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Retail Equity Research

Timken India Ltd.

BUY

Sector: Capital Goods

09th January 2025

Stock Type	Bloomberg Code	Sensex	NSE Code	BSE Code	Time Frame
Mid Cap	TMKN:IN	77,620	TIMKEN	522113	12 Months

Target	**Rs.3,408**
CMP	**Rs.2,934**
Return	**+16%**

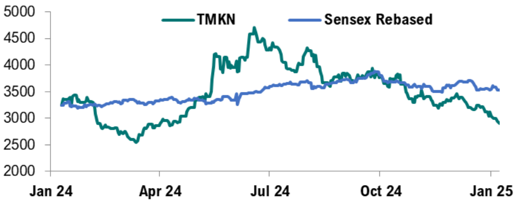
Data as of: 09-01-2025

Company Data	
Market Cap (Rs cr)	22,176
Enterprise Value (Rs cr)	21,539
Outstanding Shares (cr)	7.5
Free Float (%)	49%
Dividend Yield (%)	0.1%
52 week high (Rs)	4,816
52 week low (Rs)	2,490
6m average volume (cr)	0.01
Beta	0.9
Face value (Rs)	10.0

Shareholding (%)	**Q4FY24**	**Q1FY25**	**Q2FY25**
Promoters	57.7	51.1	51.1
FII's	7.2	12.5	13.1
MFs/Institutions	23.6	25.6	24.8
Public	11.5	10.8	11.0
Total	100.0	100.0	100.0
Promoter pledge	-	-	-

Price Performance	**3 Month**	**6 Month**	**1 Year**
Absolute Return	-21.0%	-27.3%	-9.0%
Absolute Sensex	-4.6%	-3.6%	8.4%
Relative Return*	-16.4%	-23.7%	-17.4%

***over or under performance to benchmark index**



Standalone (Cr.)	**FY25E**	**FY26E**	**FY27E**
Sales	3,208	3,738	4,394
Growth (%)	*10*	*17*	*18*
EBITDA	600	727	869
EBITDA Margin(%)	*19*	*19*	*20*
PAT Adj.	413	504	610
Growth (%)	*5*	*22*	*21*
Adjusted EPS	55	67	81
Growth (%)	*5*	*22*	*21*
P/E	53	44	36
P/B	8	7	6
EV/EBITDA	36	29	24
ROE (%)	*15.8*	*16.5*	*17.0*
Net D/E	-0.3	-0.3	-0.4

Author : Arun Kailasan, Research Analyst

Key risks factored in, valuations turns attractive

Timken India Ltd. (TMKN) is a leading roller bearing manufacturer renowned for its production in taper roller bearings and its components. Its business caters to mobile industries and process industries, with the product applications spanning heavy industries, industrial processes, gear drives, energy, and industrial distribution.

- Strong growth in the rail, process, and mobility segments will enable Timken's revenues to grow at a 14.7% CAGR in FY24-27E.
- Although FY25E exports could be subdued, we expect its subsequent recovery in FY27E (18.1% of revenue mix) while the domestic market contributes 81.9% of the revenue mix.
- Incremental contributions from the new plant at Bharuch and recovery in key end markets are expected to drive asset turnover to 1.03X from the current 1.01X.
- We forecast Timken's earnings to grow at 22% CAGR in FY25-27E period, enabled by 108bps EBITDA margin expansion due to better product mix and 103bps PAT margin expansion.
- Although Timken's ROE could lower in FY25E, improvement in asset turnover and PAT margins and low leverage could enable ROE to improve to 17% by FY27E.

Investment Rationale

- The Indian bearings market is expected to outpace the world, growing at 7.4% CAGR in FY24-29E.
- Significant investments in high-speed rail and freight corridors, along with the government's plan to increase rail modal share, are expected to boost passenger and freight traffic, benefiting Timken as a technical partner and increasing demand for railway bearings.
- In export markets, while rail buying is strong, early signs of recovery in trucks and Off-Highway segments have become visible, enabling us to build expectations for export recovery from FY26E onwards.
- Better product mix enabled by higher exports and incremental contributions from process segments to enable margin improvement. New CRB and SRB plants to cater to demand from process segments.

Outlook & Valuations

At the current valuation levels, the near-term business risks have been factored in. BY FY27E ROE is expected to recover to 17%. With the topline expected to grow at 17% CAGR in FY25E-27E and EPS to grow at 22% CAGR in the same period, **we value the stock at 42X and assign a target of Rs.3,408 on FY27E EPS of 81.1.**

About the company

Established as a strategic joint venture between Tata Steel Ltd and The Timken Company, Timken India Ltd was formed after the latter acquired its 40% stake in Tata Timken Ltd. It is considered a formidable force in the bearing industry, renowned for its production of taper roller bearings and its components. Its business caters to mobile industries and process industries, with the product applications spanning heavy industries, industrial processes, gear drives, energy, and industrial distribution. Additionally, the company plays a crucial role in the global supply chain of The Timken Company, exporting taper roller bearings to meet the international requirements of Timken Entities' customers in industries such as railways, automotive, and off-highway equipment. With its current investment of 600cr. Aimed at increasing manufacturing capacity at Bharuch, Timken India is set to establish production of spherical roller bearings and cylindrical roller bearings targeting domestic and export markets.

Product portfolio

	Market Segment	Product portfolio
Mobile Industries	Trucks and Buses	• Taper roller bearings • Lubricants
	Freight and Passenger rails	• Taper roller bearings • Housings • Seals • Lubricants
	OH Equipment agricultural tractors	• Taper roller bearings • Spherical roller bearings
	Metals industries Mines Cement plants	• Taper roller bearings • Spherical roller bearings • Cylindrical roller bearing • Lubricants • Seals • Condition monitoring equipment and other accessories
Process Industries	Power generation plants Wind Mills Oil and Gas plants	• Taper roller bearings • Spherical roller bearings
	Gear drives	• Taper roller bearings • Spherical roller bearings • Cylindrical roller bearings
	Pulp and paper industries Food and Beverages Industries	• Taper roller bearings

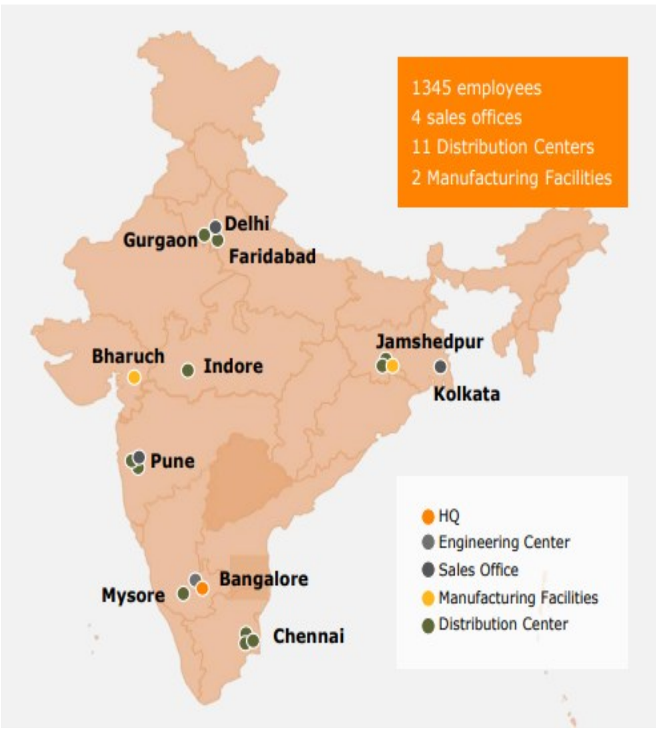
Source: Company, Geojit Research.

