

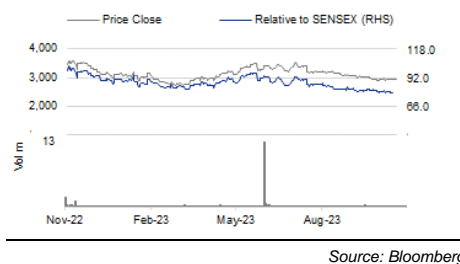
India

REDUCE (previously HOLD)

Consensus ratings*:	Buy 6 Hold 1 Sell 2
Current price:	Rs2,947
Target price:	Rs2,856
Previous target:	Rs3,217
Up/downside:	-3.1%
InCred Research / Consensus:	-6.3%
Reuters:	
Bloomberg:	TMKN IN
Market cap:	US\$3,052m Rs221,655m
Average daily turnover:	US\$8.0m Rs578.2m
Current shares o/s:	75.2m
Free float:	32.2%
*Source: Bloomberg	

Key changes in this note

- Sales cut by 4% for FY24F-25F.
- EBITDA cut by 7-8% for FY24F-25F.
- PAT cut by 8% for FY24F-25F.



Price performance	1M	3M	12M
Absolute (%)	(3.2)	(8.1)	(15.3)
Relative (%)	(3.6)	(9.0)	(20.5)

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

Research Analyst(s)



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Timken Ltd

Short-term challenges galore

- The 2QFY24 EPS dip of 5% yoy to Rs12.4 was 11% below our estimate due to a sharp sales slowdown. 1H EPS formed just 41% of our full-year estimate.
- Considering the sales challenges for its large divisions like India railway parts and exports, we have cut our EPS estimates by 8% for FY24F-25F.
- Short-term sales challenges rising qoq and leading to plant shutdowns is a cause of concern. Downgrade our rating to REDUCE and cut TP to Rs2,856.

Sales decline in 2QFY24 is disappointing

Timken's sales at Rs6.8bn in 2QFY24 declined by 5% qoq and 2% yoy, largely impacted by dismal exports. EBITDA for the quarter stood at Rs1.4bn, up 3% yoy and flat qoq, and 11% below our estimate. The EBITDA margin for the quarter stood at 19.9%, up 87bp yoy and 96bp qoq, led by softening steel prices and price hike. PAT declined by 5% yoy to Rs929m because of lower other income (-53% yoy) and higher interest costs.

Management conference-call highlights

Management stated that the decline in the company's exports in 2Q was because of the weakness in China and North American markets. Softness in sales to the domestic railway segment is likely to sustain due to the ongoing assembly elections. Management is hopeful of the North America market and railway exports recovering from Jan 2024F. Timken's plants are running at 65-80% of their capacity and the new manufacturing facility at Bharuch in Gujarat to manufacture spherical roller bearings (SRB) and cylindrical roller bearings (CRB) will start production in Jan 2025F. It expects nearly three years to ramp up capacity utilization to the 80% level.

We downgrade EPS estimates by 8% for FY24F-25F

The sharp slowdown in sales momentum since Apr 2023, starting with exports and later spreading to domestic railway segment sales, led to a yoy decline in sales in 2Q. We have become cautious and cut our sales estimates by 4% for FY24F-25F. We trim the EBITDA margin by 80bp for FY24F-25F, leading to a 7-8% cut in EBITDA, as the high-profit margin exports slowed down. We have factored in the new plant's output in our FY26F estimates.

