

Other income spurt & lower tax rate saved the day

SKF India disappointed once again on YoY revenue growth as well as on gross and EBITDA margin. However, large growth in other income and huge decline in the tax rate allowed the company to clock a YoY growth in PAT. Other noteworthy thing is QoQ recovery of 568 bps in Gross margin which underscores the volatility on quarterly basis. Revenue has been lower while PAT has been higher than our and consensus estimates. The highlights of the results have been whopping 985 bps YoY decline in the tax rate to 25.3% and a huge 82% YoY spurt in the other income. This has resulted in YoY PAT growth of 13.5% to Rs1,322mn (Centrum-Rs1,236mn/Consensus-Rs1,219mn). Otherwise, PBT registered a marginal YoY decline of 1.5%. Revenue up by 1.4% YoY to Rs10,923mn (Centrum-Rs11,634mn/Consensus-Rs11,811mn). EBITDA margin lowered by 130 bps to 15.8% (Centrum-15.8/& Consensus- 16.3%) resulting in 6% YoY drop in EBITDA to Rs1,725mn (Centrum-Rs1,835mn/Consensus-Rs1,925mn). Accordingly, we cut Revenue/PAT estimates for FY24 by 2.7%/2.5% respectively. However, we believe SKF India will clock lower double digit YoY revenue growth in FY25E and FY26E led by domestic demand and decision to relocate volumes to India by SKF AB. Gross and EBITDA margins to bounce back to near long range average from FY25E. Hence, we assign the same PE multiple of 40x to 1HFY26E EPS of Rs127 to arrive at a TP of Rs5,095 with ADD (earlier REDUCE).

SKF AB announced shifting of production to India in the Dec-23 results call SKF AB continues with restructuring in its German operations by gradually moving some assortment volumes to China and to India to further enhance its regional competitiveness. In Asia, SKF AB announced the closure of its plant in Busan, Korea, with production volumes being moved to Mexico, China, and India. Furthermore, they are also ramping up capacity and broadening the assortment in India to further fuel profitable growth in this important region. However, how much of this volume comes to the listed entity remains to be seen. We believe, the listed entity is well placed to grab additional revenue generating opportunities arising out of relocation of volumes to India.

Revenue growth driven by growth in off-highway, automation & light vehicle 4QCY23 results presentation and transcript of SKF AB reveals segmental revenue performance for India in 3QFY24 which includes listed entity as well. In the industrial segment, sales were slightly lower in the quarter. By industry, sales to off-highway and automation were significantly higher. To material handling it was higher, to heavy industries it was slightly higher while sales to other, aerospace and railway were relatively unchanged. Sales to industrial distribution, high-speed machinery and electrical drives were slightly lower while sales to renewable energy, agriculture, food and beverage, marine and traditional energy were significantly lower compared to same period last year. In automotive segment, sales in the quarter were higher compared to last year with significantly higher sales to light vehicles and lower sales to the vehicle aftermarket and commercial vehicles.

Risks

Volatility in gross margin and missing revenue growth

Financial and valuation summary

| YE Mar (Rs mn) | 3QFY24A | 3QFY23A | YoY (%) | 2QFY24A | QoQ (%) | FY24E | FY25E | FY26E |
|-------------------|---------|---------|-----------|---------|---------|--------|--------|--------|
| Revenues | 10,923 | 10,772 | 1.4 | 11,252 | (2.9) | 45,183 | 49,980 | 56,215 |
| EBITDA | 1,725 | 1,841 | (6.3) | 1,215 | 42.0 | 6,851 | 8,281 | 9,104 |
| EBITDA margin (%) | 15.8 | 17.1 | (130 bps) | 10.8 | 500 bps | 15.2 | 16.6 | 16.2 |
| Adj. Net profit | 1,322 | 1,165 | 13.5 | 902 | 46.5 | 5,021 | 6,042 | 6,554 |
| Adj. EPS (Rs) | 26.7 | 23.6 | 13.5 | 18.2 | 46.5 | 101.6 | 122.2 | 132.6 |
| EPS growth (%) | | | | | | (4.3) | 20.3 | 8.5 |
| PE (x) | | | | | | 46.1 | 38.3 | 35.3 |
| EV/EBITDA (x) | | | | | | 32.3 | 26.7 | 23.8 |
| PBV (x) | | | | | | 8.4 | 7.8 | 6.6 |
| RoE (%) | | | | | | 19.7 | 21.1 | 20.2 |
| RoCE (%) | | | | | | 21.7 | 23.0 | 21.8 |

