

## Timken India

### Another quarter of subdued performance

Timken India continues to disappoint on revenue front in Q3FY24 as well. Revenue remained almost flat (0.5% up) YoY to Rs6,122mn (Centrum – Rs5,714mn / Consensus – Rs6,425 mn). Dec-23 results presentation of Timken Co, US have highlighted that organic revenue “up” in India though. We estimate ~35% YoY decline in export to Rs793mn led to flat revenue performance. However, improvement registered in Gross margin YoY by 99 bps to 40.5% (Centrum – 41.5%). This coupled with 8% YoY decline in employee cost arrested EBITDA margin fall to just 27 bps YoY to 16.7% (Centrum – 16.7% / Consensus-19.1%). With no YoY growth in revenue coupled with a 26% YoY drop in other income off-set the gains led by a surprising YoY decline of 8% & 6% in the employee cost & depreciation respectively and a flat tax rate. This has resulted in a YoY drop of 4.3% in the PAT to Rs675mn vs Rs705mn (Centrum – Rs630mn / Consensus - Rs940 mn). PAT margin at 11% vs 11.6% YoY, a drop of 55 bps (Centrum – 11% / Consensus- 14.6%). We estimate tepid revenue and PAT CAGR for FY23-FY26E at 7.8% and 3.8% as against FY21-FY23 revenue and PAT CAGR of 41% and 65% respectively. We maintain SELL (42x1HFY26E EPS of Rs 55) with TP of Rs2,297 (Unchanged).

#### Exports estimated to remain under pressure for the fifth quarter in a row

Likely disappointment on exports front led to a flat revenue in Q3FY24. We have tried to calculate total exports by the company in Q3FY24 at Rs793mn from its related party disclosures. Its share in the revenue also estimated to drop to 13% vs 20% YoY. The domestic business has grown just at ~9% YoY which was not at high enough rate to offset decline in exports. Exports have registered a YoY decline of 20%/ 24%/ 38%/ 29%/ 35% respectively for the preceding five quarters. We estimate continuation of headwinds for the exports for the next few quarters. We have cut our exports estimate by 18% for FY24E to Rs5,160mn from Rs6,298mn earlier. This is a 32% YoY drop over FY23.

#### Gross margin surge and drop in employee cost arrested a big fall in EBITDA margin

Timken India has performed well on margins front. In spite of adverse operating leverage, EBITDA margin contracted by just 27 bps YoY to 16.7% mainly due to 99 bps expansion in Gross margin to 40.5% and 8% YoY decline in employee cost at Rs384mn. However, at 16.7%, the EBITDA margin has been the lowest in the past five quarters.

#### PAT declined mainly due to flat revenue and decline in other income

With no YoY growth in revenue coupled with 26% YoY drop in other income off set the gains led by a YoY decline of 8% & 6% in the employee cost & depreciation respectively and a flat tax rate. This has resulted in a YoY drop of 4.3% in the PAT to Rs675mn. PAT margin at 11% vs 11.6% YoY, a drop of 55 bps.

#### We maintain SELL on the stock

With sustained decline in exports since past few quarters and not high enough revenue growth rate in the domestic market, coupled with likely headwinds in the cyclical MHCV industry are looming, we estimate Timken India to see deceleration in revenue & PAT growth along with range bound margins. We recommend Sell with TP of Rs2,297(42x 1HFY26E EPS of Rs55).

### Financial and valuation summary

YE Mar (Rs mn)	3QFY24A	3QFY23A	YoY (%)	2QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	6,122	6,094	0.5	6,820	(10.2)	28,134	30,633	35,180
EBITDA	1,025	1,037	(1.2)	1,355	(24.4)	5,357	5,938	6,931
EBITDA margin (%)	16.7	17.0	(1.6)	19.9	(15.8)	19.0	19.4	19.7
Adj. Net profit	675	706	(4.3)	930	(27.4)	3,593	3,860	4,367
Adj. EPS (Rs)						47.8	51.3	58.1
EPS growth (%)						(8.0)	7.4	13.1
PE (x)						67.0	62.3	55.1
EV/EBITDA (x)						44.6	40.1	33.9
PBV (x)						10.1	8.7	7.5
RoE (%)						16.2	15.0	14.7
RoCE (%)						16.5	15.3	15.0

