

India

REDUCE (no change)

Consensus ratings*: Buy 5 Hold 1 Sell 3

Current price:	Rs2,824
Target price:	Rs2,519
Previous target:	Rs2,856
Up/downside:	-10.8%
InCred Research / Consensus:	-10.8%
Reuters:	TIMK.NS
Bloomberg:	TMKN IN
Market cap:	US\$2,561m Rs212,395m
Average daily turnover:	US\$3.3m Rs271.9m
Current shares o/s:	75.2m
Free float:	32.2%

*Source: Bloomberg

Key changes in this note

- FY24F-26F sales cut by 3-7%.
- FY24F-26F EBITDA cut by 10%.
- FY24F-26F EPS cut by 11%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(14.8)	(4.0)	(5.5)
Relative (%)	(17.6)	(13.4)	(23.2)

Major shareholders	% held
Promoter	67.8
SBI Mutual Fund	3.5
Nippon Life Mutual Fund	2.0

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Timken Ltd

Weak performance continues

- 3QFY24 EPS dip of 4% yoy to Rs9 is a big miss to our/Bloomberg consensus estimates because of a weak sales performance and product mix impact.
- We cut EPS by 11% for FY24F-26F due to prolonged weak sales performance.
- Retain our REDUCE rating as P/E valuation is still rich at 46x FY25F EPS and close to +1SD above the mean level. We cut our target price to Rs2,519.

Seasonally weak quarter sees a three-year low EBITDA margin

Timken's 3QFY24 EBITDA declined by 30% qoq but was flat yoy at Rs1bn, which was 30% below our/Bloomberg consensus estimates. Weak sales performance (flat yoy) coupled with a lower gross margin (-110bp qoq) led to the disappointment. The EBITDA margin hit a three-year low (Fig. 2) of 16.7% due to the poor product mix impact. PAT dipped by 27% qoq & 4% yoy to Rs675m, a big miss by 32% to our/Bloomberg consensus estimates.

Management conference-call highlights

The export decline of 10% in 9MFY24 was attributed to weakness in China and the US truck component business. Management highlighted the company's strength in India process industries, with an in-house team's presence to help customers achieve high reliability and cost savings. Management gave guidance of strong demand for wind turbine bearings, and also bearings for Indian Railways. However, a just 9% rise in the railway segment's sales in 9MFY24 and a 5% growth in the process segment is a disappointment. The new production lines at the Bharuch plant are expected to result in sales momentum from 2HFY25F.

Earnings downgrade cycle continues

The prolonged drawdown in its exports and slow growth in domestic sales continues to disappoint us. We have cut our sales estimates by a sharp 3-7% for FY24F-26F. Poor product mix weighing on the EBITDA margin and stabilization of new capex lines in FY25F led to our 70-140bp EBITDA margin cut for FY24-26F, leading to EBITDA cut of around 10% for FY24F-26F. Lower other income led to PAT cut of 11% for FY24F-26F.

Valuation eases from its peak but still rich at +1SD

The sustained rise in competition from other global leaders in the railway bearing segment and lower probability of export recovery in the global market, we feel, will impact Timken's short-term performance. We maintain our REDUCE rating on the stock with a lower target P/E at 34x one-year forward EPS, a 10% discount to the seven-year mean of 37x, leading to a target price of Rs2,519 (Rs2,856 earlier). The key upside risks are a quick recovery in exports or a quick ramp-up of new production lines.

Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	21,818	27,879	28,356	31,955	37,900
Operating EBITDA (Rsm)	5,107	5,604	5,308	6,682	8,308
Net Profit (Rsm)	3,271	3,907	3,611	4,544	5,685
Core EPS (Rs)	43.5	52.0	48.0	60.4	75.6
Core EPS Growth	128.4%	19.4%	(7.6%)	25.8%	25.1%
FD Core P/E (x)	64.92	54.35	58.81	46.74	37.36
DPS (Rs)	1.5	1.5	1.5	2.0	3.0
Dividend Yield	0.05%	0.05%	0.05%	0.07%	0.11%
EV/EBITDA (x)	41.61	37.66	39.57	31.37	24.97
P/FCFE (x)	665.28	120.80	76.74	85.07	35.47
Net Gearing	0.7%	(6.5%)	(9.7%)	(9.9%)	(14.6%)
P/BV (x)	12.82	10.42	8.90	7.51	6.30
ROE	21.8%	21.2%	16.3%	17.4%	18.3%
% Change In Core EPS Estimates			(10.80%)		
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Weak performance continues

Management conference-call highlights➤

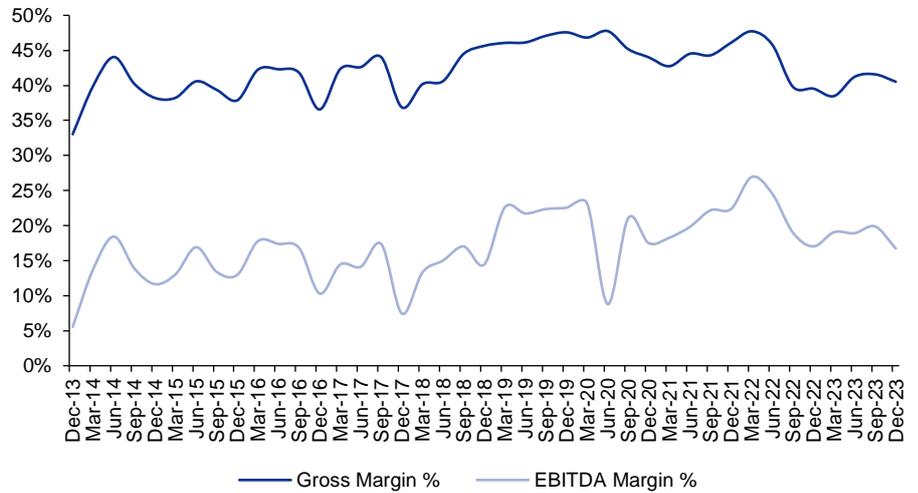
- **Industry outlook:** The size of India's bearing industry is US\$2bn vs. China bearing industry's US\$20bn. As the Indian economy grows, the bearing industry's distribution should be 50% in the mobility segment and the remaining 50% in the stationary segment. In India, it is still 65% in case of the mobility segment and 35% in case of the stationary segment and hence, the stationary segment bearing business is poised to grow faster, in which Timken has a strong presence.
- **Overall performance:** Revenue in 3QFY24 was flat yoy while it fell by 10% qoq, impacted by weak export business. The EBITDA margin for the quarter was lower by ~300bp qoq due to an unfavourable product mix (-100bp) and lower volume (-200bp). Sales mix in 3QFY24: 18% from railway & rest of the mobility segment, 21% from off-highway & heavy trucks, 21% from the distribution segment, 20% from the process segment and 20% from exports.
- **Export business:** Exports were impacted by the Red Sea disruption, which delayed dispatches and increased freight costs. The export business comprises 50% from the railway segment and the remaining 50% from the truck bearing segment.
- **International markets:** In the US market, the railway segment is witnessing strong growth while the heavy truck segment is witnessing softness in demand, which is likely to see an uptick from 2HFY25F. Chinese players are investing in ASEAN countries as they are seeing the China+ one strategy in execution. Timken is installing a plant in China to cater to its local market. The wind power market in China is in a slowdown, which is impacting the global supply chain.
- **Railway:** In the railway freight segment, the company is the leader with a market share above 50%, and it plans to develop a new product for Indian Railways to maintain its market share. The government's Vande Bharat train scheme and rising metro rail lines across India is driving the growth of the segment. As Indian Railways plans to add 30k wagons, Timken has order book visibility for the next six-to-nine months.
- **Solar business:** Solar panel manufacturers are making solar panels which will rotate, and for this Timken India has already started working through a company in the US called Cone Drive, which also owns a company called H-Fang in China, and has started producing some steel drivers at its Baruch plant, which is at a nascent stage.
- **Baruch plant:** By the end of the year, the plant will be up and running. Management plans to produce spherical roller bearings and cylindrical roller bearings from this plant. It will target the domestic market initially and then plans to go international, exploring countries like Mexico, the Philippines and the ASEAN region.
- **Sub-segment's performance:** Revenue performance in 9MFY24 - railway segment grew by 3% yoy, mobility segment grew by 1.6% yoy, distribution segment grew by 1.1% and the process segment grew by 5% while exports declined by 10%.

Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	3QFY24	3QFY23	YoY % chg	2QFY24	QoQ % chg	9MFY24	9MFY23	YoY % chg	Comments
Total Revenue	6,122	6,094	0.5%	6,820	(10.2%)	20,118	20,040	0.4%	13% below our estimate.
Net Raw Materials Consumed	3,641	3,685	(1.2%)	3,984	(8.6%)	11,844	11,660	1.6%	
RM Costs as a % of Revenue	59.5%	60.5%	-99	58.4%	105	58.9%	58.2%	69	148bp below our estimate.
Other Expenses	1,072	954	12.3%	1,068	0.3%	3,321	3,107	6.9%	
Personnel Costs	384	418	(8.0%)	412	(6.7%)	1,216	1,199	1.4%	
Total Expenditure	5,098	5,058	0.8%	5,465	(6.7%)	16,381	15,967	2.6%	
EBIDTA	1,024	1,037	(1.2%)	1,355	(24.4%)	3,737	4,074	(8.3%)	30% below our estimate.
EBIDTA Margin	16.7%	17.0%	-28	19.9%	-313	18.6%	20.3%	-175	382bp below our estimate.
Less: Depreciation	210	224	(6.3%)	211	(0.4%)	634	659	(3.8%)	
EBIT	814	813	0.2%	1,144	(28.8%)	3,103	3,415	(9.1%)	
Less: Interest Paid	9	5	70%	9	(5.9%)	27	14	91.7%	
Non-operating Income	106	144	(26.5%)	101	4.9%	300	465	(35.5%)	12% below our estimate.
Extraordinary Item	-	-	NA	-	NA	-	-	NA	
Profit Before Tax	912	952	(4.2%)	1,236	(26.2%)	3,376	3,866	(12.7%)	
Less: Total Tax	237	246	(3.7%)	306	(22.5%)	870	1,003	(13.3%)	
Profit After Tax	675	706	(4.4%)	930	(27.4%)	2,507	2,863	(12.4%)	32% below our estimate.
Proforma EPS Diluted (Rs.)	9.0	9.4	(4.4%)	12.4	(27.5%)	33.4	38.1	(12.2%)	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Gross margin and EBITDA margin soften in 3QFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Our revised earnings estimates

	FY24F		FY25F	
	Old	New	Old	New
Revenue	29,347	28,356	34,309	31,955
Change (%)		-3.4%		-6.9%
EBIDTA	5,905	5,308	7,404	6,682
Change (%)		-10.1%		-9.8%
EBIDTA Margin	20.1%	18.7%	21.6%	20.9%
Change (bp)		(140)		(67)
PAT	4,085	3,611	5,094	4,544
Change (%)		-11.6%		-10.8%
EPS	54	48	68	60
Change (%)		-11.6%		-10.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Key assumptions

