

## Growth prospects remain strong...

**About the stock:** Timken India Ltd is engaged in the manufacturing, distribution and sale of anti-friction bearings, components, accessories and mechanical power transmission products for the customer base across different sectors

- FY24 revenue mix: Railways ~19%, Mobility ~19%, Process Industries ~17%, Exports ~20% and After-market & others ~25%
- Consolidated revenue of the company has grown by ~27% CAGR during the period FY21-24 while EBITDA and PAT have grown by ~32% and ~40% CAGR respectively over the same period

### Investment Rationale:

- **Demand momentum remains strong from domestic segments; exports recovery also expected from Q3FY25:** Company's revenue growth (~10% YoY in H1FY25) is largely driven by domestic segments, led by strong demand from railways (including both freight & passenger) & process industries (like cement, steel, renewable power etc). The two segments contributes ~37% to total revenues. Being a market leader in railway bearings with 50% share, Timken is well positioned to ride the strong demand momentum from this segment. Moreover, demand traction from process industries also remains healthy led by robust capex scenario in Industrials segment. Also, company expect gradual recovery in mobility (~19% of sales) and exports (~20% of sales) going forward, which would further help in driving overall revenue growth over FY25-27E
- **Commissioning of new capacity to aid further growth in domestic segments and exports:** With the commissioning of new plant at Baruch in Q1FY26E, company would be able to increase localisation of spherical roller bearings (SRBs) and cylindrical roller bearings (CRBs) substantially. SRBs & CRBs are currently being imported by the company to cater domestic process industry segments (like cement, mining, power, paper, metals etc). With in-house production of these bearings, company would be able to explore new opportunities (in both domestic & export markets), reduce its trade imports and overall lead time. Thus, we believe that company's margins would improve considerably once the new facility starts operating at optimal utilisation levels of ~80% in next 3-4 years

### Rating and Target Price

- We believe that Timken India is strongly positioned to benefit from the buoyant capex outlay in its key domestic segments including railways and process industries. Increase in manufacturing capacity would help increasing localisation of products and further growth in both domestic markets and exports. We estimate revenue and PAT to grow at ~15% and ~24% CAGR respectively over FY25E-27E
- We maintain our BUY on Timken India with a target price of ₹ 4080 per share (based on 50x FY27E EPS)

# TIMKEN

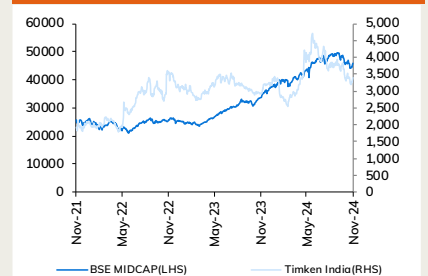
### Particulars

Particular	Amount
Market Capitalisation (Rs Crore)	25,695
FY24 Debt (Rs Crore)	6
FY24 Cash (Rs Crore)	331
EV (Rs Crore)	25,369
52 Week H/L (Rs)	4818 / 2490
Equity Capital (Rs Crore)	75.2
Face Value	10

### Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoters	57.7	57.7	51.1	51.1
FII	7.1	7.2	12.5	13.1
DII	22.6	23.6	25.6	24.8
Others	12.6	11.5	10.9	11.0

### Price Chart



### Key risks

- Slowdown in domestic industrial segments and exports
- Availability and prices of raw materials
- Adoption of new technologies

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### Key Financial Summary

(Rs Crore)	FY21	FY22	FY23	FY24	3 Year CAGR (FY21-24)	FY25E	FY26E	FY27E	2 Year CAGR (FY25E-27E)
Net Sales	1,410.5	2,203.2	2,806.6	2,909.5	27.3	3,197.6	3,675.5	4,259.7	15.4
EBITDA	251.8	510.6	560.4	572.4	31.5	581.8	716.7	881.7	23.1
EBITDA margin (%)	17.9	23.2	20.0	19.7		18.2	19.5	20.7	
Net Profit	143.2	327.1	390.7	392.1	39.9	396.6	491.5	613.7	24.4
EPS (Rs)	19.0	43.5	51.9	52.1		52.7	65.3	81.6	
P/E (x)	179.5	78.6	65.8	65.5		64.8	52.3	41.9	
EV/EBITDA (x)	101.7	50.3	45.6	44.3		43.5	35.1	28.2	
RoCE (%)	13.7	25.4	25.0	21.4		19.1	19.9	21.1	
RoE (%)	10.7	19.7	19.2	16.2		14.2	15.1	15.9	

