

Strong performance but expensive valuations...

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.

- They are also in power transmission product brands & partner with renewable energy companies to power some of 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
- It has a revenue breakup of 75% from domestic sales and 25% from export

Q1FY22 Results: Timken reported robust Q1FY22 results.

- Revenue for the quarter came in at ₹ 467.9 crore, up 192% YoY & down 1.6% QoQ (vs. I-direct estimate of ₹ 380.9 crore)
- Absolute EBIDTA came in at ₹ 92.8 crore, up 6.8% QoQ (I-direct estimate of ₹ 60.6 crore)
- Tracking its operating performance, Timken ended the quarter with a PAT of ₹ 56.7 crore, up 7.2% QoQ

What should investors do? Timken has a strong balance sheet coupled with decent growth prospects but this is reflected in the price.

- We continue to maintain our HOLD rating on the stock

Target Price and Valuation: We value Timken at ₹ 1740 i.e. 40x P/E on FY24E EPS

Key triggers for future price performance:

- Acquisition at parent level and introduction of those products in India
- Strong rebound in CV cycle
- Higher exports of Timken branded products from the Bharuch plant
- Superior RoIC trend of >25%

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

- It offers a play on needle roller bearings, which are largely used in auto applications
- BUY with a target price of ₹ 175 per share

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5 year CAGR (FY16-21)	FY22E	FY23E	FY24E	3 year CAGR (FY21-24E)
Net Sales	1,664.4	1,617.8	1,410.5	6.1	1,763.2	2,089.8	2,398.2	19.4
EBITDA	288.6	363.3	251.8	9.2	338.5	428.4	508.4	26.4
EBITDA margin (%)	17.3	22.5	17.9		19.2	20.5	21.2	
Net Profit	148.6	246.1	143.2	9.3	212.2	272.9	327.2	31.7
EPS (₹)	19.8	32.7	19.0		28.2	36.3	43.5	
P/E (x)	77.9	47.0	80.9		54.6	42.4	35.4	
P/BV	8.6	7.3	8.6		7.6	7.6	7.6	
EV/EBITDA (x)	40.1	30.8	45.4		33.1	26.1	22.0	
RoCE (%)	15.7	18.6	13.7		18.3	23.5	28.2	
RoE (%)	11.1	15.6	10.7		14.0	18.0	21.6	

Source: Company, ICICI Direct Research

TIMKEN

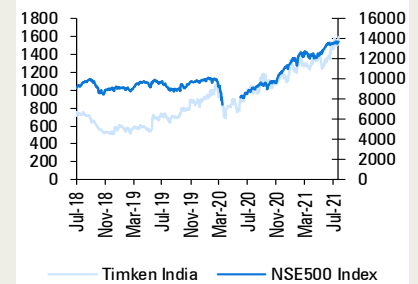
Particulars

Particular	Amount
Market Capitalization (₹ crore)	11,584
Total Debt (FY21) (₹ crore)	33
Cash and Inv (FY21) (₹ crore)	174
EV (FY21) (₹ crore)	11,442
52 week H/L (₹) (BSE)	1665 / 930
Equity capital (₹ crore)	75.2
Face value (₹)	10.0

Shareholding pattern

	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21
Promoter	67.8	67.8	67.8	67.8	67.8
FII	2.1	2.3	3.1	2.9	2.8
DII	10.7	10.8	10.2	11.4	12.7
Others	19.4	19.1	18.9	17.9	16.7

Price Chart



Recent event & key risks

- Launch of products in the power transmission space
- **Key Risk:** (i) High input cost, (ii) Delay in CV recovery

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Key takeaways of recent quarter & conference call highlights

Q1FY22 Results: Sturdy performance

- Timken India reported robust Q1FY22 numbers that were ahead of our estimates on all parameters. Revenue for the quarter was at ₹ 467.9 crore, up 192% YoY & down 1.6% QoQ (vs. I-direct estimate of ₹ 380.9 crore)
- Revenue for the quarter came in at ₹ 467.9 crore, up 192% YoY & down 1.6% QoQ (vs. I-direct estimate of ₹ 380.9 crore)
- Gross margins contracted ~322 bps YoY whereas they expanded ~178 bps QoQ. Timken registered an EBIDTA margin of 19.8% vs 8.8% YoY & 18.3% QoQ (I-direct estimate of 15.9%). Absolute EBIDTA came in at ₹ 92.8 crore, up 6.8% QoQ (I-direct estimate of ₹ 60.6 crore)
- Employee cost increased 32.4% YoY whereas other expenses increased 123.1%
- Tracking its operating performance, Timken ended the quarter with a PAT of ₹ 56.7 crore, up 7.2% QoQ

