

Strong performance due to railways, exports

Timken India (TIL) reported a stellar Q4FY19 performance on the back of over 2x growth in railways segment. Exports segment also grew at strong double digits for the quarter. Accordingly, revenues came in at ₹ 448 crore, up 16.4% QoQ. Gross margins came in at 46.1% vs. 45.6% QoQ due to better product mix. EBITDA margins came in at 22.6% vs. 14.4% QoQ due to lower 'other expenses' (reassignment of products at ABC's Baruch facility). TIL also received some pass through in input prices in the quarter. Thus, absolute EBITDA grew 82.2% QoQ to ₹ 101.2 crore. Other income also jumped 2x QoQ. Thus, PAT increased 116.5% QoQ to ₹ 57.2 crore.

Strong FY19, all segment except 'mobile' to grow in FY20-21E

TIL saw a strong performance across segments in FY19, viz. railways, mobile (LCVs, HCVs, off highway), distribution (replacement market), process industries & exports. Their topline contribution was 18%, 22%, 17%, 8%, 24% respectively (total ~90%). Remaining 10% contribution came in from ABC Bearings. Going ahead, the management is expecting growth from all segments except mobile due to general slowdown in automotive sector.

Railways – Strong growth driver, auxiliary capex in FY20-21E

In the railway segment, TIL is now making inroads in the 'passenger coach' segment as the new trains like Train 18, Shatabdi and Rajdhani use TRBs. As per management estimate, the opportunity from this segment was at ~₹ 80 crore every year (4000 cars x 8 bearings per car x ₹ 25000 unit cost). It is also capitalising on replacement market, where spherical roller bearings are now getting replaced by cartridge tapered roller bearings (CTRB). On the freight side, it is seeing significant demand for its bearings from Container Corporation (tender won in FY19 ~₹ 50 crore). Additionally, TIL is one of the few entities to which Indian Railways has outsourced 'maintenance of bearings' the market size of which is ₹ 300 crore (3L freight coaches x 8 bearings x ₹ 5000 per bearing – one-fourth bearings come for maintenance every year). To indigenise capacity and improve efficiencies, TIL is also planning auxiliary capex of ₹ 80-100 crore in FY20E.

Valuation & Outlook

To fully utilise ABC capacities, TIL is planning a capex of ₹ 35-40 at its Bharuch facility (current utilisation at ABC at ~70%). This will help TIL produce 'Timken brand' bearings for its exports market. Access to new markets/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, exports to grow at a CAGR of 11%, 15.5%, in FY19-21E, respectively. We expect revenue, EBITDA, PAT to grow at 12.1%, 14.5%, 18.5%, respectively, in FY19-21E. We expect strong EBITDA growth as we estimated higher utilisation in FY20-21E. We value the company at 30x FY21E EPS to arrive at a target price of ₹ 830. We maintain **BUY** recommendation on the stock.

TIMKEN

Particulars

Particular	Amount
Market Capitalization (₹ crore)	4,691
Total Debt (FY19) (₹ crore)	23
Cash and Inv (FY19) (₹ crore)	30
EV (FY19) (₹ crore)	4,684
52 week H/L (₹) (BSE)	812 / 496
Equity capital (₹ crore)	75.2
Face value (₹)	10.0

Key Highlights

- Strong FY19. All segments except 'mobile' to grow in FY20-21E. Capex now operational, new opportunity to open up in railways
- Railways – Strong growth driver, ₹ 80-100 crore of auxiliary capex in FY20-21E
- Maintain **BUY** recommendation with a revised target price of ₹ 830

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E	FY19-21E
Net Sales	1,056.2	1,234.0	1,664.4	1,843.9	2,092.4	12.1
EBITDA	158.0	163.3	288.6	328.2	378.7	14.5
Net Profit	97.2	92.0	148.6	181.5	208.7	18.5
EPS (₹)	14.3	13.5	19.8	24.1	27.7	
P/E (x)	48.3	51.0	34.9	28.6	24.9	
P/BV	7.6	6.7	3.9	3.4	3.0	
EV/EBITDA (x)	29.6	28.7	16.2	13.9	11.6	
RoCE (%)	21.5	18.9	15.7	17.0	17.3	
RoE (%)	15.7	13.1	11.1	12.0	12.3	

