

India

REDUCE (no change)

Consensus ratings*: Buy 7 Hold 2 Sell 1

Current price: Rs3,886
 Target price: ▲ Rs2,987
 Previous target: Rs2,519
 Up/downside: -23.1%
 InCred Research / Consensus: -29.6%

Reuters:
 Bloomberg: TMKN IN
 Market cap: US\$4,025m
 Rs292,266m
 Average daily turnover: US\$10.3m
 Rs746.3m
 Current shares o/s: 75.2m
 Free float: 42.3%

*Source: Bloomberg

Key changes in this note

- FY25F-26F sales raised by 3%.
- FY25F EPS raised by 4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.2)	14.3	14.2
Relative (%)	(3.1)	4.4	(6.3)

Major shareholders	% held
Promoter	57.7
NIPPON LIFE INDIA TRUSTEE	3.7
HDFC TRUSTEE COMPANY LTD.	3.0

Research Analyst(s)



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Timken Ltd

Subdued 1Q EBITDA performance

- 1QFY25 was a soft quarter with a 4% EBITDA growth, missing Bloomberg consensus estimate by 11%. Gross margin shrinkage hit the overall margin.
- We maintain our FY25F-26F EBITDA estimates, as margin pressure witnessed in 1QFY25 limits the benefit from a 3% sales upgrade.
- A spike in the stock price last quarter makes the P/E valuation rich at +2SD above the seven-year mean level. We retain our REDUCE rating on the stock.

Weak EBITDA performance in 1QFY25

Timken's 1QFY25 EBITDA declined by 29% qoq but was up 4% yoy at Rs1.4bn, which was 11% below Bloomberg consensus estimate. Good sales performance (+9% yoy) was overcome by lower gross margin (-132bp qoq), which led to the disappointment. The EBITDA margin fell by 90bp yoy to 18% due to the poor product mix impact. PAT was up 7% yoy at Rs963m, a big 23% miss vs. Bloomberg consensus estimate.

Management conference-call highlights

Management indicated that export softness witnessed in 1QFY25 will prevail for some more time, especially for heavy trucks, till the US presidential elections. The new plant commissioning is as per schedule for Jan 2025F production. The Indian Railways opportunity remains big as new application bearings opportunities emerge. Timken is witnessing good demand for sun-tracking solar panels, where it is emerging as a preferred vendor for marquee clients.

Maintain EBITDA estimates for FY25F-26F

While 1QFY25 started on a weak note, the lumpy nature of the company's business provides hope for a recovery in 2HFY25F as government capex accelerates post May 2024 general elections. However, ever rising purchased goods and royalty rates are a cause for concern (Figs. 3 & 4). Hence, despite a 3% sales upgrade, we maintain our FY25F-26F EBITDA estimates. EPS estimates stand raised by 4% for FY25F but cut by 2% for FY26F.

Maintain REDUCE rating with a higher target price of Rs2,987

The sharp spike in the stock price in the Jun 2024 quarter on hopes of sustenance of the recovery witnessed in 4QFY24 did not last after the 1QFY25 results. The stock now trades at +2SD above the seven-year mean P/E. We roll forward our target price at 38x one-year forward P/E to Rs2,987 (Rs2,519 earlier). With a 23% downside in the target price, we reiterate our REDUCE rating on the stock. Key upside risk is a strong recovery in business from Indian Railways in the coming quarters.