Source: Company, Centrum Broking

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Result Update

India I Auto Ancillaries

09 February, 2024

ADD

Price: Rs4,691
Target Price: Rs5,095
Forecast return: 9%

Institutional Research

Market Data

| | |
|-----------------------|-------------|
| Bloomberg: | SKF IN |
| 52 week H/L: | 5,535/3,960 |
| Market cap: | Rs231.9bn |
| Shares Outstanding: | 49.4mn |
| Free float: | 47.4% |
| Avg. daily vol. 3mth: | 34,581 |

Source: Bloomberg

Changes in the report

| | |
|---------------|---------------------------------|
| Rating: | ADD; Changed |
| Target price: | Rs5,095 (Unchanged) |
| EPS: | FY24E:Rs101.6 (earlier:Rs104.2) |

Source: Centrum Broking

Shareholding pattern

| | Dec-23 | Sep-23 | Jun-23 | Mar-23 |
|--------------|--------|--------|--------|--------|
| Promoter | 52.6 | 52.6 | 52.6 | 52.6 |
| FII | 6.6 | 6.5 | 6.4 | 6.5 |
| DII | 29.0 | 29.2 | 29.4 | 29.1 |
| Public/other | 11.8 | 11.8 | 11.6 | 11.8 |

Source: BSE

Centrum estimates vs Actual results

| YE Mar (Rs mn) | Centrum Q3FY24 | Actual Q3FY24 | Variance (%) |
|----------------|----------------|---------------|--------------|
| Revenue | 11,634 | 10,923 | (6.1) |
| EBITDA | 1,836 | 1,725 | (6.1) |
| EBITDA margin | 15.8 | 15.8 | (0 bps) |
| Rep. PAT | 1,236 | 1,322 | 6.9 |
| EPS (Rs) | 25.0 | 26.7 | 7.0 |

Source: Centrum Broking

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Thesis Snapshot

Estimate revision

| YE Mar (Rs mn) | FY24E | | % chg | FY25E | | % chg |
|----------------|--------|--------|-------|--------|--------|--------|
| | New | Old | | New | Old | |
| Revenue | 45,183 | 46,431 | (2.7) | 49,980 | 50,695 | (1.4) |
| EBITDA | 6,851 | 7,063 | (3.0) | 8,281 | 8,281 | - |
| EBITDA margin | 15.2 | 15.2 | 0 bps | 16.6 | 16.3 | 30 bps |
| Adj. PAT | 5,021 | 5,150 | (2.5) | 6,042 | 6,042 | - |

Source: Centrum Broking

SKF India versus NIFTY Midcap 100

| | 1m | 6m | 1 year |
|------------------|-----|-------|--------|
| SKF IN | 1.4 | (8.7) | 5.3 |
| NIFTY midcap 100 | 7.6 | 40.4 | 74.1 |

Source: Bloomberg, NSE

Key assumptions

| YE Dec | FY24E | FY25E | FY26E |
|------------------------|--------|-------|-------|
| YoY Growth % | | | |
| Exports | (10.0) | (2.0) | 5.0 |
| Total Automotive | 9.2 | 10.6 | 10.8 |
| Total Industrial | 2.5 | 11.2 | 13.6 |
| Sale from Services | 30.0 | 30.0 | 30.0 |
| Other Operating Income | 15.0 | 15.0 | 15.0 |

