

Excellent set of operational numbers...

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

Q1FY23 Results: Timken reported excellent Q1FY23 results.

- Revenue for the quarter came in at ₹ 699.2 crore, up 49.4% YoY & 4.8% QoQ (vs. I-direct estimate of ₹ 697.9 crore)
- Absolute EBIDTA came in at ₹ 171.6 crore, down 4.6% QoQ (I-direct estimate of ₹ 174.4 crore)
- Tracking its operating performance, Timken ended the quarter with PAT of ₹ 118.1 crore (vs. I-direct estimate of ₹ 114.2 crore), down 2.6% QoQ

What should investors do? Timken has a strong balance sheet coupled with decent growth prospects led by strong growth in railways, wind and exports.

- We maintain our BUY rating

Target Price and Valuation: We value Timken at ₹ 3560 i.e. 50x P/E on FY24E EPS.

Key triggers for future price performance:

- Announcement of 400 Vande Bharat train, 90,000 wagons in next 3 years
- Recovery in Indian economy led by mining and industrial segment
- Strong capex cycle, strong traction from wind and services segment

Alternate Stock Idea: We also like SKF in our capital goods coverage.

- It is one of the leading bearing manufacturers known for its deep groove ball bearings and has a presence across the industrial & auto sector.
- BUY with a target price of ₹ 4920 i.e. 40x P/E on FY24E EPS

TIMKEN

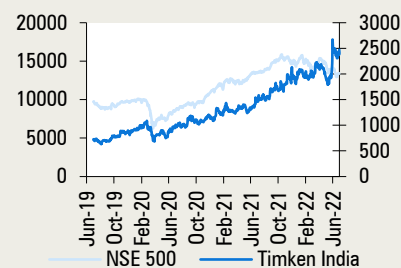
Particulars

Particular	Amount
Market Capitalization (₹ crore)	23,055
Total Debt (FY22) (₹ crore)	30
Cash and Inv (FY22) (₹ crore)	70
EV (FY22) (₹ crore)	23,014
52 week H/L (₹) (BSE)	2332 / 1303
Equity capital (₹ crore)	75.2
Face value (₹)	10.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	67.8%	67.8%	67.8%	67.8%
FII	2.8%	2.7%	2.9%	3.6%
DII	13.6%	13.9%	13.0%	12.6%
Others	15.8%	15.7%	16.3%	15.9%

Price Chart



Recent event & key risks

- Revival in auto industry(CV) and increasing demand wind energy
- Announcement of 90,000 wagon
- **Key Risk:** (i) Counterfeit products

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Yash Panwar
Yash.panwar@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY20	FY21	FY22	5 Year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY21-24E)
Net Sales	1,617.8	1,410.5	2,203.2	14.5	2,689.7	3,141.3	19.4
EBITDA	363.3	251.8	510.6	26.4	680.5	797.9	25.0
EBITDA margin (%)	22.5	17.9	23.2		25.3	25.4	
Net Profit	246.1	143.2	327.1	27.4	461.5	535.7	28.0
EPS (₹)	32.7	19.0	43.5		61.3	71.2	
P/E (x)	93.7	161.0	70.5		50.0	43.0	
EV/EBITDA (x)	62.4	91.2	45.1		33.8	28.8	
RoCE (%)	18.6	13.7	25.3		36.2	42.0	
RoE (%)	15.6	10.7	19.7		27.9	32.3	

Key takeaways of recent quarter

Q1FY23 Results: Excellent performance in industrial segment

- Timken India reported a good set of numbers in Q1FY23, with revenues in-line with our expectation due to good performance on Industrial segment side. Gross margins came below our estimates, which resulted in lower than expected EBITDA margins despite lower than expected employee cost and other expenses
- Revenue for the quarter came in at ₹ 699.2 crore, up 49.4% YoY & 4.8% QoQ (vs. I-direct estimate of ₹ 697.9 crore)
- Gross margins contracted ~190 bps QoQ & expanded ~130 bps YoY. Timken registered an EBIDTA margin of 24.5% vs. 19.8% YoY & 26.9% QoQ (vs. I-direct estimate of 25%) Surprise in EBIDTA margin come in due to weaker-than-expected gross margins. Absolute EBIDTA came in at ₹ 171.6 crore, down 4.6% QoQ (I-direct estimate of ₹ 174.4 crore)
- Employee cost increased 14.4% YoY & 9.1% QoQ and is at ₹ 39.7 crore. Other expenses increased 6.5% QoQ and is at ₹ 109 crore
- Tracking its operating performance, Timken ended the quarter with a PAT of ₹ 118.1 crore (vs. I-direct estimate of ₹ 114.2 crore), down 2.6% QoQ. PAT is cushioned by other income of ₹ 10.6 crore