Tapered roller bearing

Cylindrical roller bearing

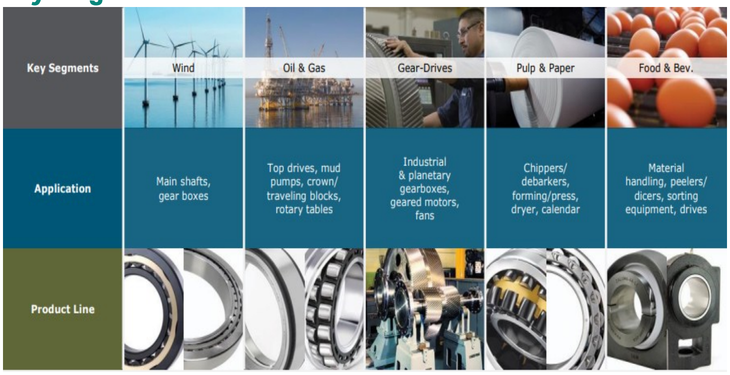
Spherical roller bearing

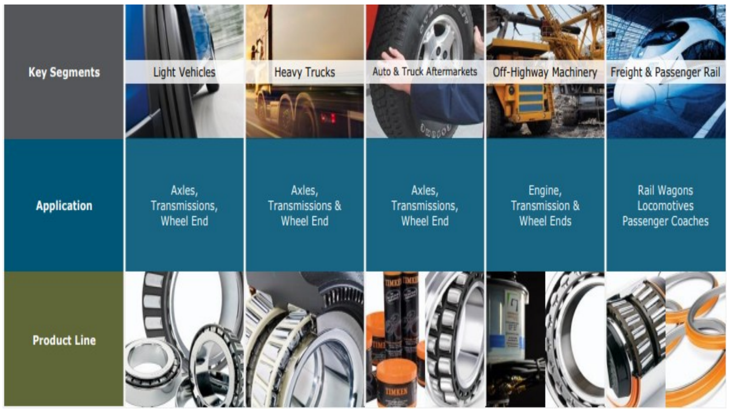
Manufacturing locations



Source: Investor presentation

Key Segments





Source: Investor presentation

Key Suppliers

- Sanyo Steel Company Limited
- Mahindra Sanyo Special Steel Private Limited.
- Rolex Rings Private Limited
- Harsha Engineers Limited
- Omni Auto Limited
- JMT Auto Limited

Key Customers

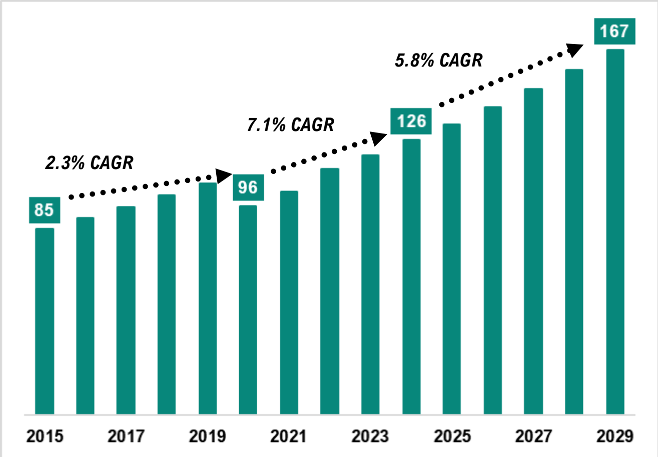
- BHEL
- CMI FPE Limited
- Dana India Private Limited
- Escorts Limited
- Esmech Equipment Private Limited
- Indian Railways
- JSW ISPAT Steel Limited
- Texmaco Rail and Engineering limited
- Titagarh Wagons Limited
- Tata Steel Limited

Industry Outlook

Global roller bearings market valued at $167 billion.

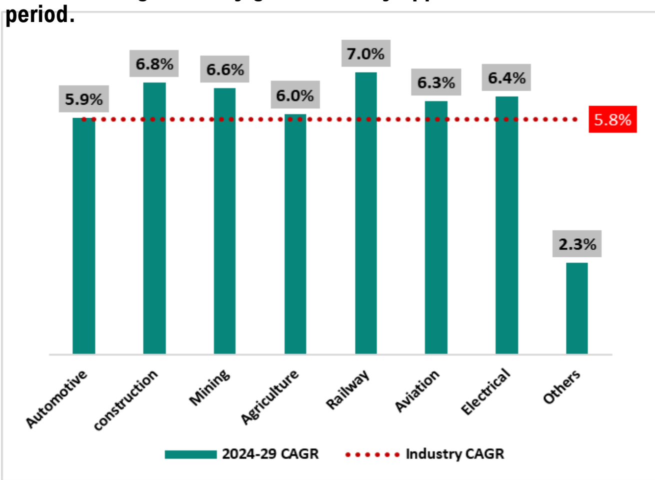
- CareEdge values global bearings market at USD167.1 billion in FY2029, implying a 5.8% CAGR in FY2024-29 period, led by Asia—Pacific market.
- Roller bearings are expected to constitute 34% of the total market size in 2029, second largest bearings market following ball bearings market.
- Bearings applications in industries like Railways, construction, mining, electrical and electronics, Aviation and aerospace to grow at a faster pace than the industry.

Global bearings market size in USD billion



Source: CareEdge research; company research;Geojit

Global bearings Industry growth rate by applications in FY24-29E period.

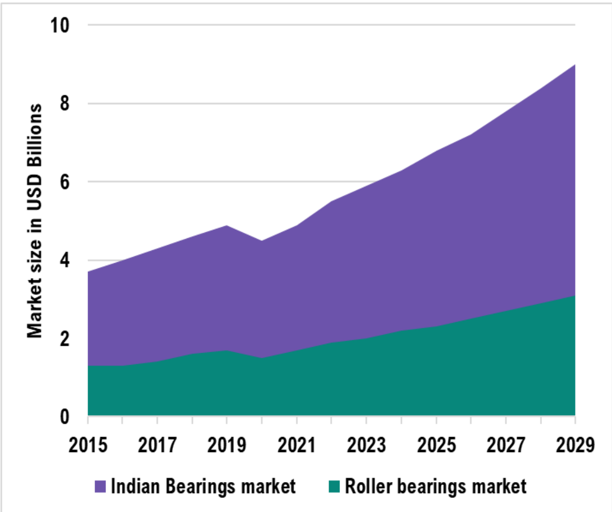


Source: CareEdge research; company research;Geojit

Indian bearings market to outpace global market growth

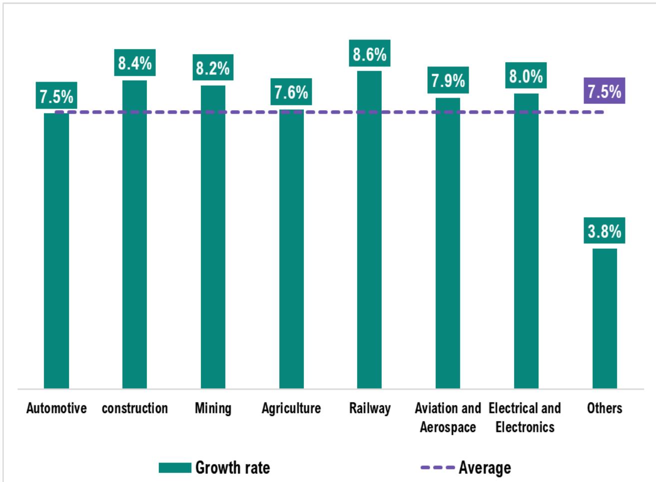
- At 7.4% CAGR in FY24-29E , the Indian bearings market is expected to grow to USD 9 billion dollars *(CareEdge Research).*
- Demand to be driven by Railways, construction, Mining and electrical applications.
- The domestic roller bearings industry is expected to be at USD3.1 billion by FY29E.

Roller bearings to constitute 34.4% of Indian bearings market



Source: CareEdge research; company research;Geojit

Railway, construction, mining, electrical and electronics applications to drive demand for bearings in India in FY24-29E period.



Source: CareEdge research; company research;Geojit

Key drivers for Timken

Trends	Timken's opportunities
Urbanisation	Infrastructure (Metals/Cement/ Construction/Rail)
Electrification	Railways/Auto OE
Energy Transformation	Renewable Energy
Population Growth	Infrastructure/ Food and Beverages
Digitization	Customer digital Experience
Artificial intelligence	Improved manufacturing capabilities

Source: Investor presentation

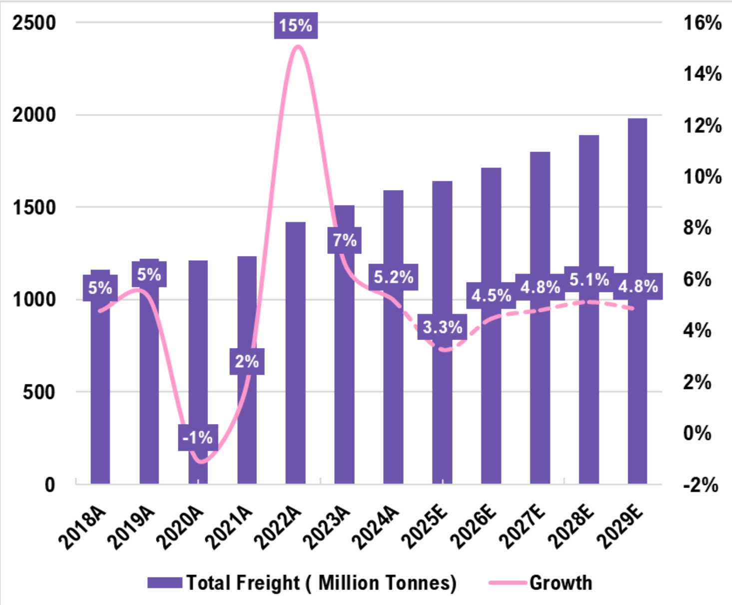
Source: Investor presentation

Investment Rationale

Mobility Segment: Railways attractive

- Invigorated demand for travel post-COVID-19 has increased the passenger traffic. Additionally, investments into national high-speed rail projects have increased 3.8X in the last 6 years.
- Freight volumes are expected to grow at a 4.6% CAGR in FY24-26E, aided by strong transport requirements from coal, iron ore, cements, and container segments. The Dedicated Freight Corridor (DFC) project is commencing at a healthy pace. With the East DFC (1337 Rkm) project commissioned and the West DFC project nearing completion (work in progress : 102 RKMs), the freight traffic is expected to increase. 4 new corridors totaling 4,358 RKms have been proposed to meet the anticipated freight traffic. Timken is also the technical partner for the DFC project.
- As the government plans to increase India's current rail modal share from 27% to 35% by FY2031 & 45% by 2047, we expect allocations to rolling stocks to increase to account for the growing population's travel demands.
- The government has also announced a 5,000 km metro rail network by 2047 in 100 cities. Additionally, in 2024-2025, the GoI plans to upgrade 40,000 conventional rail bogies to meet Vande Bharat standards. Over 300,000 BOXN waggons need to be overhauled, and due to safety limitations, the existing Schlieren passenger cars also need to be replaced, providing more visibility for bearings demand from railways.

