

India

**HOLD** (no change)

Consensus ratings\*: Buy 6 Hold 1 Sell 1

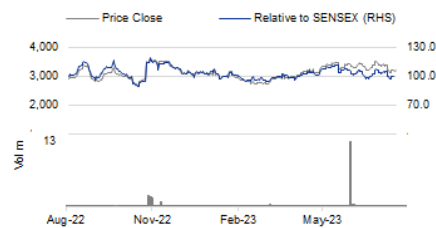
Current price:	Rs3,211
Target price:	Rs3,217
Previous target:	Rs3,222
Up/downside:	0.2%
InCred Research / Consensus:	-7.0%

Reuters:	
Bloomberg:	TMKN IN
Market cap:	US\$3,326m Rs241,554m
Average daily turnover:	US\$8.3m Rs600.4m
Current shares o/s:	75.2m
Free float:	32.2%

\*Source: Bloomberg

**Key changes in this note**

- Sales cut by 2-3% for FY24F-25F.
- EBITDA cut by 8-12% for FY24F-25F.
- EPS cut by 10-12% for FY24F-25F.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	(0.8)	(1.0)	10.4
Relative (%)	1.4	(5.9)	0.0

<b>Major shareholders</b>	% held
Promoter	67.8
SBI Mutual Fund	3.5
Nippon Life Mutual Fund	2.0

**Analyst(s)**



**Pramod AMTHE**

T (91) 22 4161 1541  
E pramod.amthe@incredcapital.com

**Ravi GUPTA**

T (91) 02241611500  
E ravi.gupta@incredcapital.com

# Timken Ltd

## Export slowdown impact persists in 1Q

- 1QFY24 EPS fell 24% yoy and 14% qoq to Rs12, forming 18% of our FY24F estimate, because of sustained export weakness.
- Considering the plant closure this month to handle export weakness, we have cut EPS estimates by a sharp 10-12% for FY24F-25F.
- The high growth potential of railway business seems well captured at +1SD above mean P/E valuation. Retain HOLD rating. Prefer Schaeffler India & SKF.

### EBITDA declines 21% yoy in 1QFY24

Timken's slow sales growth at just 2.6% yoy in 1QFY24 because of qoq sustained weakness (-11% qoq) in exports overshadowed other divisions' strong performance. Management highlighted that railway business recorded high double-digit yoy growth. The EBITDA margin dipped by 14bp qoq and 560bp yoy to 18.9%. Higher manufacturing expenses overshadowed the easing raw material cost qoq trend. PAT declined by 24% yoy and 14% qoq to Rs901m because of lower other income and higher interest cost.

### Management conference-call highlights

Management indicated that export weakness was because of non-Class-8 truck segments in the North American market witnessing a slowdown and inventory correction. Considering the slowdown, it has gone for a one-week Jamshedpur plant shutdown this month to optimize fixed costs. Management highlighted that the export mix seems to have bottomed at 21% of sales in Jun 2023 vs. a peak of 33% witnessed in Jun 2022. Management is attempting an early commissioning of the new bearings capacity from its scheduled date of Jan 2025F, to address the large Rs15bn market size opportunity in the SRB and CRB segments.

### We cut estimates for weakness in high-profit margin export business

The sharp weakness in Timken's exports disappointed us, as they formed 27% of its sales in FY23. Considering its high dependence on North America (17% of FY23 sales), we cut net sales estimates by 2-3% for FY24F-25F. Management stated that its new product line plan to offer benefits in FY26F only. Considering the high-profit margin from exports, the EBITDA cut is significant at 8-12% for FY24F-25F. Building in the large capex outflow impact on Timken's financials, we have cut EPS estimates by 10-12% for FY24F-25F.

### High growth in railway segment keeps valuation rich; retain HOLD

The weakness in EPS performance in the last few quarters because of heavy dependence on exports, we feel, is an area of concern. The relative underperformance of the stock in the bearings sector has eased its valuation slightly but still it remains stretched at +1SD above the seven-year mean, as high growth and opportunity in the railway segment (17% of FY23 sales) makes it the source of attraction. Retain HOLD rating on Timken with a lower target price of Rs3,217, at 40x 1-year forward P/E valuation. Key upside risk is strong growth in the railway segment while the downside risk is a prolonged weakness in exports.

### Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	21,818	27,879	30,711	35,731	42,087
Operating EBITDA (Rsm)	5,107	5,604	6,417	8,010	9,800
Net Profit (Rsm)	3,271	3,907	4,419	5,546	6,819
Core EPS (Rs)	43.5	52.0	58.8	73.7	90.7
Core EPS Growth	128.4%	19.4%	13.1%	25.5%	22.9%
FD Core P/E (x)	73.83	61.81	54.66	43.55	35.42
DPS (Rs)	1.5	1.5	2.5	3.0	4.0
Dividend Yield	0.05%	0.05%	0.08%	0.09%	0.12%
EV/EBITDA (x)	47.31	42.87	37.40	29.74	23.80
P/FCFE (x)	756.61	137.38	116.30	62.93	27.14
Net Gearing	0.7%	(6.5%)	(6.3%)	(11.0%)	(22.7%)
P/BV (x)	14.58	11.86	9.82	8.07	6.63
ROE	21.8%	21.2%	19.6%	20.3%	20.5%
% Change In Core EPS Estimates			(10.34%)		143,200.00%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Export slowdown impact persists in 1Q

### Management-call key takeaways ►

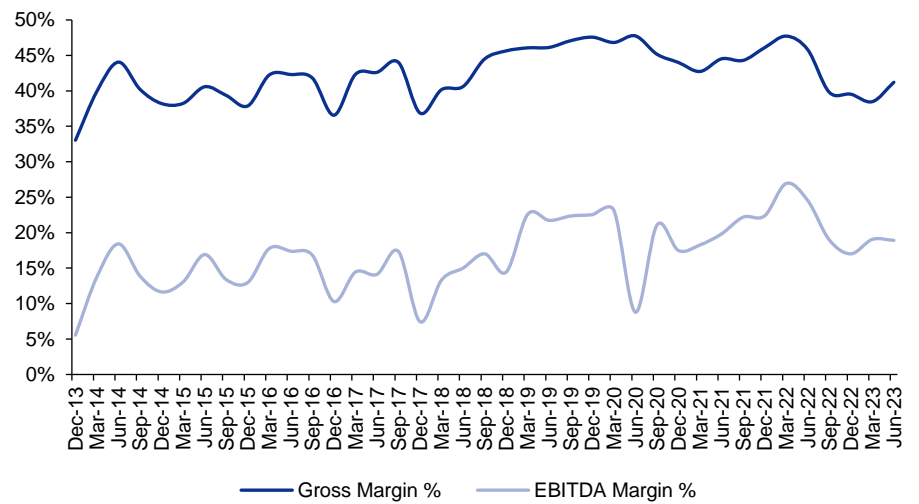
- **Railways:** Management has received the approval to produce bearings for the electric locomotive market. Timken expects Indian Railways to witness robust growth in the next 10-15 years led by growing demand for mass transportation, as many cities like Indore and Mumbai are launching new metro rail lines.
- **Industrial motion:** Timken has started supplying its lubrication system to Pune metro rail and has received some orders from Germany. The aim is to supply couplings, chains, belts, and lubrication systems.
- **Exports:** They were down by 35% yoy on account of a slowdown in the US industrial segment. This was mainly because of a sharp cut in the supply chain inventory level and end-customer demand gradually slowing down. China's slowdown seems to be impacting Australia exports, while other Asia markets are yet to be on the growth path. The company is not sure about the timeline of recovery in the global market. This month, management announced factory shutdown for seven days to optimize manufacturing cost, as export weakness seems to be prolonged.
- **Costs:** Timken expects raw material prices to decline further going ahead whereas energy, transportation and labour costs are expected to go up from the current levels.
- **Gross margin:** In 1Q, gross margin stood at 41%, up by 270bp qoq, led by softness in alloy prices whereas it was down by 460bp yoy due to inflation pressure and higher energy cost.
- **New business opportunity:** Timken is targeting to compete its upcoming plants before the timeline (4QFY25F) for production of cylindrical roller bearings (CRBs) and spherical roller bearings (SRBs). The total capex planned is Rs6bn, where it expects a 2.5x asset turnover at full capacity utilization to address the market opportunity of Rs15bn for these bearings in process industries.