Exhibit 1: Variance analysis

Year	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ(%)	Comments
Income from Operation	448.0	383.5	345.4	29.7	384.9	16.4	Revenue grew strong 29.7% YoY due to strong growth in railwavs and exports segment
Cost of materials consumed	166.5	154.2	152.4	9.3	160.3	3.9	
Purchase of stock-in-trade	57.0	57.8	58.3	-2.3	72.5	-21.4	
Change in inventories	18.1	1.8	(4.1)		(23.5)		
Employee cost	31.1	33.6	23.9	30.1	32.7	(5.1)	
Other expenses	74.1	84.9	68.9	7.6	87.3	(15.2)	
EBITDA	101.2	51.3	46.0	119.8	55.6	82.2	
EBITDA Margin (%)	22.6	13.4	13.3	926 bps	14.4	816 bps	
Other Income	6.8	5.8	1.8	282.1	3.3	110.5	
Depreciation	22.2	18.3	11.0	101.9	20.4	8.6	
Interest	0.2	1.1	0.3	-19.2	0.4	(41.7)	
PBT	85.7	37.8	36.6	134.1	38.0	125.3	
Taxes	28.4	11.3	12.9	120.7	11.6	145.3	
PAT	57.2	26.5	23.7	141.4	26.4	116.5	

Source: Company, ICICI Direct Research

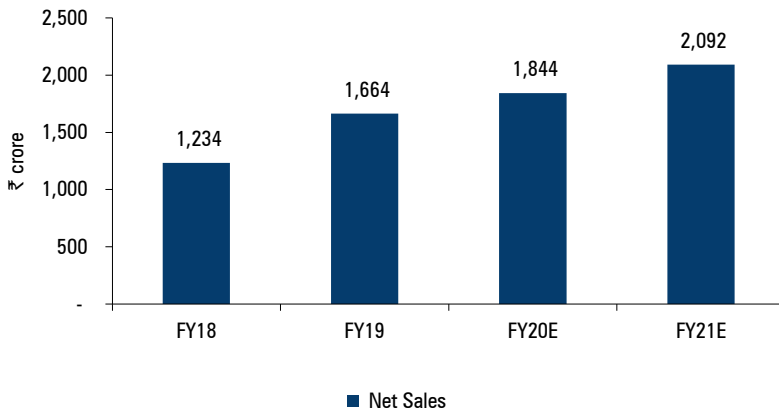
Exhibit 2: Change in estimates

	Actual		FY20E		FY21E		%
	FY19	Old	New	Change	Old	Introduced	
₹ crore							
Revenue	1664	1828	1844	0.9	2091	2092	0.1
EBITDA	289	274	328	19.8	320	379	18.4
EBITDA Margin (%)	17.3	15.0	17.8	280 bps	15.3	18.1	280 bps
PAT	149	136	181	33.4	165	209	26.5
EPS (₹)	19.8	18.1	24.1	33.3	21.9	27.7	26.7

Source: Company, ICICI Direct Research

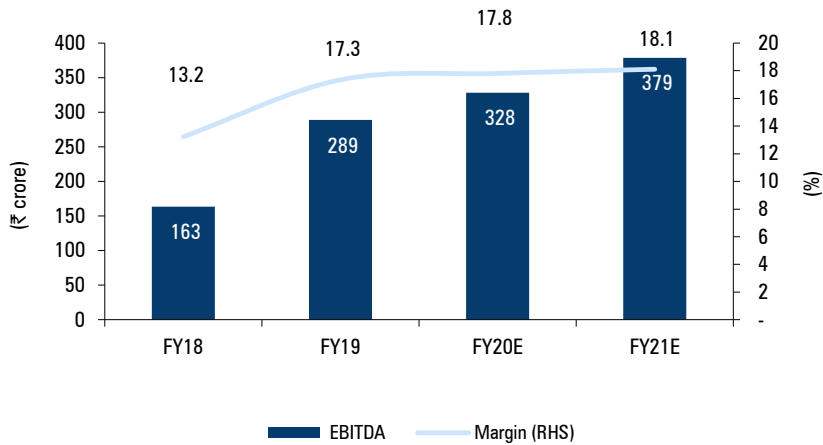
Financial story in charts

Exhibit 3: Revenue trend (consolidated)



