

Decent performance led by better margins...

About the stock: SKF India is one of the leading bearing manufacturers known for its deep groove ball bearings and has a presence across the industrial & auto sector.

- Auto & industrial have been contributing 50-50% to SKF's topline over the years, with a slight tilt on either side depending on macros
- SKF boasts a debt free balance sheet, coupled with consistent RoCE & RoICs upwards of 20%

Q4FY22 Results: SKF reported decent Q4FY22 results.

- Revenue for the quarter came in at ₹ 1039 crore (I-direct estimate of ₹ 1038.9 crore), up 22.6% YoY and 7.4% QoQ
- EBIDTA margins came in at 15.3% vs. 12.7% in Q3FY22. Absolute EBIDTA came in at ₹ 159.4 crore (I-direct estimate of ₹ 139.1 crore), up 29.4% QoQ
- Ensuing PAT came in at ₹ 109.5 crore (I-direct estimate of ₹ 102.6 crore) compared to ₹ 104.9 crore in Q4FY21 and ₹ 88.8 crore in Q3FY22

What should investors do? SKF has been making strides towards innovation and R&D and has made significant inroads in REP. Going ahead, a recovery in CV, upcoming e-market & commencement of DFC should augur well for the company.

- We continue to remain positive and retain our **BUY** rating on the stock

Target Price and Valuation: We value SKF at ₹ 3720 i.e. 36x P/E on FY24E EPS.

Key triggers for future price performance:

- Recovery in auto sector should improve manufacturing segment
- Railways tender for about 100000 new wagons in the next couple of years, indigenisation of industrial segment bearings
- Announcement on manufacturing 400 new Vande Bharat trains in three years

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

- It offers a play on needle roller bearings, which are largely used in auto applications
- BUY with a target price of ₹ 220 per share

Key Financial Summary

	FY20	FY21	FY22	5 Year CAGR FY17-22	FY23E	FY24E	2 Year CAGR FY22-24E
Revenue (₹ crore)	2,841.6	2,707.0	3,665.9	6.9%	4,205.7	4,794.3	14.4%
EBITDA (₹ crore)	349.5	456.4	555.7	10.6%	639.3	752.7	16.4%
EBITDA margin	12.3	16.9	15.2		15.2	15.7	
Net Profit (₹ crore)	289.0	334.0	395.2	10.1%	443.0	511.9	13.8%
EPS (₹)	58.5	67.6	79.9		89.6	103.5	
P/E (x)	53.0	45.9	38.8		34.6	29.9	
EV/EBITDA (x)	42.1	32.5	26.9		23.1	19.1	
RoCE (%)	20.3	27.0	27.6		26.5	27.1	
RoE (%)	15.2	21.4	21.0		20.0	20.1	

Source: Company, ICICI Direct Research



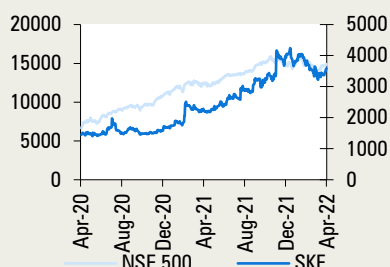
Particulars

Particular	Amount
Market Capitalization	15,326
Total Debt (FY21) (₹ crore)	0
Cash and Inv (FY21) (₹ crore)	402
EV (FY20) (₹ crore)	14,925
52 week H/L (₹) (BSE)	4239 /2210
Equity capital (₹ crore)	49.4
Face value (₹)	10

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	52.6%	52.6%	52.6%	52.6%
FII	5.1%	6.5%	6.4%	6.3%
DII	27.9%	28.7%	28.5%	28.3%
Others	14.4%	12.3%	12.5%	12.8%

Price Chart



Recent event & key risks

- Upcoming E-market
- Key Risk:** (i) Commodity inflation, (ii) Sluggish recovery in auto due to chip shortage

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Key takeaways of recent quarter & conference call highlights

Q4FY22 Results: Decent performance led by better margins

- Revenue for the quarter came in at ₹ 1039 crore (I-direct estimate of ₹ 1038.9 crore), up 22.6% YoY and 7.4% QoQ
- Gross margin came in at 37.5% (I-direct estimate of 35.9%) vs. 41.1% YoY & 35.6% QoQ. Increasing gross margins are due to recent price hike by SKF. Further, EBIDTA margins came in at 15.3% vs. 17.5% in Q4FY21 and 12.7% in Q3FY22. Absolute EBIDTA came in at ₹ 159.4 crore (I-direct estimate of ₹ 139.1 crore), up 29.4% QoQ
- Employee cost was at ₹ 75.9 crore, up 17.6% YoY & 9.1% QoQ. Other expenses were at ₹ 153.8 crore, increasing 13.6% YoY and 1.7% QoQ
- Ensuing PAT came in at ₹ 109.5 crore (I-direct estimate of ₹ 102.6 crore) compared to ₹ 104.9 crore in Q4FY21 and ₹ 88.8 crore in Q3FY22. Tax rate for the quarter was at 24.9%