Figure 1: 1QFY24 results table

Y/E Mar (Rs m)	1QFY24	1QFY23	YoY % chg	4QFY23	QoQ % chg
<b>Total Revenue</b>	<b>7,176</b>	<b>6,992</b>	<b>2.6%</b>	<b>8,025</b>	<b>(10.6%)</b>
<b>Less:</b>					
Net Raw Material Consumed	4,218	3,789	11.3%	4,937	(14.6%)
Other Expenses	1,181	1,090	8.4%	1,167	1.2%
Personnel Cost	419	397	5.6%	392	7.0%
<b>Total Expenditure</b>	<b>5,819</b>	<b>5,276</b>	<b>10.3%</b>	<b>6,496</b>	<b>(10.4%)</b>
<b>EBIDTA</b>	<b>1,357</b>	<b>1,716</b>	<b>(20.9%)</b>	<b>1,529</b>	<b>(11.2%)</b>
Less: Depreciation	213	218	(2.1%)	213	0.1%
<b>EBIT</b>	<b>1,144</b>	<b>1,498</b>	<b>(23.6%)</b>	<b>1,316</b>	<b>(13.1%)</b>
Less: Interest paid	9	4	133%	14	(32.2%)
Non-operating Income	93	106	(11.8%)	67	40.0%
Extraordinary Income	-	-	NA	-	NA
<b>Profit Before Tax</b>	<b>1,228</b>	<b>1,600</b>	<b>(23.2%)</b>	<b>1,369</b>	<b>(10.3%)</b>
Profit Before Tax Excl. Extraordinary Items	1,228	1,600	(23.2%)	1,369	(10.3%)
Less: Total Tax	327	419	(22.0%)	324	0.9%
<b>Profit After Tax</b>	<b>901</b>	<b>1,181</b>	<b>(23.7%)</b>	<b>1,045</b>	<b>(13.8%)</b>
Minority Interest					
Associates' share					
<b>Reported PAT</b>	<b>901</b>	<b>1,181</b>	<b>(23.7%)</b>	<b>1,045</b>	<b>(13.8%)</b>
<b>Profit After Tax Excl. Extraordinary Items</b>	<b>901</b>	<b>1,181</b>	<b>(23.7%)</b>	<b>1,045</b>	<b>(13.8%)</b>

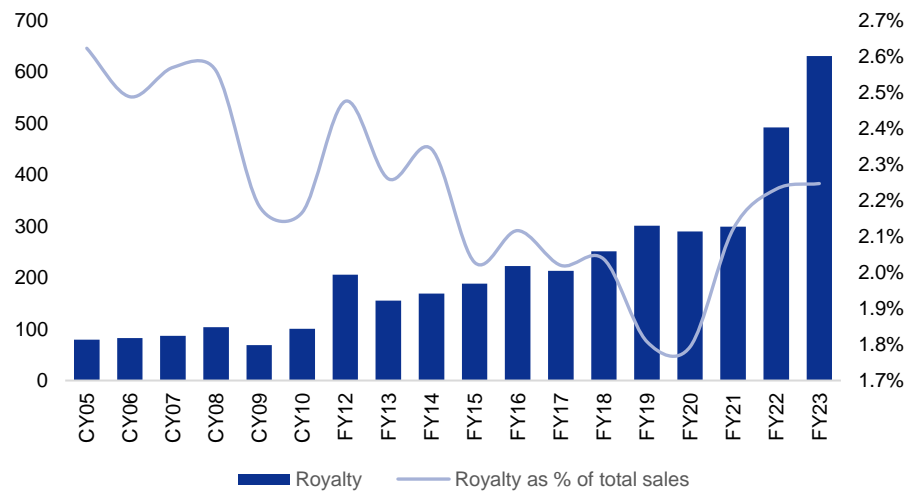
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Gross margin and EBITDA margin trend