Source: Company, Centrum Broking

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#### Result Update

India I Auto Ancillaries

07 February, 2024

**SELL**

Price: Rs3,199

Target Price: Rs2,297

Forecast return: -28%

Institutional Research

#### Market Data

Bloomberg:	TMKN IN
52 week H/L:	3,576/2,659
Market cap:	Rs240.6bn
Shares Outstanding:	75.2mn
Free float:	41.0%
Avg. daily vol. 3mth:	1,01,612

Source: Bloomberg

#### Changes in the report

Rating:	SELL; Unchanged
Target price:	Rs 2,297 (Unchanged)
	FY24E:Rs47.8 (earlier:Rs49.8)
EPS:	FY25E:Rs51.3 (Unchanged)
	FY26E:Rs58.1 (Unchanged)

Source: Centrum Broking

#### Shareholding pattern

	Dec-23	Sep-23	Jun-23	Mar-23
Promoter	57.7	57.7	57.7	67.8
FIIs	7.1	6.7	6.6	4.0
DIIIs	22.6	19.7	19.1	12.4
Public/other	12.6	15.9	16.6	15.8

Source: BSE

#### Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q3FY24	Actual Q3FY24	Variance (%)
Revenue	5,714	6,122	7.1
EBITDA	952	1,025	7.6
EBITDA margin	16.7	16.7	0 bps
Rep. PAT	631	675	7.0
EPS (Rs)	8.4	9.0	7.1

Source: Centrum Broking



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## Thesis Snapshot

### Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	28,134	28,912	-2.7	30,633	30,633	-
EBITDA	5,357	5,576	-3.9	5,938	5,938	-
EBITDA margin	19.0	19.3 (30 bps)		19.4	19.4	0 bps
Adj. PAT	3,593	3,744	-4.0	3,860	3,860	-
Diluted EPS (Rs)	47.8	49.8	-4.0	51.3	51.3	-

Source: Centrum Broking

### TMKN India versus NIFTY Midcap 100

	1m	6m	1 year
TMKN IN	(1.4)	(5.7)	6.6
NIFTY midcap 100	6.5	40.6	73.8

Source: Bloomberg, NSE

### Key assumptions

YE Mar	FY24E	FY25E	FY26E
<b>YoY growth %</b>			
Rail	18	25	25
Mobile	-3	-3	7
Distribution	-3	8	7
Process	5	10	15
Intercompany /Exports	-32	2	15

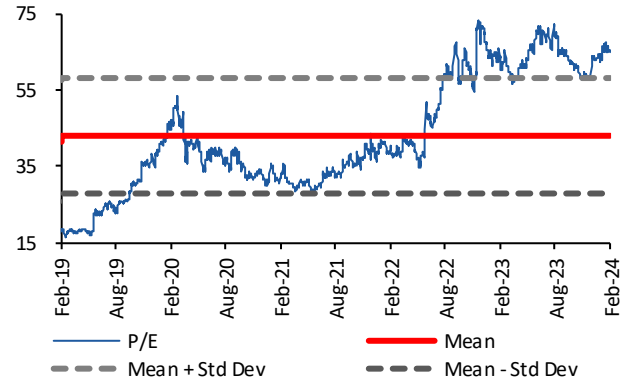
Source: Centrum Broking

### Valuations

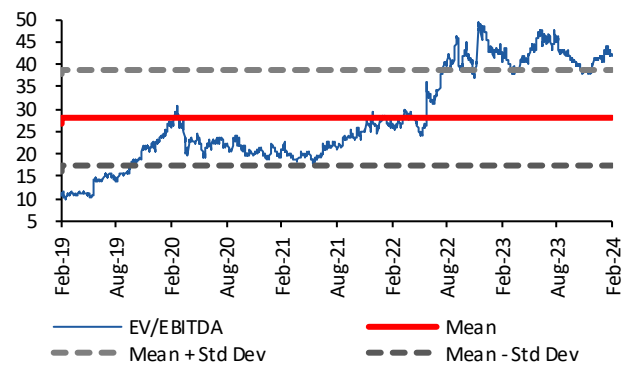
With sustained decline in exports since past few quarters and in industrial space in aftermarkets coupled with likely headwinds in the cyclical MHCV industry looming, we estimate Timken India to see deceleration in revenue growth and stagnation in margin. Ongoing capex will accelerate depreciation at higher rate than revenue growth till FY26E. However, commercialisation of capex will help revenue and PAT to clock ~13% YoY jump in FY26E. Taking cognizance of the same, we have valued the company based on its last 3-year average earning multiple to reflect the trust in its capabilities. We recommend Sell with TP of Rs2,297 (42x 1HFY26E EPS of Rs55).