Exhibit 1: Variance Analysis

Year	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ(%)	Comments
Income from Operation	699.2	697.6	467.9	49.4	667.4	4.8	Decent Performance on Industrial and Services segment side
Cost of materials consumed	224.7	209.3	159.9	40.5	197.3	13.9	
Purchase of stock-in-trade	166.7	160.4	144.8	15.1	164.0	1.6	
Change in inventories	(12.5)	0.0	(45.1)		(12.4)		
Gross Margins	45.8	47.0	44.5	2.9	47.7	(4.0)	
Employee cost	39.7	41.2	34.7	14.4	36.4	9.1	
Other expenses	109.0	112.3	80.8	34.9	102.3	6.5	
EBITDA	171.6	174.4	92.8	85.0	179.8	(4.6)	
EBITDA Margin (%)	24.5	25.0	19.8	472 bps	26.9	-240 bps	Lower EBITDA margins due lower gross margins, Other Expenses and Employee cost on expected lines
Other Income	10.6	5.0	2.9	268.1	4.9	116.3	
Depreciation	21.8	23.5	19.9	9.7	22.4	(2.7)	
Interest	0.4	0.5	0.4	0.0	1.3	(69.2)	
PBT	160.0	155.4	75.4	112.3	161.0	(0.6)	
Taxes	41.9	41.2	18.6	124.8	39.7	5.5	
PAT	118.1	114.2	56.7	108.2	121.3	(2.6)	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY21	FY22E	FY23E		%	FY24E		%
₹ crore	Actual	Actual	Old	New	Change	Old	New	change
Revenue	1410.5	2203.2	2609.2	2689.7	3.1	3013.3	3141.3	4.2
EBITDA	251.8	510.6	613.2	680.5	11.0	708.1	797.9	12.7
EBITDA Margin (%)	17.9	23.2	23.5	25.3	180 bps	23.5	25.4	190 bps
PAT	143.2	327.1	412.0	461.5	12.0	469.8	535.7	14.0
EPS (₹)	19.0	43.5	54.8	61.3	11.9	62.5	71.2	13.9

Source: ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement					₹ crore
(₹ Crore)	FY21	FY22	FY23E	FY24E	
Net Sales	1,411	2,203	2,690	3,141	
Total Operating Income	1,411	2,203	2,690	3,141	
% Growth (Operating Income)	-13%	56.2	22.1	16.8	
Other Income	19.6	14.3	40.0	45.0	
Total Revenue	1,430	2,218	2,730	3,186	
Cost of materials consumed	449	734	855	986	
Purchase of stock-in-trade	402	586	584	666	
Change in inventories	(65)	(126)	(27)	(31)	
Employee cost	119	141	175	220	
Other Expenses	254	358	422	503	
Total expenditure	1,159	1,693	2,009	2,343	
EBITDA	252	511	680	798	
% Growth (EBITDA)	-31%	102.8	33.3	17.3	
Interest	1.4	2.4	2.3	2.3	
PBDT	270	523	718	841	
Depreciation	75	84	90	111	
PBT	195	438	629	730	
Tax	52	111	167	194	
PAT	143	327	461	536	
% Growth (PAT)	-42%	128.5	41.1	16.1	
EPS	19.0	43.5	61.3	71.2	

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement					₹ crore
(₹ Crore)	FY21	FY22	FY23E	FY24E	
Profit after Tax	143.2	327.1	461.5	535.7	
Depreciation	74.9	84.3	89.6	110.8	
Interest	1.4	2.4	2.3	2.3	
Other income	(19.6)	(14.3)	(40.0)	(45.0)	
Prov for Taxation	51.9	111.1	167.2	194.1	
Change in Working Capital	(18.5)	(430.7)	140.1	(99.1)	
Taxes Paid	(61.1)	(111.1)	(167.2)	(194.1)	
CF from Op activities	172	(31)	653	505	
(Purchase)/Sale of Fixed Assets	(184.9)	(23.4)	(235.2)	(150.0)	
(Purchase)/Sale of Investments	68.7	-	-	-	
Other Income	19.6	14.3	40.0	45.0	
CF from Inv activities	(97)	(9)	(195)	(105)	
Changes in Networth	(0.2)	(2.4)	0.0	(0.0)	
Interest	(1.4)	(2.4)	(2.3)	(2.3)	
Dividend paid	(376.1)	(11.3)	(30.1)	(45.1)	
CF from Fin activities	(378)	(16)	(32)	(47)	
Changes in Cash	(289.5)	(59.3)	441.1	352.3	
Opening Cash/Cash Equivalent	418.8	129.3	69.9	511.0	
Closing Cash/ Cash Equivalent	129.3	69.9	511.0	863.3	