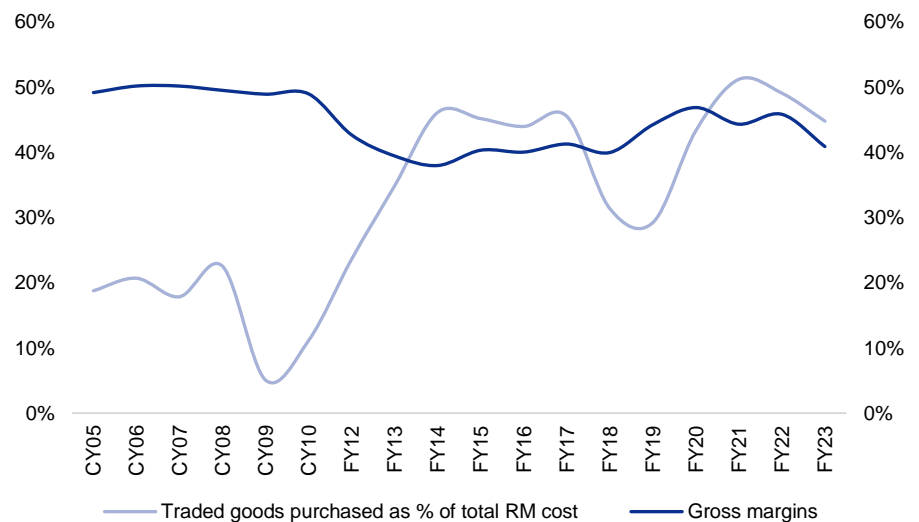
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Royalty payout remains elevated



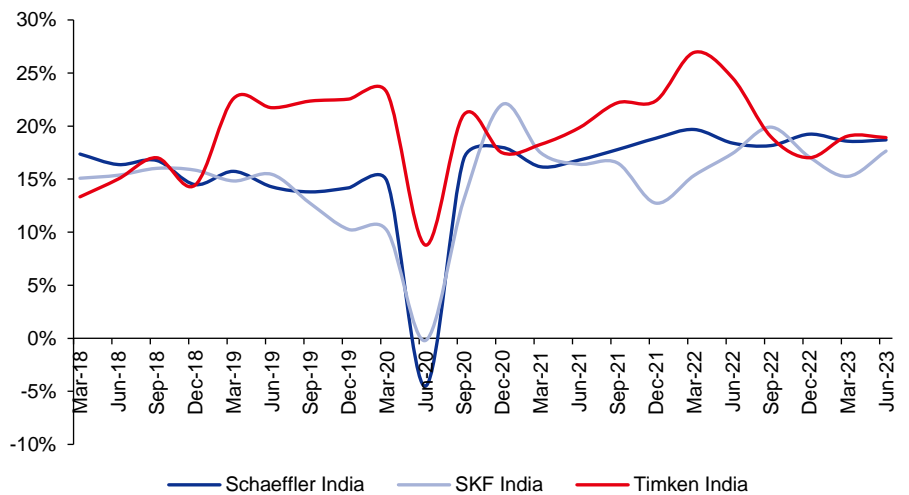
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Traded goods as a proportion of raw material cost vs. gross margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: The EBITDA margin trend is range-bound for bearing sector leaders



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Earnings revision summary

	Old Estimates		New Estimates		Change	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	31,642	36,367	30,711	35,731	-3%	-2%
EBITDA	7,299	8,661	6,417	8,010	-12%	-8%
PAT	5,023	6,185	4,419	5,546	-12.03%	-10.34%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Key assumptions