	FY20	FY21	FY22	FY23	FY24F	FY25F
Sale of Goods (Gross)	15,339	13,320	21,178	26,410	26,541	29,966
less Excise Duty	-	-	-	-	-	-
Sale of Goods (net)	15,339	13,320	21,178	26,410	26,541	29,966
yoy growth (%)	(3.7)	(13.2)	59.0	24.7	0.5	12.9
Rail	3,505	2,962	3,966	4,771	5,010	5,761
share (%)	22	21	18	17	18	18
yoy (%)	17	(15.5)	34	20	5	15
Mobility	2,380	1,693	2,644	4,210	4,336	4,683
share (%)	15	12	12	15	15	15
yoy (%)	(35.0)	(28.9)	56	59	3	8
Process	1,779	1,834	2,864	4,491	4,715	5,281
share (%)	11	13	13	16	17	17
yoy (%)	34	3	56	57	5	12
Distribution	3,127	2,962	4,406	4,771	4,819	5,204
share (%)	19	21	20	17	17	16
yoy (%)	3	(5.3)	49	8	1	8
Domestic	12,147	10,661	15,525	20,478	21,450	24,014
share (%)	73.8	74.1	69.3	73.0	75.6	75.1
yoy (%)	(4.5)	(12.2)	46	32	5	12
Exports	4,022	3,444	6,508	7,588	6,905	7,941
share (%)	26.2	25.9	30.7	27.0	24.4	24.9
yoy (%)	2	(14.4)	89	17	-9	15
ABC Bearings	1,356	1,211	1,644	2,235	2,570	3,084
share (%)	8.4	8.6	7.5	8.0	9.1	9.7
yoy growth (%)	(20.0)	(10.7)	35.8	35.9	15.0	20.0
Sale of Services	659	713	785	1586	1745	1919
yoy growth (%)	24.8	8.2	10.0	10.0	10.0	10.0
Gross Sales	15,998	14,034	21,962	27,996	28,286	31,885
Net Sales	15998	14034	21962	27996	28286	31885
yoy growth (%)	(2.8)	(12.3)	56.5	27.5	1.0	12.7

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Target price methodology

	1 year forward
EPS (Rs.) (1-year forward)	74.1
P/E(x)	34.0
Target Price (Rs)	2,519

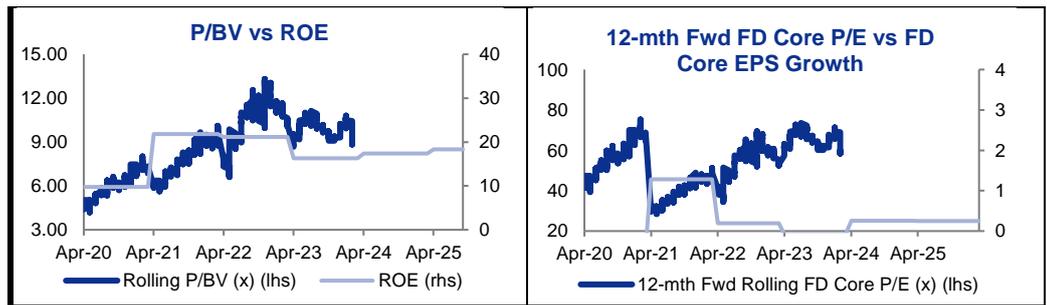
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Forward P/E is still high



SOURCE: BLOOMBERG, INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	22,032	28,066	28,356	31,955	37,900
Gross Profit	10,092	11,468	11,484	13,421	16,108
Operating EBITDA	5,107	5,604	5,308	6,682	8,308
Depreciation And Amortisation	(843)	(872)	(874)	(1,131)	(1,342)
Operating EBIT	4,263	4,732	4,434	5,551	6,967
Financial Income/(Expense)	(24)	(28)	(40)	(30)	(30)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	143	532	453	578	694
Profit Before Tax (pre-EI)	4,382	5,235	4,847	6,099	7,631
Exceptional Items					
Pre-tax Profit	4,382	5,235	4,847	6,099	7,631
Taxation	(1,111)	(1,328)	(1,236)	(1,555)	(1,946)
Exceptional Income - post-tax					
Profit After Tax	3,271	3,907	3,611	4,544	5,685
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,271	3,907	3,611	4,544	5,685
Recurring Net Profit	3,271	3,907	3,611	4,544	5,685
Fully Diluted Recurring Net Profit	3,271	3,907	3,611	4,544	5,685