Freight traffic volumes (in thousand tonnes) are expected to grow at 4.5% CAGR in FY24-29E, aided by strong freight demand to transport coal, containers, cement, and iron ore.



Source: CMIE; Company, Geojit Research

Freight (in million tonnes)	FY24	FY29E	FY24-29E CAGR
Coal	787.6	1,013.1	5.2%
Raw material for steeel plant	38.1	43.8	2.8%
Pig iron and finished steel	69.9	86.3	4.3%
Iron ore	180.9	228.2	4.8%
Cement	154.3	193.0	4.6%
Foodgrain	51.5	48.9	-1.0%
Fertilisers	59.2	66.4	2.3%
Port of loading	50.5	57.0	2.4%
Container	85.0	109.0	5.1%
Other goods	113.6	135.8	3.6%
Total	**1,590.6**	**1,981.6**	**4.5%**

Source: CMIE; Company, Geojit Research

Proposed new Corridors by DFFCIL (April 2024)

Corridor	From	To	Length (Rkm*)
East-Cost Corridor	Kharagpur	Vijayawada	1,115
East West Sub Corridor -1	Palghar	Dankuni	2,073
East West Sub Corridor-2	Rajkharsawan	Andal	195
North-South Sub Corridor	Vijayawada	Itarsi	975

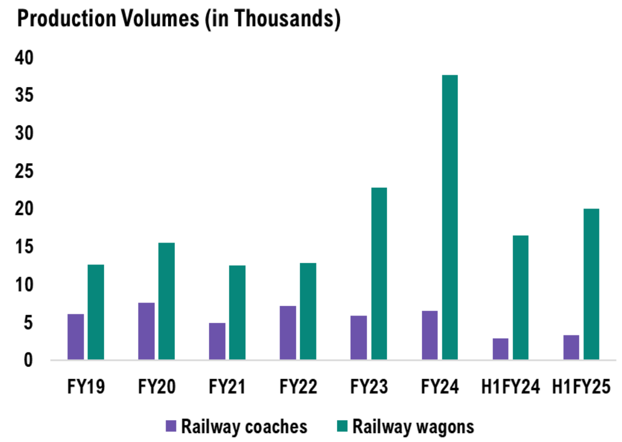
Source:- Dedicated Freight Corridor Corporation of India Limited
**Rkm– Route Kilometer*

We expect purchase from wagon manufacturers to be strong as they execute their orderbooks which are at comfortable levels.

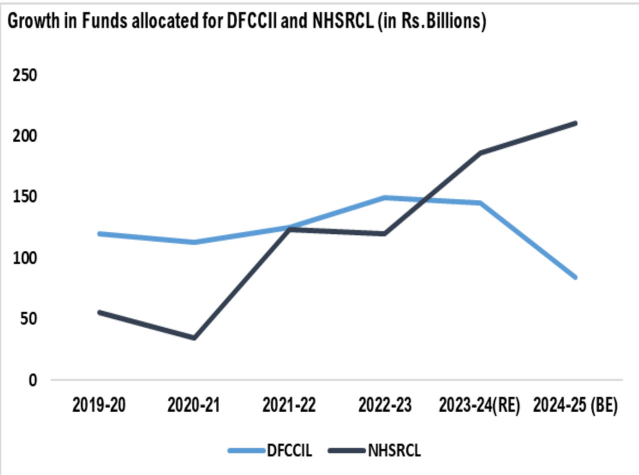
Company	Orderbook (Rs.cr.)	OB/TTM Revenue
Titagarh Rail Sys-	13,326	3.4X
Texmaco Rail	8,194	1.9X
Jupiter Wagons	6,644	1.7X

Source:- Company, Geojit Research

H1FY25 saw 17%/21% higher Coach/Wagon productions indicating strong market for railway bearing manufacturers.



Source: CMIE; Company, Geojit Research



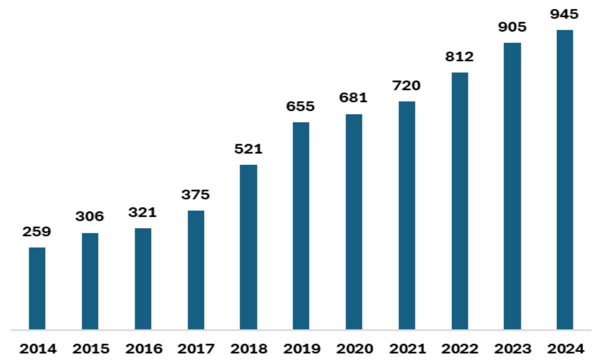
DFCCIL :- Dedicated Freight Corridor Corporation of India Limited.
NHSRCL :- National High Speed Rail Corporation of India
Source: India Infrastructure Research; Company , Geojit Research

Key upcoming urban rail transport projects

Stretch	Project	Project Cost (Rs Bn)	Current Status
Phase 1A: Gannavaram-PNBS	Vijayawada Light Metro	150	Announced
Phase 1B PNBS-Penamalaru			Announced
Phase 2: PNBS Amaravati			Announced
Corridor 1 (Vishakapatanam Steel Plant-Kommadi Junction	Vishakapatnam Light Metro	143	Announced
Corridor 2 (Gurudwara Junction-Old Post Office			Announced
Corridor 3 (Tadichetlapalem-China Waltair)			Announced
Corridor 4 (Commadi-Bhogapuram Airport)			Announced
Corridor 1 Dharapur-Narengi	Guwahati Metrolite	180	Announced
Corridor 2 M.G Road-Khanapara			Announced
Corridor 3 Jalukbari-Khanapara			Announced
Corridor 4 ISBT-Paltan			Announced
Inderlok-Indraprastha	Delhi Metro Phase IV	84	Approved (Centre)
Lajpat Nagar-Saket G Block			Approved (Centre)
Corridor 2 (Agricultural University-Barra-8)	Kanpur Metro Phase I	111	Awarded
Corridor 1 (Danapur Coantonment-Khemni Chak)	Patna Metro Phase I	134	Under Construction
Corridor 2 (Patna Junction-New ISBT)			Under Construction
Corridor 3 (Madhavaram Milk Colony- SIPCOT)	Chennai Metro Phase II	632	Under Construction
Corridor 4(Lighthouse-Poonamallee Bypass)			Under Construction
Corridor 5 (Madhavaram Milk Colony- Sholinganallur			Under Construction
Delhi-Ghaziabad-Meerut Corridor	Delhi-Ghaziabad-Meerut Regional Rapid Transit System	303	Under Construction
Line 3 (Colaba-Bandra-SEEPZ	Mumbai Metro	370	Under Construction
Phase 1B: Charhbagh-Vasant Kunj (East-West Corridor)	Lucknow Metro	59	Approved (state)
Gangapur-Mumbai Naka	Nashik MetroNeo	21	Approved (state)
Gangapur-Nashik Road Railway Station			Approved (state)

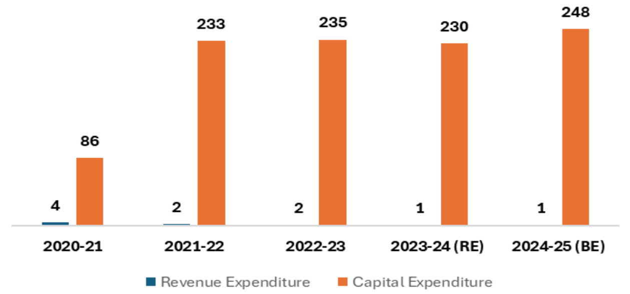
Source: India Infrastructure Research

Operational metro rail network (in km)



Source: India Infrastructure Research

Budget allocation for MRTS and metro projects (Rs. Billion)



Source: India Infrastructure Research

Commercial vehicle industry recovery to boost mobile segment

- Timken caters to heavy and light commercial vehicles. It does not cater to the passenger vehicles segment, 2 wheelers and 3 wheelers.
- The commercial vehicle production volumes experienced robust growth from FY21 to FY24, with a 19% CAGR, driven by a 29% CAGR in heavy commercial vehicles (HCV) and a 15% CAGR in light commercial vehicles (LCV). This growth was fueled by the post-pandemic economic recovery, significant government infrastructure projects, the e-commerce boom, pent-up replacement demand, and favorable financing options.
- However, FY24 saw a slowdown in production growth, with HCV and LCV growing only at 3.5% and 2.7%, respectively. This deceleration was due to the high base effect, global economic uncertainties, supply chain disruptions, and high inventory levels with dealers.
- The extended elections in India weighed in on production volumes of commercial vehicles. 1HFY25 production volumes were lower than the same period last year by 4%. in In FY24-27E, the commercial vehicle productions are expected to grow at 3% CAGR with HCV production at 2% CAGR and LCV production at 3% CAGR.