REVENUE FROM OPERATIONS	FY21	FY22	FY23	FY24F	FY25F	FY26F
<b>Sale of Goods (Gross)</b>	<b>13,320</b>	<b>21,178</b>	<b>26,410</b>	<b>28,897</b>	<b>33,742</b>	<b>39,906</b>
Less Excise Duty	-	-	-	-	-	-
<b>Sale of Goods (net)</b>	<b>13,320</b>	<b>21,178</b>	<b>26,410</b>	<b>28,897</b>	<b>33,742</b>	<b>39,906</b>
yoy growth (%)	(13.2)	59.0	24.7	9.4	16.8	18.3
Rail	2,962	3,966	4,771	5,964	7,157	8,374
share (%)	21	18	17	19	20	20
yoy (%)	(15.5)	34	20	25	20	17
Mobility	1,693	2,644	4,210	5,052	5,759	6,565
share (%)	12	12	15	16	16	16
yoy (%)	(28.9)	56	59	20	14	14
Process	1,834	2,864	4,491	5,838	7,005	9,107
share (%)	13	13	16	19	20	22
yoy (%)	3	56	57	30	20	30
Distribution	2,962	4,406	4,771	5,105	5,718	6,404
share (%)	21	20	17	17	16	15
yoy (%)	(5.3)	49	8	7	12	12
<b>Domestic</b>	<b>10,661</b>	<b>15,525</b>	<b>20,478</b>	<b>24,641</b>	<b>28,750</b>	<b>34,059</b>
share (%)	74.1	69.3	73.0	80.2	80.5	80.9
yoy (%)	(12.2)	46	32	20	17	18
<b>Exports</b>	<b>3,444</b>	<b>6,508</b>	<b>7,588</b>	<b>6,070</b>	<b>6,981</b>	<b>8,028</b>
share (%)	25.9	30.7	27.0	19.8	19.5	19.1
yoy (%)	(14.4)	89	17	-20	15	15
<b>ABC Bearings</b>	<b>1,211</b>	<b>1,644</b>	<b>2,235</b>	<b>2,682</b>	<b>3,111</b>	<b>3,609</b>
share (%)	8.6	7.5	8.0	8.7	8.7	8.6
yoy growth (%)	(10.7)	35.8	35.9	20.0	16.0	16.0
<b>Sales - service</b>	<b>713</b>	<b>785</b>	<b>1586</b>	<b>1745</b>	<b>1919</b>	<b>2111</b>
yoy growth (%)	8.2	10.0	10.0	10.0	10.0	10.0
<b>Gross sales</b>	<b>14,034</b>	<b>21,962</b>	<b>27,996</b>	<b>30,641</b>	<b>35,661</b>	<b>42,017</b>
<b>Net sales</b>	<b>14034</b>	<b>21962</b>	<b>27996</b>	<b>30641</b>	<b>35661</b>	<b>42017</b>
yoy growth (%)	(12.3)	56.5	27.5	9.4	16.4	17.8

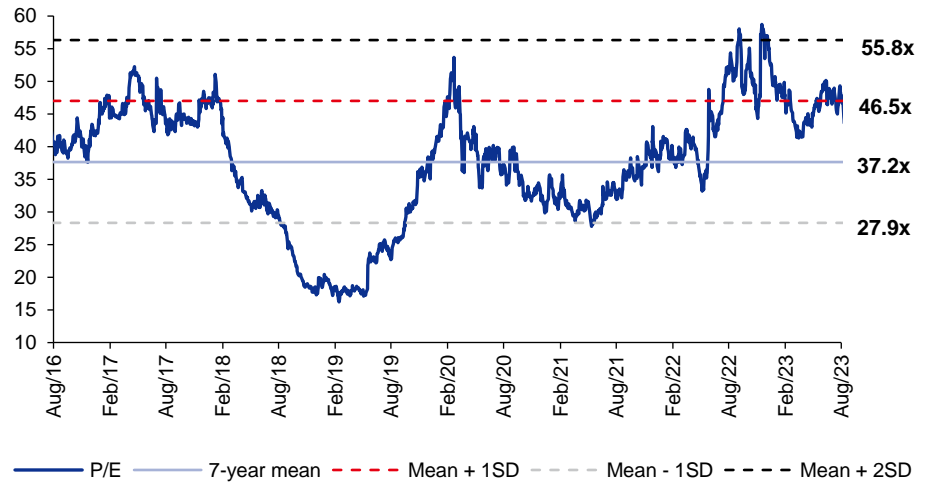
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Target price calculation methodology