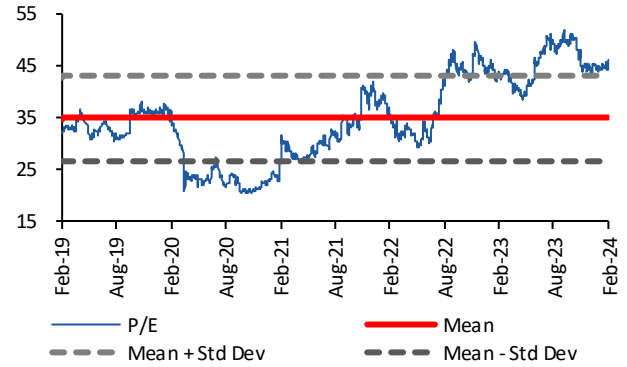
Source: Centrum Broking

Valuations

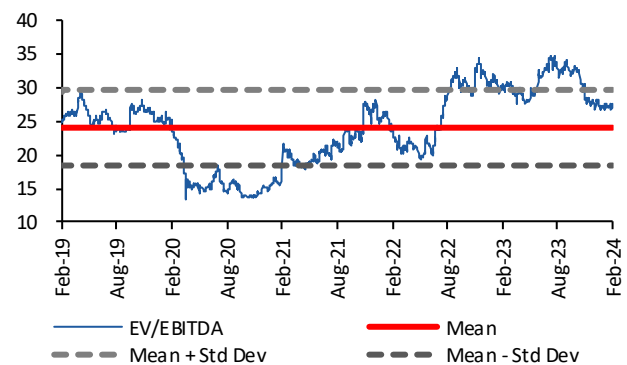
The company is estimated to achieve near double digit revenue CAGR for FY23-FY26E period with recovery in margins on account of the lower presence in the stressed export market and contracts on hand in the domestic market till FY26E. We estimate FY23-26E revenue CAGR of 9.3% and PAT CAGR of 7.7%. We retain earnings multiple of 40x to 1HFY26E EPS of Rs127 to arrive at a Target Price of Rs5,095 and recommend ADD.

| Valuations | Rs/share |
|---------------------|----------|
| 1H FY26E EPS | 127 |
| Target Multiple (x) | 40 |
| Target price (Rs) | 5,095 |

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

| Company | Mkt Cap | CAGR (CY22/FY23-25E/FY26E) | | | P/E (x) | | | ROE (%) | | | ROCE (%) | | |
|------------------|---------|----------------------------|--------|-----|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|-------------|
| | (Rs bn) | Sales | EBITDA | EPS | CY23E/FY24E | CY24E/FY25E | CY25E/FY26E | CY23E/FY24E | CY24E/FY25E | CY25E/FY26E | CY23E/FY24E | CY24E/FY25E | CY25E/FY26E |
| SKF India | 231 | 9.3 | 6.7 | 7.7 | 46.1 | 38.3 | 35.3 | 19.7 | 21.1 | 20.2 | 21.7 | 23.0 | 21.8 |
| Timken India | 241 | 7.8 | 7.3 | 3.8 | 67.0 | 62.3 | 55.1 | 16.2 | 15.0 | 14.7 | 16.5 | 15.3 | 15.0 |
| Schaeffler India | 486 | 8.5 | 7.6 | 5.9 | 52.4 | 50.5 | 46.6 | 20.3 | 18.8 | 18.1 | 21.9 | 20.1 | 19.3 |

