

20 June 2019

Timken India – BUY

CMP :Rs.668.0
Target Price :Rs.806.0
Upside : 20%+
Stop Loss :Rs.591.0 (Closingbasis)

Investment Thesis

Recently, the stock price of Timken India Ltd. (Timken India) corrected by ~14% from 52-week high of Rs.778.00 despite reporting good set of numbers in the recent quarters.

Timken India is one of the leading manufacturers of tapered roller bearings and components in India, which largely cater to medium and heavy trucks, off-highway equipments, railways markets and exports. The company also meets the demand for other types of bearings viz., large size tapered roller bearings, spherical roller bearings, cylindrical roller bearings and speciality ball bearings by sourcing these from other Timken company plants globally. In addition to domestic opportunity, it also expects exports business to grow at a healthy rate, mostly to demand of its bearings from the heavy truck segment. In wheel-end bearing segment, Timken India witnessed a significant improvement post H1FY17, primarily due to an increase in 'performance guarantee' requirement by the major consumer. Further, ABC Bearings has a significant presence in this segment, which will now allow Timken India foray into this segment.

Timken India has invested around Rs.1,200mn to boost production at its Jamshedpur plant. With ~25% revenue contribution from railways, Timken is the largest supplier to Indian Railways freight sector. Increased capacities for rail bearings at Jamshedpur plant along with the government's focus on shifting towards LHB coaches may fare well for Timken India. Recent acquisition of ABC Bearings is also expected to provide synergies in realizing higher revenue with operational efficiencies. We believe Timken India to leverage on technological knowhow of its parent company to increase its market share across product mix. We expect the revenue to grow at double digit growth rate due to improved volumes from exports and domestic railways segment.

Financials

- During the past 5 years, revenue of Timken India grew at a CAGR of 18.2% while PAT grew at a CAGR of 27.1% in the same period.

Standal. (Rs. Mn)	FY17	FY18	FY19	FY20E	FY21E
Revenue	10,562	12,340	16,644	19,141	22,012
EBITDA	1,580	1,633	2,886	3,319	3,817
% growth	-2.6	3.3	76.8	15.0	15.0
PAT	972	920	1,486	1,706	1,956
EPS (INR)	14.3	13.5	19.8	22.7	26.0
P/E (x)	47.0	49.7	34.0	29.6	25.8
RoE (%)	15.7%	13.1%	11.1%	11.6%	12.2%

- Timken India has reported 29.7% YoY growth in revenue in Q4FY19 to Rs.4,480mn due to strong growth in railways and exports segment in the quarter.

Stock Data

Market Cap (Rs. Mn)	50,694
Market Cap (\$ Mn)	729.4
Shares O/S (in Mn)	75.20
Avg. Volume (3 month)	60,000
52-Week Range (Rs.)	778/ 500

Shareholding Pattern

Promoters	67.80%
FII's	2.35%
Institutions	7.63%
Others (incl. body corporate)	22.22%

Performance (%)	1M	6M	1Yr
Absolute	25.4%	25.1%	-13.1%
BSE 500	6.5%	7.9%	3.8%

Key Ratios

Div Yield	0.2%
TTM PE	34.0x
ROE	11.1%
TTM EPS (Rs.)	19.8/-

- Timken India's EBITDA for Q4FY19 significantly improved by 119.8% YoY to Rs.1,012mn led by better product mix and lower other expenses due to reassignment of products at ABC's Baruch facility. As a result, EBITDA margin has gained by 926bps YoY to 22.6%.
- Timken India's PAT for Q4FY19 increased by 141.4% YoY to Rs.572mn due to better operating measures and lower other expenses.

Key Business Highlights

- Timken India is engaged in the manufacture and distribution of tapered roller bearings, components and accessories for the automotive sector and the railway industry. It also provides maintenance contract services and refurbishment services.
- Timken India offers a range of bearings, such as large size tapered roller bearings, spherical roller bearings, cylindrical roller bearings and specialty ball bearings. It also offers portfolio of belts, industrial chains and augurs, couplings, housed units, grease and lubrication systems for mechanical power transmission industry.
- Timken India has its manufacturing facilities are located at Jamshedpur and Raipur, which cater to medium and heavy trucks, off-highway equipment, railways markets and exports.

