

Challenging times, expensive valuations...

Timken India reported subdued Q2FY21 numbers that were broadly in line with our estimates. Revenue for the quarter came in at ₹ 392.23 crore, down 2.2% YoY (vs. I-direct estimate of ₹ 400 crore). Slower recovery in CV & other industrial sectors impacted Timken's performance compared to peers. Gross margins contracted ~190 bps YoY. EBIDTA margin was at 21.1% vs. 22.4% YoY. However, it is important to note that Timken posted one of its highest margins in Q2FY20. Absolute EBIDTA came in at ₹ 82.7 crore, down 7.8% YoY (I-direct estimate of ₹ 89.5 crore). Employee cost declined 2.9% YoY to ₹ 30.3 crore. Other expenses declined 5.6% to ₹ 64.2 crore. Tracking its operating performance, Timken ended the quarter with a PAT of ₹ 49.9 crore. Other income came in at ₹ 2.2 crore, diving 65% YoY. Other income declined on account of reduced cash balance, which was used to pay out dividend in June at ₹ 50 per share. Timken generated CFO of ₹ 101.3 crore during H1FY21 vs. ₹ 168.3 crore in H1FY20.

Tractor, wind segment witnessing traction, CV lags...

While CV continued to lag on account of weak demand, the fort was held by steady traction in the wind & tractor segment. Exports contribution in the Q2FY21 revenue mix fell 2% YoY to 26% vs. 28% in Q2FY20. Nonetheless, the management expects strong offtake on the exports front on the back of a solid order book and new product exports from ABC plant. Furthermore, Timken expects to launch new products in areas like solar, belts, drives and lubricants in order to improve market share and utilisation.

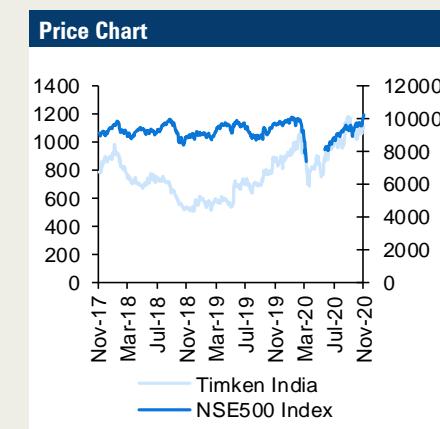
Railways to sustain steady growth...

Conversion of conventional coaches to LHB coaches, upcoming metro projects and DFC corridor to make up an annual market of ₹ 1500-1800 crore for Timken. We believe Timken's expertise in tapered roller bearing would play a crucial role and provide it with a sustainable growth path in the railway segment, albeit at a moderate pace. Share of railways in revenue mix came down to 26% in Q2FY21 from 28% in Q2FY20.

Valuation & Outlook

Amid a challenging environment, Timken has managed to sustain its operating margins albeit on a lower topline. MNC status, debt free balance sheet & high return ratios bode well for the company amid uncertain times. However, the recent run up in Timken's stock price has made valuations too expensive for our comfort. Thus, taking into consideration all the above factors, we roll over and introduce FY23E. We pencil in revenue, EBIDTA and PAT CAGR of 5%, 5% & 2.6%, respectively, in FY20E-23E. We value Timken at 35x FY23EPS to arrive at a target price of ₹ 1235/share. We revise our rating on the stock from BUY to **HOLD**.

Particulars	
Particular	Amount
Market Capitalization (₹crore)	8,838
Total Debt (FY20) (₹crore)	20
Cash and Inv (FY 20) (₹crore)	419
EV (FY 20) (₹crore)	8,439
52 week H/L (₹ (BSE))	1228 / 650
Equity capital (₹crore)	75.2
Face value (₹)	10.0



Key Highlights

- Tractors & wind neutralised downfall in CV, to an extent
- Exports picking up on the back of strong order book
- Revise rating on stock from BUY to **HOLD** with target price of ₹ 1235