Source: Companies, 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 (%) |
|--------------------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------------|---------|---------|
| Revenue | 10,390 | 10,547 | 10,783 | 10,772 | 10,947 | 11,496 | 11,252 | 10,923 | 1.4 | -2.9 |
| Direct Cost | 6,499 | 6,415 | 6,225 | 6,306 | 6,713 | 6,919 | 7,429 | 6,592 | 4.5 | -11.3 |
| Gross Profit | 3,892 | 4,132 | 4,558 | 4,467 | 4,234 | 4,577 | 3,823 | 4,331 | -3.0 | 13.3 |
| Staff Cost | 759 | 777 | 788 | 674 | 758 | 868 | 843 | 831 | 23.4 | -1.4 |
| Other Expenses | 1,538 | 1,518 | 1,625 | 1,952 | 1,806 | 1,680 | 1,765 | 1,776 | -9.1 | 0.6 |
| Total Expenditure | 8,796 | 8,710 | 8,637 | 8,931 | 9,277 | 9,467 | 10,037 | 9,198 | 3.0 | -8.4 |
| EBIDTA | 1,594 | 1,837 | 2,146 | 1,841 | 1,670 | 2,029 | 1,215 | 1,725 | -6.3 | 42.0 |
| Depreciation | 152 | 161 | 169 | 170 | 169 | 175 | 193 | 189 | 10.9 | -2.1 |
| EBIT | 1,443 | 1,676 | 1,977 | 1,670 | 1,501 | 1,853 | 1,022 | 1,536 | -8.0 | 50.3 |
| Interest | 7 | 5 | 4 | 4 | 3 | 3 | 5 | 3 | -30.6 | -47.9 |
| Other Income | 21 | 89 | 102 | 130 | 198 | 225 | 203 | 237 | 81.7 | 16.9 |
| PBT | 1,457 | 1,761 | 2,075 | 1,797 | 1,696 | 2,076 | 1,220 | 1,770 | -1.5 | 45.2 |
| Tax | 362 | 469 | 516 | 632 | 467 | 531 | 317 | 448 | -29.1 | 41.3 |
| Extraordinary item | 0 | 0 | 0 | 0 | 0 | 0 | 0 | - | | |
| PAT | 1,095 | 1,292 | 1,560 | 1,165 | 1,229 | 1,545 | 902 | 1,322 | 13.5 | 46.5 |
| EPS (Rs/share) | 22 | 26 | 32 | 24 | 25 | 31 | 18 | 27 | 13.5 | 46.5 |
| As a % of revenue | | | | | | | | | | |
| Direct Cost | 62.5 | 60.8 | 57.7 | 58.5 | 61.3 | 60.2 | 66.0 | 60.3 | | |
| Gross Profit | 37.5 | 39.2 | 42.3 | 41.5 | 38.7 | 39.8 | 34.0 | 39.7 | | |
| Staff Cost | 7.3 | 7.4 | 7.3 | 6.3 | 6.9 | 7.6 | 7.5 | 7.6 | | |
| Other Expenses | 14.8 | 14.4 | 15.1 | 18.1 | 16.5 | 14.6 | 15.7 | 16.3 | | |
| EBIDTA Margin | 15.3 | 17.4 | 19.9 | 17.1 | 15.3 | 17.6 | 10.8 | 15.8 | | |
| PAT Margin | 10.5 | 12.2 | 14.5 | 10.8 | 11.2 | 13.4 | 8.0 | 12.1 | | |
| Tax Rate | 24.9 | 26.6 | 24.9 | 35.2 | 27.6 | 25.6 | 26.0 | 25.3 | | |

Source: Company Data, Centrum Broking

Exhibit 2: Quarterly Gross Margin Trend

| Particulars | Q4FY20 | Q1FY21 | Q2FY21 | Q3FY21 | Q4FY21 | Q1FY22 | Q2FY22 | Q3FY22 | Q4FY22 | Q1FY23 | Q2FY23 | Q3FY23 | Q4FY23 | Q1FY24 | Q2FY24 | Q3FY24 |
|------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| Gross Margin (%) | 37.8 | 39.0 | 37.2 | 46.7 | 41.1 | 45.4 | 38.5 | 35.6 | 37.5 | 39.2 | 42.3 | 41.5 | 38.7 | 39.8 | 34.0 | 39.7 |

Source: Company Data, Centrum Broking

| P&L | | | | | |
|-----------------------------|---------------|---------------|---------------|---------------|---------------|
| YE Mar (Rs mn) | FY22A | FY23A | FY24E | FY25E | FY26E |
| Revenues | 36,659 | 43,049 | 45,183 | 49,980 | 56,215 |
| Operating Expense | 24,813 | 28,368 | 30,903 | 33,667 | 37,928 |
| Employee cost | 2,857 | 2,996 | 3,303 | 3,633 | 3,997 |
| Others | 3,433 | 4,191 | 4,126 | 4,399 | 5,186 |
| EBITDA | 5,555 | 7,494 | 6,851 | 8,281 | 9,104 |
| Depreciation & Amortisation | 571 | 668 | 774 | 867 | 951 |
| EBIT | 4,984 | 6,826 | 6,077 | 7,414 | 8,153 |
| Interest expenses | 21 | 15 | 15 | 15 | 15 |
| Other income | 346 | 519 | 864 | 935 | 901 |
| PBT | 5,310 | 7,329 | 6,926 | 8,334 | 9,039 |
| Taxes | 1,358 | 2,081 | 1,905 | 2,292 | 2,486 |
| Effective tax rate (%) | 25.6 | 28.4 | 27.5 | 27.5 | 27.5 |
| PAT | 3,951 | 5,248 | 5,021 | 6,042 | 6,554 |
| Minority/Associates | 0 | 0 | 0 | 0 | 0 |
| Recurring PAT | 3,951 | 5,248 | 5,021 | 6,042 | 6,554 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Reported PAT | 3,951 | 5,248 | 5,021 | 6,042 | 6,554 |

