

India

REDUCE (no change)

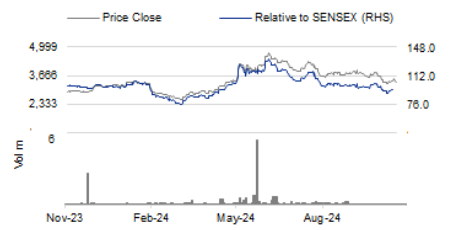
Consensus ratings*: Buy 7 Hold 2 Sell 1

Current price:	Rs3,372
Target price:	Rs2,981
Previous target:	Rs2,987
Up/downside:	-11.6%
InCred Research / Consensus:	-27.0%
Reuters:	
Bloomberg:	TMKN IN
Market cap:	US\$3,492m
	Rs253,608m
Average daily turnover:	US\$9.9m
	Rs721.6m
Current shares o/s:	75.2m
Free float:	42.3%

*Source: Bloomberg

Key changes in this note

- FY25F-26F sales increased by 3%.
- FY25F-26F EBITDA cut by 3-5%.
- FY25F-26F EPS cut by 3%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(7.6)	(19.8)	15.1
Relative (%)	(6.1)	(21.6)	(7.0)

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

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Timken Ltd

Weak 2Q performance

- 2QFY25 EPS dipped by 3% yoy to Rs12, missing the Bloomberg consensus estimate by 8% due to sales and EBITDA margin miss.
- We cut FY25F-26F EPS by 3% to reflect the product mix impact on the EBITDA margin.
- Maintain REDUCE rating as the forward P/E valuation is still rich at close to +1SD above the mean level.

2QFY25 EBITDA decline disappoints

Timken's 2QFY25 EBITDA declined by 5% qoq and 2% yoy to Rs1.3bn, which was 12% below the Bloomberg consensus estimate. Sales were up 10% yoy but down 4% qoq, which led to the disappointment. Management indicated a decline in exports in 2Q. The EBITDA margin fell by 216bp yoy to 17.7% due to the poor product mix impact. PAT was down 3% yoy at Rs899m, an 8% miss vs. the Bloomberg consensus estimate.

Management conference-call highlights

Management indicated that exports are likely to recover as the US presidential elections are over, and the railway segment has already returned to the growth path in the Sep 2024 quarter. The new plant at Baruch is likely to be commissioned in 4QFY25F, which will cater to the rising demand for industrial bearings. It will be initially substituting bearing imports to the tune of Rs700m and expand the addressable market for Timken. This plant will take two-to-three years to reach full capacity utilization. Management plans to leverage the parent company's newly acquired technology companies to develop products for domestic and export markets.

FY25F-26F EPS cut by 3%

The sustenance of double-digit sales growth in 1HFY25 provides comfort. Considering the recovery in US rail sector exports and the presidential election uncertainty behind, we increase FY25F-26F sales estimates by 3%. Management indicates a weak product mix (due to the decline in exports) as the reason behind the pressure on the EBITDA margin. Building in the same, we cut EBITDA estimates by 5% for FY25F and by 3% for FY26F.

Valuation eases but still at +1SD

The stock price correction in recent quarters has eased the valuation to below +1SD of the seven-year mean (Fig. 6). But considering the PAT decline phenomenon and new plant commissioning impact in coming quarters, we maintain our REDUCE rating on the stock with a P/E-based new target price of Rs2,981 (Rs2,987 earlier). A quick recovery in exports to the US or ramp-up benefits of the new plant are key upside risks.

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	6,355	8,079	8,974
Net Profit (Rsm)	3,907	3,921	4,391	5,493	6,161
Core EPS (Rs)	52.0	52.1	58.4	73.0	81.9
Core EPS Growth	19.4%	0.4%	12.0%	25.1%	12.2%
FD Core P/E (x)	64.90	64.66	57.75	46.16	41.16
DPS (Rs)	1.5	1.5	2.0	2.5	3.0
Dividend Yield	0.04%	0.04%	0.06%	0.07%	0.09%
EV/EBITDA (x)	45.02	43.88	39.53	30.87	27.32
P/FCFE (x)	144.24	89.71	125.20	45.31	31.59
Net Gearing	(6.5%)	(9.8%)	(8.4%)	(12.4%)	(21.1%)
P/BV (x)	12.45	10.49	8.92	7.52	6.39
ROE	21.2%	17.6%	16.7%	17.7%	16.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Weak 2Q performance