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet					₹ crore
(₹ Crore)	FY21	FY22	FY23E	FY24E	
Share Capital	75	75	75	75	
Reserves & Surplus	1,268	1,582	2,013	2,504	
Total Shareholders fund	1,344	1,657	2,088	2,579	
Goodwill	181	181	181	181	
Total debt	33	30	45	45	
Other liabilities	56	56	56	56	
Total Liabilities	1,432	1,742	2,189	2,680	
Gross Block	704	854	1,054	1,304	
Acc: Depreciation	321	405	495	606	
Net Block	627	614	559	698	
Capital WIP	97	50	250	150	
Investments	71	71	71	71	
Inventory	369	586	494	577	
Sundry debtors	371	539	538	628	
Cash	129	70	511	863	
Loans & Advances	1	3	0	1	
Inv+Other current assets	40	40	40	40	
CL& Prov.	455	410	455	529	
Net Current Assets	456	827	1,128	1,579	
Total Assets	1,432	1,742	2,189	2,680	

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	19.0	43.5	61.3	71.2
Cash EPS	29.0	54.7	73.3	85.9
BV	178.6	220.3	277.6	342.8
DPS	50.0	1.5	4.0	6.0
Cash Per Share	42.7	53.9	65.8	80.5
Operating Ratios(%)				
EBITDA Margin	17.9	23.2	25.3	25.4
PBT / Net Sales	12.5	19.3	22.0	21.9
PAT Margin	10.2	14.8	17.2	17.1
Inventory days	95.4	97.0	79.5	68.0
Debtor days	96.1	89.3	73.1	62.6
Creditor days	117.7	68.0	55.7	47.7
Return Ratios(%)				
RoE	10.7	19.7	22.1	20.8
RoCE	13.7	25.3	-	-
RoIC	26.4	36.6	46.3	48.6
Valuation Ratio(%)				
P/E	161.0	70.5	50.0	43.0
EV / EBITDA	91.2	45.1	33.2	27.9
EV / Net Sales	16.3	10.4	8.4	7.1
Market Cap / Sales	16.3	10.5	8.6	7.3
Price to Book Value	17.2	13.9	11.0	8.9
Solvency Ratio(%)				
Current Ratio	1.6	2.7	2.7	2.7
Quick Ratio	0.8	1.3	1.3	1.3

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)	1,850	2,175	Buy	259592	56.8	65.0	76.7	32.6	28.5	24.1	8.9	10.2	11.6	12.1	12.7	13.6
Siemens Ltd	2,912	3,040	Buy	103702	29.5	36.7	48.5	98.8	79.3	60.0	13.9	15.7	18.6	10.1	11.6	13.7
AIA Engineering (AIAENG)	2,528	3,011	Buy	23844	64.6	79.8	86.0	39.1	31.7	29.4	16.5	17.9	17.1	13.2	14.3	13.6
Thermax (THERMA)	2,142	2,405	Buy	25523	26.2	38.7	53.4	81.7	55.4	40.1	11.3	15.4	18.7	8.9	12.0	14.6
KEC International (KECIN)	393	474	Hold	10104	12.9	15.5	29.6	30.4	25.4	13.3	11.9	13.5	19.3	10.6	10.8	17.6
Greaves Cotton (GREAVE)	174	209	Buy	4023	0.7	3.5	3.6	245.8	49.4	48.7	2.5	9.4	10.7	1.3	6.7	7.7
Elgi Equipment (ELGEQU)	454	474	Hold	14388	5.7	6.6	9.1	79.5	68.9	49.8	18.9	17.8	21.0	18.7	18.5	21.1
Bharat Electronics (BHAELE)	295	315	Buy	71879	9.6	11.3	12.6	30.6	26.1	23.4	26.2	28.5	28.6	19.6	21.3	21.4
Cochin Shipyard (COCSHI)	336	340	Hold	4420	42.9	38.6	42.3	7.8	8.7	7.9	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4,491	4,920	Buy	22203	77.0	104.8	122.9	58.3	42.9	36.5	26.0	29.8	30.1	20.6	22.7	22.4
Timken India (TIMIND)	3,063	3,561	Buy	23039	43.5	61.3	71.2	70.4	50.0	43.0	25.3	36.2	42.0	19.7	27.9	32.2
NRB Bearing (NRBBEA)	145	220	Buy	1405	7.8	9.2	12.1	18.6	15.8	12.0	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	228	285	Buy	2715	8.8	12.5	15.7	25.9	18.2	14.5	23.0	22.5	23.6	13.9	15.6	16.4
Data Patterns (DATPAT)	834	900	Buy	4327	18.1	21.7	28.0	46.1	38.4	29.8	23.8	24.4	26.4	16.4	18.1	19.6
HAL (HINAER)	2,269	2,860	Buy	75873	151.9	130.9	143.1	14.9	17.3	15.9	27.4	30.6	30.8	26.3	23.2	23.4
ABB (ABB)	2,888	3,275	Buy	61199	25.5	38.9	43.7	113.4	74.3	66.1	45.0	49.2	64.9	11.2	13.0	17.6
Ador Welding (ADOWEL)	789	890	Buy	1073	33.2	37.5	49.3	23.8	21.0	16.0	19.9	23.8	26.8	13.6	17.1	19.3

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

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

ANALYST CERTIFICATION

I/We, Chirag Shah PGDBM, Yash Panwar PGDM (Finance, IT), MBA Research Analysts Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.