Financial Summary

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	27,879	28,957	33,035	39,182	43,936
Operating EBITDA (Rsm)	5,604	5,724	6,752	8,275	9,501
Net Profit (Rsm)	3,907	3,921	4,694	5,576	6,482
Core EPS (Rs)	52.0	52.1	62.4	74.1	86.2
Core EPS Growth	19.4%	0.4%	19.7%	18.8%	16.3%
FD Core P/E (x)	74.79	74.52	62.26	52.41	45.08
DPS (Rs)	1.5	1.5	2.0	2.5	3.0
Dividend Yield	0.04%	0.04%	0.05%	0.06%	0.08%
EV/EBITDA (x)	51.91	50.64	42.89	34.75	29.78
P/FCFE (x)	166.22	103.39	125.52	50.65	34.61
Net Gearing	(6.5%)	(9.8%)	(9.3%)	(13.6%)	(22.9%)
P/BV (x)	14.34	12.09	10.17	8.57	7.24
ROE	21.2%	17.6%	17.7%	17.7%	17.4%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Subdued 1Q EBITDA performance

Management conference-call highlights ►

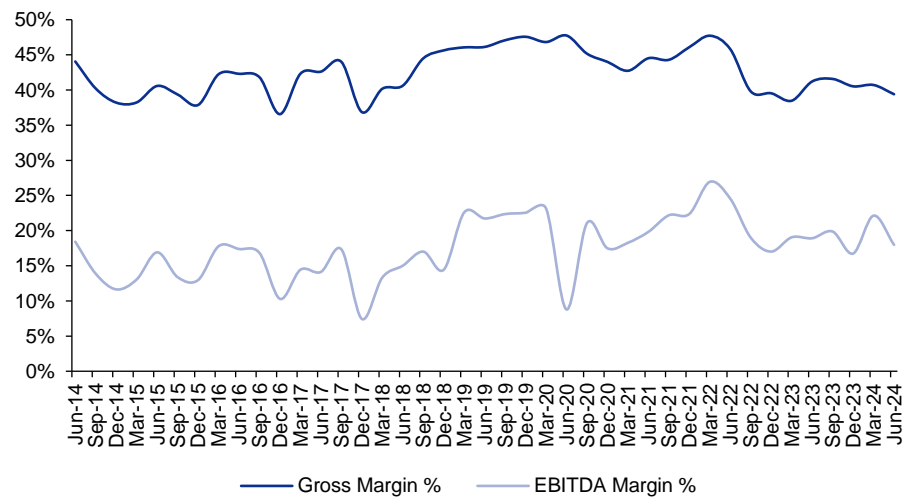
- **Export business:** It remained flattish due to geopolitical problems. The overall softness is likely to continue in the short run.
- **Financial performance:** In 1QFY25, the EBITDA margin corrected yoy due to elevated energy and transportation costs.
- **Manufacturing plant update:** Currently, at the completion phase of the new greenfield project in Baruch, where it plans to start production in Jan 2025F.
- **Revenue break-up:** Rail-road contributed 24%, mobility (road, off-road with wheels), distribution and process contributed 19% each while the exports stood at 20%.
- **Export business:** Export business remains soft due to the Red Sea problems, which lead to elevated container costs and a delay in dispatches. Going ahead, the Red Sea issue and elevated inventory levels likely to sustain. The rail industry in the US is in a better shape while the demand for heavy trucks is not picking up, but management is hopeful of a recovery post US presidential elections.
- **Indian Railways outlook:** Growth in Indian Railways is likely to sustain for the next 20-30 years on the back of government's push to industry and huge demand across the country. Recently, Timken was chosen by Bengaluru administration for its upcoming metro rail project. New demand is likely to rise from the areas such as automation, new-age bearings with sensors, robotics and repair facilities.
- **Wind power industry:** The domestic wind power industry will see demand for gearboxes. Gearboxes and main shop bearings will witness demand from overseas.
- **Bearing industry:** India's bearing market is estimated at US\$2bn currently vs. China's bearing market at US\$20bn. In India, bearings are made from 1mm or millimeter (which are used in dental surgical machines) to 3.5 metres. At Timken's Bharuch plant, the company will make cylindrical roller bearings (CRB) and spherical bearings (SRB) up to 400mm, but some parts will have to be imported from China and Romania.
- **Cost front:** Operating costs rose 3% qoq led by higher raw material prices and higher container costs.
- **Solar panel:** Witnessing the good demand for sun-tracking solar panels, Timken has partnered with manufacturers of such panels, including Tata Solar, for supplying bearings in small quantity.

Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	1QFY25	1QFY24	YoY % chg	4QFY24	QoQ % chg	Comments
Total Revenue	7,837	7,176	9.2%	8,978	(12.7%)	3% below Bloomberg consensus estimate.
Net Raw Materials Consumed	4,749	4,218	12.6%	5,323	(10.8%)	
RM Costs as a % of Revenue	60.6%	58.8%	182	59.3%	132	
Other Expenses	1,261	1,181	6.8%	1,244	1.4%	
Personnel Costs	417	419	(0.5%)	424	(1.6%)	
Total Expenditure	6,428	5,819	10.5%	6,991	(8.1%)	
EBITDA	1,409	1,357	3.8%	1,986	(29.1%)	11% below Bloomberg consensus estimate.
EBITDA Margin	18.0%	18.9%	-93	22.1%	-415	164bp below Bloomberg consensus estimate.
Less: Depreciation	219	213	2.6%	218	0.6%	
EBIT	1,190	1,143	4.0%	1,768	(32.7%)	
Less: Interest Paid	11	9	17%	11	(1.1%)	
Non-operating Income	119	93	27.3%	108	10.7%	
Extraordinary Items	-	-	NA	-	NA	
Profit Before Tax	1,298	1,228	5.7%	1,865	(30.4%)	
Less: Total Tax	335	327	2.6%	451	(25.7%)	
Profit After Tax	962	901	6.8%	1,414	(31.9%)	23% below Bloomberg consensus estimate.
Proforma EPS - Diluted (Rs.)	12.8	12.0	6.8%	18.8	(31.9%)	

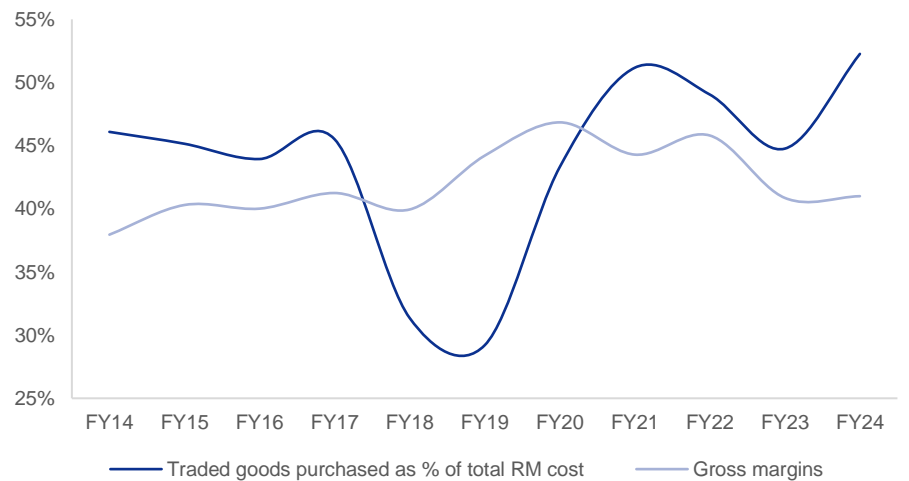
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Gross and EBITDA margins soften