Recovery expected in H2FY25 by OEMs

OEM	Outlook
Ashok Leyland	MHCV truck volumes declined by 18%YoY. LCV domestic volumes declined by 3%YoY . Fleet utilization and macro-
Tata Motors	Q2FY25 CV volumes declined by 11% due to slowdown in infra and miing. Management is cautious about near-term domestic demand but expects recovery in H2FY25.
Escorts Kobuta	Management is optimistic about recovery in the tractor and agri machinery sectors, driven by favorable weather and government support. They expect a significant demand increase in H2FY25, especially after strong October sales during the festival season. Export challenges to Europe is expected to continue.

Source: Earnings transcript , Company research Geojit.

Process Segment growth to normalise in FY24-27E period

Demand for bearings catering to industrials witnessed stellar growth after FY21. Timken's process segment revenues grew at 23% CAGR in FY21-24 period. In FY24, Timken's process segment revenues grew at 8.2%, in line with India's GDP growth. With India's GDP growth and production volume expected to normalize in FY24-27E period, we believe the segment will become competitive as demand moderates.

Cement

Major cement companies have envisioned plans to increase their capacity in the next couple of years, which could drive demand for new bearings. The current capacity utilization of top 3 listed cement companies has levels above 75%. Higher capacity utilization could lead to higher consumption of bearings.

Renewables

India plans to achieve 500GW of Non-fossil fuel energy capacity by 2030, with 50% of the energy mix being contributed by renewable sources. The tendering environment in solar, wind and Hybrid sources of energy continues to remain strong. Bearings find their applications in solar panels and gearboxes of wind turbines.

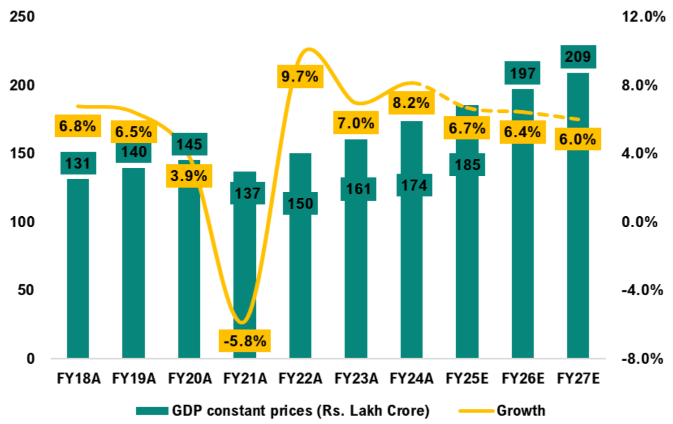
Metals and Mining

Metals and mining industries employ bearings for various equipment such as conveyor systems, crushers, grinding mills, excavators, loaders, etc. Sentiments for metals and mining remain optimistic given demand uptick due to India's higher infrastructure spend, ensuring mineral security, and recent stimulus boost in China.

Oil and Gas

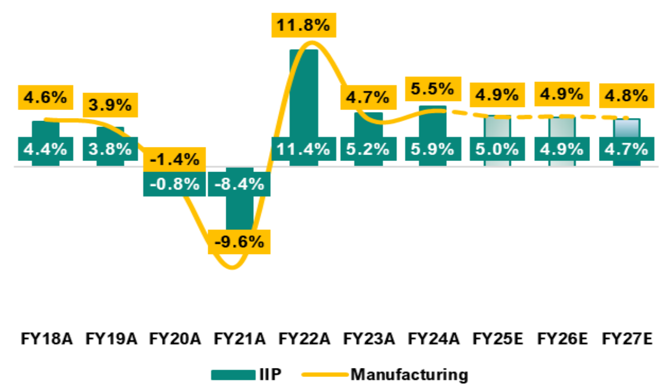
With only 12% of the country's crude oil needs met from domestic sources, domestic production needs to go up to soften India's substantial import bill and ensure inflationary shocks. Additionally, the demand for natural gas has been on the rise with the expansion of city gas distribution networks, increasing power demand, and increased urea plant commissioning in the fertilizer sector. Bearings find their applications in drilling equipment, pumps and compressors, gearboxes, hoists and cranes, and subsea equipment.

India's GDP to grow at a healthy 6.4% CAGR in FY24-27E



Source: CMIE, Company Research, Geojit.

Mining/Manufacturing/Electricity production volumes to grow at 4.2%/4.9%/5.4% CAGR in FY24-27E as Industrial production growth normalises to 4.7% in FY27E.



Source: CMIE, Company Research, Geojit.

Timken's growth strategy in process segments

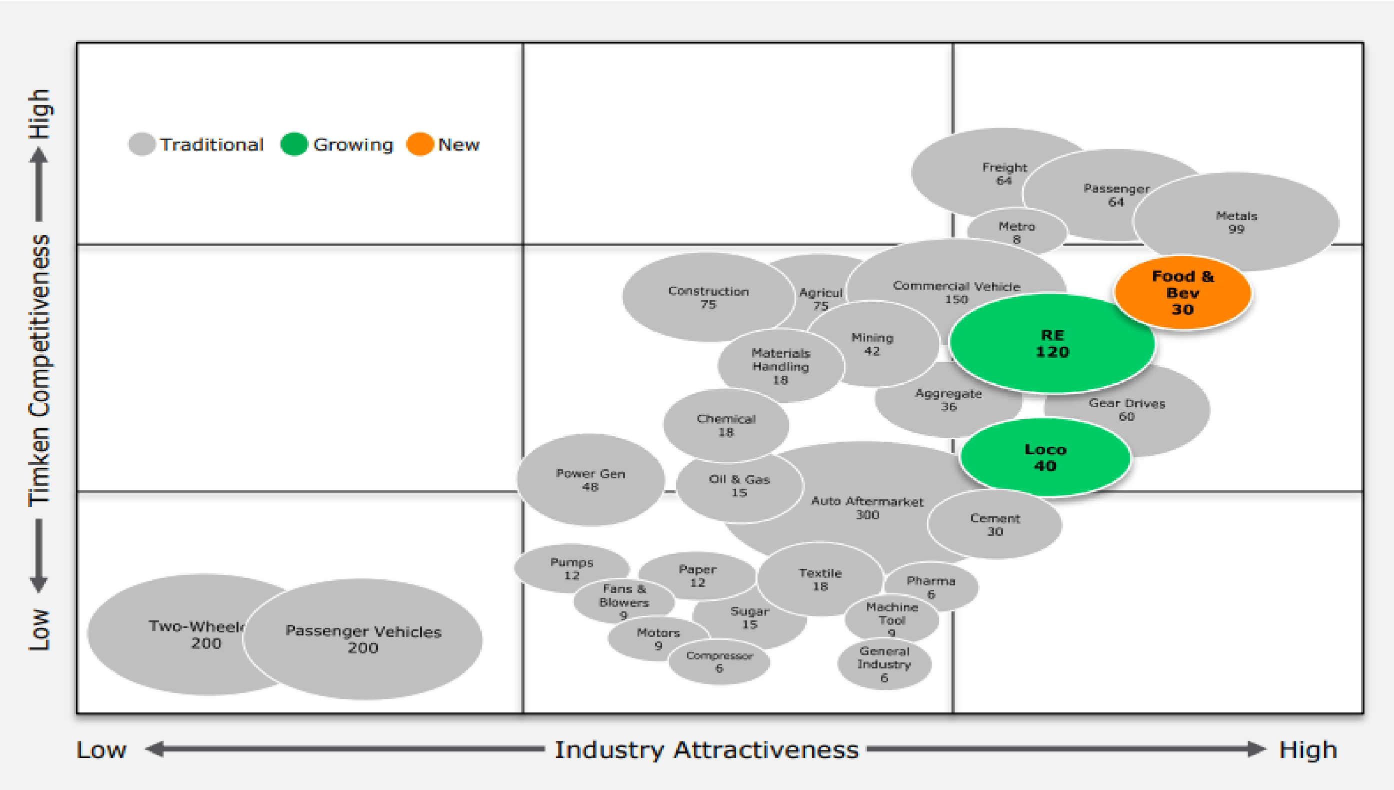
Process Segment	Industry Situation	Tactics to grow
Industrials	♦ Low Industry Presence ♦ Lack of Installed base ♦ Low Reach	♦ Enhance domestic manufacturing footprint; local sourcing of components ♦ Grow OEM business and enhance channel partner relationships ♦ Penetrate new markets through product vitality initiatives.
Renewables	♦ Medium Industry presence ♦ Vast Opportunities ♦ Manufacturing	♦ Increase share with existing customers (eg: gear box); Penetrate new applications (Main shaft). ♦ Product expansion; leverage our new Industrial motion products ; aftermarket sales and services opportunities. ♦ Expand domestic manufacturing footprint.
Food & Beverages	♦ New Entrant into Industry ♦ Lack of Installed base	♦ Penetrate new customers, Expand product range ♦ Develop presence in Key OEMs.

