

India

ADD (no change)

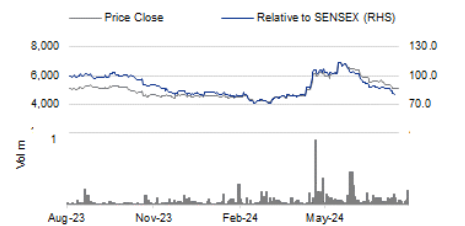
Consensus ratings*: Buy 8 Hold 3 Sell 0

Current price:	Rs5,113
Target price:	Rs5,784 ▲
Previous target:	Rs5,302
Up/downside:	13.1%
InCred Research / Consensus:	2.6%
Reuters:	
Bloomberg:	SKF IN
Market cap:	US\$3,481m Rs252,796m
Average daily turnover:	US\$5.3m Rs384.6m
Current shares o/s:	49.4m
Free float:	47.4%

*Source: Bloomberg

Key changes in this note

- FY25F sales reduced by 6%.
- FY25F EBITDA reduced by 17%.
- FY25F EPS reduced by 12%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(8.5)	(17.1)	0.2
Relative (%)	(8.3)	(23.7)	(19.1)

Major shareholders	% held
Promoter	52.6
HDFC Mutual Fund	8.0
Mirae Mutual Fund	6.2

Research Analyst(s)



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SKF India Ltd

Slow start to the year

- 1QFY25 EPS growth of just 3% yoy to Rs32.1 missed the Bloomberg consensus estimate by 26%. 1Q EPS formed just 21% of FY25F estimate.
- We have cut FY25F EPS by a sharp 12% to reflect the sustained slow sales momentum in recent quarters and the pressure on EBITDA margin.
- The recent sharp stock price correction eases P/E valuation to below the 10-year mean level. Maintain ADD rating on the stock with a higher TP of Rs5,784.

Slow sales momentum and EBITDA margin pressure disappoint

SKF India's 1QFY25 EBITDA dipped 5% yoy and 9% qoq to Rs1.9bn, which was 9% below the Bloomberg or BB consensus estimate. Slow sales growth (5% yoy) and a spike in purchased goods to a two-year high level led to EBITDA miss. The EBITDA margin stood at 16.1%, (-159bp yoy and -167bp qoq), 98bp below the BB consensus estimate of 17%. Other income rose by 78% yoy and interest costs fell by 21% yoy which led to EPS growth of just 3% yoy to Rs32.1, missing the BB consensus estimate by 26%.

Management conference-call highlights

Management believes the company's industrial segment will witness growth led by continuity of the current government and the automotive segment to witness low double-digit growth in FY25F. Railways and wind power generation segments witnessed a decline in growth in 1QFY25 due to intense competition. Going ahead, railways is likely to witness a recovery. It may be recalled that SKF India holds a 50% market share in Vande Bharat train components. The manufacturing mix improved during the quarter and also in FY24. Capex guidance for FY25F remained in line with FY24 capex of Rs1.4bn.

FY25F EPS cut by 12%

The slow start to sales in FY25F due to weak railway division's performance because of general elections in India disappointed, leading to our sales cut of 6% for FY25F. Volatility in purchased goods and product mix impacting the EBITDA margin led us to cut our EBITDA estimate by 17% for FY25F. The strong momentum in other income helps in limiting the EPS cut to 12% for FY25F.

Valuation eases to near +1SD

The sharp correction in the stock price recently from its historic peak helped the one-year forward P/E and P/BV valuations to ease below +1SD of the 10-year mean level. We roll forward our P/E-based target price to Rs5,784 (Rs5,302 earlier) at 34x and retain ADD rating on the stock, as the sales momentum can improve in 2HFY25F. Key downside risk is the EBITDA margin pressure sustaining due to higher purchased goods.

Financial Summary	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue (Rsm)	42,339	44,877	51,469	58,195	66,411
Operating EBITDA (Rsm)	7,494	7,176	8,541	9,856	11,294
Net Profit (Rsm)	5,248	5,518	6,685	7,747	8,833
Core EPS (Rs)	106.1	111.6	135.2	156.7	178.7
Core EPS Growth	32.8%	5.1%	21.1%	15.9%	14.0%
FD Core P/E (x)	48.17	45.82	37.82	32.63	28.62
DPS (Rs)	40.0	130.0	50.0	60.0	70.0
Dividend Yield	0.78%	2.54%	0.98%	1.17%	1.37%
EV/EBITDA (x)	32.48	33.54	27.93	23.97	20.65
P/FCFE (x)	40.96	42.85	57.41	48.40	39.14
Net Gearing	(40.3%)	(45.1%)	(46.0%)	(46.2%)	(47.5%)
P/BV (x)	10.80	9.42	8.14	7.06	6.14
ROE	22.4%	20.6%	21.5%	21.6%	21.4%
% Change In Core EPS Estimates			(11.79%)		
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Slow start to the year