Management conference-call highlights ►

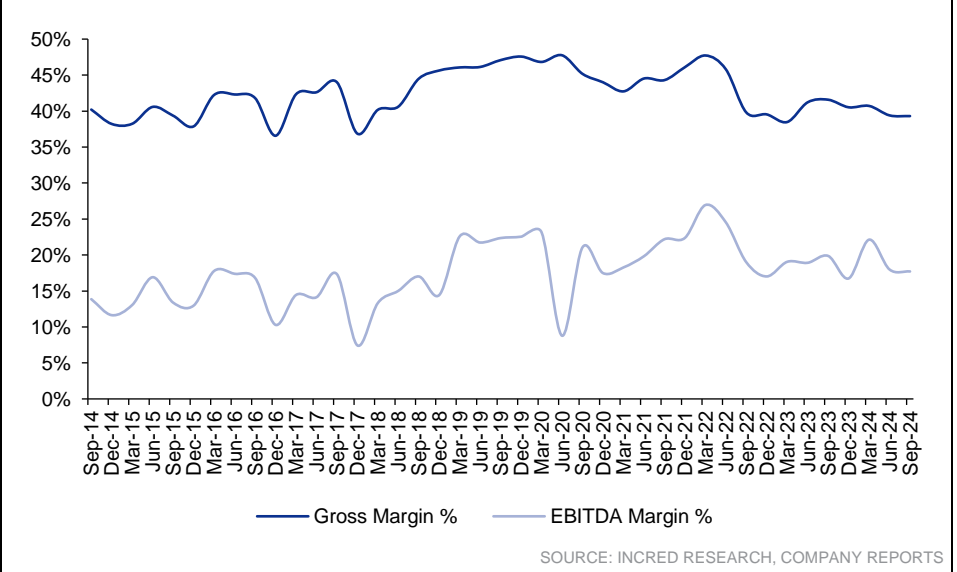
- **Overall performance:** The domestic market witnessed growth while exports remained under pressure due to the geopolitical situation in the US and Europe. The company is hopeful of a recovery from here on.
- **Financial performance:** In 2QFY25, the PBT margin was 16.4% vs. 18% in 2QFY24, impacted by an unfavourable product mix due to heavy rains.
- **Capex:** The Bharuch project is in full swing, and the company has incurred Rs2.6bn out of the planned Rs6bn capex. The air-conditioning system and power connection infrastructure installation is going on. Looking at commissioning the plant in Jan-Mar 2025F.
- **Revenue mix:** In 2QFY25, the railway segment accounted for 23%, mobility 18%, distribution 19%, process industry 21% and exports at 19%.
- **Railway segment:** Manufacturing of wagons, rail passenger Vande Bharat trains, and metro rail projects are seeing steady growth. Likely to maintain the growth momentum.
- **International business:** The railway segment in the US witnessed growth while the heavy truck segment remains weak, but as the US presidential elections are over, management expects a recovery in the overall US market. Generally, the US market mix is 50% rail and 50% truck but due to weak demand for trucks, the current mix stands at 68% rail and 32% truck. The rail mix is small in Europe while it accounts for a large portion in America, Russia and China. America accounts for 50-60% of the company's total export business.
- **M&A:** Timken (parent company) has acquired multiple technology companies in areas such as belt, chain, pulley, robotics and linear motion in Europe and America. Timken has been evaluating as to how to leverage them in India, both for the domestic market and for exports.
- **Imports:** Currently, the company is importing Rs700-800m of spherical roller bearings and cylindrical roller bearings from Romania and America, which is a part of the distribution business.
- **Manufacturing plants:** Timken India currently has a plant in Jamshedpur and Bharuch, and it manufactures tapered roller bearings generally of 0-to-8 inch, which largely go into heavy truck wheels, tractor application (off-highway in excavator, backhoe) and also produces rail bearings which go into passenger trains and locomotives.
- **Bearing industry:** Indian market is witnessing demand for bearings for use in stationary equipment which goes into steel-making, cement-making, power generation, and material handling systems. Other bearings like tapered roller bearings, spherical roller bearings and cylindrical roller bearings, of different forms and sizes, which Timken India is currently importing, are witnessing huge demand. The company plans to produce these in India to save costs and improve its margin.
- **Wind power industry:** The Indian wind power industry is witnessing healthy demand on the domestic front while exports are picking up steadily as the China wind power market is down.
- **Steel industry:** Currently, steel production capacity in India is underutilized due to weak export demand and is likely to pick up going ahead, especially alloy steel.
- **Infrastructure industry:** The domestic infrastructure segment was witnessing slow growth due to general elections and rains, but is likely to pick up from the current level, which is also going to be positive for the commercial vehicle industry in 2HFY25F.

