

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% each 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%

Q2FY23 Results: SKF reported decent Q2FY23 results.

- Revenue for the quarter came in at ₹ 1078.3 crore (I-direct estimate of ₹ 1105.9 crore), up 11.6% YoY, 2.2% QoQ
- EBIDTA margins came in at 19.9% vs. 17.4% in Q1FY23. Absolute EBIDTA came in at ₹ 214.6 crore (I-direct estimate of ₹ 201.3 crore), up 16.8% QoQ
- Ensuing PAT came in at ₹ 155.8 crore (I-direct estimate of ₹ 141.7 crore) compared to ₹ 129.2 crore in Q1FY23

What should investors do? SKF has been making strides towards innovation and R&D and has made significant inroads in rotating equipment performance (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 ₹ 5215 i.e. 40x P/E on FY24E EPS.

Key triggers for future price performance:

- Focus shifting towards indigenisation of industrial bearings
- Strong traction from railways, focusing on increasing market share in aftermarket products
- Increasing its presence in Tier 3 cities, 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



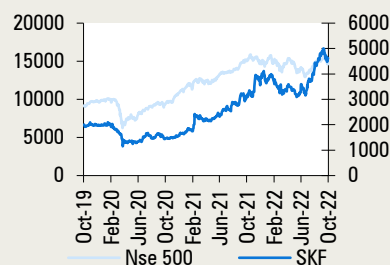
Particulars

Particular	Amount
Market Capitalization	22,026
Total Debt (FY22) (₹ crore)	0
Cash and Inv (FY22) (₹ crore)	401
EV (FY20) (₹ crore)	21,625
52 week H/L (₹) (BSE)	4239 /2722
Equity capital (₹ crore)	49.4
Face value (₹)	10

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoter	52.6%	52.6%	52.6%	52.6%
FII	6.4%	6.3%	6.5%	6.4%
DII	28.5%	28.3%	28.6%	29.0%
Others	12.5%	12.8%	12.4%	12.1%

Price Chart



Recent event & key risks

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

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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%	751.4	908.6	27.9%
EBITDA margin	12.3	16.9	15.2		17.5	18.2	
Net Profit (₹ crore)	289.0	334.0	395.2	10.1%	537.2	644.4	27.7%
EPS (₹)	58.5	67.6	79.9		108.7	130.3	
P/E (x)	76.2	65.9	55.7		41.0	34.2	
EV/EBITDA (x)	61.3	47.2	38.9		28.4	23.1	
RoCE (%)	20.3	27.0	27.6		30.7	31.3	
RoE (%)	15.2	21.4	21.0		23.3	23.3	

Key takeaways of recent quarter & conference call highlights

Q2FY23 Results: Decent performance led by better margins

- Revenue for the quarter came in at ₹ 1078.3 crore (I-direct estimate of ₹ 1105.9 crore), up 11.6% YoY & 2.2% QoQ.
- Gross margin came in at 42.3% (I-direct estimate of 40%) vs. 39.2% QoQ & 38.5% YoY. Increasing gross margins were due to better performance of domestic production and indigenisation of industrial segment. Further, EBIDTA margins were at 19.9% vs. 16.5% in Q2FY22, 17.4% in Q1FY23. Absolute EBIDTA came in at ₹ 214.6 crore (I-direct estimate of ₹ 201.3 crore), up 16.8% QoQ
- Employee cost was at ₹ 78.8 crore, an increment of 9.1% YoY, 1.4% QoQ. Other expenses increased 15.6% YoY & 7% QoQ and were at ₹ 162.5 crore
- Ensuing PAT came in at ₹ 155.8 crore (I-direct estimate of ₹ 141.7 crore) to ₹ 129.2 crore in Q1FY23 and ₹ 117.6 crore in Q2FY22. PAT was cushioned by other income of ₹ 10.2 crore. Tax rate for the quarter was at 24.9%
- The company is also planning to enter into a related party transaction with SKF Engineering and Lubrication India Pvt Ltd for an amount not exceeding ₹ 630 crore (including loan of ₹ 250 crore and extension of existing loan of ₹ 67.6 crore) subject to shareholder's approval. SKF could have invested this capital in its main company and made 13.5-15.5% profit margin rather than earning 6-8% interest lending to SKF Engineering and Lubrication India Pvt Ltd