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Key Financial Summary

(₹Crre)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	1,664.4	1,617.8	1,410.3	1,683.0	1,871.0	5.0
EBITDA	288.6	363.3	273.6	373.6	421.0	5.0
EBITDA margin (%)	17.3	22.5	19.4	22.2	22.5	
Net Profit	148.6	246.1	162.0	234.6	265.6	2.6
EPS (₹)	19.8	32.7	21.5	31.2	35.3	
P/E (x)	61.1	36.9	56.1	38.7	34.2	
P/BV	6.8	5.8	6.7	5.7	5.7	
EV/EBITDA (x)	31.5	23.9	32.3	23.2	20.6	
RoCE (%)	15.7	18.6	15.4	19.4	21.9	
RoE (%)	11.1	15.6	11.9	14.8	16.8	

Source: Company, ICICI Direct Research

Exhibit 1: Variance analysis

Year	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ(%)	Comments
Net Sales	392.2	400.4	401.2	-2.2	160.2	144.8	
Income from Operation	392.2	400.4	401.2	-2.2	160.2	144.8	Strong performance in tractor and wind segment
Cost of materials consumed	138.0	119.1	119.7	15.4	51.8	166.6	
Purchase of stock-in-trade	74.2	87.3	87.7	-15.4	65.6	13.1	Lower input cost on account of localisation of supply chain and improvement in yield
Change in inventories	2.8	4.0	4.9		(33.6)		
Employee cost	30.3	31.6	31.2	(2.9)	26.2	15.7	
Other expenses	64.2	68.9	68.0	-5.6	36.2	77.2	
EBITDA	82.7	89.5	89.7	-7.8	14.1	487.5	
EBITDA Margin (%)	21.1	22.4	22.4	-128 bps	8.8	1229 bps	Margins continue to be on a high trajectory
Other Income	2.2	7.0	6.4	-65.5	7.8	(71.7)	
Depreciation	17.7	19.0	19.1	-7.4	17.9	(1.5)	
Interest	0.3	0.3	0.3	-7.1	0.3	(16.1)	
PBT	67.0	77.2	76.7	-12.7	3.6	1,744.4	
Taxes	17.0	21.6	26.9	-36.8	0.5	3,443.8	
PAT	49.9	55.6	49.8	0.3	3.1	1,485.4	

Source: Company, ICICI Direct Research

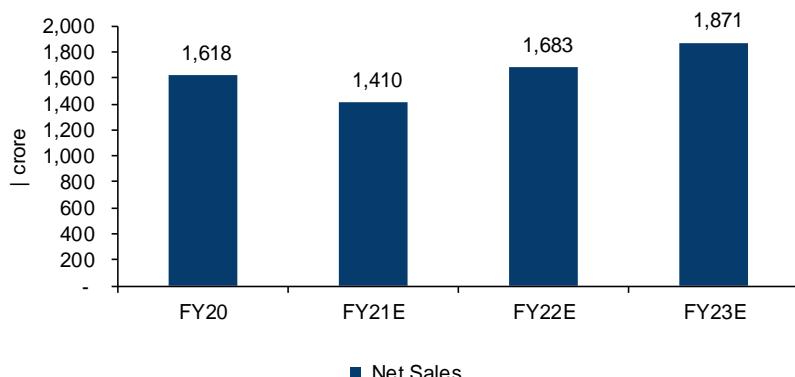
Exhibit 2: Change in estimates

₹crore	Actual		FY21E		FY22E		FY23E	
	FY 20	Old	New	% Change	Old	New	% Change	New
Revenue	1410	1491	1410	(5.4)	1661	1683	1.3	1871
EBITDA	274	289	274	(5.3)	390	374	(4.2)	421
EBITDA Margin (%)	19.4	19.4	19.4	2 bps	23.5	22.2	-128 bps	22.5
PAT	162	161	162	0.6	243	235	(3.4)	266
EPS (₹)	21.5	21.4	21.5	0.7	32.3	31.2	(3.4)	35.3