Figure 1: Results comparison

Y/E Mar (Rs m)	2QFY25	2QFY24	YoY % chg	1QFY25	QoQ % chg	1HFY25	1HFY24	YoY % chg	Comments
Total Revenue	6,820	7,176	(5.0%)	7,837	(13.0%)	15,366	13,996	9.8%	3% below the Bloomberg estimate.
Net Raw Materials Consumed	3,984	4,218	(5.5%)	4,749	(16.1%)	9,319	8,203	13.6%	
RM Costs as a % of Revenue	58.4%	58.8%	-36	60.6%	-218	60.6%	58.6%	204	
Other Expenses	1,068	1,181	(9.6%)	1,261	(15.3%)	2,465	2,249	9.6%	
Personnel Costs	412	419	(1.7%)	417	(1.2%)	839	831	0.9%	
Total Expenditure	5,465	5,819	(6.1%)	6,428	(15.0%)	12,624	11,284	11.9%	
EBITDA	1,355	1,357	(0.2%)	1,409	(3.8%)	2,742	2,712	1.1%	12% below the Bloomberg estimate.
EBITDA Margin	19.9%	18.9%	96	18.0%	189	17.8%	19.4%	-153	223bp below the Bloomberg estimate.
Less: Depreciation	211	213	(1.2%)	219	(3.8%)	428	424	0.9%	
EBIT	1,144	1,143	0.0%	1,190	(3.8%)	2,314	2,288	1.2%	
Less: Interest paid	9	9	-3%	11	(17.4%)	20	18	10.9%	
Non-operating Income	101	93	7.9%	119	(15.2%)	240	194	23.7%	
Extraordinary Items	-	-	NA	-	NA	-	-	NA	
Profit Before Tax	1,236	1,228	0.7%	1,298	(4.8%)	2,534	2,464	2.9%	
Less: Total Tax	306	327	(6.4%)	335	(8.8%)	672	633	6.3%	
Profit After Tax	930	901	3.2%	962	(3.4%)	1,862	1,831	1.7%	8% below the Bloomberg estimate.
Proforma EPS - Diluted (Rs.)	12.4	12.0	3.2%	12.8	(3.4%)	24.8	24.3	2.0%	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Gross and EBITDA margins soften



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Earnings revision summary

	FY25F		FY26F		FY27F	
	Old	New	Old	New	Old	New
Revenue	31,955	33,035	37,900	39,182	43,936	43,936
Change (%)		3.4%		3.4%		0.0%
EBITDA	6,682	6,355	8,308	8,079	9,501	8,974
Change (%)		-4.9%		-2.8%		-5.5%
EBITDA Margin	21%	19%	22%	21%	22%	20%
Change (bp)		-167		-130		-120
PAT	4,544	4,391	5,685	5,493	6,482	6,161
Change (%)		-3.4%		-3.4%		-4.9%
EPS	60	58	76	73	86	82
Change (%)		-2.7%		-3.4%		-5.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Key assumptions

REVENUE FROM OPERATIONS	FY22	FY23	FY24	FY25F	FY26F	FY27F
Sale of Goods (Gross)	21,178	26,410	26,937	30,668	36,585	41,087
Less: Excise duty	-	-	-	-	-	-
Sale of Goods (net)	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
Sales 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 5: Target price calculation methodology

	1-year forward
EPS (Rs.) (1-year forward)	78.4
P/E(x)	38.0
Target price (Rs)	2,981