Exhibit 1: Variance Analysis

Year	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ(%)	Comments
Income from Operation	1,078.3	1,105.9	966.4	11.6	1,054.7	2.2	Topline was a miss with our estimates due to laggard performance in Industrial segment
Other Income	10.2	8.0	9.3	9.8	8.9	14.0	
Cost of material consumed	257.5	287.5	223.9	15.0	263.1	(2.1)	
Purchases of stock in trade	377.2	376.0	369.0	2.2	364.5	3.5	
Change in inventories	-12.2	0.0	1.0		14.0		
Gross margins (%)	42.3	40.0	38.5	372 bps	39.2	310 bps	Better GMs due to Indigenization of Industrial segment
Employee cost	78.8	82.9	72.2	9.1	77.7	1.4	
Other expenditure	162.5	158.1	140.5	15.6	151.8	7.0	
EBITDA	214.6	201.3	159.8	34.3	183.7	16.8	
EBITDA Margin (%)	19.9	18.2	16.5	337 bps	17.4	248 bps	Better margins due to higher GMs and lower employee cost
Depreciation	16.9	16.0	12.3	36.8	16.1	4.8	
Interest	0.4	0.5	0.6		0.5	(27.1)	
PBT	207.5	192.8	156.1	32.9	176.1	17.9	
Taxes	51.6	51.1	38.5	34.0	46.9	10.0	
PAT	155.8	141.7	117.6	32.5	129.2	20.6	

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	4,293.5	4,293.5	(0.0)	4,992.6	4,992.6	(0.0)
EBITDA	456.4	555.7	725.6	751.4	3.4	858.7	908.6	5.5
EBITDA Margin (%)	16.9	15.2	16.9	17.5	60 bps	17.2	18.2	100 bps
PAT	334.0	395.2	517.9	537.2	3.6	607.7	644.4	5.7
EPS (₹)	67.6	79.9	104.8	108.7	3.6	122.9	130.3	5.7

Source: ICICI Direct Research

Financial Summary

₹ 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	1,073	1,278
Purchase of stock-in-trade	956	1,518	1,434	1,613
Change in inventories	10	(173)	43	50
Employee cost	246	286	335	384
Other Expenses	443	579	657	759
Total expenditure	2,251	3,110	3,542	4,084
EBITDA	456	556	751	909
Growth YoY (%)	31%	22%	35%	21%
Interest	2	2	3	4
PBDT	490	588	793	965
Depreciation	58	57	75	88
Profit Before Tax	433	531	718	877
Tax	99	136	181	232
PAT	334	395	537	644
Growth YoY (%)	16%	18%	36%	20%
EPS	67.6	79.9	108.7	130.3

Source: Company, ICICI Direct Research

₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	334	395	537	644
Depreciation	58	57	75	88
Interest	2	2	3	4
Other income	(36)	(34)	(45)	(60)
Prov for Taxation	99	136	181	232
Cash Flow before WC changes	456	556	751	909
Change in Working Capital	267	(423)	(92)	(77)
Taxes Paid	(99)	(136)	(181)	(232)
Cashflow from Operations	625	(3)	478	600
(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)	(0)
Interest	(2)	(2)	(3)	(4)
Dividend paid	(734)	(92)	(119)	(178)
Cashflow from Financing	(678)	(75)	(122)	(182)
Changes in Cash	(116)	(100)	274	328
Opening Cash/Cash Equivalent	618	500	401	675
Closing Cash/ Cash Equivalent	500	400	675	1,003

Source: Company, ICICI Direct Research

₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Share Capital	49.4	49.4	49.4	49.4
Reserves & Surplus	1,514	1,836	2,255	2,721
Networth	1,564	1,886	2,304	2,770
Total Debt	-	-	-	-
Other non-current liabilities	46	48	48	48
Total Liabilities	1,610	1,933	2,352	2,818
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	675	1,003
Other financial assets	21	68	68	68
Other current assets	59	125	90	105
Total Current Assets	1,631	1,957	2,403	2,932
CL& Prov.	693	695	774	900
Net Current Assets	938	1,262	1,628	2,033
Total Assets	1,610	1,933	2,352	2,818

