

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%

Q1FY23 Results: SKF reported decent Q1FY23 results.

- Revenue for the quarter came in at ₹ 1054.7 crore (I-direct estimate of ₹ 1096.2 crore), up 52.1% YoY and 1.5% QoQ
- EBIDTA margins came in at 17.4% vs. 15.3% in Q4FY22. Absolute EBIDTA came in at ₹ 183.7 crore (I-direct estimate of ₹ 171.4 crore), up 15.2% QoQ
- Ensuing PAT came in at ₹ 129.2 crore (I-direct estimate of ₹ 115.5 crore) compared to ₹ 109.5 crore in Q4FY22

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 ₹ 4920 i.e. 40x P/E on FY24E EPS.

Key triggers for future price performance:

- Focus shifting towards indigenization of Industrial bearings
- Railways tender for about 90,000 new wagons in the next couple of years, Launch of REP contracts
- New launch in aftermarket segment, increasing market share in key segment

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%	4,293.5	4,992.6	16.7%
EBITDA (₹ crore)	349.5	456.4	555.7	10.6%	725.6	858.7	24.3%
EBITDA margin	12.3	16.9	15.2		16.9	17.2	
Net Profit (₹ crore)	289.0	334.0	395.2	10.1%	517.9	607.7	24.0%
EPS (₹)	58.5	67.6	79.9		104.8	122.9	
P/E (x)	70.1	60.7	51.3		39.1	33.4	
EV/EBITDA (x)	56.2	43.3	35.8		27.0	22.5	
RoCE (%)	20.3	27.0	27.6		29.8	30.1	
RoE (%)	15.2	21.4	21.0		22.7	22.4	

Source: Company, ICICI Direct Research



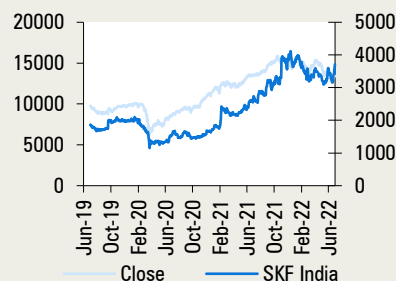
Particulars

Particular	Amount
Market Capitalization	20,270
Total Debt (FY22) (₹ crore)	0
Cash and Inv (FY22) (₹ crore)	401
EV (FY20) (₹ crore)	19,870
52 week H/L (₹) (BSE)	4239 /2722
Equity capital (₹ crore)	49.4
Face value (₹)	10

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	52.6%	52.6%	52.6%	52.6%
FII	6.5%	6.4%	6.3%	6.5%
DII	28.7%	28.5%	28.3%	28.6%
Others	12.3%	12.5%	12.8%	12.4%

Price Chart



Recent event & key risks

- Upcoming E-market
- Key Risk:** (i) Commodity inflation, (ii) Slowdown in Europe and USA

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Key takeaways of recent quarter & conference call highlights

Q1FY23 Results: Decent performance led by better margins

- Revenue for the quarter came in at ₹ 1054.7 crore (I-direct estimate of ₹ 1096.2 crore), up 52.1% YoY (Impacted by Covid) and 1.5% QoQ.
- Gross Margin came in at 39.2% (I-direct estimate of 38.5%) vs 37.5% QoQ, increasing gross margins are due recent price hike by SKF in recent quarter and indigenization of Industrial segment. Further, EBIDTA margins came in at 17.4% vs 16.4% YoY and 15.3% QoQ. Absolute EBIDTA came in at ₹ 183.7 crore (I-direct estimate of ₹ 171.4 crore), up 15.2% QoQ
- Employee cost stands at ₹ 77.7 crores an increment of 14.3% YoY & 2.3% QoQ. Other expenses increased by 13.9% YoY & decreased by 1.3% QoQ and stands at ₹ 151.8 crore
- Ensuing PAT came in at ₹ 129.2 crore (I-direct estimate of ₹ 115.5 crore) as compared to ₹ 109.5 crore in Q4FY22 and ₹ 79.1 crore in Q1FY22. PAT is cushioned by other income of ₹ 8.9 crore. Tax rate for the quarter stood at 26.6%

Q1FY23 Earnings Conference Call highlights

- Company's revenue mix for FY22 stands at 43% from Auto, 49% from Industrial and 8% from Exports. Auto is 62% OEM and 38% Aftermarket, while Industrial is 65% OEM and 35% Aftermarket.
- Company is currently localizing 97% Auto bearings and only 35% Industrial bearings, but company is confident on increasing localization of industrial segment to around 65-70%.
- Increasing localization will also increase EBITDA margins of company as Industrial segment enjoys more liberty on margin front.
- On EVs front revenue per vehicle will not be impacted much because realization per bearing will increase while number of bearings will be reduced, bearings used in EVs provide higher EBITDA margins because technically they are more superior.
- SKF is focusing on increasing its market share in Aftermarket products and have launched several new products in that segment, Company has expertise of its parent company and network distribution of India and can achieve higher market share in coming years.
- On Railways front company has got the approval of Class E and Class K bearings, Company has also provided the wagon manufacturer the sample bearings for freight carrier and is optimistic of acquiring new order from them.
- Company has distributor reach to around 10,000 pin codes in India out of 20,000 and is setting up new E-market and E-Shops so as to reduce counterfeit products.
- Company has a Robust Order Book and planned a CAPEX of around ₹ 125 crores to fulfil that.