| Ratios | | | | | |
|--------------------------------|-------|-------|-------|-------|-------|
| YE Mar | FY22A | FY23A | FY24E | FY25E | FY26E |
| Growth (%) | | | | | |
| Revenue | 37.3 | 17.4 | 5.0 | 10.6 | 12.5 |
| EBITDA | 32.2 | 34.9 | (8.6) | 20.9 | 9.9 |
| Adj. EPS | 32.7 | 32.8 | (4.3) | 20.3 | 8.5 |
| Margins (%) | | | | | |
| Gross | 38.8 | 40.4 | 38.1 | 39.1 | 39.1 |
| EBITDA | 15.2 | 17.4 | 15.2 | 16.6 | 16.2 |
| EBIT | 13.6 | 15.9 | 13.4 | 14.8 | 14.5 |
| Adjusted PAT | 10.8 | 12.2 | 11.2 | 12.1 | 11.7 |
| Returns (%) | | | | | |
| ROE | 22.9 | 24.8 | 19.7 | 21.1 | 20.2 |
| ROCE | 23.8 | 26.1 | 21.7 | 23.0 | 21.8 |
| ROIC | 28.1 | 34.3 | 25.2 | 27.2 | 28.6 |
| Turnover (days) | | | | | |
| Gross block turnover ratio (x) | 4.9 | 5.2 | 4.7 | 4.8 | 5.0 |
| Debtors | 63 | 58 | 56 | 55 | 55 |
| Inventory | 93 | 97 | 94 | 97 | 97 |
| Creditors | 88 | 79 | 79 | 77 | 76 |
| Net working capital | 87 | 59 | 75 | 75 | 77 |
| Solvency (x) | | | | | |
| Net debt-equity | (0.2) | (0.4) | (0.4) | (0.4) | (0.4) |
| Interest coverage ratio | 267.1 | 496.3 | 453.7 | 548.4 | 616.1 |
| Net debt/EBITDA | (0.7) | (1.3) | (1.5) | (1.3) | (1.7) |
| Per share (Rs) | | | | | |
| Adjusted EPS | 79.9 | 106.1 | 101.6 | 122.2 | 132.6 |
| BVPS | 381.5 | 473.6 | 555.7 | 601.0 | 714.1 |
| CEPS | 91.5 | 119.7 | 117.2 | 139.7 | 151.8 |
| DPS | 14.5 | 40.0 | 20.0 | 20.0 | 20.0 |
| Dividend payout (%) | 18.1 | 37.7 | 19.7 | 16.4 | 15.1 |
| Valuation (x) | | | | | |
| P/E | 58.6 | 44.1 | 46.1 | 38.3 | 35.3 |
| P/BV | 12.3 | 9.9 | 8.4 | 7.8 | 6.6 |
| EV/EBITDA | 41.0 | 29.6 | 32.3 | 26.7 | 23.8 |
| Dividend yield (%) | 0.3 | 0.9 | 0.4 | 0.4 | 0.4 |