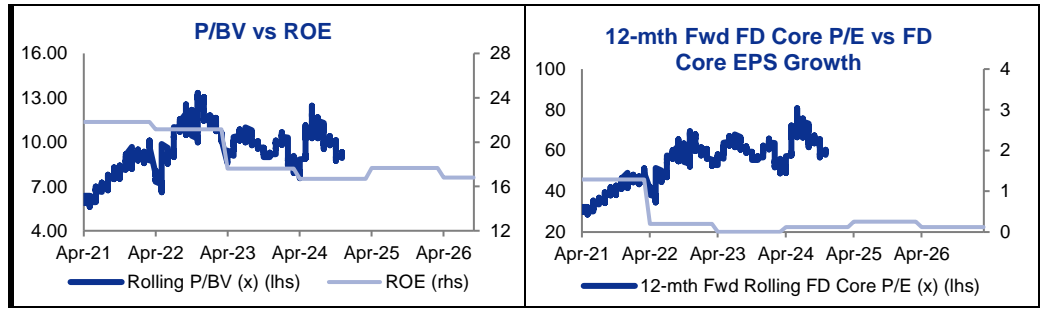
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Forward P/E valuation eases, but still rich at +1SD above the seven-year mean 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	28,066	29,095	33,035	39,182	43,936
Gross Profit	11,468	11,929	13,016	15,947	17,794
Operating EBITDA	5,604	5,724	6,355	8,079	8,974
Depreciation And Amortisation	(872)	(852)	(929)	(1,252)	(1,343)
Operating EBIT	4,732	4,872	5,426	6,827	7,631
Financial Income/(Expense)	(28)	(38)	(40)	(35)	(30)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	532	408	508	581	669
Profit Before Tax (pre-EI)	5,235	5,242	5,894	7,373	8,270
Exceptional Items					
Pre-tax Profit	5,235	5,242	5,894	7,373	8,270
Taxation	(1,328)	(1,321)	(1,503)	(1,880)	(2,109)
Exceptional Income - post-tax					
Profit After Tax	3,907	3,921	4,391	5,493	6,161
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,907	3,921	4,391	5,493	6,161
Recurring Net Profit	3,907	3,921	4,391	5,493	6,161
Fully Diluted Recurring Net Profit	3,907	3,921	4,391	5,493	6,161

Cash Flow

(Rs mn)	Mar-23A	Mar-24A	Mar-25F	Mar-26F	Mar-27F
EBITDA	5,604	5,724	6,355	8,079	8,974
Cash Flow from Invt. & Assoc.	(368)	(482)	(461)	(706)	(704)
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	1,252	1,343
Other Operating Cashflow	(504)	(370)	(468)	(546)	(639)
Net Interest (Paid)/Received	(28)	(38)	(40)	(35)	(30)
Tax Paid	(1,328)	(1,321)	(1,503)	(1,880)	(2,109)
Cashflow From Operations	3,140	3,362	3,239	2,803	5,146
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)	(40)	(35)	(30)
Cash Flow From Financing	(144)	(151)	(190)	(223)	(256)
Total Cash Generated	1,617	2,676	1,835	5,374	7,772
Free Cashflow To Equity	1,758	2,826	2,025	5,597	8,027
Free Cashflow To Firm	1,790	2,864	2,065	5,632	8,057

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	2,670	4,466	8,655
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	18,980	24,884	31,551
Fixed Assets	7,155	8,903	11,574	11,721	11,778
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	15,894	15,950
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	28,421	33,726	39,662
Minority Interests					
Total Equity	20,372	24,180	28,421	33,726	39,662

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%	11.0%	27.1%	11.1%
Operating EBITDA Margin	20.1%	19.8%	19.2%	20.6%	20.4%
Net Cash Per Share (Rs)	17.59	31.64	31.58	55.47	111.17
BVPS (Rs)	270.86	321.50	377.89	448.42	527.34
Gross Interest Cover	168.20	128.59	135.65	195.06	254.37
Effective Tax Rate	25.4%	25.2%	25.5%	25.5%	25.5%
Net Dividend Payout Ratio	2.9%	2.9%	3.4%	3.4%	3.7%
Accounts Receivables Days	72.47	78.61	79.93	80.83	85.13
Inventory Days	124.03	123.31	119.83	128.54	135.13
Accounts Payables Days	(73.99)	(75.60)	(73.03)	(72.07)	(71.54)
ROIC (%)	21.4%	21.0%	20.1%	20.8%	20.3%
ROCE (%)	24.9%	21.3%	20.2%	21.6%	20.5%
Return On Average Assets	16.6%	14.3%	13.7%	14.6%	14.0%

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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Recommendation Framework

Stock Ratings

Definition:

- 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.