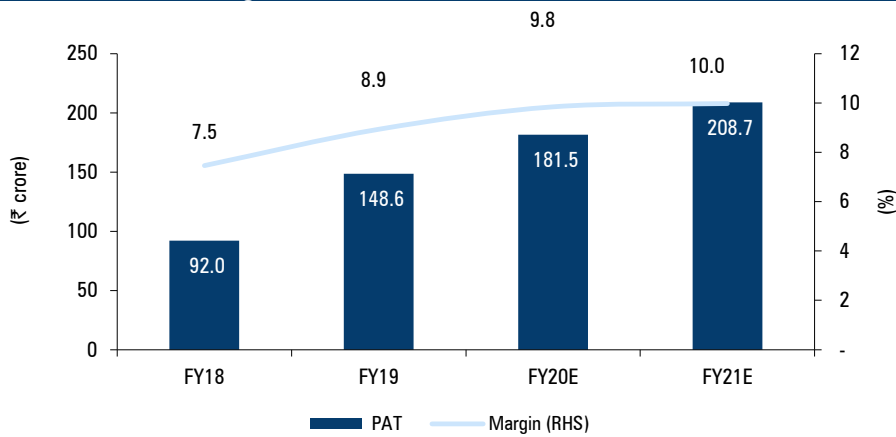
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