Source: Company, Centrum Broking

| Balance sheet | | | | | |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| YE Mar (Rs mn) | FY22A | FY23A | FY24E | FY25E | FY26E |
| Equity share capital | 494 | 494 | 494 | 494 | 494 |
| Reserves & surplus | 18,365 | 22,921 | 26,979 | 29,220 | 34,813 |
| Shareholders fund | 18,859 | 23,415 | 27,473 | 29,715 | 35,307 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Total debt | 0 | 0 | 0 | 0 | 0 |
| Non Current Liabilities | 481 | 404 | 434 | 462 | 493 |
| Def tax liab. (net) | 0 | 0 | 0 | 0 | 0 |
| Total liabilities | 19,340 | 23,819 | 27,907 | 30,177 | 35,800 |
| Gross block | 7,544 | 8,354 | 9,593 | 10,432 | 11,221 |
| Less: acc. Depreciation | (3,519) | (4,113) | (4,888) | (5,754) | (6,706) |
| Net block | 4,025 | 4,241 | 4,705 | 4,677 | 4,515 |
| Capital WIP | 515 | 634 | 500 | 500 | 500 |
| Net fixed assets | 4,540 | 4,875 | 5,205 | 5,177 | 5,015 |
| Non Current Assets | 1,813 | 2,187 | 2,711 | 4,011 | 3,661 |
| Investments | 25 | 25 | 25 | 25 | 25 |
| Inventories | 6,768 | 6,860 | 7,622 | 8,478 | 9,803 |
| Sundry debtors | 6,857 | 6,787 | 7,180 | 7,942 | 8,933 |
| Cash & Cash Equivalents | 4,019 | 9,580 | 10,458 | 10,436 | 15,099 |
| Loans & advances | 400 | 0 | 0 | 0 | 0 |
| Other current assets | 1,503 | 1,259 | 1,259 | 1,259 | 1,259 |
| Trade payables | 5,085 | 6,079 | 6,090 | 6,682 | 7,516 |
| Other current liab. | 1,485 | 1,512 | 292 | 292 | 292 |
| Provisions | 238 | 371 | 379 | 386 | 394 |
| Net current assets | 12,740 | 16,525 | 19,758 | 20,755 | 26,891 |
| Total assets | 19,340 | 23,819 | 27,907 | 30,177 | 35,800 |

| Cashflow | | | | | |
|---------------------------------|--------------|--------------|----------------|----------------|--------------|
| YE Mar (Rs mn) | FY22A | FY23A | FY24E | FY25E | FY26E |
| Profit Before Tax | 5,310 | 7,329 | 5,021 | 6,042 | 6,554 |
| Depreciation & Amortisation | 571 | 668 | 774 | 867 | 951 |
| Net Interest | (163) | (345) | (649) | (720) | (687) |
| Net Change – WC | (3,614) | 1,321 | (2,355) | (1,019) | (1,473) |
| Direct taxes | (1,486) | (2,119) | (1,905) | (2,292) | (2,486) |
| Net cash from operations | 571 | 6,902 | 887 | 2,877 | 2,859 |
| Capital expenditure | (916) | (1,067) | (1,105) | (839) | (789) |
| Acquisitions, net | 0 | 0 | 0 | 0 | 0 |
| Investments | (72) | (17) | 0 | 0 | 0 |
| Others | 662 | 635 | 0 | 0 | 0 |
| Net cash from investing | (326) | (449) | (1,105) | (839) | (789) |
| FCF | 245 | 6,453 | (218) | 2,039 | 2,070 |
| Issue of share capital | 0 | 0 | 0 | 0 | 0 |
| Increase/(decrease) in debt | (42) | (51) | 0 | 0 | 0 |
| Dividend paid | (717) | (719) | (989) | (989) | (989) |
| Interest paid | (21) | (15) | (15) | (15) | (15) |
| Others | 0 | 0 | 2,100 | (1,056) | 3,596 |
| Net cash from financing | (780) | (786) | 1,097 | (2,060) | 2,593 |
| Net change in Cash | (535) | 5,668 | 878 | (22) | 4,663 |

Source: Company, Centrum Broking

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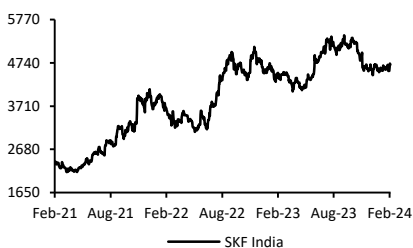
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SKF India



Source: Bloomberg

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