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	5,107	5,604	5,308	6,682	8,308
Cash Flow from Invt. & Assoc.	(725)	(368)	(461)	(583)	(678)
Change In Working Capital	(3,435)	(1,108)	(775)	(1,457)	(3,251)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	843	872	874	1,131	1,342
Other Operating Cashflow	(75)	(504)	(413)	(548)	(664)
Net Interest (Paid)/Received	(24)	(28)	(40)	(30)	(30)
Tax Paid	(1,140)	(1,328)	(1,236)	(1,555)	(1,946)
Cashflow From Operations	550	3,140	3,257	3,640	3,082
Capex	(803)	(655)	(2,600)	(3,600)	(1,400)
Disposals Of FAs/subsidiaries	4				
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	578	(723)	2,110	2,457	4,306
Cash Flow From Investing	(221)	(1,379)	(490)	(1,143)	2,906
Debt Raised/(repaid)	(10)	(3)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(113)	(113)	(113)	(150)	(226)
Preferred Dividends					
Other Financing Cashflow	(24)	(28)	(40)	(30)	(30)
Cash Flow From Financing	(147)	(144)	(153)	(180)	(256)
Total Cash Generated	182	1,617	2,615	2,316	5,733
Free Cashflow To Equity	319	1,758	2,767	2,496	5,988
Free Cashflow To Firm	353	1,790	2,807	2,526	6,018

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	182	1,617	2,615	3,082	5,232
Total Debtors	5,388	5,757	6,603	7,442	9,345
Inventories	5,585	5,695	5,754	7,004	8,826
Total Other Current Assets	607	1,095	1,181	1,331	1,579
Total Current Assets	11,762	14,164	16,153	18,859	24,982
Fixed Assets	7,284	7,155	8,880	11,350	11,408
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					
Total Non-current Assets	10,087	11,327	13,053	15,522	15,580
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	3,285	3,444	3,574	4,202	4,673
Other Current Liabilities	1,505	1,191	1,203	1,356	1,609
Total Current Liabilities	4,791	4,635	4,777	5,559	6,281
Total Long-term Debt	298	294	294	294	294
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	298	294	294	294	294
Total Provisions	280	264	264	264	264
Total Liabilities	5,369	5,194	5,335	6,117	6,839
Shareholders Equity	16,569	20,372	23,870	28,264	33,723
Minority Interests					
Total Equity	16,569	20,372	23,870	28,264	33,723

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	55.5%	27.8%	1.7%	12.7%	18.6%
Operating EBITDA Growth	102.8%	9.7%	(5.3%)	25.9%	24.3%
Operating EBITDA Margin	23.4%	20.1%	18.7%	20.9%	21.9%
Net Cash Per Share (Rs)	(1.54)	17.59	30.85	37.06	65.65
BVPS (Rs)	220.31	270.86	317.38	375.80	448.39
Gross Interest Cover	174.23	168.20	110.86	185.04	232.23
Effective Tax Rate	25.3%	25.4%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	3.4%	2.9%	3.1%	3.3%	4.0%
Accounts Receivables Days	75.38	72.47	79.56	80.21	80.83
Inventory Days	141.71	124.03	123.84	125.62	132.57
Accounts Payables Days	(101.48)	(73.99)	(75.91)	(76.57)	(74.32)
ROIC (%)	25.6%	21.4%	18.9%	20.8%	21.8%
ROCE (%)	27.3%	24.9%	19.6%	20.8%	22.1%
Return On Average Assets	16.2%	16.6%	13.3%	14.4%	15.2%

Key Drivers

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue growth	N/A	N/A	N/A	N/A	N/A
Rail	34	20	5	15	N/A
Mobility	56	59	3	8	N/A
Process	56	57	5	12	N/A
Distribution	49	8	1	8	N/A
Domestic	47	31	3	11	N/A
Exports	89	17	(9)	15	N/A
Sale of service	10	102	10	10	N/A
Total sales	56	29	N/A	12	N/A

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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been engaged in market making activity for the subject company	NO	NO

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