

India

**ADD** (no change)

Consensus ratings*:	Buy 8 Hold 2 Sell 1
Current price:	Rs4,624
Target price:	Rs5,265
Previous target:	Rs5,784
Up/downside:	13.9%
InCred Research / Consensus:	11.6%
Reuters:	SKFB.NS
Bloomberg:	SKF IN
Market cap:	US\$2,677m Rs228,616m
Average daily turnover:	US\$2.3m Rs200.2m
Current shares o/s:	49.4m
Free float:	47.4%

\*Source: Bloomberg

**Key changes in this note**

- FY26F-27F sales reduced by 6-7%.
- FY26F-27F EBITDA reduced by 9%.
- FY26F-27F EPS reduced by 9%.



Source: Bloomberg

<b>Price performance</b>	1M	3M	12M
Absolute (%)	18.4	22.5	(25.0)
Relative (%)	13.4	13.0	(32.4)

<b>Major shareholders</b>	% held
Promoter	52.6
HDFC Mutual Fund	8.0
Mirae Mutual Fund	6.2

**Research Analyst(s)**



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# SKF India Ltd

## Demerger to unleash sales growth

- 4Q EPS growth of 16% yoy to Rs41.1 was aided by one-time transfer pricing benefit for purchased goods, boosting the gross margin.
- Capacity limitation and slow sales momentum led to our FY26F-27F EPS cut of 9%. The new industrial division plant to boost medium-term growth potential.
- With stock price correction helping ease the forward P/E valuation to close to the 10-year mean level, we maintain our ADD rating on the stock.

### One-time transfer pricing adjustment leads to elevated EBITDA

SKF India's 4QFY25 EBITDA rose by 33% yoy and 135% qoq to Rs2.9bn, which was 72% above the Bloomberg or BB consensus estimate, due to a 15% yoy decline in the purchase of traded goods. Slow sales growth (1% yoy) resulted in missing the BB consensus estimate by 7%. The EBITDA margin stood at 23.5%, (+572bp yoy and +1,380bp qoq). Other income declined by 64% qoq and interest costs fell by 42% yoy, which led to EPS growth of 16% yoy to Rs41.1, beating the BB consensus estimate by 36%.

### Management conference-call highlights

The company incurred a capex of Rs1.3bn in FY25, with plans to double it on a per annum basis for the next three years, and major investments in the industrial division, such as setting up a plant in Pune as a part of its demerger plan. Shortage of capacity, leading to inventory build-up ahead of the automotive demand, led to working capital spike, which management believes will ease gradually after the demerger. The one-time transfer pricing adjustments made in 4Q led to lower purchases of traded goods and boosted the EBITDA margin, which, management feels, is a one-off.

### FY26F-27F EPS cut by 9%

Capacity constraints in the automotive division and muted guidance for the industrial division led to our sales cut of 6-7% for FY26F-27F. Volatility in purchased goods and product mix impacting the EBITDA margin led us to cut EBITDA estimates by 9% for FY26F-27F. The strong momentum in other income helped in limiting the EPS cut to 9% for same period.

### Valuation eases to close to 10-year mean level; potential demerger

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 close to the 10-year mean level. We roll forward our P/E-based target price to Rs5,265 (Rs5,784 earlier) at 32x (near the 10-year mean) and maintain our ADD rating on the stock, as the sales momentum can improve post commissioning of the Pune plant. Key downside risk: Prolonged slow sales momentum.