## Q2FY25 result & earnings call highlights

- Revenue from operations was up 10.4% YoY (-3.9% QoQ) to Rs 752.9 crore, led by healthy growth in domestic segments like railways, industrials & distribution. Exports revenue was down due to subdued demand from US, China & Australia
- EBITDA margin contracted by 216 bps YoY (-450 bps QoQ) to 17.7% due to unfavourable product mix, higher trade sales and increase in freight cost
- Subsequently, EBITDA was down 1.6% YoY (-5.4% QoQ) to Rs 133.4 crore.
- PAT declined by 3.3% YoY (-6.6% QoQ) to Rs 89.9 crore. For H1FY25, revenue is up 9.8% YoY while EBITDA margin contracted by 153 bps YoY to 17.8%
- For H1FY25, revenue is up ~10% YoY while EBITDA margin is down 153 bps YoY to 17.8%
- Segment wise revenue mix during Q2FY25 - Railway 22%, Mobility 18%, Distribution 19%, Process Industries 21%, Exports 19%
- Demand momentum from railway segment is expected to remain strong, led by steady growth from sub-segments – passenger (including Vande-Bharat, Metros) and freight (including wagons)
- Recovery in exports is expected from Q3FY25 onwards, led by improvement from US
- New facility at Bharuch is expected to be commissioned by Q1FY26E. This facility will be manufacturing SRBs (Spherical Roller Bearings) and CRBs (Cylindrical Roller Bearings) for process industries, which are currently being imported by the company

### Exhibit 1: Q2FY25 result snapshot (₹ crore)

Year	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Income from Operation	752.9	682.0	10.4	783.7	-3.9	Revenue growth was led by healthy growth in domestic segments like railways, industrials & distribution
Cost of materials consumed	235.5	202.4	16.3	234.1	0.6	
Purchase of stock-in-trade	245.8	224.9	9.3	207.6	18.4	
Change in inventories	(24.3)	(28.9)		33.2		
Gross Margins	39.3	41.6	-228 bps	39.4	-10 bps	
Employee cost	42.2	41.2	2.4	41.7	1.1	
Other expenses	120.4	106.8	12.7	126.1	(4.6)	
EBITDA	133.4	135.5	-1.6	140.9	(5.4)	
EBITDA Margin (%)	17.7	19.9	-216 bps	18.0	-27 bps	EBITDA margin contracted due to unfavourable product mix, higher trade sales and increase in freight cost
Other Income	12.1	10.1	20.3	11.9	2.0	
Depreciation	20.9	21.1	-0.8	21.9	(4.5)	
Interest	0.9	0.9	4.2	1.1	(13.9)	
PBT	123.6	123.6	0.0	129.8	(4.8)	
Taxes	33.7	30.6	10.2	33.5	0.5	
PAT	89.9	93.0	-3.3	96.3	-6.6	

Source: Company, ICICI Direct Research

### Exhibit 2: Change in estimates

Rs Crore	FY25E			FY26E			FY27E
	Old	New	Change	Old	New	Change	New
Revenue	3228.9	3197.6	-1.0	3713.6	3675.5	-1.0	4259.7
EBITDA	652.2	581.8	-10.8	781.7	716.7	-8.3	881.7
EBITDA Margin (%)	20.2	18.2	-200 bps	21.1	19.5	-160 bps	20.7
PAT	436.4	396.6	-9.1	540.6	491.5	-9.1	613.7
EPS (₹)	58.0	52.7	-9.1	71.9	65.3	-9.1	81.6