	1-year forward
EPS (Rs.) (1-year forward)	80.4
P/E(x)	40.0
<b>Target Price (Rs)</b>	<b>3,217</b>

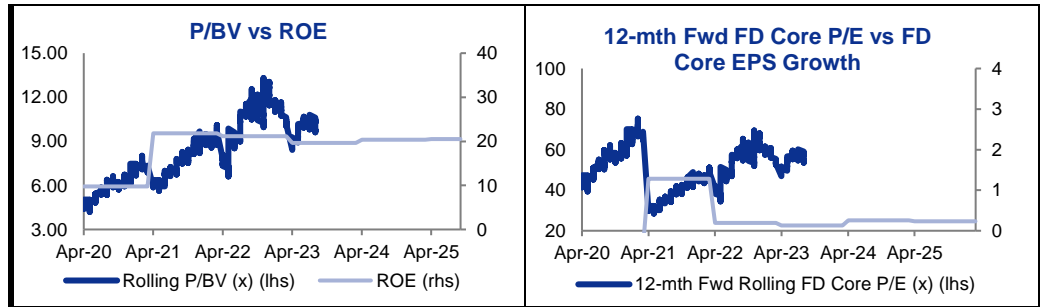
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 9: Forward P/E valuation eases, but still rich at +1SD above the seven-year mean level**