Management conference-call highlights >

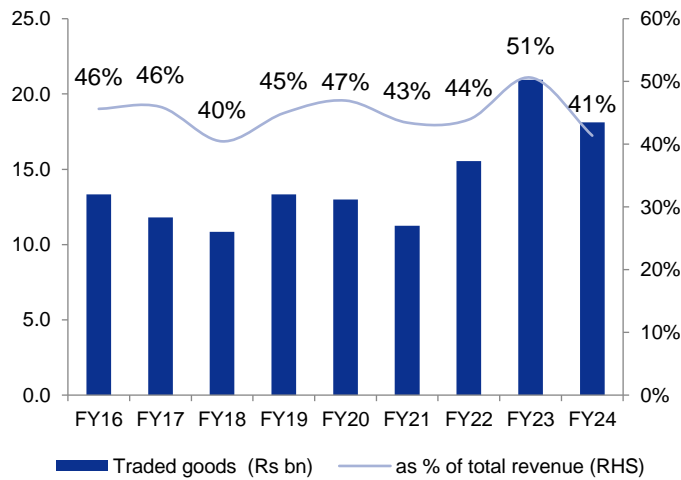
- **Demand:** Automotive demand remains a mixed bag, with the two-wheeler and tractor industries witnessing faster growth while sports utility vehicles or SUVs gained pace. On the electric vehicle or EV front, demand remains positive. On the industrial front, the heavy industry sub-segments like cement and metal are witnessing growth. Management sees decent demand in the railways and wind power generation segments but it remains cautious due to low margin, as these businesses are driven by price auctions.
- **Revenue mix:** 1QFY25 revenue mix was as follows: Industrial 50%, automotive 41% and the remaining comprised exports. The top line growth was driven by heavy industry and metal sub-segments in the industrial segment while the automotive segment witnessed growth across sub-segments.
- **Sub-segment revenue mix:** The mix is as follows: Two-wheeler 13%, car 6% and heavy industry 5% of the total business. The aftermarket business from both the industrial and automotive segments stood at 35% of the total business. Railways and the wind power generation segments accounted for 7% and 3%, respectively.
- **Localization:** 65% of SKF's overall business is localized while the automotive sector is 95% localized. Management's endeavour is to localize its industrial business from ~45% currently to 65% in the next two-to-three years.
- **Financial performance:** The manufacturing mix was at 60% in FY24, while the margin remained stable due to stable pricing action in FY24. Going ahead, the EBITDA margin is likely to improve because of localization, customer mix, pricing action and improvement in manufacturing & procurement. Raw material costs, as a percentage of revenue, went up by ~200bp due to the rise in the manufacturing mix from 58% in 4QFY24 to 64% in 1QFY25.
- **Railways:** 80% of railway sales are traded goods from an unlisted entity and the remaining 20% is imported from the parent company. The company has a sizable market share in high-speed train projects like Vande Bharat but freight trains is a highly competitive business due to price auctions. The top line from the railway business was flat during the quarter due to general elections in India but it is likely to witness growth led by continuity of the current government. The company has a 50% market share in supplying components to Vande Bharat trains, with some of the orders being already executed.
- **Wind power business:** The business from the wind power generation sector declined as the company removed some customers from its list.
- **FY24 revenue mix:** The mix was as follows: industrial segment 51%, automotive segment 40% and exports accounting for 8%. In the industrial segment, distribution accounted for 25%, machinery 8%, heavy industries 5% and railways & defence 7% of the total revenue. In the automotive segment, the aftermarket business accounted for 11%, cars 5%, two-wheelers 13% and CVs & tractors 6%. 60% of the total business was in the bearings segment. Management's endeavour is to improve the service business (5% of the total business) due to high demand.
- **Capex & mix:** The company incurred a capex of Rs1.4bn in FY24, and its likely to be in a similar range in FY25F. Manufacturing stood at 64% and traded goods accounted for 36%, witnessing an improvement in the manufacturing mix.