Downgrade our rating to REDUCE with a lower target price of Rs2,856

Sustained plant shutdowns in the Dec 2023 quarter to deal with the sales decline in the major exports and bearings (meant for Indian Railways) divisions are a cause of concern. Considering the pre-elections (assembly/general) slowdown in 2HFY24F, we expect the recovery, if any, to be gradual and prolonged. The rising competition from other global leaders in the railway bearings segment is yet to reflect in the profitability opportunity. We downgrade our rating on the stock to REDUCE (from HOLD) by cutting the target P/E to 35x one-year forward, setting a target price of Rs2,856 (Rs3,217 earlier), which is at a 5% discount to the seven-year mean level to reflect sales slowdown. The key upside risk is a quick recovery in exports.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	21,818	27,879	29,347	34,309	41,772
Operating EBITDA (Rsm)	5,107	5,604	5,905	7,404	9,671
Net Profit (Rsm)	3,271	3,907	4,085	5,094	6,722
Core EPS (Rs)	43.5	52.0	54.3	67.7	89.4
Core EPS Growth	128.4%	19.4%	4.6%	24.7%	32.0%
FD Core P/E (x)	67.75	56.72	54.25	43.50	32.97
DPS (Rs)	1.5	1.5	2.5	3.0	4.0
Dividend Yield	0.05%	0.05%	0.08%	0.10%	0.14%
EV/EBITDA (x)	43.42	39.32	37.27	29.62	22.40
P/FCFE (x)	694.28	126.06	105.54	78.08	33.44
Net Gearing	0.7%	(6.5%)	(6.5%)	(7.9%)	(14.1%)
P/BV (x)	13.38	10.88	9.13	7.61	6.23
ROE	21.8%	21.2%	18.3%	19.1%	20.8%
% Change In Core EPS Estimates			(8.14%)		143,200.00%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Short-term challenges galore

Management conference-call highlights ►

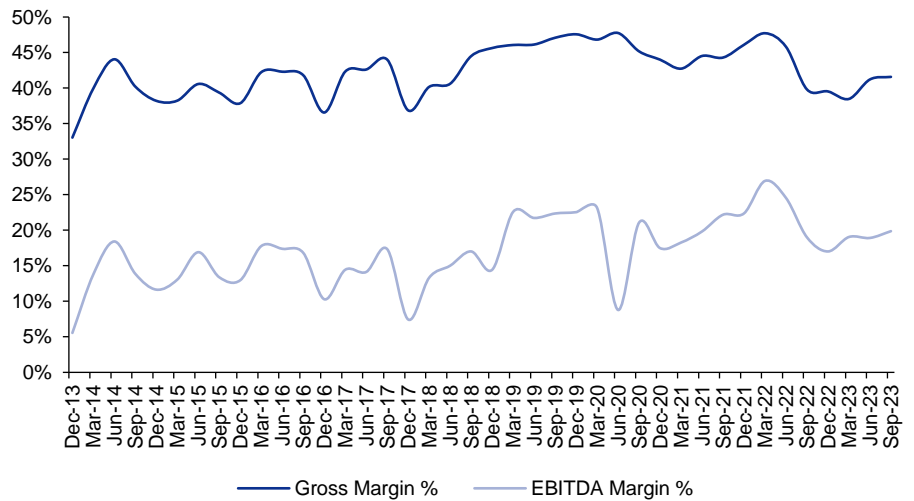
- 2QFY24 revenue fell by 5% on a qoq basis, impacted by seasonality factors and challenges in export markets, while PBT margin rose by 100bp led by steel prices softening and price hike during the quarter.
- 2QFY24 revenue mix comprised the rail segment at 15%, mobility (heavy truck & agriculture) at 21%, distribution at 20%, process (heavy equipment and stationery) at 19% and exports at 25%.
- Export contribution in total revenue was down from 32% in 1HFY23 to 23% in 1HFY24 due to the decline in China, ASEAN and North American markets while Australian and European markets remained flattish.
- North American market likely to witness a recovery in 4QFY24F led by the heavy truck and tractor segments.
- Slowdown in the railway segment is likely to sustain in 3QFY24F due to the ongoing assembly elections, while it is likely to see an uptick in Jan 2024F led by the strong order book.
- The company has introduced CTRB Class E, which has a higher capacity, and high-cap bearings for the railway segment (80,000 bearings for 10,000 wagons - this order is likely to be received soon).
- For SRB and CRB plants, the company has placed orders for the equipment and these plants are likely to commence operations in 4QFY25F while the machinery operations will start from Jan 2025F.
- The Bharuch plant is running three shifts six days a week while the Jamshedpur plant's management has taken cost-control initiatives.
- The company has installed a lubrication system for Pune metro rail, which has been imported from the parent company and assembled in India, and it is working on cone drive for the gearboxes of solar panels.