Source: Company, ICICI Direct Research

## Financial summary

### Exhibit 3: Profit and loss statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Net Sales	2,910	3,198	3,676	4,260
Total Operating Income	2,910	3,198	3,676	4,260
% Growth (Operating Income)	3.7	9.9	14.9	15.9
Other Income	40.8	49.5	54.5	61.0
Total Revenue	2,950	3,247	3,730	4,321
Cost of materials consumed	905	941	1,077	1,248
Purchase of stock-in-trade	897	991	1,103	1,244
Change in inventories	(86)	-	-	-
Employee cost	164	170	195	222
Other Expenses	457	514	584	665
Total expenditure	2,337	2,616	2,959	3,378
EBITDA	572	582	717	882
% Growth (EBITDA)	2.2	1.6	23.2	23.0
Interest	3.8	4.0	4.0	4.0
PBDT	609	627	767	939
Depreciation	85	88	112	121
PBT	524	540	655	818
Tax	132	143	164	205
PAT	392	397	491	614
% Growth (PAT)	0.4	1.1	23.9	24.9
EPS	52.1	52.7	65.3	81.6

Source: Company, ICICI Direct Research

### Exhibit 4: Cash flow statement ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Profit after Tax	392	397	491	614
Depreciation	85	88	112	121
Interest	4	4	4	4
Other income	(41)	(50)	(54)	(61)
Prov for Taxation	132	143	164	205
Change in Working Capital	(0)	(108)	(174)	(213)
Taxes Paid	(125)	(143)	(164)	(205)
CF from Op activities	447	331	379	464
(Purchase)/Sale of Fixed Assets	(150)	(250)	(250)	(150)
(Purchase)/Sale of Investments	(129)	(23)	(39)	(48)
Other Income	41	50	54	61
CF from Inv activities	(238)	(224)	(234)	(136)
Changes in Network	7	0	0	0
Interest	(4)	(4)	(4)	(4)
Dividend paid	(19)	(19)	(23)	(29)
CF from Fin activities	(16)	(23)	(27)	(33)
Changes in Cash	170	84	118	295
Opening Cash/Cash Equivalent	162	331	416	533
Closing Cash/ Cash Equivalent	331	416	533	828

Source: Company, ICICI Direct Research

### Exhibit 5: Balance sheet ₹ crore

(Year-end March)	FY24	FY25E	FY26E	FY27E
Share Capital	75	75	75	75
Reserves & Surplus	2,342	2,720	3,189	3,774
Total Shareholders fund	2,417	2,795	3,264	3,849
Goodwill	181	181	181	181
Total debt	6	6	6	6
Other liabilities	49	49	49	49
Total Liabilities	2,472	2,850	3,319	3,904
Gross Block	1,195	1,369	1,749	1,899
Acc: Depreciation	578	666	777	898
Net Block	617	703	971	1,001
Capital WIP	104	180	50	50
Investments	237	260	299	346
Inventory	667	657	755	887
Sundry debtors	652	671	772	895
Cash	331	416	533	828
Loans & Advances	0	0	0	0
Inv+Other current assets	199	320	368	426
CL& Prov.	515	538	610	710
Net Current Assets	1,334	1,526	1,818	2,326
Total Assets	2,472	2,850	3,319	3,904

Source: Company, ICICI Direct Research

### Exhibit 6: Key ratios

(Year-end March)	FY24	FY25E	FY26E	FY27E
<b>Per Share Data</b>				
EPS	52.1	52.7	65.3	81.6
Cash EPS	63.5	64.4	80.2	97.6
BV	321.4	371.6	433.9	511.7
DPS	2.5	2.5	3.0	3.8
Cash Per Share	76.8	88.5	103.4	119.4
<b>Operating Ratios(%)</b>				
EBITDA Margin	19.7	18.2	19.5	20.7
PBT / Net Sales	16.7	15.5	16.5	17.9
PAT Margin	13.5	12.4	13.4	14.4
Inventory days	70.1	63.8	55.5	47.9
Debtor days	67.6	61.5	53.5	46.2
Creditor days	57.5	52.3	45.5	39.3
<b>Return Ratios(%)</b>				
RoE	16.2	14.2	15.1	15.9
RoCE	21.4	19.1	19.9	21.1
RoIC	38.7	36.7	37.5	46.3
<b>Valuation Ratio(%)</b>				
P/E	65.5	64.8	52.3	41.9
EV / EBITDA	44.3	43.5	35.1	28.2
EV / Net Sales	8.7	7.9	6.8	5.8
Market Cap / Sales	8.8	8.0	7.0	6.0
Price to Book Value	10.6	9.2	7.9	6.7
<b>Solvency Ratio(%)</b>				
Current Ratio	2.4	2.4	2.4	2.4
Quick Ratio	1.2	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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