Exhibit 1: Variance Analysis

Year	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ(%)	Comments
Income from Operation	1,054.7	1,096.2	693.5	52.1	1,039.0	1.5	Topline was a miss with our estimates due to laggard performance in auto segment
Other Income	8.9	2.2	6.4	39.0	2.1	316.4	
Cost of material consumed	263.1	290.5	196.0	34.3	265.5	(0.9)	
Purchases of stock in trade	364.5	383.7	396.7	(8.1)	349.1	4.4	
Change in inventories	14.0	0.0	-214.1		35.2		
Gross margins (%)	39.2	38.5	45.4	-624 bps	37.5	172 bps	Better GMs due to Indigenization of Industrial segment and Price rise
Employee cost	77.7	85.2	68.0	14.3	75.9	2.3	
Other expenditure	151.8	165.5	133.3	13.9	153.8	(1.3)	
EBITDA	183.7	171.4	113.8	61.5	159.4	15.2	
EBITDA Margin (%)	17.4	15.6	16.4	102 bps	15.3	207 bps	Better margins due to higher GMs and lower other expenses
Depreciation	16.1	16.0	14.0	14.7	15.2	5.9	
Interest	0.5	0.5	0.4		0.7	(34.2)	
PBT	176.1	157.1	105.8	66.4	145.7	20.9	
Taxes	46.9	41.5	26.7	75.7	36.2	29.5	
PAT	129.2	115.5	79.1	63.3	109.5	18.0	

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	4,205.7	4,293.5	2.0	4,794.3	4,992.6	4.0		
EBITDA	456.4	555.7	639.3	725.6	11.9	752.7	858.7	12.3		
EBITDA Margin (%)	16.9	15.2	15.2	16.9	170 bps	15.7	17.2	150 bps		
PAT	334.0	395.2	443.0	517.9	14.5	511.9	607.7	15.8		
EPS (₹)	67.6	79.9	89.6	104.8	14.5	103.5	122.9	15.8		

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement					₹ crore
(₹ Crore)	FY21	FY22	FY23E	FY24E	
Revenue	2,707	3,666	4,293	4,993	
Growth YoY (%)	-5%	35%	17%	16%	
Other Income	36	34	45	60	
Total Revenue	2,743	3,700	4,338	5,053	
Cost of materials consumed	595	901	1,052	1,223	
Purchase of stock-in-trade	956	1,518	1,473	1,697	
Change in inventories	10	(173)	43	50	
Employee cost	246	286	335	389	
Other Expenses	443	579	665	774	
Total expenditure	2,251	3,110	3,568	4,134	
EBITDA	456	556	726	859	
Growth YoY (%)	31%	22%	31%	18%	
Interest	2	2	3	4	
PBDT	490	588	768	915	
Depreciation	58	57	75	88	
Profit Before Tax	433	531	692	827	
Tax	99	136	174	219	
PAT	334	395	518	608	
Growth YoY (%)	16%	18%	31%	17%	
EPS	67.6	79.9	104.8	122.9	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					₹ crore
(₹ Crore)	FY21	FY22	FY23E	FY24E	
Profit after Tax	334	395	518	608	
Depreciation	58	57	75	88	
Interest	2	2	3	4	
Other income	(36)	(34)	(45)	(60)	
Prov for Taxation	99	136	174	219	
Cash Flow before WC changes	456	556	726	859	
Change in Working Capital	267	(423)	(92)	(77)	
Taxes Paid	(99)	(136)	(174)	(219)	
Cashflow from Operations	625	(3)	459	563	
(Purchase)/Sale of Fixed Assets	(75)	(101)	(127)	(150)	
(Purchase)/Sale of Investments	(25)	45	-	-	
Other Income	36	34	45	60	
Cashflow from Investing	(64)	(22)	(82)	(90)	
Issue/(Repayment of Debt)	-	-	-	-	
Changes in Minority Interest	-	-	-	-	
Changes in Networth	59	18	(0)	-	
Interest	(2)	(2)	(3)	(4)	
Dividend paid	(734)	(92)	(119)	(178)	
Cashflow from Financing	(678)	(75)	(122)	(182)	
Changes in Cash	(116)	(100)	255	291	
Opening Cash/Cash Equivalent	618	500	401	656	
Closing Cash/ Cash Equivalent	500	400	656	947	