Figure 1: Quarterly financial performance comparison

Y/E Mar (Rs m)	2QFY24	2QFY23	YoY % chg	1QFY24	QoQ % chg	1HFY24	1HFY23	YoY % chg	2QFY24E	Our Estimates vs. Actual
Total Revenue	6,820	6,954	(1.9%)	7,176	(5.0%)	13,996	13,946	0.4%	8,000	(14.8%)
Less:										
Net Raw Materials Consumed	3,984	4,186	(4.8%)	4,218	(5.5%)	8,203	7,975	2.9%	4,394	(9.3%)
Other Expenses	1,068	1,063	0.5%	1,181	(9.6%)	2,249	2,153	4.5%	1,202	(11.1%)
Personnel Costs	412	384	7.3%	419	(1.7%)	831	781	6.4%	400	3.0%
Total Expenditure	5,465	5,633	(3.0%)	5,819	(6.1%)	11,283	10,909	3.4%	5,995	(8.8%)
EBIDTA	1,355	1,321	2.6%	1,357	(0.2%)	2,712	3,037	(10.7%)	2,005	(32.4%)
Less: Depreciation	211	217	(2.9%)	213	(1.2%)	424	435	(2.5%)	220	(4.2%)
EBIT	1,144	1,104	3.7%	1,144	0.0%	2,288	2,602	(12.1%)	1,785	(35.9%)
Less: Interest paid	9	5	80.6%	9	(3.0%)	18	9	103.8%	8	12.9%
Non-operating Income	101	215	(53.1%)	93	7.9%	194	321	(39.5%)	120	(15.9%)
Extraordinary Income	0	0		0		0	0		0	
Extraordinary Expenses										
Profit Before Tax	1,236	1,314	(5.9%)	1,228	0.7%	2,464	2,914	(15.4%)	1,897	(34.8%)
Profit Before Tax Excl. Extraordinary Items	1,236	1,314	(5.9%)	1,228	0.7%	2,464	2,914	(15.4%)	1,897	(34.8%)
Less: Total Tax	307	338	(9.2%)	327	(6.1%)	634	757	(16.3%)	366	(16.1%)
Profit After Tax	929	976	(4.8%)	901	3.1%	1,831	2,157	(15.1%)	1,531	(39.3%)
Minority Interest										
Associates' share										
Reported PAT	929	976	(4.8%)	901	3.1%	1,831	2,157	(15.1%)	1,531	(39.3%)
Profit After Tax Excl. Extraordinary Items	929	976	(4.8%)	901	3.1%	1,831	2,157	(15.1%)	1,531	(39.3%)
Diluted Shares Outstanding (m)	75	75		75		75	75		75	
Reported EPS Diluted (Rs.)	12.4	13.0	(4.8%)	12.0	3.1%	24.4	28.7	(14.9%)	20.4	(39.3%)
Proforma EPS Diluted (Rs.)	12.4	13.0	(4.8%)	12.0	3.1%	24.4	28.7	(14.9%)	20.4	(39.3%)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Gross margin and EBITDA margin improve in 1HFY24



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Earnings revision summary

	Old Estimates		New Estimates		Change	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	30,711	35,731	29,347	34,309	-4.4%	-4.0%
EBITDA	6,417	8,010	5,905	7,404	-8.0%	-7.6%
PAT	4,419	5,546	4,085	5,094	-7.5%	-8.1%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Key assumptions