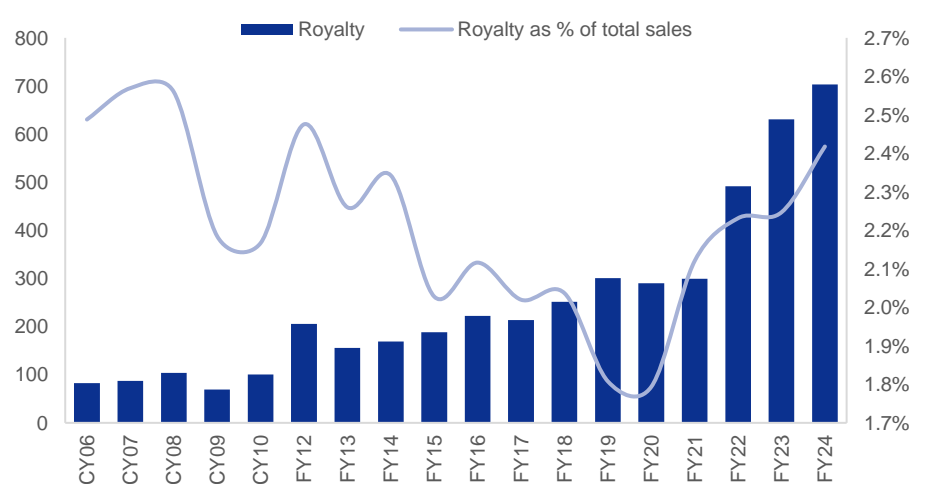
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Traded goods as a proportion of raw material costs vs. gross margin trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Royalty payout continues to rise as a proportion of sales



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Earnings revision summary

	FY25F		FY26F	
	Old	New	Old	New
Revenue	31,955	33,035	37,900	39,182
Change (%)		3.4%		3.4%
EBITDA	6,682	6,752	8,308	8,275
Change (%)		1.0%		-0.4%
EBITDA Margin	21%	20%	22%	21%
Change (bp)		-47		-80
PAT	4,544	4,694	5,685	5,576
Change (%)		3.3%		-1.9%
EPS	60	62	76	74
Change (%)		4.0%		-1.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Key assumptions

	FY22	FY23	FY24	FY25F	FY26F	FY27F
Revenue from operations	21,178	26,410	26,937	30,668	36,585	41,087
yoy growth (%)	59.0	24.7	2.0	13.9	19.3	12.3
Rail	3,966	4,771	6,692	8,365	10,205	12,042
share (%)	18	17	23	25	26	27
yoy (%)	34	20	40	25	22	18
Mobility	2,644	4,210	5,819	6,401	7,297	7,662
share (%)	12	15	20	19	19	17
yoy (%)	56	59	38	10	14	5
Process	2,864	4,491	5,528	6,192	7,306	8,402
share (%)	13	16	19	19	19	19
yoy (%)	56	57	23	12	18	15
Distribution	4,406	4,771	5,052	5,456	6,111	6,722
share (%)	20	17	18	17	16	15
yoy (%)	49	8	6	8	12	10
Domestic	15,525	20,478	23,260	26,616	31,158	35,110
share (%)	69.3	73.0	79.9	80.6	79.5	79.9
yoy (%)	46	32	14	14	17	13
Exports	6,508	7,588	5,835	6,419	8,024	8,826
share (%)	30.7	27.0	20.1	19.4	20.5	20.1
yoy (%)	89	17	-23	10	25	10
ABC Bearings	1,644	2,235	169	203	239	282
share (%)	7.5	8.0	0.6	0.6	0.6	0.6
yoy growth (%)	35.8	35.9	-92.4	20.0	18.0	18.0
Sale of services	785	1586	2088	2297	2527	2780
yoy growth (%)	10.0	10.0	10.0	10.0	10.0	10.0
Gross sales	21,962	27,996	29,025	32,965	39,112	43,866
Net sales	21962	27996	29025	32965	39112	43866
yoy growth (%)	56.5	27.5	3.7	13.6	18.6	12.2