Source: Investor presentation

New manufacturing facility to cater to process industry

- New plant with an investment of Rs. 600cr., will be focused on spherical roller bearings (SRB) & cylindrical roller bearings (CRB) manufacturing.
- Situated at Bharuch, the target markets are both domestic as well as exports towards US & Europe. The plant is expected to become operational by the start of FY2026.
- Management anticipates the plant will generate asset turnover in the range of 2X to 3X, which could take about 2 to 3 years to ramp up. Currently the SRBs and CRBs are being imported.
- CRBs and SRBs are employed heavily in process industries such as Energy, oil and gas, pulp & paper, food and beverage industries, metals and mining, cement, etc.

Timken's market evaluation by industry



Numbers indicate Industry size in $M USD
Source : Company presentation

Strong presence in distribution and after-market services

- **Branding Strength**: With over 11 distribution offices in India and part of the Timken Group, the company benefits from the strong "TIMKEN" trademark and logo.
- **Global Supply Chain**: Leverages Timken group's global supply chain to meet demand for non-Indian manufactured products.
- **Aftermarket Opportunities:-** MRO Business: For steel, cement, and energy sectors and Auto Aftermarket.
- **MILLTEC Services:** On-site maintenance and servicing of steel mills, with over 26 roll shops in steel companies. Also offers off-site bearing servicing and refurbishment for rail and large bearings.
- **Industrial Distribution Focus:** Management is focusing on industrial distribution, with global aftermarket opportunities being highly profitable.
- The company can also tap into opportunity of distributing powertrain, coupling shafts, chains ,pulleys and lubrication system products which the parent company has acquired from across the globe. Some of those brands are shown below:-

Key replacement drivers

- **Recommended bearing overhauls in Railways**. Eg:- Vande Bharat Trainset maintenance manual suggests overhaul at 12,00,000KM or 8 Years, whichever is sooner.
- **Vehicle scrappage policy** can increase new orders for vehicles. For common on-highway commercial vehicles, a common recommendation is to service bearings every 500,000 miles or every second brake service.

Depressed Export/Inter-Company segment in FY25E, revival expected in FY26E.

- Generally, 50%-60% of Timken's exports are to North America, and the rest are scattered in ASEAN, Europe, Australia etc.
- The 23% decline in Timken's export mirrored the export decline of roller bearings from India in FY24.
- Timken's export as a % of India's roller bearings export in FY24 was lower than its 5Y average. Interestingly, while the exports to the US declined, Timken's exports to other destinations saw a 3% increase..
- While the rail demand from major export destinations can drive Timken's export prospects, we anticipate the trucks and off-highway demand to be dull in FY 25 and expect it to pick up only from FY26E.

CAGR	1Y	3Y	5Y
India Roller bearings export (CAGR)	-1.0%	20.0%	11.9%
Timken Exports (CAGR)	**-23.1%**	**19.2%**	**8.2%**
Timken's Export to USA (CAGR)	-37%	21%	7%
Timken's Export to Other destinations (CAGR)	3%	17%	10%
Timken's share in exports (Avg.)	**20.2%**	**24.1%**	**23.7%**

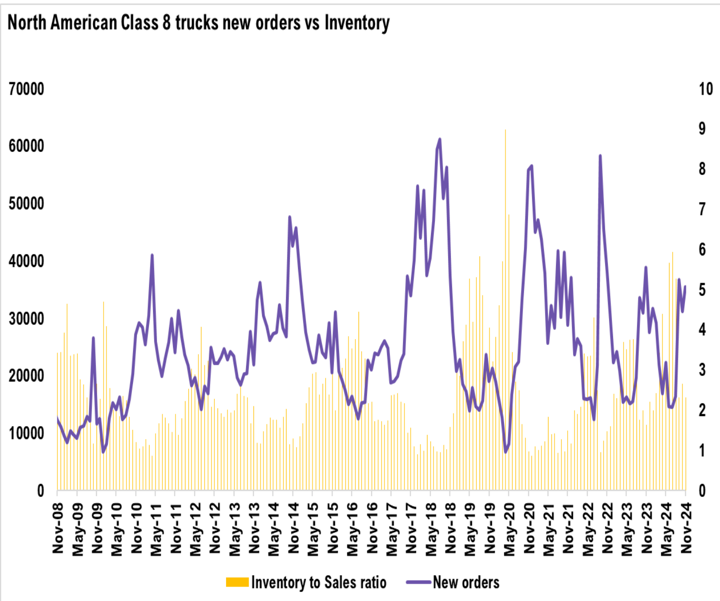
Source: Ministry of Commerce and Industry; Company, Geojit Research

Note :- India Roller bearings export includes export of Tapered roller bearings, Cylindrical roller bearings and spherical roller bearings.

Major railway development projects in Timken's Key Export countries

Country	Major investments and initiatives
USA	• Hudson tunnel project aimed at improving rail connectivity between New Jersey and New York with an estimated cost of over $16 billion ($12 billion in federal funding). • California High-Speed Rail project through central valey linking Los Angeles and San Francisco , with train speeds at 220mph • Brightline West connecting Las Vegas to Southern California serving more than 11 million passengers annually.
Canada	• 2024 Budget announced new funding for VIA rail to replace its aging fleet on routes outside the Quebec city– Windsor Corridor.
Brazil	• Federal budget allocations to increase railway's modal share from 17.7% to 34.6%. • Stimulate private sector participations through Viability Gap Funding. • US$37.2 Billion investment plan to revitalize and enhance Sau-Paulo network with focus on inter-city, commute rail, metro and light rail project. • Executive project for a section of center– west integration freight railroad (FICO) between Mato—Grasso and Goias states has been approved.
Indonesia	• National Railway Master Plan to modernize and expand country's rail network by 2030. • Key projects :- Jakarta—Bandung High-Speed Railway (HSR), Trans-Sumatra Railway and Trans-Java Railway. • Cities like Jakarta, Bandung and Surabya are investing in Urban railway systems including subways and light rail transit to improve urban mobility.
Australia	• Inland Rail , Australia's largest freight rail infra project spanning 1700km linking Brisbane and Melbourne, aimed at significantly boosting efficiency of freight transport. • Melbourne Metro tunnel project, valued at $11 Billion to create end-to end rail line from Melbourne's Wst to the South-East. • Australian government in federal budget 2024-2025 has allocated over $1 Billion to improve the resilience and reliability of the national rail network.

North America class 8 trucks stage recovery as new orders see revival while inventory declines.



Source: Bloomberg; Company , Geojit Research

Off-Highway companies however still continue to paint dull demand

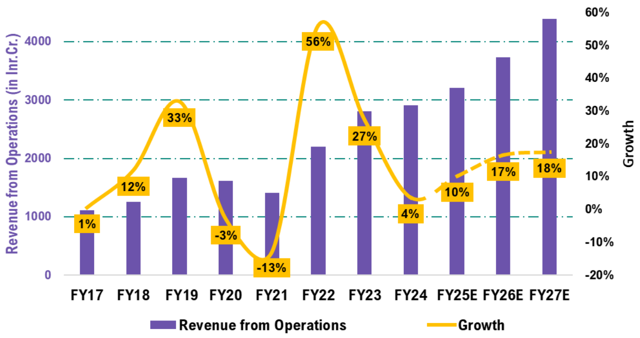
OEM	Outlook
Caterpillar	Lower construction demand in North America, Asia/Pacific, and EAME regions. A slowdown is expected in the mining, heavy construction, and quarrying industries, while strong growth can come from transportation and energy sectors.
John Deree	Industry sales of tractors and combines are expected to decline between 15-20%. Industry demand for small ag & turf in the US and Canada is expected to decline by 10%. Europe/South America are expected to be down by 15%/20%, respectively. Earth-moving equipment in the US and Canada is expected to be down between 5% and 10%.