Valuations	Rs/share
1H FY26E EPS	55
Last 3 year average PE (x)	42
Target Multiple (x)	42
Target price (Rs)	2,297

#### P/E mean and standard deviation



#### EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

### Peer comparison

Company	Mkt Cap (Rs bn)	CAGR (CY22/FY23-25E/FY26E)				P/E (x)				ROE (%)				ROCE (%)	
		Sales	EBITDA	EPS		CY23E/FY24E	CY24E/FY25E	CY25E/FY26E	CY23E/FY24E	CY24E/FY25E	CY25E/FY26E	CY23E/FY24E	CY24E/FY25E	CY25E/FY26E	
SKF India	229	9.5	6.7	7.7	44.5	37.9	35.0	20.2	21.0	20.1	22.0	22.9	21.7		
Schaeffler India*	486	6.0	5.0	1.0	52.4	50.5	46.6	20.3	18.8	18.1	21.9	20.1	19.3		
<b>Timken India</b>	<b>241</b>	<b>7.8</b>	<b>7.3</b>	<b>3.8</b>	<b>67.0</b>	<b>62.3</b>	<b>55.1</b>	<b>16.2</b>	<b>15.0</b>	<b>14.7</b>	<b>16.5</b>	<b>15.3</b>	<b>15.0</b>		

Source: Company, Centrum Broking; Note \*=CY

## Quarterly Performance Trend

### Exhibit 1: Quarterly Financial Snapshot

Y/E Dec (Rsmn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	YOY (%)	QOQ (%)
<b>Revenue</b>	<b>6,674</b>	<b>6,992</b>	<b>6,954</b>	<b>6,094</b>	<b>8,025</b>	<b>7,176</b>	<b>6,820</b>	<b>6,122</b>	0.5	-10.2
Direct Cost	3,489	3,790	4,186	3,685	4,937	4,218	3,984	3,641	-1.2	-8.6
<b>Gross Profit</b>	<b>3,185</b>	<b>3,203</b>	<b>2,768</b>	<b>2,409</b>	<b>3,088</b>	<b>2,958</b>	<b>2,835</b>	<b>2,481</b>	3.0	-12.5
Staff Cost	364	397	384	418	392	419	412	384	-8.1	-6.7
Other Expenses	1,023	1,090	1,063	954	1,167	1,181	1,068	1,072	12.3	0.3
<b>Total Expenditure</b>	<b>4,876</b>	<b>5,276</b>	<b>5,633</b>	<b>5,057</b>	<b>6,496</b>	<b>5,819</b>	<b>5,465</b>	<b>5,097</b>	0.8	-6.7
<b>EBIDTA</b>	<b>1,799</b>	<b>1,716</b>	<b>1,321</b>	<b>1,037</b>	<b>1,529</b>	<b>1,357</b>	<b>1,355</b>	<b>1,025</b>	-1.2	-24.4
Depreciation	224	218	217	224	213	213	211	210	-6.2	-0.4
<b>EBIT</b>	<b>1,574</b>	<b>1,498</b>	<b>1,104</b>	<b>813</b>	<b>1,316</b>	<b>1,144</b>	<b>1,144</b>	<b>815</b>	0.2	-28.8
Interest	13	4	5	5	14	9	9	9	59.5	-5.9
Other Income	49	106	215	144	67	93	101	106	-26.4	4.9
<b>PBT</b>	<b>1,610</b>	<b>1,600</b>	<b>1,314</b>	<b>952</b>	<b>1,369</b>	<b>1,228</b>	<b>1,236</b>	<b>912</b>	-4.1	-26.2
Tax	397	419	339	246	324	327	306	237	-3.7	-22.5
Extraordinary item	0	0	0	0	0	0	0	-		
<b>PAT</b>	<b>1,213</b>	<b>1,181</b>	<b>976</b>	<b>706</b>	<b>1,045</b>	<b>901</b>	<b>930</b>	<b>675</b>	-4.3	-27.4
EPS (Rs/share)	16	16	13	9	14	12	12	9	-4.3	-27.4
<b>As a % of revenue</b>										
Direct Cost	52.3	54.2	60.2	60.5	61.5	58.8	58.4	59.5		
Gross Profit	47.7	45.8	39.8	39.5	38.5	41.2	41.6	40.5		
Staff Cost	5.5	5.7	5.5	6.9	4.9	5.8	6.0	6.3		
Other Expenses	15.3	15.6	15.3	15.7	14.5	16.5	15.7	17.5		
EBIDTA Margin	27.0	24.5	19.0	17.0	19.1	18.9	19.9	16.7		
PAT Margin	18.2	16.9	14.0	11.6	13.0	12.6	13.6	11.0		
Tax Rate	24.7	26.2	25.8	25.9	23.7	26.6	24.7	26.0		

