ltd.	31-12-2018	0.55%	0.41M	0
10	Dimensional Fund Advisors, L.P.	31-12-2018	0.51%	0.38M	0

Shareholding Pattern

(in %)	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	75.0	75.0	75.0	67.8	67.8
FII	2.3	2.3	2.6	2.3	2.4
DII	9.6	8.9	8.8	8.1	7.5
Others	13.1	13.8	13.6	21.8	22.3

Source: Reuters, ICICI Direct Research

Recent Activity

Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Tricot Investments, Ltd.	+14.17M	+1.71M	Canara Robeco Asset Management Company Ltd.	-2.45M	-0.32M
HDFC Life Insurance Company Limited	+1.24M	+0.15M	Mellon Investments Corporation	-0.23M	-0.03M
Invesco Asset Management (India) Private Limited	+0.27M	+0.03M	Kotak Mahindra (UK) Ltd	-0.02M	-0.00M
HDFC Asset Management Co., Ltd.	+0.15M	+0.02M	Bessemer Trust Company, N.A. (US)	-0.01M	-0.00M
DHFL Pramerica Asset Managers Private Limited	+0.09M	+0.01M	BlackRock Advisors (UK) Limited	-0.00M	-0.00M

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(₹ Crore)	FY18	FY19E	FY20E	FY21E	
Net Sales	1,234	1,613	1,828	2,091	
Other Operating Income	-	-	-	-	
Total Operating Income	1,234	1,613	1,828	2,091	
<i>% Growth (Operating Income)</i>	<i>16.8</i>	<i>30.7</i>	<i>13.4</i>	<i>14.4</i>	
Other Income	20.8	12.0	17.0	20.0	
Total Revenue	1,255	1,625	1,845	2,111	
Cost of materials consumed	549	708	801	916	
Purchase of stock-in-trade	232	279	314	358	
Change in inventories	(53)	(68)	(77)	(88)	
Employee cost	91	126	143	159	
Other Expenses	252	331	373	427	
Total expenditure	1,071	1,376	1,554	1,771	
EBITDA	163	237	274	320	
<i>% Growth (EBITDA)</i>	<i>3.3</i>	<i>45.2</i>	<i>15.7</i>	<i>16.7</i>	
Interest	1.2	2.6	2.9	2.9	
PBDT	183	246	288	337	
Depreciation	43	73	78	83	
PBT	140	173	210	254	
Tax	48	61	73	89	
PAT	92	112	136	165	
<i>% Growth (PAT)</i>	<i>(5.4)</i>	<i>22.2</i>	<i>21.3</i>	<i>20.9</i>	
EPS	13.5	14.9	18.1	21.9	

Source: Company, ICICI Direct Research

*FY19E, FY20E and FY21E numbers are not comparable to FY18 as they include estimates of the new merged entity, ABC Bearings Ltd

Balance sheet		₹ Crore			
(₹ Crore)	FY18	FY19E	FY20E	FY21E	
Share Capital	68	75	75	75	
Reserves & Surplus	634	1,173	1,295	1,447	
Total Shareholders fund	702	1,248	1,371	1,522	
Goodwill	-	143.0	150.0	150.0	
Total debt	15.9	52.0	58.0	58.0	
Other liabilities/Deferred tax liability	27.7	90.0	55.0	55.0	
Total Liabilities	746	1,390	1,484	1,635	
Gross Block	467	967	1,032	1,097	
Acc: Depreciation	291	365	443	527	
Net Block	251	602	589	570	
Capital WIP	54	65	65	65	
Investments	26	45	65	65	
Inventory	245	305	381	435	
Sundry debtors	223	258	292	335	
Cash	27	97	92	186	
Loans & Advances	3	4	4	5	
Inv + Other current assets	150	194	210	240	
CL& Prov.	233	322	365	416	
Net Current Assets	415	535	615	785	
Total Assets	746	1,390	1,484	1,635	

Source: Company, ICICI Direct Research

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Cash flow statement		₹ Crore			
(₹ Crore)	FY18	FY19E	FY20E	FY21E	
Profit after Tax	92.0	112.4	136.4	164.9	
Depreciation	43.1	73.5	78.4	83.4	
Interest	1.2	2.6	2.9	2.9	
Other income	(20.8)	(12.0)	(17.0)	(20.0)	
Prov for Taxation	47.8	60.5	73.5	88.8	
Cash Flow before WC changes	-	-	-	-	
Change in Working Capital	(86.6)	(49.3)	(85.1)	(76.3)	
Taxes Paid	(41.8)	1.8	(108.5)	(88.8)	
Cashflow from Operating Activities	34.9	189.5	80.6	154.9	
(Purchase)/Sale of Fixed Assets	(59.2)	(578.5)	(72.0)	(65.0)	
(Purchase)/Sale of Investments	13.1	(19.0)	(20.0)	-	
Other Income	20.8	12.0	17.0	20.0	
Cashflow from Investing Activities	(25.2)	(585.6)	(75.0)	(45.0)	
Changes in Networth	0.7	442.2	(0.0)	(0.0)	
Interest	(1.2)	(2.6)	(2.9)	(2.9)	
Dividend paid	(8.2)	(9.1)	(13.6)	(13.6)	
Cashflow from Financing Activities	(8.7)	430.5	(16.5)	(16.5)	
Changes in Cash	8.5	70.5	(4.9)	93.3	
Opening Cash/Cash Equivalent	18.3	26.8	97.3	92.4	
Closing Cash/ Cash Equivalent	26.8	97.3	92.4	185.7	

Source: Company, ICICI Direct Research

*FY19E, FY20E and FY21E numbers are not comparable to FY18 as they include estimates of the new merged entity, ABC Bearings Ltd

Key ratios		(Year-end March)			
	FY18	FY19E	FY20E	FY21E	
Per share data (₹)					
EPS	13.5	14.9	18.1	21.9	
Cash EPS	19.9	24.7	28.6	33.0	
BV	103.3	165.9	182.2	202.3	
DPS	1.2	1.2	1.8	1.8	
Cash Per Share	42.9	48.5	58.9	70.0	
Operating Ratios (%)					
EBITDA Margin	13.2	14.7	15.0	15.3	
PBT / Net Sales	9.7	10.1	10.7	11.3	
PAT Margin	7.5	7.0	7.5	7.9	
Inventory days	72.6	69.0	76.0	76.0	
Debtor days	66.0	58.4	58.4	58.4	
Creditor days	68.9	73.0	72.8	72.6	
Return Ratios (%)					
RoE	13.1	9.0	10.0	10.8	
RoCE	18.9	12.6	14.3	15.7	
RoIC	29.0	19.3	21.7	25.5	
Valuation Ratios (x)					
P/E	39.9	36.1	29.8	24.6	
EV / EBITDA	22.4	15.3	13.3	11.1	
EV / Net Sales	3.0	2.2	2.0	1.7	
Market Cap / Sales	3.0	2.3	2.0	1.8	
Price to Book Value	5.2	3.3	3.0	2.7	
Solvency Ratios					
Net Debt / Equity	-	-	-	-	
Current Ratio	2.0	1.8	1.9	1.9	
Quick Ratio	1.0	0.8	0.8	0.8	

Source: Company, ICICI Direct Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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