Source: Company, ICICI Direct Research

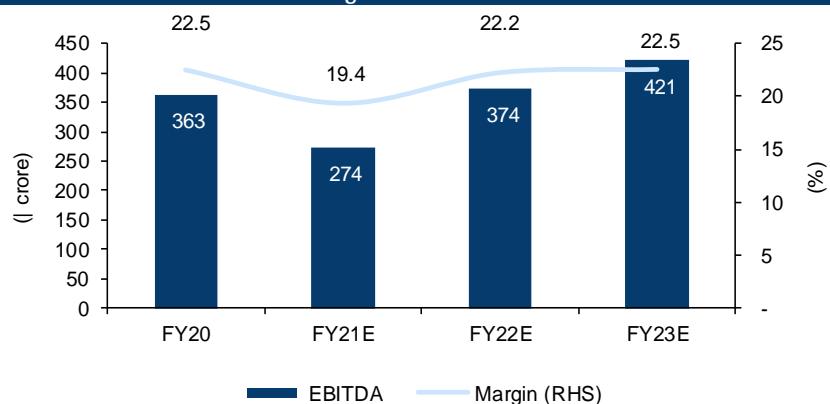
Financial story in charts

Exhibit 3: Revenue trend (consolidated)



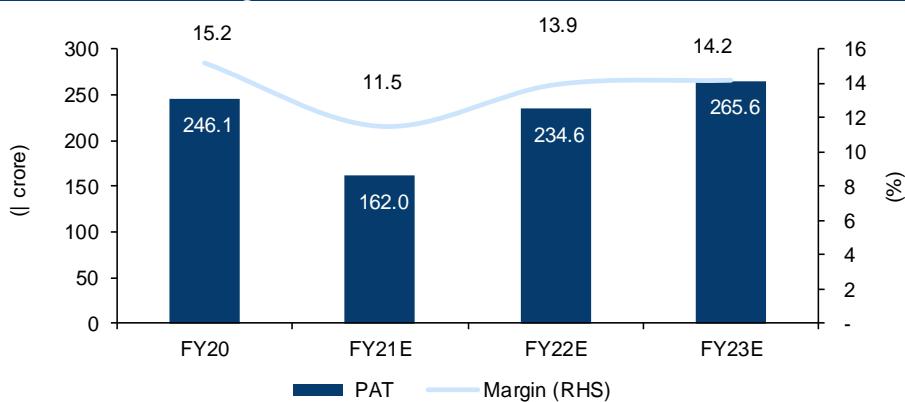
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



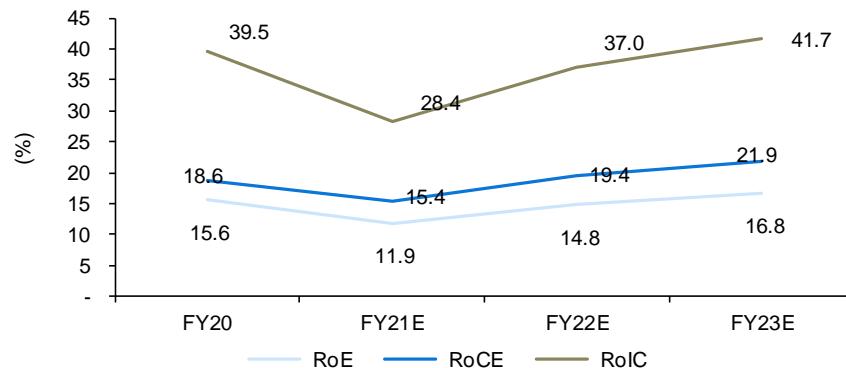
Source: Company, ICICI Direct Research

Exhibit 5: PAT and margin trend



Source: Company, ICICI Direct Research

Exhibit 6: RoE and RoCE trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				₹ crore
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Net Sales	1,618	1,410	1,683	1,871
Total Operating Income	1,618	1,410	1,683	1,871
% Growth (Operating Income)	-	(12.8)	19.3	11.2
Other Income	23	18.0	25.0	30.0
Total Revenue	1,640	1,428	1,708	1,901
Cost of materials consumed	464	451	530	589
Purchase of stock-in-trade	372	317	379	421
Change in inventories	24	(17)	(25)	(28)
Employee cost	124	117	131	146
Other Expenses	271	268	295	322
Total expenditure	1,255	1,137	1,309	1,450
EBITDA	363	274	374	421
% Growth (EBITDA)		(24.7)	36.6	12.7
Interest	3	2.3	2.3	2.3
PBDT	383	289	396	449
Depreciation	77	64	70	80
PBT	306	225	326	369
Tax	60	63	91	103
PAT	246	162	235	266
% Growth (PAT)	-	(34.2)	44.8	13.2
EPS	32.7	21.5	31.2	35.3