	FY20	FY21	FY22	FY23	FY24F	FY25F	FY26F
Sale of Goods	15,339	13,320	21,178	26,410	27,533	32,319	39,591
yoy growth (%)	(3.7)	(13.2)	59.0	24.7	4.3	17.4	22.5
Rail	3,505	2,962	3,966	4,771	5,439	6,527	7,637
share (%)	22	21	18	17	19	19	18
yoy (%)	17	(15.5)	34	20	14	20	17
Mobility	2,380	1,693	2,644	4,210	4,884	5,567	6,347
share (%)	15	12	12	15	17	16	15
yoy (%)	(35.0)	(28.9)	56	59	16	14	14
Process	1,779	1,834	2,864	4,491	5,613	6,736	8,420
share (%)	11	13	13	16	19	20	20
yoy (%)	34	3	56	57	25	20	25
Distribution	3,127	2,962	4,406	4,771	5,105	5,616	6,290
share (%)	19	21	20	17	17	16	15
yoy (%)	3	(5.3)	49	8	7	10	12
Domestic	12,147	10,661	15,525	20,478	23,656	27,479	32,212
share (%)	73.8	74.1	69.3	73.0	80.6	80.1	77.1
yoy (%)	(4.5)	(12.2)	46	32	16	16	17
Exports	4,022	3,444	6,508	7,588	5,691	6,829	9,561
share (%)	26.2	25.9	30.7	27.0	19.4	19.9	22.9
yoy (%)	2	(14.4)	89	17	-25	20	40
ABC Bearings	1,356	1,211	1,644	2,235	2,615	3,034	3,519
share (%)	8.4	8.6	7.5	8.0	8.9	8.8	8.4
yoy growth (%)	(20.0)	(10.7)	35.8	35.9	17.0	16.0	16.0
Sale of services	659	713	785	1,586	1,745	1,919	2,111
yoy growth (%)	24.8	8.2	10.0	10.0	10.0	10.0	10.0
Gross sales	15,998	14,034	21,962	27,996	29,277	34,239	41,702
Net sales	15,998	14,034	21,962	27,996	29,277	34,239	41,702
yoy growth (%)	(2.8)	(12.3)	56.5	27.5	4.6	16.9	21.8

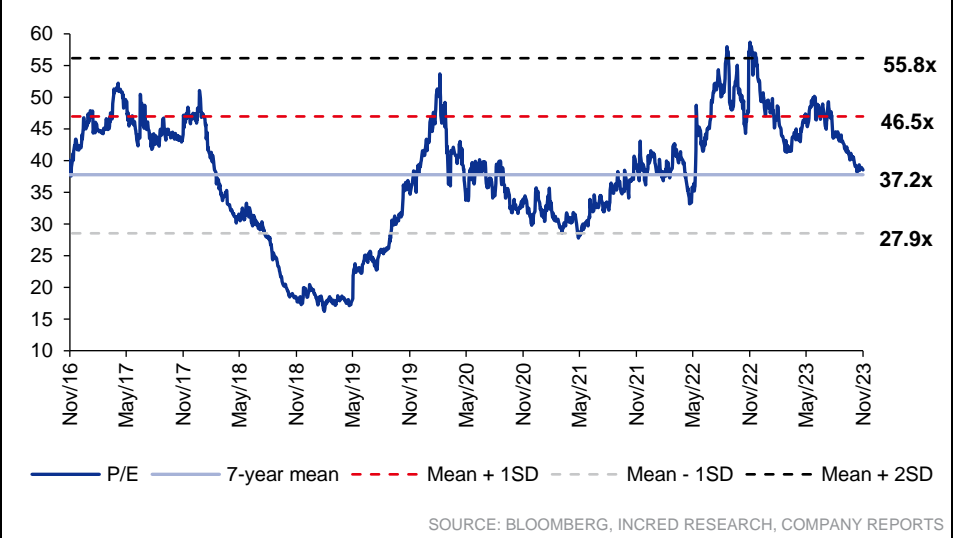
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Target price calculation methodology

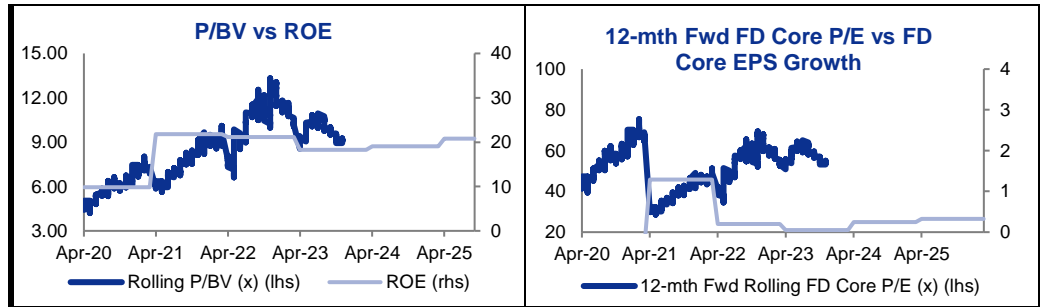
	1-year forward
EPS (Rs.) (1-year forward)	81.6
P/E(x)	35.0
Target price (Rs)	2,856