Exhibit 1: Variance Analysis

Year	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ(%)	Comments
Income from Operation	1,039.0	1,038.9	847.5	22.6	967.0	7.4	Topline was inline with our estimates due to better performance in auto & industrial segment
Other Income	2.1	17.0	4.7	(54.1)	16.2	(86.8)	
Cost of material consumed	265.5	224.0	201.8	31.6	215.4	23.2	
Purchases of stock in trade	349.1	442.0	385.5	(9.4)	402.9	(13.3)	
Change in inventories	35.2	0.0	-87.9		4.6		
Gross margins (%)	37.5	35.9	41.1	-362 bps	35.6	188 bps	Better GMs due to Indigenization of Industrial segment and Price rise
Employee cost	75.9	77.9	64.6	17.6	69.6	9.1	
Other expenditure	153.8	155.8	135.3	13.6	151.3	1.7	
EBITDA	159.4	139.1	148.3	7.5	123.2	29.4	
EBITDA Margin (%)	15.3	13.4	17.5	-215 bps	12.7	261 bps	Better margins due to higher GMs and lower other expenses
Depreciation	15.2	16.0	13.7	10.7	15.6	(2.6)	
Interest	0.7	0.5	0.5		0.5	62.2	
PBT	145.7	139.6	138.7	5.0	123.4	18.1	
Taxes	36.2	37.0	33.8	7.0	34.5	5.0	
PAT	109.5	102.6	104.9	4.4	88.8	23.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21	FY22	FY23E			FY24E		
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	2,707.0	3,665.9	4,111.2	4,205.7	2.2	4,764.2	4,794.3	0.6
EBITDA	456.4	555.7	616.7	639.3	3.5	738.4	752.7	1.9
EBITDA Margin (%)	16.9	15.2	15.0	15.2	20 bps	15.5	15.7	20 bps
PAT	334.0	395.2	437.4	443.0	1.3	508.7	511.9	0.6
EPS (₹)	67.6	79.9	88.5	89.6	1.3	102.9	103.5	0.6

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Revenue	2,707	3,666	4,206	4,794
Growth YoY (%)	-5%	35%	15%	14%
Other Income	36	34	40	50
Total Revenue	2,743	3,700	4,246	4,844
Cost of materials consumed	595	901	1,051	1,175
Purchase of stock-in-trade	956	1,518	1,443	1,606
Change in inventories	10	(173)	63	48
Employee cost	246	286	379	422
Other Expenses	443	579	631	791
Total expenditure	2,251	3,110	3,566	4,042
EBITDA	456	556	639	753
Growth YoY (%)	31%	22%	15%	18%
Interest	2	2	5	6
PBDT	490	588	674	797
Depreciation	58	57	82	100
Profit Before Tax	433	531	592	696
Tax	99	136	149	185
PAT	334	395	443	512
Growth YoY (%)	16%	18%	12%	16%
EPS	67.6	79.9	89.6	103.5

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	334	395	443	512
Depreciation	58	57	82	100
Interest	2	2	5	6
Other income	(36)	(34)	(40)	(50)
Prov for Taxation	99	136	149	185
Cash Flow before WC changes	456	556	639	753
Change in Working Capital	267	(423)	36	(106)
Taxes Paid	(99)	(136)	(149)	(185)
Cashflow from Operations	625	(3)	526	462
(Purchase)/Sale of Fixed Assets	(75)	(101)	(230)	(150)
(Purchase)/Sale of Investments	(25)	45	(35)	211
Other Income	36	34	40	50
Cashflow from Investing	(64)	(22)	(225)	111
Issue/(Repayment of Debt)	-	-	-	-
Changes in Minority Interest	-	-	-	-
Changes in Networth	59	18	0	-
Interest	(2)	(2)	(5)	(6)
Dividend paid	(734)	(92)	(119)	(178)
Cashflow from Financing	(678)	(75)	(124)	(184)
Changes in Cash	(116)	(100)	177	389
Opening Cash/Cash Equivalent	618	500	402	579
Closing Cash/ Cash Equivalent	500	400	579	968