Source: Investor presentations and concalls; Company, Geojit Research

Financial Performance Analysis and Forecast

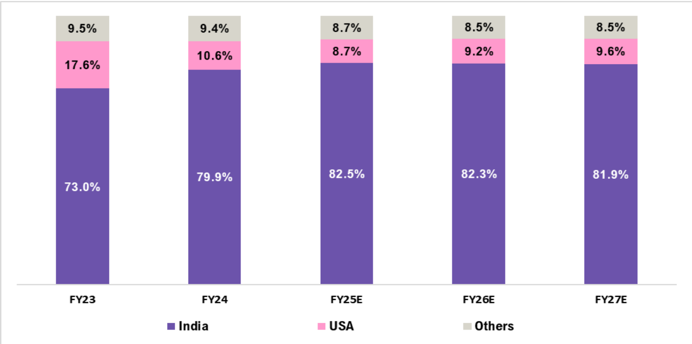
Domestic segments to drive near-term revenues, Export recovery expected from FY26E

- Timken's revenues grew at 11.8% CAGR in FY19-24 period to reach Rs.2,909.5cr.We expect the revenues to grow at 14.7%CAGR in FY24-27E period to reach Rs.4,393.7cr.
- Contributions from Railways segment grew 31% in FY24, accounting for 23% of its revenue mix. We forecast railways to account for 27% of the revenue mix in FY27E, registering 22% CAGR in FY24-27E period, backed by higher purchases from wagon manufacturers as they execute their orderbooks.
- We do not foresee any material risk to distribution segments and hence forecast segment to contribute 17% of FY27E revenue mix, driven by higher consumption from aftermarket end users.



Source: Company data, Geojit Research

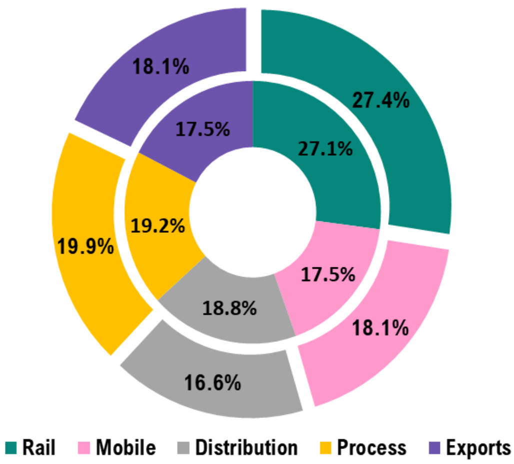
Geographical segmentation of Timken's revenues



Source: Company data, Geojit Research

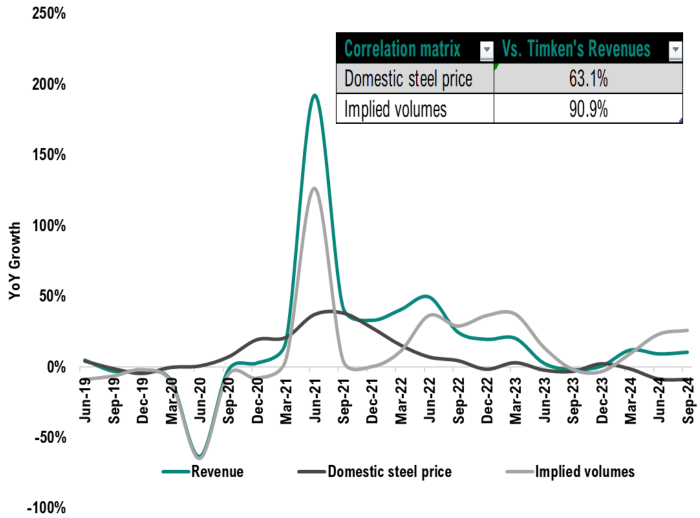
- Process segment growth could moderate in FY25E, but we expect growth to be at 18% CAGR in FY24-27E as industrial production normalizes while mobility segment is forecast to grow at 12% CAGR as mobility demand picks up in FY26E.
- Hence, the domestic revenue mix is anticipated to improve by 200bps to 82% in FY27E, led by higher contributions from Rail and distribution segment.
- Exports, particularly to the US, are expected to remain depressed in FY25E, but it should pick up in FY26E & FY27E as we expect markets to recover post FY25. Overall, exports are forecasted to grow at a CAGR of 10.8% for FY24-27E.

Timken's revenue mix transition from FY25E (Inner circle) to FY27E (outer circle). We expect rail, process and export segments to gain share in the mix.



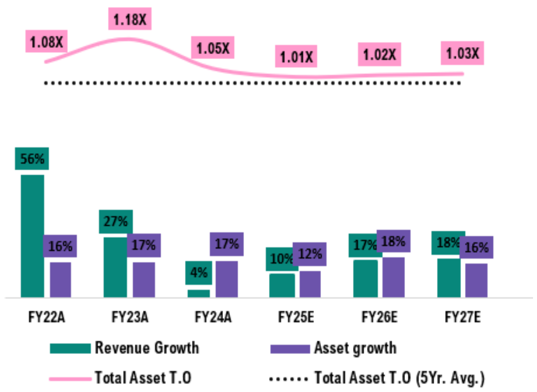
Source: Company data, Geojit Research

A strong correlation exists between Timken's revenues, implied volumes (computed as Timken's COGS/domestic steel price), and the domestic steel price.



Source: CMIE, Company data, Geojit Research

New facility, End market recovery expected in FY26E and 27E to drive asset turnover up.

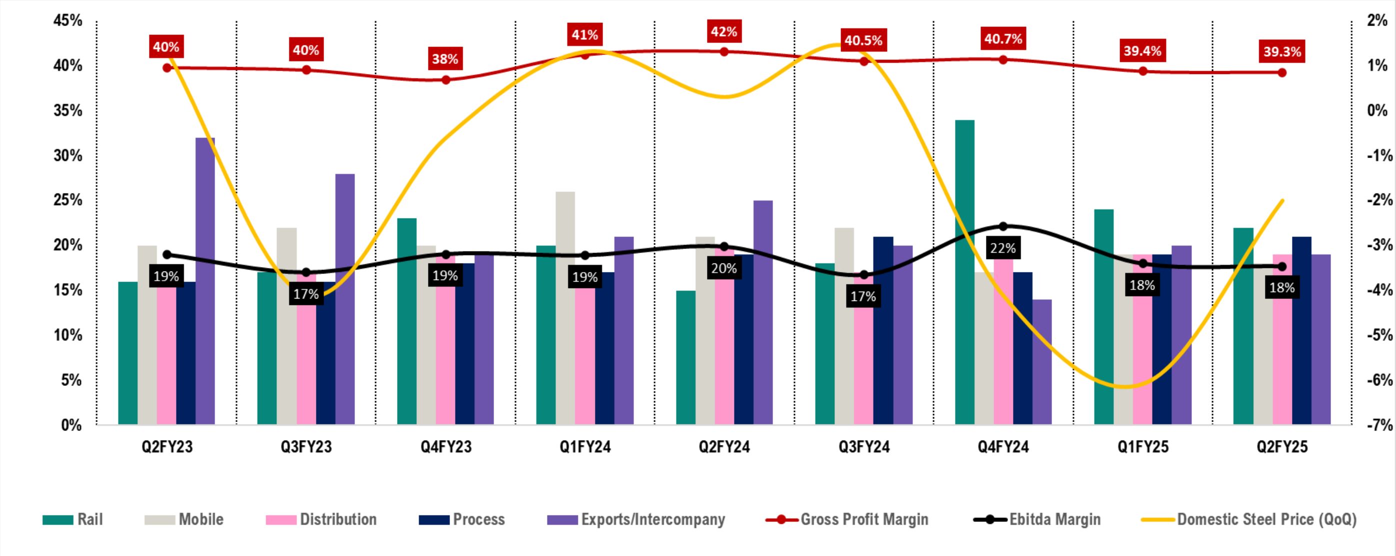


Source: Company data, Geojit Research

- Timken's asset turnover reached a five-year high of 1.18x in FY23A, driven by a 41% CAGR surge in revenues post-lockdown, while assets grew at a 16.35% CAGR in FY21-23.
- However, in FY24, asset turnover declined due to a slowdown in revenue growth, primarily caused by a 27% drop in exports. This decline was attributed to North American customers in the agriculture and off-highway segments reducing their inventories. Timken resorted to a factory shutdown due to the softening of export demand.
- With exports, especially to the US, expected to remain weak and the mobile segment also projected to be sluggish, we anticipate asset turnover to fall to 1.01x in FY25E.
- Nevertheless, we forecast volume lead growth in export, rail, process and mobility segment. Contributions from the new facility in Bharuch can help Timken improve asset turnover to 1.03x in FY27E.