Figure 1: Quarterly results comparison

Y/E Mar (Rs m)	1QFY25	1QFY24	yoy % chg	4QFY24	qoq % chg
Total Revenue	12,062	11,496	4.9%	12,034	0.2%
Net Raw Materials Consumed	7,317	6,919	5.7%	7,071	3.5%
Other Expenses	1,940	1,680	15.5%	1,938	0.1%
Personnel Costs	868	868	0.0%	891	-2.6%
Total Expenditure	10,126	9,467	7.0%	9,900	2.3%
EBITDA	1,937	2,029	-4.5%	2,134	-9.2%
Less: Depreciation	198	175	12.8%	189	4.8%
EBIT	1,739	1,853	-6.2%	1,945	-10.6%
Less: Interest Paid	2	3	-20.7%	2	-4.2%
Non-operating Income	401	225	77.7%	349	14.7%
Profit Before Tax	2,137	2,076	2.9%	2,292	-6.8%
Profit Before Tax Excl. Extraordinary Items	2,137	2,076	2.9%	2,292	-6.8%
Less: Total Tax	547	531	3.0%	544	0.5%
Normalized PAT	1,589	1,544	2.9%	1,748	-9.1%
Normalized EPS (Rs.)	32	31	2.9%	35.4	-9.1%

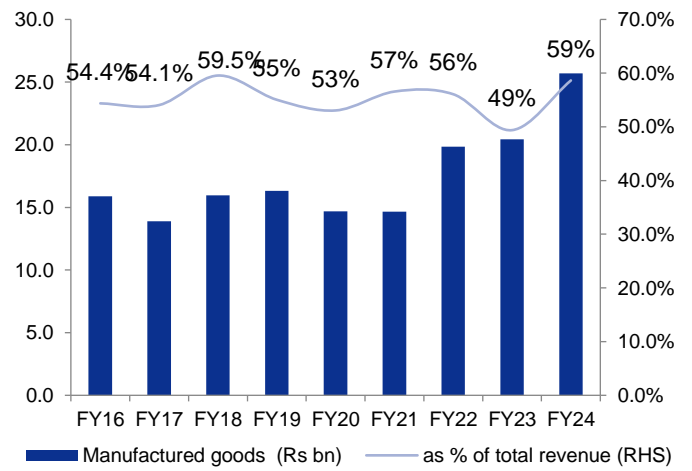
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Sales of traded goods



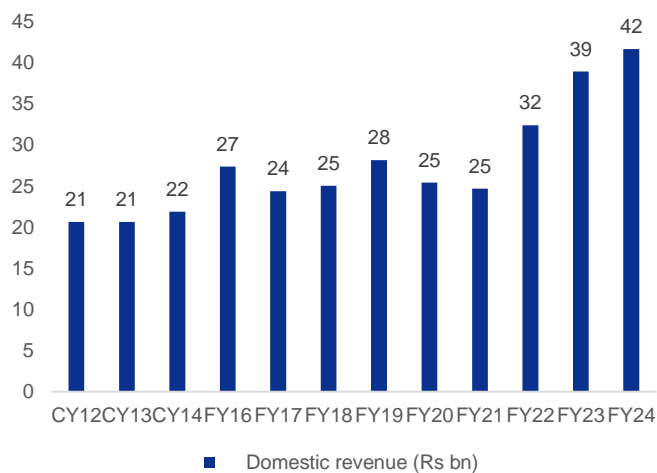
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Sales of manufactured goods



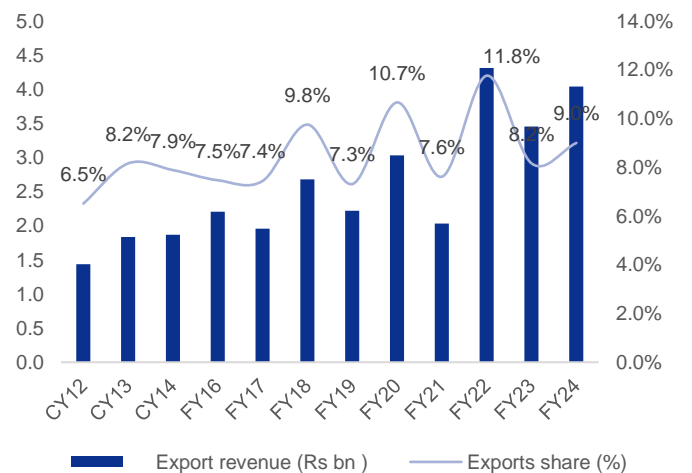
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Domestic revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Export revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: EPS revision summary

Rs m	Old Estimates	New Estimates	Change
	FY25F	FY25F	
Revenue	54,998	51,469	-6.4%
EBITDA	10,232	8,541	-16.5%
PAT	7,578	6,685	-11.8%
EPS	153	135	-11.8%