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Forward P/E valuation eases to the seven-year mean level



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	22,032	28,066	29,347	34,309	41,772
Gross Profit	10,092	11,468	12,414	14,924	18,380
Operating EBITDA	5,107	5,604	5,905	7,404	9,671
Depreciation And Amortisation	(843)	(872)	(1,039)	(1,369)	(1,568)
Operating EBIT	4,263	4,732	4,866	6,035	8,103
Financial Income/(Expense)	(24)	(28)	(40)	(30)	(30)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	143	532	658	833	950
Profit Before Tax (pre-EI)	4,382	5,235	5,484	6,838	9,023
Exceptional Items					
Pre-tax Profit	4,382	5,235	5,484	6,838	9,023
Taxation	(1,111)	(1,328)	(1,398)	(1,744)	(2,301)
Exceptional Income - post-tax					
Profit After Tax	3,271	3,907	4,085	5,094	6,722
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,271	3,907	4,085	5,094	6,722
Recurring Net Profit	3,271	3,907	4,085	5,094	6,722
Fully Diluted Recurring Net Profit	3,271	3,907	4,085	5,094	6,722

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	5,107	5,604	5,905	7,404	9,671
Cash Flow from Invt. & Assoc.	(725)	(368)	(421)	(566)	(648)
Change In Working Capital	(3,435)	(1,108)	(1,082)	(1,903)	(3,874)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	843	872	1,039	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)	(1,398)	(1,744)	(2,301)
Cashflow From Operations	550	3,140	3,385	3,727	3,465
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
Cash Flow From Investing	(221)	(1,379)	(1,285)	(888)	3,162
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)
Cash Flow From Financing	(147)	(144)	(228)	(256)	(331)
Total Cash Generated	182	1,617	1,872	2,583	6,297
Free Cashflow To Equity	319	1,758	2,100	2,839	6,628
Free Cashflow To Firm	353	1,790	2,140	2,869	6,658

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	1,872	2,606	5,321
Total Debtors	5,388	5,757	6,834	7,990	10,300
Inventories	5,585	5,695	5,955	7,520	9,728
Total Other Current Assets	607	1,095	1,223	1,429	1,740
Total Current Assets	11,762	14,164	15,884	19,545	27,089
Fixed Assets	7,284	7,155	9,715	11,947	11,779
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	13,888	16,119	15,951
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	3,285	3,444	3,699	4,512	5,150
Other Current Liabilities	1,505	1,191	1,246	1,456	1,773
Total Current Liabilities	4,791	4,635	4,944	5,968	6,923
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	5,502	6,526	7,481
Shareholders Equity	16,569	20,372	24,269	29,138	35,559
Minority Interests					
Total Equity	16,569	20,372	24,269	29,138	35,559

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	55.5%	27.8%	5.3%	16.9%	21.8%
Operating EBITDA Growth	102.8%	9.7%	5.4%	25.4%	30.6%
Operating EBITDA Margin	23.4%	20.1%	20.1%	21.6%	23.2%
Net Cash Per Share (Rs)	(1.54)	17.59	20.97	30.74	66.83
BVPS (Rs)	220.31	270.86	322.68	387.42	472.80
Gross Interest Cover	174.23	168.20	121.64	201.17	270.10
Effective Tax Rate	25.3%	25.4%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	3.4%	2.9%	4.6%	4.4%	4.5%
Accounts Receivables Days	75.38	72.47	78.30	78.85	79.91
Inventory Days	141.71	124.03	125.56	126.86	134.56
Accounts Payables Days	(101.48)	(73.99)	(76.98)	(77.30)	(75.38)
ROIC (%)	25.6%	21.4%	20.5%	21.4%	23.9%
ROCE (%)	27.3%	24.9%	21.3%	22.1%	24.6%
Return On Average Assets	16.2%	16.6%	14.9%	15.6%	17.1%

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	14	20	N/A
Mobility	56	59	16	14	N/A
Process	56	57	25	20	N/A
Distribution	49	8	7	10	N/A
Domestic	47	31	15	16	N/A
Exports	89	17	(25)	20	N/A
Sale of service	10	102	10	10	N/A
Total sales	56	29	4	17	N/A

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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	Analyst/ Relative	Entity/ Associate s
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