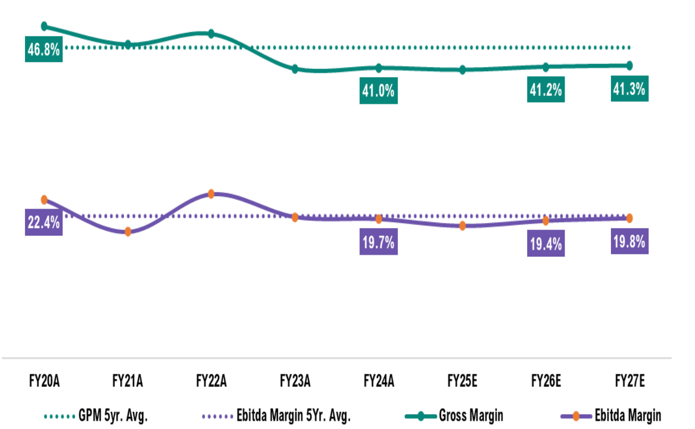
Margin pressures in the near-term, anticipating better product mix in FY26E.

- Timken's gross margins have declined from 47% in FY20 to 41% (below 5Y Avg.) in FY24. EBITDA margins followed the trend, declining from 22.4% in FY20 to 19.7% in FY24 (below 5Yr. Avg). However, Timken has been able to maintain its gross/EBITDA margins above its competitors, although the spread has reduced in recent years, mostly due to the product mix.
- Exports slowdown leads to gross margin decline from FY22-24, with the exports eventually registering a 23% YoY decline in FY24. However, EBITDA margins improved as higher volumes delivered to the railway segment enabled economies of scale in FY24.
- We anticipate margin pressures to continue in FY25E due to unfavourable mix; Red Sea/West Asia tensions are raising logistic costs for shipments to major export markets. However, we build in optimistic expectations for FY27E, forecasting Gross/EBITDA margins to be at 41.3%/19.8%, enabled by product mix becoming favourable as exports recover and the process segment gains more ground.



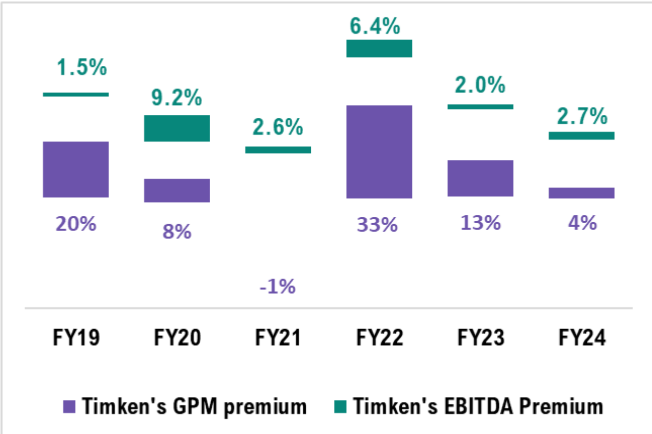
Source: Company data, Geojit Research

Timken's Gross profit margin and EBITDA margin over the years.



Source: Company data, Geojit Research

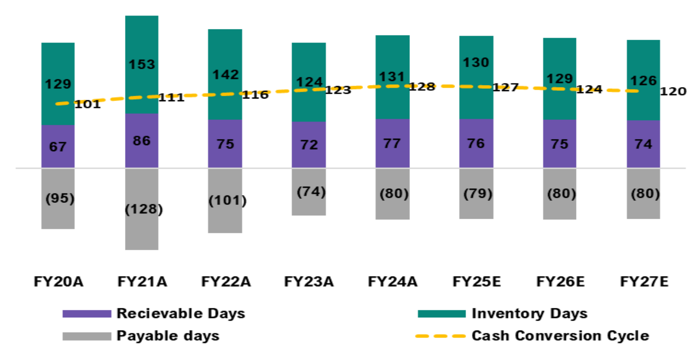
Timken's margin premiums over competitors have sustained; however, it has declined in recent years.



Source: Bloomberg,; Company data, Geojit Research

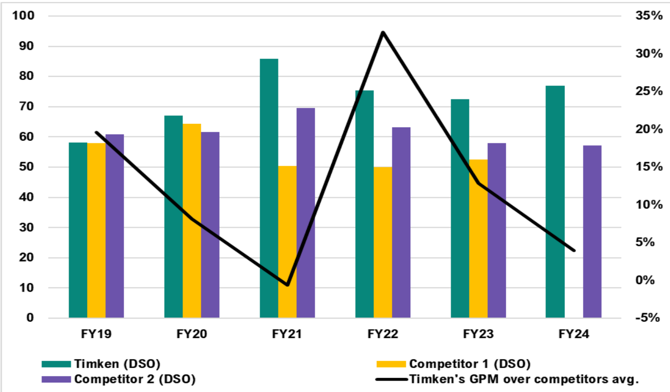
Cash conversion cycle to improve

In FY24, Timken's cash conversion cycle reached 5 year high following easing of credit terms. We forecast cash conversion cycle improvement by FY27E.



Source: Company data, Geojit Research

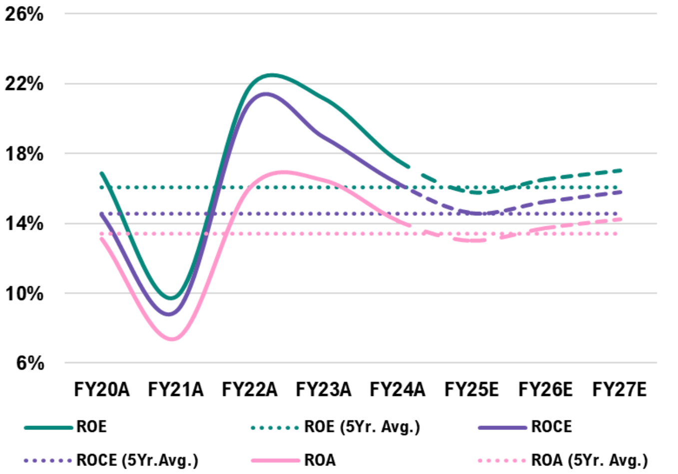
Along with the product mix, Liberal credit terms compared to peers could have enabled Timken to sustain pricing premium over competitors.



Source: Company data, Geojit Research

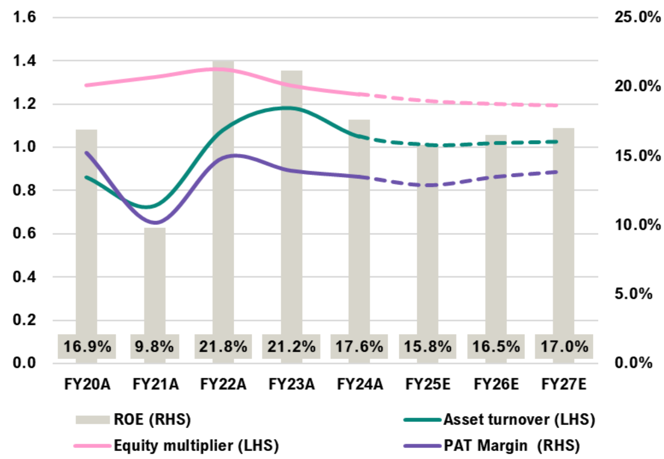
Return ratios

Timken's FY27E ROE/ROCE/ROA are expected to be at 17% /16%/14% respectively.



Source: Company data, Geojit Research

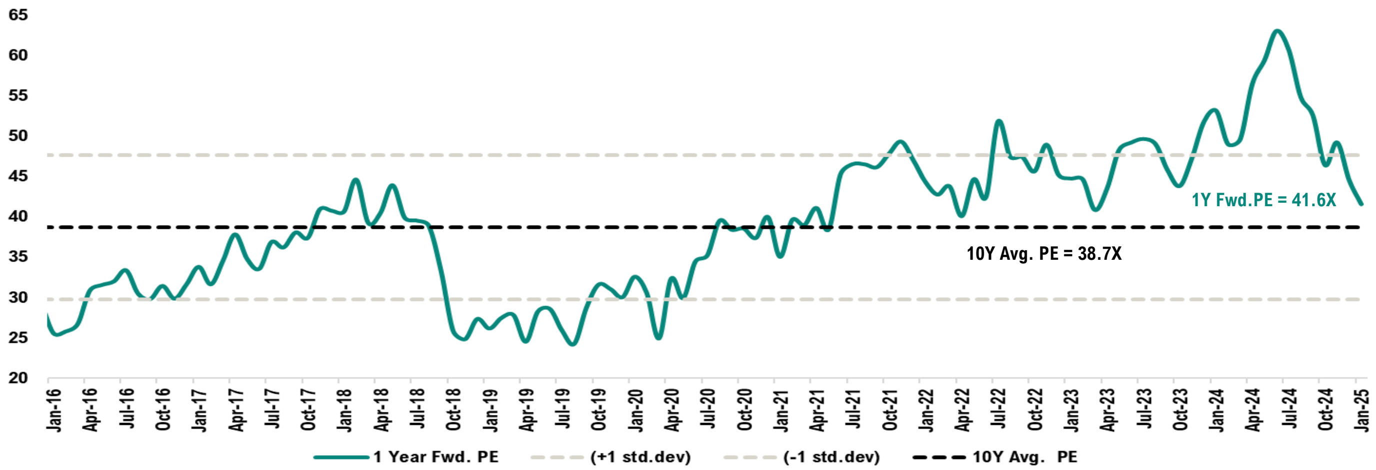
Du Pont Analysis on Timken's ROE indicate a healthy return generation are purely driven by operational efficiency and lower leverage.