Valuation

- In the railway segment, Timken India is now making inroads in the 'passenger coach' segment as the new trains like Train 18, Shatabdi and Rajdhani use TRBs. As per management estimate, the opportunity from this segment was at ~Rs.800mn per year. It is also capitalising on replacement market, where spherical roller bearings are now getting replaced by cartridge tapered roller bearings (CTRB). On the freight side, it is seeing significant demand for its bearings from Container Corporation (tender won in FY19 ~Rs.500mn). Additionally, Timken India is one of the few entities to which Indian Railways has outsourced 'maintenance of bearings' the market size of which is Rs.3,000mn. To indigenise capacity and improve efficiencies, Timken India is also planning auxiliary capex of Rs.800-1,000mn in FY20E.
- In the recent past, Timken India has localised a considerable portion of its steel requirement while a stable currency has enabled the company to post a margin of 17.3% in FY19. Going forward, we expect margin expansion to continue on account of higher exports. Its key export geographies include US, China and Russia for railway and freight related bearings. Similarly, Europe remains the key market for passenger car bearings. We expect EBITDA margins to improve from 17.3% in FY19 to over 18% led by stable revenue growth and stabilizing currency fluctuations.
- With leading manufacturers of tapered roller bearings & components in India, gaining market share in wheel-end segment, investment of around Rs.1,200mn to boost production, domestic revenues likely to show higher growth rates on economic recovery and EBITDA margins to improve on stable revenue growth and stabilizing currency fluctuations, we value Timken India at 31.0x FY20E EPS of Rs.26.00 to arrive at target price of Rs.806.00, an upside of ~20%.

Risk & Concern

- Threat of counterfeit products due to weak intellectual property rights implementation in India may impact business growth of Timken India.
- Any sharp rise in key raw material like steel may negatively impact the margins of the company.
- Currently, Timken India has to bear 4% of manufactured sales as royalty and any increase in the same by the parent could pose a risk to the margin of the company.

Graphs & Charts

Figure 1: Net Sales Trend

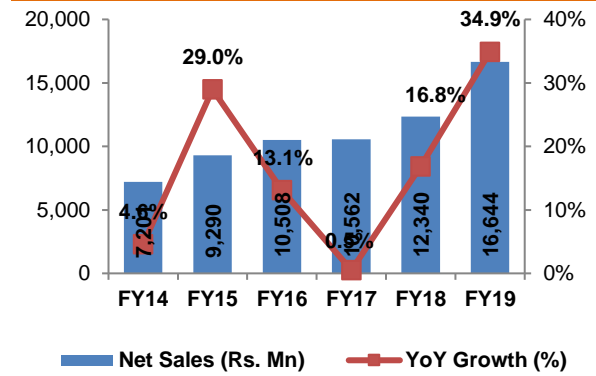


Figure 2: EBITDA & EBITDA Margin Trend

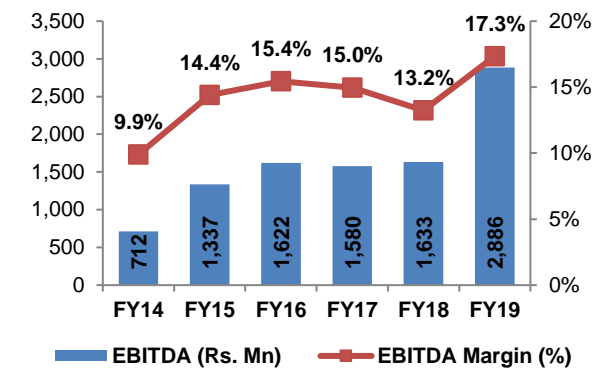


Figure 3: PAT Trend

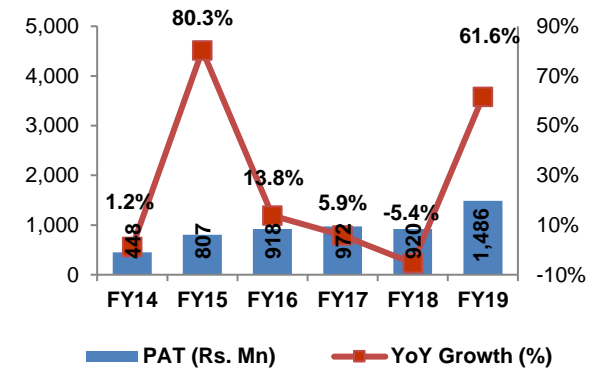
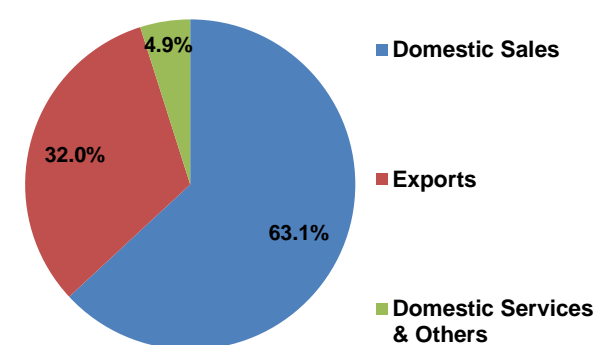


Figure 4: Segmental Revenue Contribution



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