Source: Company, Centrum Broking

### Exhibit 2: Exports continues to decelerate

Particulars	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23
Exports (Rsmn)	1674	1530	2002	2447	2364	1219	1525	1507	1685	793
Share in the revenue (%)	30	30	30	35	34	20	19	21	25	13
YoY growth (%)	86	66	75	74	41	(20)	(24)	(38)	(29)	(35)

Source: Company, Centrum Broking

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Revenues</b>	<b>22,032</b>	<b>28,066</b>	<b>28,134</b>	<b>30,633</b>	<b>35,180</b>
Operating Expense	13,431	18,443	18,533	20,057	22,921
Employee cost	1,406	1,591	1,670	1,871	2,133
Others	2,089	2,429	2,574	2,767	3,195
<b>EBITDA</b>	<b>5,107</b>	<b>5,604</b>	<b>5,357</b>	<b>5,938</b>	<b>6,931</b>
Depreciation & Amortisation	843	872	897	1,141	1,455
<b>EBIT</b>	<b>4,263</b>	<b>4,732</b>	<b>4,459</b>	<b>4,798</b>	<b>5,476</b>
Interest expenses	24	28	28	29	26
Other income	143	532	401	424	423
<b>PBT</b>	<b>4,382</b>	<b>5,235</b>	<b>4,832</b>	<b>5,193</b>	<b>5,874</b>
Taxes	1,111	1,328	1,240	1,334	1,506
Effective tax rate (%)	25.3	25.4	25.7	25.7	25.6
<b>PAT</b>	<b>3,271</b>	<b>3,907</b>	<b>3,593</b>	<b>3,860</b>	<b>4,367</b>
Minority/Associates	0	0	0	0	0
<b>Recurring PAT</b>	<b>3,271</b>	<b>3,907</b>	<b>3,593</b>	<b>3,860</b>	<b>4,367</b>
Extraordinary items	0	0	0	0	0
<b>Reported PAT</b>	<b>3,271</b>	<b>3,907</b>	<b>3,593</b>	<b>3,860</b>	<b>4,367</b>