Exhibit 1: Variance Analysis

Year	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ(%)	Comments
Income from Operation	467.9	380.9	160.2	192.0	475.4	-1.6	Strong performance led by better new products
Cost of materials consumed	159.9	125.7	51.8	208.8	144.4	10.7	
Purchase of stock-in-trade	144.8	106.6	65.6	120.8	137.2	5.5	
Change in inventories	(45.1)	(9.5)	(33.6)		(9.4)		
Employee cost	34.7	28.9	26.2	32.4	32.9	5.5	
Other expenses	80.8	68.6	36.2	123.1	83.4	(3.1)	
EBITDA	92.8	60.6	14.1	559.3	86.9	6.8	
EBITDA Margin (%)	19.8	15.9	8.8	1105 bps	18.3	156 bps	Margins sustain led by cost optimasation and price hikes
Other Income	2.9	5.0	7.8	-63.1	7.9	(63.4)	
Depreciation	19.9	19.0	17.9	10.9	19.5	2.1	
Interest	0.4	0.5	0.3	29.0	0.6	(31.0)	
PBT	75.4	46.1	3.6	1,976.0	74.7	0.9	
Taxes	18.6	12.0	0.5	3,783.3	21.7	(14.2)	
PAT	56.7	34.1	3.1	1,700.6	52.9	7.2	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	Actual		FY22E		FY23E		FY24E	
	FY21	Old	New	% Change	Old	New	% Change	New
₹ crore								
Revenue	1411	1683	1763	4.8	1871	2090	11.7	2398
EBITDA	252	374	339	(9.5)	421	428	1.8	508
EBITDA Margin (%)	17.9	22.2	19.2	-302 bps	22.5	20.5	-200 bps	21.2
PAT	143	235	212	(9.7)	266	273	2.6	327
EPS (₹)	19.0	31.2	28.2	(9.6)	35.3	36.3	2.8	43.5

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement				
₹ crore				
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Net Sales	1,411	1,763	2,090	2,398
Total Operating Income	1,411	1,763	2,090	2,398
% Growth (Operating Income)	-13%	25.0	18.5	14.8
Other Income	19.6	25.0	35.0	50.0
Total Revenue	1,430	1,788	2,125	2,448
Cost of materials consumed	449	568	669	763
Purchase of stock-in-trade	402	428	491	552
Change in inventories	(65)	(18)	(21)	(24)
Employee cost	119	138	163	187
Other Expenses	254	309	359	412
Total expenditure	1,159	1,425	1,661	1,890
EBITDA	252	339	428	508
% Growth (EBITDA)	-31%	34.5	26.6	18.7
Interest	1.4	2.3	2.3	2.3
PBDT	270	361	461	556
Depreciation	75	67	82	102
PBT	195	295	379	454
Tax	52	83	106	127
PAT	143	212	273	327
% Growth (PAT)	-42%	48.2	28.6	19.9
EPS	19.0	28.2	-	-

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
₹ crore				
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Share Capital	75	75	75	75
Reserves & Surplus	1,268	1,443	1,678	1,968
Total Shareholders fund	1,344	1,518	1,753	2,043
Goodwill	181	181	181	181
Total debt	33	45	45	45
Other liabilities	57	57	57	57
Total Liabilities	1,434	1,620	1,856	2,145
Gross Block	704	854	1,054	1,304
Acc: Depreciation	321	388	470	572
Net Block	627	466	584	732
Capital WIP	97	150	250	150
Investments	28	28	28	28
Inventory	369	324	384	440
Sundry debtors	371	353	418	480
Cash	174	425	371	544
Loans & Advances	1	0	0	0
Inv+Other current assets	40	40	40	40
CL& Prov.	455	346	400	450
Net Current Assets	501	795	813	1,054
Total Assets	1,434	1,620	1,856	2,145