Source: Company, ICICI Direct Research

(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	67.6	79.9	108.7	130.3
Cash EPS	79.3	91.5	123.9	148.1
BV	316.3	381.4	466.0	560.3
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	17.5	18.2
PBT / Net Sales	14.7	13.6	15.7	16.4
PAT Margin	12.3	10.8	12.5	12.9
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	23.3	23.3
RoCE	27.0	27.6	30.7	31.3
RoIC	35.9	32.5	40.3	45.2
Valuation Ratios (x)				
P/E	65.9	55.7	41.0	34.2
EV / EBITDA	47.2	38.9	28.4	23.1
EV / Net Sales	8.0	5.9	5.0	4.2
Market Cap / Sales	8.1	6.0	5.1	4.4
Price to Book Value	14.1	11.7	9.6	8.0
Solvency Ratios				
Debt/EBITDA	-	-	-	-
Current Ratio	2.3	2.7	3.0	3.2
Quick Ratio	1.6	1.7	2.0	2.3

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)	2,015	2,355	Buy	282745	56.8	66.1	76.7	35.5	30.5	26.3	8.9	9.3	11.6	12.1	12.9	13.6
Siemens Ltd	2,980	3,660	Buy	106124	29.5	36.7	50.5	101.1	81.1	59.0	13.9	15.7	19.2	10.1	11.6	14.2
AIA Engineering (AIAENG)	2,735	3,011	Buy	25797	64.6	79.8	86.0	42.3	34.3	31.8	16.5	17.9	17.1	13.2	14.3	13.6
Thermax (THERMA)	2,317	2,405	Buy	27609	26.2	38.7	53.4	88.4	59.9	43.4	11.3	15.4	18.7	8.9	12.0	14.6
KEC International (KECIN)	430	542	Buy	11055	12.9	16.0	31.9	33.3	26.9	13.5	11.9	13.9	20.3	10.6	11.1	18.6
Greaves Cotton (GREAVE)	150	209	Buy	3468	0.7	3.5	3.6	211.9	42.6	42.0	2.5	9.4	10.7	1.3	6.7	7.7
Elgi Equipment (ELGEQU)	497	474	Hold	15750	5.7	6.6	9.1	87.0	75.4	54.5	18.9	17.8	21.0	18.7	18.5	21.1
Bharat Electronics (BHAELE)	109	135	Buy	79677	3.2	3.8	4.5	34.1	28.7	24.2	26.1	28.4	30.0	19.5	21.2	22.4
Cochin Shipyard (COCSHI)	604	445	Buy	7938	42.9	38.6	42.3	14.1	15.6	14.3	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4,455	5,215	Buy	22025	77.0	108.7	130.3	57.9	41.0	34.2	26.0	30.7	31.3	20.6	23.3	23.4
Timken India (TIMIND)	2,754	3,561	Buy	20715	43.5	61.3	71.2	63.3	44.9	38.7	25.3	36.2	42.0	19.7	27.9	32.2
NRB Bearing (NRBBEA)	173	220	Buy	1677	7.8	9.2	12.1	22.2	18.8	14.3	15.0	15.3	19.2	12.6	12.6	14.8
Action Construction (ACTCON)	329	365	Buy	3918	8.8	13.9	18.2	37.4	23.7	18.1	23.0	24.0	25.8	13.9	17.1	18.3
Data Patterns (DATPAT)	1438	1,280	Buy	7461	18.1	22.2	30.4	79.4	64.8	47.2	23.8	24.9	28.1	16.4	18.4	20.9
HAL (HINAER)	2,559	2,860	Buy	85570	151.9	130.9	143.1	16.8	19.5	17.9	27.4	30.6	30.8	26.3	23.2	23.4
ABB (ABB)	3,220	3,275	Buy	68234	25.5	38.9	43.7	126.4	82.8	73.7	45.0	49.2	64.9	11.2	13.0	17.6
Ador Welding (ADOWEL)	890	890	Buy	1210	33.2	37.5	49.3	26.8	23.7	18.1	19.9	23.8	26.8	13.6	17.1	19.3
Bharat Dynamics (BHADYN)	977	1,068	Buy	17907	27.3	33.0	42.7	32.6	27.0	20.9	24.6	24.7	27.9	17.3	17.7	20.0
Mazagon Dock (MAZDOC)	781	562	Buy	15752	30.3	31.2	40.1	29.4	28.6	22.2	20.0	18.1	20.9	16.1	14.6	16.6

Source: Bloomberg, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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