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
<b>Growth (%)</b>					
Revenue	56.2	27.4	0.2	8.9	14.8
EBITDA	102.8	9.7	(4.4)	10.9	16.7
Adj. EPS	128.5	19.5	(8.0)	7.4	13.1
<b>Margins (%)</b>					
Gross	45.8	40.9	41.4	41.8	42.0
EBITDA	23.2	20.0	19.0	19.4	19.7
EBIT	19.4	16.9	15.9	15.7	15.6
Adjusted PAT	14.8	13.9	12.8	12.6	12.4
<b>Returns (%)</b>					
ROE	21.8	21.2	16.2	15.0	14.7
ROCE	21.6	21.1	16.5	15.3	15.0
ROIC	18.0	17.7	14.2	13.5	15.0
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	1.8	2.1	1.8	1.5	1.6
Debtors	75	72	75	72	70
Inventory	142	124	127	123	120
Creditors	101	74	78	76	72
Net working capital	138	137	136	134	131
<b>Solvency (x)</b>					
Net debt-equity	0.0	(0.1)	(0.1)	(0.1)	(0.2)
Interest coverage ratio	208.7	199.2	189.7	208.4	271.8
Net debt/EBITDA	0.0	(0.2)	(0.3)	(0.4)	(0.8)
<b>Per share (Rs)</b>					
Adjusted EPS	43.5	51.9	47.8	51.3	58.1
BVPS	220.3	270.8	317.2	367.1	423.8
CEPS	54.7	63.5	59.7	66.5	77.4
DPS	1.5	1.5	1.5	1.5	1.5
Dividend payout (%)	3.4	2.9	3.1	2.9	2.6
<b>Valuation (x)</b>					
P/E	73.6	61.6	67.0	62.3	55.1
P/BV	14.5	11.8	10.1	8.7	7.5
EV/EBITDA	47.1	42.7	44.6	40.1	33.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	752	752	752	752	752
Reserves & surplus	15,817	19,620	23,108	26,864	31,127
Shareholders fund	16,569	20,372	23,860	27,616	31,880
Minority Interest	0	0	0	0	0
Total debt	298	294	300	300	300
Non Current Liabilities	731	657	666	683	711
Def tax liab. (net)	280	264	264	264	264
<b>Total liabilities</b>	<b>17,878</b>	<b>21,586</b>	<b>25,091</b>	<b>28,863</b>	<b>33,154</b>
Gross block	12,524	13,168	15,953	20,954	21,754
Less: acc. Depreciation	(3,923)	(4,735)	(5,632)	(6,773)	(8,228)
Net block	8,602	8,433	10,321	14,181	13,526
Capital WIP	495	535	2,000	500	500
Net fixed assets	9,097	8,968	12,321	14,681	14,026
Non Current Assets	241	481	481	481	481
Investments	0	0	0	0	0
Inventories	5,585	5,695	5,800	6,266	7,199
Sundry debtors	5,388	5,757	5,781	6,295	7,229
Cash & Cash Equivalents	182	1,617	1,782	2,476	5,987
Loans & advances	31	39	39	39	39
Other current assets	1,414	3,009	3,009	3,009	3,009
Trade payables	3,285	3,444	3,584	3,840	4,265
Other current liab.	697	490	490	490	490
Provisions	77	45	47	52	59
Net current assets	8,540	12,138	12,289	13,702	18,647
<b>Total assets</b>	<b>17,878</b>	<b>21,586</b>	<b>25,091</b>	<b>28,863</b>	<b>33,154</b>

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	4,382	5,235	4,832	5,193	5,874
Depreciation & Amortisation	843	872	897	1,141	1,455
Net Interest	(3)	(6)	(93)	(96)	(135)
Net Change – WC	(3,681)	(960)	14	(718)	(1,435)
Direct taxes	(1,140)	(1,539)	(1,344)	(1,240)	(1,334)
<b>Net cash from operations</b>	<b>329</b>	<b>3,412</b>	<b>4,306</b>	<b>4,280</b>	<b>4,425</b>
Capital expenditure	(803)	(620)	(4,251)	(3,501)	(801)
Acquisitions, net	0	0	0	0	0
Investments	0	0	0	0	0
Others	42	149	0	0	0
<b>Net cash from investing</b>	<b>(761)</b>	<b>(472)</b>	<b>(4,251)</b>	<b>(3,501)</b>	<b>(801)</b>
<b>FCF</b>	<b>(432)</b>	<b>2,940</b>	<b>56</b>	<b>780</b>	<b>3,624</b>
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	(10)	(12)	6	0	0
Dividend paid	(113)	(113)	(113)	(113)	(113)
Interest paid	(24)	(28)	(28)	(29)	(26)
Others	(981)	(1,352)	244	56	25
<b>Net cash from financing</b>	<b>(1,128)</b>	<b>(1,505)</b>	<b>109</b>	<b>(85)</b>	<b>(114)</b>
Net change in Cash	(1,560)	1,435	164	695	3,510

Source: Company, Centrum Broking

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**Timken India**



Source: Bloomberg

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