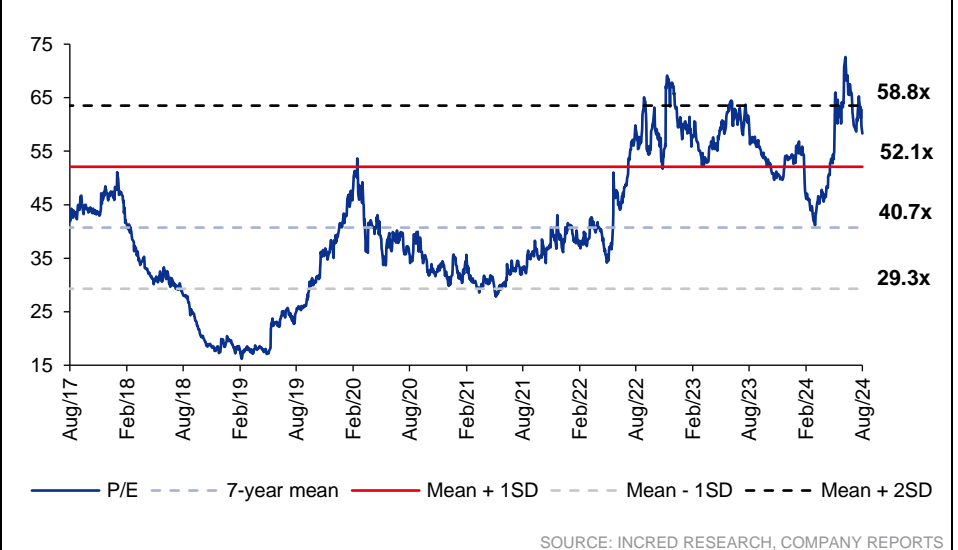
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Target price calculation methodology

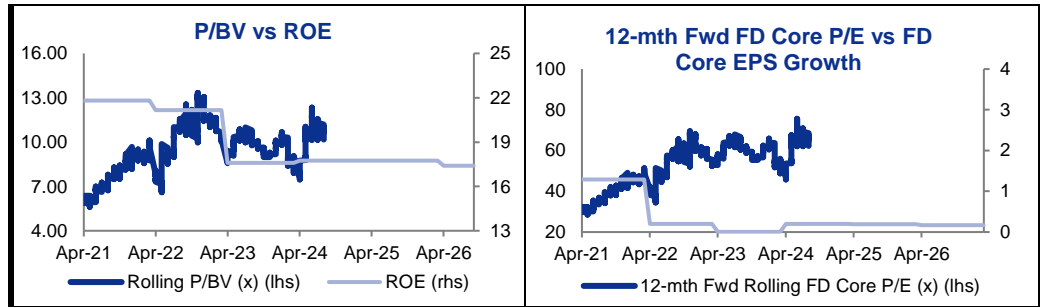
	One-year forward
EPS (Rs.) (one-year forward)	78.6
P/E(x)	38.0
Target price (Rs)	2,987

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Forward P/E valuation eases, but still rich at +1SD above the seven-year mean level



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	28,066	29,095	33,035	39,182	43,936
Gross Profit	11,468	11,929	13,379	16,143	18,321
Operating EBITDA	5,604	5,724	6,752	8,275	9,501
Depreciation And Amortisation	(872)	(852)	(929)	(1,342)	(1,439)
Operating EBIT	4,732	4,872	5,822	6,934	8,062
Financial Income/(Expense)	(28)	(38)	(30)	(30)	(30)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	532	408	508	581	669
Profit Before Tax (pre-EI)	5,235	5,242	6,300	7,485	8,701
Exceptional Items					
Pre-tax Profit	5,235	5,242	6,300	7,485	8,701
Taxation	(1,328)	(1,321)	(1,607)	(1,909)	(2,219)
Exceptional Income - post-tax					
Profit After Tax	3,907	3,921	4,694	5,576	6,482
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,907	3,921	4,694	5,576	6,482
Recurring Net Profit	3,907	3,921	4,694	5,576	6,482
Fully Diluted Recurring Net Profit	3,907	3,921	4,694	5,576	6,482