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	2,235	2,665	
Networth	1,564	1,886	2,285	2,714	
Total Debt	-	-	-	-	
Other non-current liabilities	46	48	48	48	
Total Liabilities	1,610	1,933	2,332	2,762	
Gross Block	664	814	884	1,034	
Acc: Depreciation	298	355	430	518	
Net Block	345	402	454	516	
Capital WIP	65	52	52	52	
Investments	261	216	216	216	
Inventory	468	677	765	821	
Sundry debtors	583	687	805	936	
Cash and bank balances	500	401	656	947	
Other financial assets	21	68	68	68	
Other current assets	59	125	90	105	
Total Current Assets	1,631	1,957	2,384	2,876	
CL& Prov.	693	695	774	900	
Net Current Assets	938	1,262	1,609	1,977	
Total Assets	1,610	1,933	2,332	2,762	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	67.6	79.9	104.8	122.9
Cash EPS	79.3	91.5	120.0	140.7
BV	316.3	381.4	462.1	549.0
DPS	14.5	18.5	24.0	36.0
Cash Per Share	60.2	71.8	87.0	104.7
Operating Ratios (%)				
EBITDA Margin	16.9	15.2	16.9	17.2
PBT / Net Sales	14.7	13.6	15.1	15.4
PAT Margin	12.3	10.8	12.1	12.2
Inventory days	63.1	67.4	65.0	60.0
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	22.7	22.4
RoCE	27.0	27.6	29.8	30.1
RoC	35.9	32.5	38.8	42.5
Valuation Ratios (x)				
P/E	60.7	51.3	39.1	33.4
EV / EBITDA	43.3	35.8	27.0	22.5
EV / Net Sales	7.3	5.4	4.6	3.9
Market Cap / Sales	7.5	5.5	4.7	4.1
Price to Book Value	13.0	10.7	8.9	7.5
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Current Ratio	2.3	2.7	3.0	3.1
Quick Ratio	1.6	1.7	2.0	2.2

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		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1,792	2,175	Buy	251453	56.8	65.0	76.7	31.6	27.6	23.4	8.9	10.2	11.6	12.1	12.7	13.6
Siemens Ltd	2,691	2,900	Buy	95832	29.5	36.6	48.2	91.3	73.4	55.9	13.9	15.7	18.4	10.1	11.6	13.7
AIA Engineering (AIAENG)	2,355	2,570	Buy	22212	64.6	79.6	85.7	36.5	29.6	27.5	16.5	17.8	17.0	13.2	14.2	13.6
Thermax (THERMA)	2,067	2,390	Buy	24630	26.2	42.4	53.1	78.8	48.7	38.9	11.3	16.7	18.7	9.0	13.0	14.4
KEC International (KECIN)	470	381	Hold	12084	12.7	13.0	25.4	37.0	36.3	18.5	12.3	12.0	17.2	10.7	9.2	15.8
Greaves Cotton (GREAVE)	159	179	Buy	3667	0.7	2.6	3.3	224.1	60.2	48.1	2.5	8.9	10.2	1.3	6.3	7.3
Elgi Equipment (ELGEQU)	371	390	Buy	11757	5.7	6.6	8.7	65.0	56.3	42.7	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	273	315	Buy	66519	9.6	11.3	12.6	28.3	24.2	21.7	26.2	28.5	28.6	19.6	21.3	21.4
Cochin Shipyards (COCSHI)	326	340	Hold	4293	42.9	38.6	42.3	7.6	8.5	7.7	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4,100	4,920	Buy	20270	77.0	104.8	122.9	53.2	39.1	33.4	26.0	29.8	30.1	20.6	22.7	22.4
Timken India (TIMIND)	2,958	2,810	Buy	22250	43.5	54.8	62.5	94.3	74.8	65.6	25.3	32.3	36.8	19.7	24.9	28.4
NRB Bearing (NRBBEA)	137	220	Buy	1328	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)	222	230	Buy	2638	9.8	11.5	13.6	22.6	19.3	16.3	22.5	20.9	21.3	15.1	14.5	14.7
Data Patterns (DATPAT)	756	870	Buy	3923	18.1	21.7	27.2	41.7	34.8	27.8	23.8	24.4	25.8	16.4	18.1	19.1
HAL (HINAER)	2,011	2,200	Buy	67246	151.9	123.6	137.4	13.2	16.3	14.6	27.4	29.7	30.5	26.3	22.5	23.2

Source: Bloomberg, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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