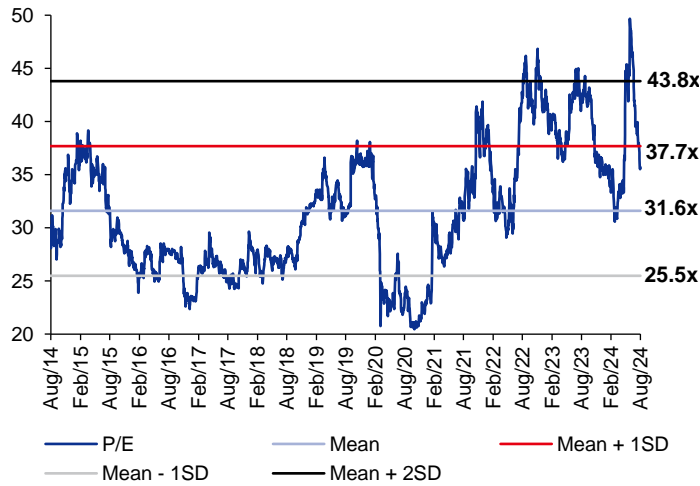
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: Valuation table

	One-year forward
EPS (Rs.) (one-year forward)	170.1
P/E(x)	34.0
Target price (Rs)	5,784

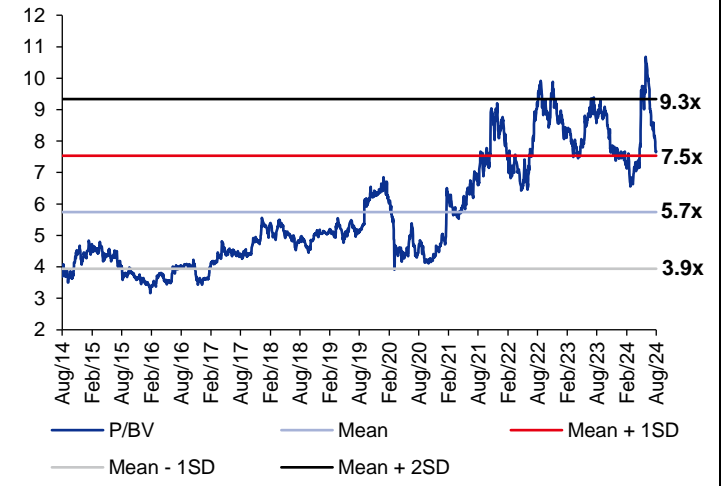
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: One-year forward P/E below +1 SD level



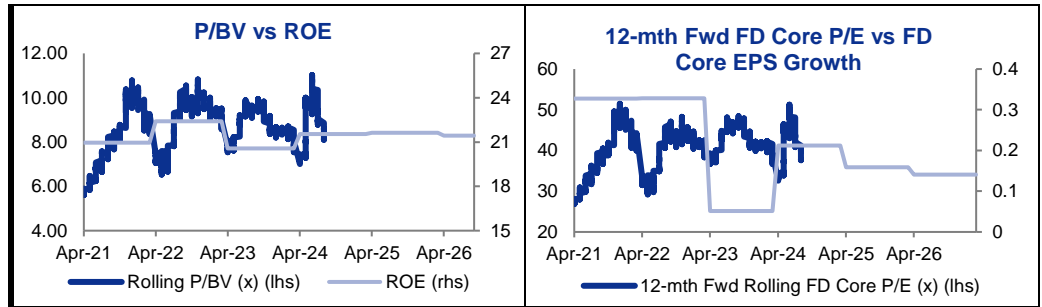
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: One-year forward P/BV close to +1SD level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Total Net Revenues	43,049	45,701	51,469	58,195	66,411
Gross Profit	17,391	17,918	20,176	22,929	26,365
Operating EBITDA	7,494	7,176	8,541	9,856	11,294
Depreciation And Amortisation	(668)	(746)	(847)	(968)	(1,123)
Operating EBIT	6,826	6,430	7,694	8,888	10,171
Financial Income/(Expense)	(15)	(12)	(12)	(12)	(12)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	519	940	1,303	1,536	1,713
Profit Before Tax (pre-EI)	7,329	7,358	8,985	10,412	11,873
Exceptional Items					
Pre-tax Profit	7,329	7,358	8,985	10,412	11,873
Taxation	(2,081)	(1,840)	(2,300)	(2,666)	(3,039)
Exceptional Income - post-tax					
Profit After Tax	5,248	5,518	6,685	7,747	8,833
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	5,248	5,518	6,685	7,747	8,833
Recurring Net Profit	5,248	5,518	6,685	7,747	8,833
Fully Diluted Recurring Net Profit	5,248	5,518	6,685	7,747	8,833