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	5,604	5,724	6,752	8,275	9,501
Cash Flow from Invt. & Assoc.	(368)	(482)	(451)	(790)	(800)
Change In Working Capital	(1,108)	(1,004)	(1,574)	(3,361)	(1,690)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	872	852	929	1,342	1,439
Other Operating Cashflow	(504)	(370)	(478)	(551)	(639)
Net Interest (Paid)/Received	(28)	(38)	(30)	(30)	(30)
Tax Paid	(1,328)	(1,321)	(1,607)	(1,909)	(2,219)
Cashflow From Operations	3,140	3,362	3,541	2,975	5,563
Capex	(655)	(2,600)	(3,600)	(1,400)	(1,400)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	(723)	2,065	2,387	4,194	4,281
Cash Flow From Investing	(1,379)	(535)	(1,213)	2,794	2,881
Debt Raised/(repaid)	(3)				
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(113)	(113)	(150)	(188)	(226)
Preferred Dividends					
Other Financing Cashflow	(28)	(38)	(30)	(30)	(30)
Cash Flow From Financing	(144)	(151)	(180)	(218)	(256)
Total Cash Generated	1,617	2,676	2,148	5,551	8,189
Free Cashflow To Equity	1,758	2,826	2,328	5,769	8,444
Free Cashflow To Firm	1,790	2,864	2,358	5,799	8,474

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Cash And Equivalents	1,617	2,674	2,973	4,941	9,548
Total Debtors	5,757	6,776	7,693	9,661	10,834
Inventories	5,695	5,904	7,241	9,125	10,232
Total Other Current Assets	1,095	1,212	1,376	1,632	1,830
Total Current Assets	14,164	16,565	19,283	25,360	32,443
Fixed Assets	7,155	8,903	11,574	11,632	11,593
Total Investments	2,359	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	11,327	13,075	15,746	15,804	15,765
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	3,444	3,667	4,344	4,831	5,417
Other Current Liabilities	1,191	1,235	1,402	1,663	1,865
Total Current Liabilities	4,635	4,902	5,746	6,494	7,282
Total Long-term Debt	294	294	294	294	294
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	294	294	294	294	294
Total Provisions	264	264	264	264	264
Total Liabilities	5,194	5,460	6,305	7,052	7,840
Shareholders Equity	20,372	24,180	28,724	34,112	40,369
Minority Interests					
Total Equity	20,372	24,180	28,724	34,112	40,369

Key Ratios					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	27.8%	3.9%	14.1%	18.6%	12.1%
Operating EBITDA Growth	9.7%	2.2%	18.0%	22.6%	14.8%
Operating EBITDA Margin	20.1%	19.8%	20.4%	21.1%	21.6%
Net Cash Per Share (Rs)	17.59	31.64	35.61	61.79	123.03
BVPS (Rs)	270.86	321.50	381.91	453.55	536.75
Gross Interest Cover	168.20	128.59	194.08	231.12	268.74
Effective Tax Rate	25.4%	25.2%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	2.9%	2.9%	3.2%	3.4%	3.5%
Accounts Receivables Days	72.47	78.61	79.93	80.83	85.13
Inventory Days	124.03	123.31	122.04	129.63	137.91
Accounts Payables Days	(73.99)	(75.60)	(74.38)	(72.68)	(73.01)
ROIC (%)	21.4%	21.0%	21.6%	21.1%	21.5%
ROCE (%)	24.9%	21.3%	21.6%	21.7%	21.3%
Return On Average Assets	16.6%	14.3%	14.6%	14.7%	14.6%

Key Drivers					
	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue growth	N/A	N/A	N/A	N/A	N/A
Rail	20	40	25	N/A	N/A
Mobility	59	38	10	N/A	N/A
Process	57	23	12	N/A	N/A
Distribution	8	6	8	N/A	N/A
Domestic	31	27	14	N/A	N/A
Exports	17	(23)	10	N/A	N/A
Sale of service	102	32	10	N/A	N/A
Total sales	29	13	13	N/A	N/A

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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