Source: Company data, Geojit Research

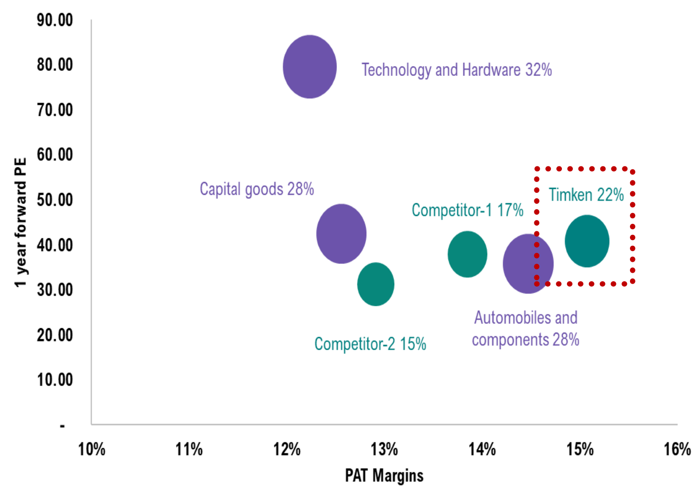
Valuation

After reaching a high of 63.1X in June 2024, Timken's valuations have corrected to 41.6X as the market digested the near-term risks pertinent to the business. ROE may be subdued in the near term; however, it is expected to revert to 17% by FY27E. As the new facility in Bharuch becomes operational in Q4FY25, Timken's topline could register 17% CAGR in FY25E-27E and EPS to register 22% CAGR in the same period. We also build in expectations for recovery of export markets and better margins due to a favourable product mix in this period, which can help in commanding richer valuations. However, rising geopolitical risk could continue to remain an overhang. Therefore we value the stock at 42X on FY27 EPS of Rs. 81.1 and come with a BUY recommendation.



Source: Bloomberg; Company research, Geojit

Timken's valuations are in the attractive territory. High profitability and earnings growth prospects to drive valuations up.



Source: Bloomberg; Company research, Geojit

Note: Bubble sizes represent FY25E-27E EPS CAGR. Values are denoted next to labels.

Key Risks to Valuation

Downside Risk

- West Asia/Red Sea escalations continue, leading to higher logistic costs for exports, thereby impacting profitability.
- Competitive after-market and process segment could lead to lower pricing premium over competitors.
- Export segment recovery could be delayed if weak trucks and Off-Highway continue to remain weak.
- Slower execution of domestic railway wagon orders.

Upside Risk

- Resolution of West Asia, Red Sea tensions leading to lower logistic costs.
- Faster than expected recovery of trucks and off-Highway segments in North America and Export destinations.
- Higher allocations to rolling stocks in the next budget.
- Higher penetration in aftermarket segments can contribute to better margins due to better economies of scale.

Standalone Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue	**2,807**	**2,910**	**3,208**	**3,738**	**4,394**
% change	*27.4*	*3.7*	*10.3*	*16.5*	*17.5*
EBITDA	**560**	**572**	**600**	**727**	**869**
% change	*9.7*	*2.2*	*4.8*	*21.1*	*19.6*
Depreciation	87	85	91	105	113
EBIT	**473**	**487**	**509**	**621**	**757**
Interest	3	4	4	1	0
Other Income	53	41	45	52	58
PBT	**524**	**524**	**550**	**672**	**814**
% change	*19.5*	*0.1*	*4.9*	*22.2*	*21.1*
Tax	**133**	**132**	**137**	**168**	**203**
Tax Rate (%)	*25.4*	*25.2*	*25.0*	*25.0*	*25.0*
Reported PAT	**391**	**392**	**413**	**504**	**610**
Adj*	0	0	0	0	0
Adj PAT	**391**	**392**	**413**	**504**	**610**
% change	*19.5*	*0.4*	*5.2*	*22.2*	*21.1*
No. of shares (cr)	**8**	**8**	**8**	**8**	**8**
Adj EPS (Rs.)	**51.9**	**52.1**	**54.9**	**67.0**	**81.1**
% change	*19.5*	*0.4*	*5.2*	*22.2*	*21.1*
DPS (Rs.)	**1.5**	**1.5**	**2.2**	**2.8**	**3.3**

BALANCE SHEET

Y.E March (Rs. cr)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash	**162**	**331**	**711**	**994**	**1,498**
Accounts Receivable	576	652	703	860	927
Inventories	**569**	**667**	**704**	**856**	**925**
Other Cur. Assets	69	38	80	93	109
Investments	**236**	**161**	**161**	**161**	**161**
Gross Fixed Assets	624	612	627	640	642
Net Fixed Assets	**612**	**627**	**640**	**642**	**585**
CWIP	53	104	87	101	119
Intangible Assets	**231**	**226**	**222**	**218**	**213**
Def. Tax (Net)	16	20	20	20	20
Other Assets	**32**	**161**	**29**	**31**	**35**
Total Assets	**2,557**	**2,988**	**3,356**	**3,976**	**4,593**
Current Liabilities	**393**	**456**	**421**	**546**	**562**
Provisions	55	57	67	78	92
Debt Funds	**31**	**25**	**21**	**20**	**20**
Other Liabilities	41	33	34	35	38
Equity Capital	**75**	**75**	**75**	**75**	**75**
Reserves & Surplus	1,962	2,342	2,738	3,221	3,806
Shareholder's Fund	2,037	2,417	2,813	3,296	3,882
Total Liabilities	**2,557**	**2,988**	**3,356**	**3,976**	**4,593**
BVPS (Rs.)	**271**	**321**	**374**	**438**	**516**

CASH FLOW

Y.E March (Rs. cr)	FY23A	FY24A	FY25E	FY26E	FY27E
Net inc. + Depn.	**478**	**477**	**504**	**610**	**723**
Non-cash adj.	-41	-32	4	1	0
Changes in W.C	**-96**	**-106**	**-146**	**-186**	**-122**
C.F – Operation	341	340	362	425	601
Capital exp.	**-62**	**-262**	**-83**	**-117**	**-70**
Change in inv.	1	2	121	-2	-2
Other invest.CF	**15**	**34**	**121**	**-2**	**-2**
C.F – Investment	-47	-228	38	-119	-72
Issue of equity	**0**	**0**	**0**	**0**	**0**
Issue/repay debt	-1	-2	0	0	0
Dividends paid	**-11**	**-11**	**-17**	**-21**	**-25**
Other finance.CF	-3	-4	-4	-1	0
C.F – Finance	**-15**	**-17**	**-21**	**-22**	**-26**
Chg. in cash	279	94	379	283	504
Closing cash	**162**	**331**	**711**	**994**	**1,498**

RATIOS

Y.E March	FY23A	FY24A	FY25E	FY26E	FY27E
Profitab. & Return					
EBITDA margin (%)	20.0	19.7	18.7	19.4	19.8
EBIT margin (%)	16.9	16.7	15.9	16.6	17.2
Net profit mgn.(%)	13.9	13.5	12.9	13.5	13.9
ROE (%)	21.2	17.6	15.8	16.5	17.0
ROCE (%)	18.9	16.3	14.6	15.2	15.8
W.C & Liquidity					
Receivables (days)	72.5	77.0	77.1	76.3	74.2
Inventory (days)	124.0	131.4	131.5	129.4	126.1
Payables (days)	74.0	80.3	78.7	79.7	79.9
Current ratio (x)	3.8	3.9	5.4	5.3	6.3
Quick ratio (x)	2.4	2.5	3.8	3.8	4.7
Turnover & Leverage					
Gross asset T.O (x)	4.3	4.2	4.5	5.1	5.8
Total asset T.O (x)	1.18	1.05	1.01	1.02	1.03
Int. coverage ratio (x)	168.2	128.6	125.8	464.9	1715.8
Net debt/equity (x)	-0.1	-0.1	-0.3	-0.3	-0.4
Valuation					
EV/Sales (x)	7.3	7.3	6.7	5.6	4.7
EV/EBITDA (x)	36.7	37.0	35.6	29.0	23.7
P/E (x)	53.0	54.8	53.5	43.8	36.2
P/BV (x)	10.2	8.9	7.8	6.7	5.7

Recommendation Summary (last 3 years)

Dates	Rating	Target
09-Jan-25	BUY	3,408

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

Symbols definition: Upgrade No Change Downgrade

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review.

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