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>22,032</b>	<b>28,066</b>	<b>30,711</b>	<b>35,731</b>	<b>42,087</b>
<b>Gross Profit</b>	<b>10,092</b>	<b>11,468</b>	<b>13,052</b>	<b>15,722</b>	<b>18,518</b>
<b>Operating EBITDA</b>	<b>5,107</b>	<b>5,604</b>	<b>6,417</b>	<b>8,010</b>	<b>9,800</b>
Depreciation And Amortisation	(843)	(872)	(1,104)	(1,369)	(1,568)
<b>Operating EBIT</b>	<b>4,263</b>	<b>4,732</b>	<b>5,313</b>	<b>6,641</b>	<b>8,233</b>
Financial Income/(Expense)	(24)	(28)	(40)	(30)	(30)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	143	532	658	833	950
<b>Profit Before Tax (pre-EI)</b>	<b>4,382</b>	<b>5,235</b>	<b>5,931</b>	<b>7,444</b>	<b>9,153</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>4,382</b>	<b>5,235</b>	<b>5,931</b>	<b>7,444</b>	<b>9,153</b>
Taxation	(1,111)	(1,328)	(1,512)	(1,898)	(2,334)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>3,271</b>	<b>3,907</b>	<b>4,419</b>	<b>5,546</b>	<b>6,819</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>3,271</b>	<b>3,907</b>	<b>4,419</b>	<b>5,546</b>	<b>6,819</b>
Recurring Net Profit	3,271	3,907	4,419	5,546	6,819
<b>Fully Diluted Recurring Net Profit</b>	<b>3,271</b>	<b>3,907</b>	<b>4,419</b>	<b>5,546</b>	<b>6,819</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>5,107</b>	<b>5,604</b>	<b>6,417</b>	<b>8,010</b>	<b>9,800</b>
Cash Flow from Invt. & Assoc.	(725)	(368)	(486)	(566)	(648)
Change In Working Capital	(3,435)	(1,108)	(1,503)	(1,355)	(1,698)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	843	872	1,104	1,369	1,568
Other Operating Cashflow	(75)	(504)	(618)	(803)	(920)
Net Interest (Paid)/Received	(24)	(28)	(40)	(30)	(30)
Tax Paid	(1,140)	(1,328)	(1,512)	(1,898)	(2,334)
<b>Cashflow From Operations</b>	<b>550</b>	<b>3,140</b>	<b>3,362</b>	<b>4,726</b>	<b>5,738</b>
Capex	(803)	(655)	(3,600)	(3,600)	(1,400)
Disposals Of FAs/subsidiaries	4				
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	578	(723)	2,315	2,712	4,562
<b>Cash Flow From Investing</b>	<b>(221)</b>	<b>(1,379)</b>	<b>(1,285)</b>	<b>(888)</b>	<b>3,162</b>
Debt Raised/(repaid)	(10)	(3)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(113)	(113)	(188)	(226)	(301)
Preferred Dividends					
Other Financing Cashflow	(24)	(28)	(40)	(30)	(30)
<b>Cash Flow From Financing</b>	<b>(147)</b>	<b>(144)</b>	<b>(228)</b>	<b>(256)</b>	<b>(331)</b>
Total Cash Generated	182	1,617	1,849	3,582	8,570
<b>Free Cashflow To Equity</b>	<b>319</b>	<b>1,758</b>	<b>2,077</b>	<b>3,838</b>	<b>8,901</b>
<b>Free Cashflow To Firm</b>	<b>353</b>	<b>1,790</b>	<b>2,117</b>	<b>3,868</b>	<b>8,931</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	182	1,617	1,849	3,582	8,570
Total Debtors	5,388	5,757	7,152	8,321	9,801
Inventories	5,585	5,695	6,232	7,250	8,540
Total Other Current Assets	607	1,095	1,279	1,488	1,753
<b>Total Current Assets</b>	<b>11,762</b>	<b>14,164</b>	<b>16,512</b>	<b>20,642</b>	<b>28,664</b>
Fixed Assets	7,284	7,155	9,650	11,882	11,714
Total Investments	990	2,359	2,359	2,359	2,359
Intangible Assets	1,813	1,813	1,813	1,813	1,813
Total Other Non-Current Assets					
<b>Total Non-current Assets</b>	<b>10,087</b>	<b>11,327</b>	<b>13,823</b>	<b>16,054</b>	<b>15,887</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	3,285	3,444	3,870	4,699	5,765
Other Current Liabilities	1,505	1,191	1,303	1,516	1,786
<b>Total Current Liabilities</b>	<b>4,791</b>	<b>4,635</b>	<b>5,174</b>	<b>6,215</b>	<b>7,552</b>
Total Long-term Debt	298	294	294	294	294
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>298</b>	<b>294</b>	<b>294</b>	<b>294</b>	<b>294</b>
Total Provisions	280	264	264	264	264
<b>Total Liabilities</b>	<b>5,369</b>	<b>5,194</b>	<b>5,732</b>	<b>6,774</b>	<b>8,110</b>
Shareholders Equity	16,569	20,372	24,602	29,923	36,441
Minority Interests					
<b>Total Equity</b>	<b>16,569</b>	<b>20,372</b>	<b>24,602</b>	<b>29,923</b>	<b>36,441</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	55.5%	27.8%	10.2%	16.3%	17.8%
Operating EBITDA Growth	102.8%	9.7%	14.5%	24.8%	22.4%
Operating EBITDA Margin	23.4%	20.1%	20.9%	22.4%	23.3%
Net Cash Per Share (Rs)	(1.54)	17.59	20.67	43.72	110.03
BVPS (Rs)	220.31	270.86	327.11	397.86	484.52
Gross Interest Cover	174.23	168.20	132.83	221.38	274.42
Effective Tax Rate	25.3%	25.4%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	3.4%	2.9%	4.3%	4.1%	4.4%
Accounts Receivables Days	75.38	72.47	76.71	79.03	78.58
Inventory Days	141.71	124.03	123.26	122.96	122.27
Accounts Payables Days	(101.48)	(73.99)	(75.59)	(78.16)	(81.03)
ROIC (%)	25.6%	21.4%	22.5%	23.1%	24.5%
ROCE (%)	27.3%	24.9%	23.1%	23.9%	24.4%
Return On Average Assets	16.2%	16.6%	15.9%	16.6%	16.8%

<b>Key Drivers</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue growth	N/A	N/A	N/A	N/A	N/A
Rail	34	20	25	20	N/A
Mobility	56	59	20	14	N/A
Process	56	57	30	20	N/A
Distribution	49	8	7	12	N/A
Domestic	47	31	20	17	N/A
Exports	89	17	(20)	15	N/A
Sale of service	10	102	10	10	N/A
Total sales	56	29	9	16	N/A

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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