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				₹ crore
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Profit after Tax	246.1	162.0	234.6	265.6
Depreciation	76.9	64.3	70.5	79.8
Interest	2.8	2.3	2.3	2.3
Other income	(22.7)	(18.0)	(25.0)	(30.0)
Prov for Taxation	60.3	63.0	91.3	103.3
Change in Working Capital	201.4	22.8	(51.7)	(39.4)
Taxes Paid	(70.4)	(63.0)	(91.3)	(103.3)
CF from Op activities	494	233	231	278
(Purchase)/Sale of Fixed Assets	(14.1)	(43.5)	(100.0)	(120.0)
(Purchase)/Sale of Investments	(98.2)	19.7	20.0	-
Other Income	22.7	18.0	25.0	30.0
CF from Inv activities	(90)	(6)	(55)	(90)
Changes in Networth	3.4	-	(0.0)	(0.0)
Interest	(2.8)	(2.3)	(2.3)	(2.3)
Dividend paid	(13.6)	(376.1)	(15.0)	(15.0)
CF from Fin activities	(13)	(378)	(17)	(17)
Changes in Cash	388.6	(125.8)	158.4	171.0
Opening Cash/Cash Equivalent	30.2	418.8	293.0	451.4
Closing Cash/ Cash Equivalent	418.8	293.0	451.4	622.4

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				₹ crore
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Share Capital	75	75	75	75
Reserves & Surplus	1,501	1,287	1,507	1,758
Total Shareholders fund	1,577	1,363	1,582	1,833
Goodwill	181.3	181.3	181.3	181.3
Total debt	20.0	45.0	45.0	45.0
Other liabilities	64.9	64.9	64.9	64.9
Total Liabilities	1,662	1,473	1,692	1,943
Gross Block	704	804	904	1,024
Acc: Depreciation	246	310	381	461
Net Block	457	493	523	563
Capital WIP	157	100	100	100
Investments	140	120	100	100
Inventory	291	259	309	343
Sundry debtors	291	268	320	355
Cash	419	293	451	622
Loans & Advances	0	0	0	0
Inv+Other current assets	41	41	41	41
CL& Prov.	316	283	333	364
Net Current Assets	727	578	788	999
Total Assets	1,662	1,473	1,692	1,943

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
EPS	32.7	21.5	31.2	35.3
Cash EPS	42.9	30.1	40.6	45.9
BV	209.6	181.2	210.4	210.4
DPS	1.8	50.0	2.0	2.0
Cash Per Share	32.7	41.3	50.6	50.6
EBITDA Margin	22.5	19.4	22.2	22.5
PBT / Net Sales	17.7	14.8	18.0	18.2
PAT Margin	15.2	11.5	13.9	14.2
Inventory days	65.7	67.0	67.0	60.3
Debtor days	65.8	69.4	69.4	62.4
Creditor days	71.3	73.1	72.2	64.9
RoE	15.6	11.9	14.8	16.8
RoCE	18.6	15.4	19.4	21.9
RoIC	39.5	28.4	37.0	41.7
P/E	36.9	56.1	38.7	34.2
EV / EBITDA	23.9	32.3	23.2	20.6
EV / Net Sales	5.4	6.3	5.2	4.6
Market Cap / Sales	5.6	6.4	5.4	4.9
Price to Book Value	5.8	6.7	5.7	5.7
Net Debt / Equity	-	-	-	-
Current Ratio	1.8	1.9	1.9	1.9
Quick Ratio	0.9	0.9	1.0	1.0

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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