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	7,494	7,176	8,541	9,856	11,294
Cash Flow from Invt. & Assoc.	(165)	182	443	557	578
Change In Working Capital	1,162	1,059	(1,599)	(1,779)	(1,485)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	668	746	847	968	1,123
Other Operating Cashflow	(519)	(940)	(1,303)	(1,536)	(1,713)
Net Interest (Paid)/Received	(15)	(12)	(12)	(12)	(12)
Tax Paid	(2,081)	(1,840)	(2,300)	(2,666)	(3,039)
Cashflow From Operations	6,544	6,371	4,618	5,386	6,746
Capex	(874)	(1,384)	(1,400)	(1,700)	(2,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	519	940	1,303	1,536	1,713
Cash Flow From Investing	(356)	(444)	(97)	(164)	(287)
Debt Raised/(repaid)	(17)	(27)	(118)		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(1,977)	(6,427)	(2,472)	(2,966)	(3,461)
Preferred Dividends					
Other Financing Cashflow					
Cash Flow From Financing	(1,994)	(6,454)	(2,590)	(2,966)	(3,461)
Total Cash Generated	4,195	(527)	1,931	2,256	2,999
Free Cashflow To Equity	6,172	5,900	4,403	5,223	6,459
Free Cashflow To Firm	6,204	5,939	4,533	5,235	6,471

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	9,580	12,221	14,276	16,544	19,555
Total Debtors	6,787	7,513	8,884	10,363	11,827
Inventories	6,860	6,839	7,702	8,708	9,938
Total Other Current Assets	3,446	3,930	4,227	4,573	4,997
Total Current Assets	26,673	30,503	35,088	40,189	46,316
Fixed Assets	4,875	5,611	6,163	6,896	7,773
Total Investments	25	90	90	90	90
Intangible Assets					
Total Other Non-Current Assets	208	311			
Total Non-current Assets	5,108	6,012	6,253	6,986	7,863
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	6,079	7,131	7,756	8,450	9,643
Other Current Liabilities	2,142	2,438	2,745	3,104	3,542
Total Current Liabilities	8,221	9,569	10,501	11,554	13,185
Total Long-term Debt	144	118			
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
Total Non-current Liabilities	144	118			
Total Provisions					
Total Liabilities	8,365	9,687	10,501	11,554	13,185
Shareholders Equity	23,415	26,828	31,041	35,821	41,194
Minority Interests					
Total Equity	23,415	26,828	31,041	35,821	41,194

Key Ratios

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Revenue Growth	17.5%	6.0%	14.7%	13.1%	14.1%
Operating EBITDA Growth	34.8%	(4.2%)	19.0%	15.4%	14.6%
Operating EBITDA Margin	17.7%	16.0%	16.6%	16.9%	17.0%
Net Cash Per Share (Rs)	190.84	244.81	288.75	334.63	395.53
BVPS (Rs)	473.60	542.65	627.85	724.54	833.21
Gross Interest Cover	452.03	531.40	635.86	734.55	840.62
Effective Tax Rate	28.4%	25.0%	25.6%	25.6%	25.6%
Net Dividend Payout Ratio	37.7%	116.5%	37.0%	38.3%	39.2%
Accounts Receivables Days	57.90	57.10	58.14	60.36	60.98
Inventory Days	96.94	89.99	84.80	84.92	84.98
Accounts Payables Days	(80.54)	(86.78)	(86.82)	(83.86)	(82.46)
ROIC (%)	48.9%	43.9%	46.7%	46.8%	47.6%
ROCE (%)	29.0%	23.9%	24.8%	24.8%	24.7%
Return On Average Assets	16.6%	15.1%	16.2%	16.4%	16.3%

Key Drivers

	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
Auto OEM	17.0%	14.4%	9.5%	N/A	N/A
Auto aftermarket	22.0%	(22.5%)	12.0%	N/A	N/A
Exports (largely Auto)	N/A	(4.6%)	10.0%	N/A	N/A
Total auto	14.6%	0.1%	10.1%	N/A	N/A
Industrial OEM	23.0%	(0.6%)	10.0%	N/A	N/A
Industrial after market	18.0%	28.3%	20.0%	N/A	N/A
Total Industrials	23.0%	(0.6%)	10.0%	N/A	N/A
Total sales	20.8%	12.0%	15.0%	N/A	N/A

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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- Add** The stock's total return is expected to exceed 10% over the next 12 months.
- Hold** The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
- Reduce** The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

- Overweight** An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
- Neutral** A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
- Underweight** An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

- Overweight** An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
- Neutral** A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
- Underweight** An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.