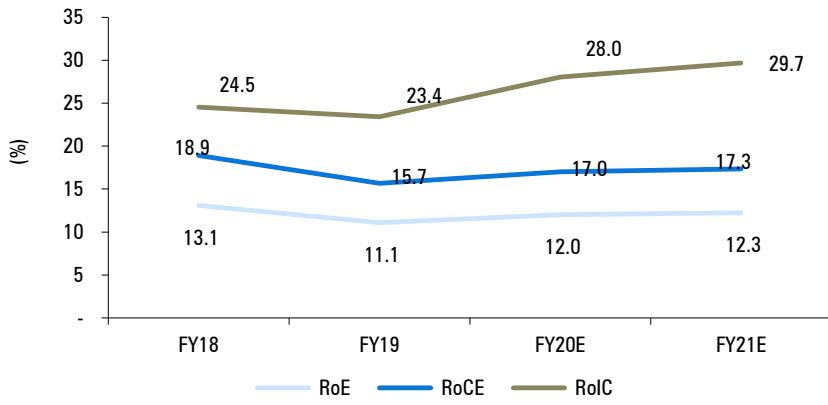
Source: Company, ICICI Direct Research

Exhibit 5: PAT and margins trend



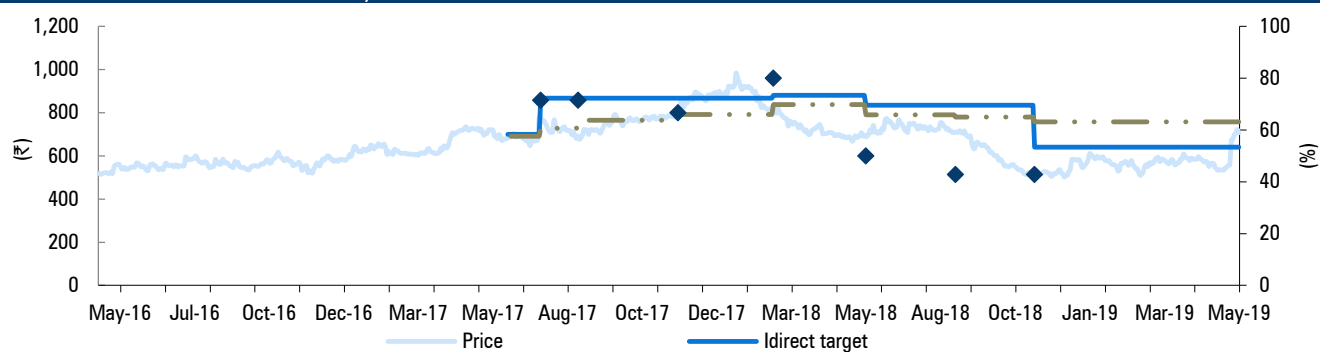
Source: Company, ICICI Direct Research

Exhibit 6: RoE and RoCE trend



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Last Filing Date	% O/S	Position	Change
1	Timken Singapore Pte. Ltd.	31-03-2019	67.82%	51.00M	0
2	Norges Bank Investment Management (NBIM)	31-12-2018	5.27%	3.96M	+0.26M
3	Sundaram Asset Management Company Limited	31-03-2019	4.19%	3.15M	0
4	Tricot Investments, Ltd.	31-03-2019	2.28%	1.71M	0
5	HDFC Life Insurance Company Limited	31-03-2019	1.60%	1.20M	+0.04M
6	Reliance Nippon Life Asset Management Limited	31-03-2019	0.83%	0.63M	0
7	L&T Investment Management Limited	31-03-2019	0.60%	0.45M	-0.03M
8	Tata Asset Management Limited	31-03-2019	0.60%	0.45M	0
9	UTI Asset Management Co. Ltd.	31-03-2019	0.55%	0.41M	0
10	Dimensional Fund Advisors, L.P.	31-03-2019	0.49%	0.37M	0

Source: Reuters, ICICI Direct Research

Exhibit 9: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	75.0	75.0	67.8	67.8	67.8
FII	2.3	2.6	2.3	2.4	2.4
DII	8.9	8.6	8.1	7.5	7.6
Others	13.8	13.8	21.8	22.3	22.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
₹ crore				
(₹ Crore)	FY18	FY19	FY20E	FY21E
Net Sales	1,234	1,664	1,844	2,092
Total Operating Income	1,234	1,664	1,844	2,092
% Growth (Operating Income)		34.9	10.8	13.5
Other Income	20.8	16.3	15.0	16.0
Total Revenue	1,255	1,681	1,859	2,108
Cost of materials consumed	549	708	800	904
Purchase of stock-in-trade	232	271	297	337
Change in inventories	(53)	(51)	(77)	(88)
Employee cost	91	123	136	155
Other Expenses	252	324	360	406
Total expenditure	1,071	1,376	1,516	1,714
EBITDA	163	289	328	379
% Growth (EBITDA)		76.8	13.7	15.4
Interest	1.2	1.8	1.8	2.3
PBDT	183	303	341	392
Depreciation	43	79	68	79
PBT	140	224	273	314
Tax	48	75	92	105
PAT	92	149	181	209
% Growth (PAT)		61.6	22.1	15.0
EPS	13.5	19.8	24.1	27.7

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
₹ crore				
(₹ Crore)	FY18	FY19	FY20E	FY21E
Share Capital	68	75	75	75
Reserves & Surplus	634	1,266	1,433	1,629
Total Shareholders fund	702	1,341	1,509	1,704
Goodwill	-	181.3	150.0	120.0
Total debt	15.9	23.1	35.0	45.0
Other liabilities/Deferred tax liability	27.7	75.1	75.1	75.1
Total Liabilities	746	1,439	1,619	1,824
Gross Block	341	783	863	983
Acc: Depreciation	90	169	237	316
Net Block	251	613	625	667
Capital WIP	54	64	85	70
Investments	26	41	65	65
Inventory	245	317	344	384
Sundry debtors	223	302	328	372
Cash	27	30	162	328
Loans & Advances	3	4	5	5
Inv+Other current assets	150	229	229	229
CL& Prov.	233	343	374	417
Net Current Assets	415	539	694	902
Total Assets	746	1,439	1,619	1,824

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
₹ crore				
(₹ Crore)	FY18	FY19	FY20E	FY21E
Profit after Tax	92.0	148.6	181.5	208.7
Depreciation	43.1	79.3	68.1	78.6
Interest	1.2	1.8	1.8	2.3
Other income	(20.8)	(16.3)	(15.0)	(16.0)
Prov for Taxation	47.8	75.2	91.8	105.1
Change in Working Capital	(86.6)	(120.9)	(22.2)	(42.5)
Taxes Paid	(41.8)	(27.8)	(91.8)	(105.1)
Cashflow from Operating Activities	34.9	140.0	214.2	231.1
(Purchase)/Sale of Fixed Assets	(59.2)	(632.5)	(70.2)	(75.0)
(Purchase)/Sale of Investments	13.1	(15.5)	(23.5)	-
Other Income	20.8	16.3	15.0	16.0
Cashflow from Investing Activities	(25.2)	(631.7)	(78.7)	(59.0)
Changes in Networth	0.7	498.9	(0.0)	(0.0)
Interest	(1.2)	(1.8)	(1.8)	(2.3)
Dividend paid	(8.2)	(9.1)	(13.6)	(13.6)
Cashflow from Financing Activities	(8.7)	488.1	(15.4)	(15.9)
Changes in Cash	8.5	3.5	131.9	166.2
Opening Cash/Cash Equivalent	18.3	26.8	30.2	162.2
Closing Cash/ Cash Equivalent	26.8	30.2	162.2	328.3