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
₹ crore				
(₹ Crore)	FY21	FY22E	FY23E	FY24E
Profit after Tax	143.2	212.2	272.9	327.2
Depreciation	74.9	66.6	82.2	101.7
Interest	1.4	2.3	2.3	2.3
Other income	(19.6)	(25.0)	(35.0)	(50.0)
Prov for Taxation	51.9	82.5	106.1	127.3
Change in Working Capital	(18.5)	(44.2)	(71.7)	(67.6)
Taxes Paid	(59.5)	(82.5)	(106.1)	(127.3)
CF from Op activities	174	212	251	314
(Purchase)/Sale of Fixed Assets	(184.9)	41.4	(300.0)	(150.0)
(Purchase)/Sale of Investments	112.0	-	-	-
Other Income	19.6	25.0	35.0	50.0
CF from Inv activities	(53)	66	(265)	(100)
Changes in Networth	(0.2)	0.0	0.0	0.0
Interest	(1.4)	(2.3)	(2.3)	(2.3)
Dividend paid	(376.1)	(37.6)	(37.6)	(37.6)
CF from Fin activities	(378)	(40)	(40)	(40)
Changes in Cash	(244.6)	250.6	(54.2)	173.7
Opening Cash/Cash Equivalent	418.8	174.2	424.8	370.6
Closing Cash/ Cash Equivalent	174.2	424.8	370.6	544.3

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
EPS	19.0	28.2	36.3	43.5
Cash EPS	29.0	37.1	47.2	57.0
BV	178.6	201.8	201.8	201.8
DPS	50.0	5.0	5.0	5.0
Cash Per Share	42.7	51.5	51.5	51.5
EBITDA Margin	17.9	19.2	20.5	21.2
PBT / Net Sales	12.5	15.4	16.6	17.0
PAT Margin	10.2	12.0	13.1	13.6
Inventory days	95.4	67.0	56.5	49.3
Debtor days	96.1	73.0	61.6	53.7
Creditor days	117.7	71.6	60.4	52.7
RoE	10.7	14.0	18.0	21.6
RoCE	13.7	18.3	23.5	28.2
RoC	26.4	34.1	43.5	51.1
P/E	80.9	54.6	42.4	35.4
EV / EBITDA	45.4	33.1	26.1	22.0
EV / Net Sales	8.1	6.4	5.4	4.7
Market Cap / Sales	8.2	6.6	5.5	4.8
Price to Book Value	8.6	7.6	7.6	7.6
Net Debt / Equity	-	-	-	-
Current Ratio	1.6	2.0	2.0	2.0
Quick Ratio	0.8	1.0	1.0	1.0

Source: Company, ICICI Direct Research

Exhibit:7 ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1579	1,870	Buy	221565	81.9	46.7	52.9	19.3	33.8	29.8	7.4	8.0	8.8	18.8	10.2	11.0
AIA Engineering (AIAENG)	1959	2,275	Buy	18477	60.0	58.7	71.0	32.7	33.4	27.6	16.5	15.1	16.7	13.3	12.2	13.3
Thermax (THERMA)	1315	1,685	Buy	15669	17.3	26.8	37.0	75.9	49.1	35.5	9.8	12.5	15.9	7.6	9.8	12.4
Kalpataru Power(KALPOW)	429	550	Buy	6637	41.3	33.9	42.0	10.4	12.7	10.2	15.9	16.6	17.6	12.7	11.5	12.7
KEC International (KECIN)	382	485	Buy	9821	21.5	23.3	32.2	17.8	16.4	11.9	19.4	18.3	20.9	16.5	15.9	18.3
Greaves Cotton (GREAVE)	144	210	Buy	3329	0.4	4.7	6.5	321.4	30.3	22.0	6.5	16.5	21.9	3.3	12.0	16.0
Elgi Equipment (ELGEQU)	208	260	Buy	6592	3.2	3.9	6.2	64.3	53.1	33.8	11.7	12.8	18.1	11.8	13.9	18.7
Bharat Electronics (BHAELE)	170	205	Buy	41422	8.5	9.5	10.8	20.1	17.8	15.7	27.1	26.7	27.7	19.1	19.7	20.5
Cochin Shipyard (COCSHI)	356	500	Buy	4686	46.4	44.0	55.6	7.7	8.1	6.4	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	2815	3,300	Buy	13914	60.2	72.0	94.0	46.8	39.1	29.9	24.8	25.0	28.0	19.0	19.0	21.0
Timken India (TIMIND)	1532	1,740	Hold	11527	19.0	28.2	36.3	80.5	54.3	42.2	13.7	18.3	23.5	10.7	14.0	18.0
NRB Bearing (NRBBEA)	123	175	Buy	1193	5.6	8.0	9.8	22.0	15.4	12.6	11.8	15.8	17.2	10.4	13.1	14.1
Action Construction (ACTCON)	220	300	Buy	2506	7.1	9.4	13.7	31.0	23.4	16.1	26.9	25.8	30.7	15.3	17.1	20.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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