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet ₹ crore

(₹ Crore)	FY21	FY22	FY23E	FY24E
Share Capital	49.4	49.4	49.4	49.4
Reserves & Surplus	1,514	1,836	2,160	2,494
Networth	1,564	1,886	2,210	2,544
Total Debt	-	-	-	-
Other non-current liabilities	46	48	48	48
Total Liabilities	1,610	1,933	2,257	2,591
Gross Block	664	814	964	1,114
Acc: Depreciation	298	355	437	537
Net Block	345	402	528	577
Capital WIP	65	52	75	75
Investments	261	216	251	40
Inventory	468	677	639	728
Sundry debtors	583	687	788	899
Cash and bank balances	500	402	579	968
Other financial assets	21	68	68	68
Other current assets	59	125	88	101
Total Current Assets	1,631	1,958	2,162	2,763
CL& Prov.	693	695	759	864
Net Current Assets	938	1,263	1,404	1,899
Total Assets	1,610	1,933	2,257	2,591

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	67.6	79.9	89.6	103.5
Cash EPS	79.3	91.5	106.2	123.8
BV	316.3	381.4	447.0	514.5
DPS	14.5	18.5	24.0	36.0
Cash Per Share	60.2	71.8	88.3	108.6
Operating Ratios (%)				
EBITDA Margin	16.9	15.2	15.2	15.7
PBT / Net Sales	14.7	13.6	13.3	13.6
PAT Margin	12.3	10.8	10.5	10.7
Inventory days	63.1	67.4	55.5	55.5
Debtor days	78.7	68.4	68.4	68.4
Creditor days	91.7	68.0	64.7	64.7
Return Ratios (%)				
RoE	21.4	21.0	20.0	20.1
RoCE	27.0	27.6	26.5	27.1
RoIC	35.9	32.6	33.2	40.2
Valuation Ratios (x)				
P/E	45.9	38.8	34.6	29.9
EV / EBITDA	32.5	26.9	23.1	19.1
EV / Net Sales	5.5	4.1	3.5	3.0
Market Cap / Sales	5.7	4.2	3.6	3.2
Price to Book Value	9.8	8.1	6.9	6.0
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Current Ratio	2.3	2.7	2.8	3.1
Quick Ratio	1.6	1.7	1.9	2.3

Source: Company, ICICI Direct Research

Exhibit 7: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap	Cap EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E
L&T (LARTOU)	1545	2,270	Buy	216794	54.7	55.7	64.1	28.2	27.7	24.1	8.0	9.3	10.1	12.0	11.7	12.7
Siemens Ltd	2273	2,856	Buy	80946	29.5	37.8	45.6	77.1	60.2	49.8	13.9	16.1	17.5	10.1	11.9	13.0
AIA Engineering (AIAENG)	1802	1,895	Hold	16997	56.8	59.9	67.8	31.7	30.1	26.6	14.4	14.2	14.5	11.8	11.3	11.6
Thermax (THERMA)	1901	2,445	Buy	22652	27.4	42.5	48.9	69.4	44.7	38.9	12.1	17.2	18.1	9.5	13.4	13.9
KEC International (KECIN)	357	379	Hold	9178	12.7	15.8	25.3	28.1	22.6	14.1	12.3	13.3	16.9	10.7	11.0	15.4
Greaves Cotton (GREAVE)	134	220	Hold	3098	1.3	2.8	4.4	100.4	48.6	30.5	3.5	10.4	15.7	2.4	7.4	11.4
Elgi Equipment (ELGEQU)	255	410	Hold	8081	4.0	6.3	8.2	64.2	40.3	30.9	12.7	18.0	20.3	14.0	19.1	20.7
Bharat Electronics (BHAELE)	219	250	Buy	53361	9.4	11.2	12.5	23.4	19.5	17.6	26.2	28.7	28.6	19.4	21.4	21.3
Cochin Shipyard (COCSHI)	302	500	Buy	3973	44.0	55.6	-	6.9	5.4	-	15.2	16.0	-	13.0	14.7	-
SKF (SKFIND)	3100	3,720	Buy	15326	77.0	89.6	103.5	40.3	34.6	30.0	26.0	26.5	27.1	20.6	20.0	20.1
Timken India (TIMIND)	1787	2,405	Buy	13442	37.8	43.3	50.1	59.5	46.2	46.2	21.1	27.1	31.3	16.4	21.1	24.4
NRB Bearing (NRBBEA)	109	220	Buy	1056	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	185	290	Buy	2203	9.8	12.7	16.2	18.9	14.6	11.4	22.5	24.4	25.9	15.1	16.6	17.7

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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