*calculated, Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
EPS	13.5	19.8	24.1	27.7
Cash EPS	19.9	30.3	33.2	38.2
BV	103.3	178.3	200.6	226.5
DPS	1.2	1.2	1.8	1.8
Cash Per Share	13.2	22.5	31.6	42.0
EBITDA Margin	13.2	17.3	17.8	18.1
PBT / Net Sales	9.7	12.6	14.1	14.3
PAT Margin	7.5	8.9	9.8	10.0
Inventory days	72.6	69.5	68.0	67.0
Debtor days	66.0	66.2	65.0	65.0
Creditor days	68.9	75.2	74.0	72.7
RoE	13.1	11.1	12.0	12.3
RoCE	18.9	15.7	17.0	17.3
RoIC	24.5	23.4	28.0	29.7
P/E	51.0	34.9	28.6	24.9
EV / EBITDA	28.7	16.2	13.9	11.6
EV / Net Sales	3.8	2.8	2.5	2.1
Market Cap / Sales	3.8	2.8	2.5	2.2
Price to Book Value	6.7	3.9	3.4	3.0
Net Debt / Equity	-	-	-	-
Current Ratio	2.0	1.8	1.8	1.8
Quick Ratio	1.0	0.9	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 14: ICICI Direct Coverage Universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
L&T (LARTOU)	1574	1,680	Buy	218369	48.1	53.4	61.2	27.5	24.8	21.7	11.7	12.6	13.2	12.6	12.9	13.6
Bhel (BHEL)	72	75	Hold	25071	3.5	4.1	4.5	21.5	18.2	16.5	6.9	7.5	7.9	3.9	4.5	4.9
AIA Engineering (AIAENG)	1715	2,050	Buy	16176	54.4	59.6	68.2	32.2	29.4	25.7	18.9	19.9	20.3	14.6	14.7	15.1
Thermax (THERMA)	1029	1,170	Buy	12261	23.1	29.3	34.2	42.8	33.8	28.9	17.3	17.1	18.0	11.1	11.5	12.2
KEC International (KECIN)	334	315	Hold	8587	19.2	23.4	27.3	14.9	12.2	10.5	25.7	25.6	25.6	20.6	20.7	20.2
Kalpataru Power(KALPOW)	529	550	Buy	8118	26.1	31.5	37.0	17.8	14.8	12.6	18.3	19.0	19.9	12.6	13.0	13.4
Greaves Cotton (GREAVE)	145	150	Hold	3541	6.9	8.4	9.3	21.2	17.5	15.8	26.2	28.2	30.1	18.2	19.7	21.1
Bharat Electronics (BHAELE)	112	135	Buy	27290	7.9	7.8	8.4	14.2	14.3	13.4	30.0	27.6	27.4	21.4	19.1	18.6
Engineers India (ENGIND)	125	120	Hold	7141	5.9	6.6	7.8	19.3	17.0	14.5	21.3	23.3	24.2	16.3	18.0	20.1
VaTech Wabag (VATWAB)	320	270	Reduce	1629	19.2	18.8	24.3	15.6	15.9	12.4	14.6	17.7	20.3	9.5	9.2	11.0
Cochin Shipyard (COCSHI)	375	455	Buy	4,933	36.3	38.2	41.5	10.3	9.8	9.0	18.8	17.6	17.0	14.4	14.0	14.1
SKF (SKFIND)	1930	1,845	Hold	9729	65.4	69.4	76.8	27.6	26.0	23.5	29.4	27.1	26.3	19.8	18.1	17.3
Timken India (TIMIND)	690	830	Buy	4691	19.8	24.1	27.7	34.9	28.6	24.9	15.7	17.0	17.3	11.1	12.0	12.3
NRB Bearing (NRBBEA)	170	185	Hold	1648	11.2	10.1	12.2	15.2	16.9	14.0	21.0	20.0	21.3	19.5	18.3	19.3
Grindwell Norton (GRINOR)	585	680	Buy	6477	15.1	16.8	19.5	38.7	34.8	30.0	23.3	23.5	25.0	15.2	15.6	16.6

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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