### Financial Summary

	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
Revenue (Rsm)	44,877	49,199	54,744	61,919	70,000
Operating EBITDA (Rsm)	7,176	7,233	8,928	10,226	11,563
Net Profit (Rsm)	5,518	5,658	7,074	8,005	8,974
Core EPS (Rs)	111.6	114.4	143.1	161.9	181.5
Core EPS Growth	5.1%	2.5%	25.0%	13.2%	12.1%
FD Core P/E (x)	41.43	40.41	32.32	28.56	25.48
DPS (Rs)	130.0	14.6	25.0	30.0	40.0
Dividend Yield	2.81%	0.31%	0.54%	0.65%	0.86%
EV/EBITDA (x)	30.17	30.62	24.40	21.00	18.34
P/FCFE (x)	38.75	141.63	47.55	49.74	48.64
Net Gearing	(45.1%)	(27.4%)	(33.8%)	(36.2%)	(36.7%)
P/BV (x)	8.52	8.80	7.19	5.96	5.04
ROE	20.6%	21.8%	22.2%	20.9%	19.8%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## Demerger to unleash sales growth

### Management conference-call highlights ►

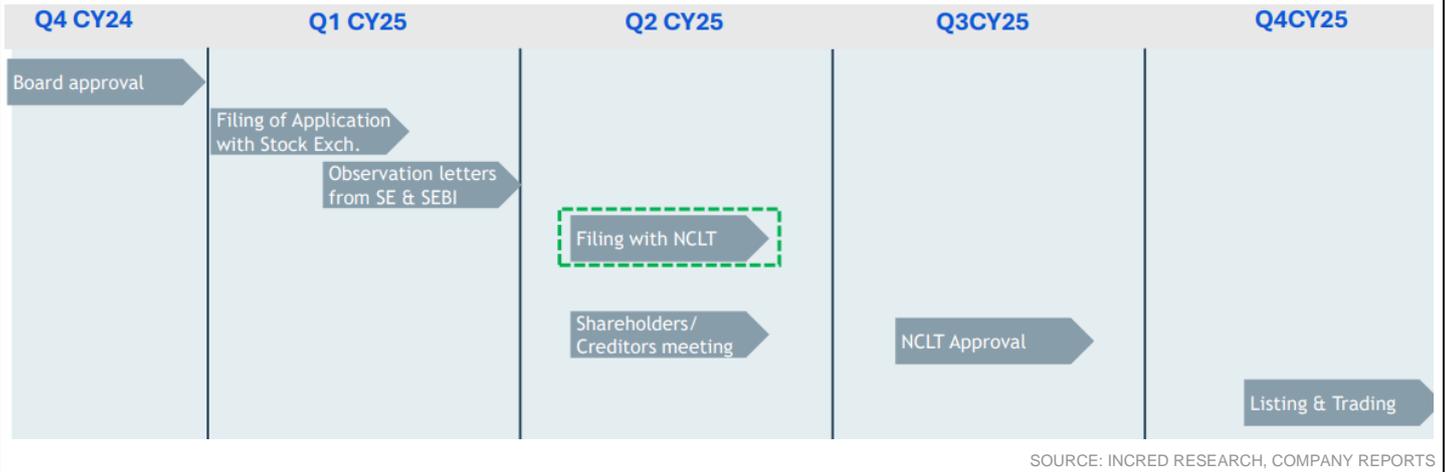
- **Outlook:** In the automotive sector, management is witnessing strong growth in light commercial vehicles due to the quick-delivery sector, growth in tractors supported by a favourable monsoon, sports utility vehicle or SUV sales driven by premiumization trend, and electric vehicle or EV sales boosted by new launches. In the industrial segment, management expects flat-to-slightly positive growth. Wind mill and railway sectors are likely to grow, supported by visibility from government orders.
- **Financial performance:** The EBITDA margin for the quarter was 23.5% vs. 17.7% in 4QFY24, mainly due to the seasonal impact and a 15% yoy decline in the purchase of traded goods. The automotive segment's margin stood at 18%, and the industrial division's at 17%. Management aims to maintain margins in the 16–19% range going ahead.
- **Purchase of goods & transfer pricing:** Transfer pricing adjustments were made in 4Q, following international guidelines. This impact is reflected in the 'purchase of traded goods' line item. Management is working to minimize the quarterly volatility.
- **FY25 revenue mix:** Two-wheelers: 13%, cars: 5%, power transmission: 5%, distribution: 23%, railways: 7%, general machinery: 9%, and automotive aftermarket: 10%.
- **Capex & upcoming plant:** In FY25, management incurred a capex of Rs1.3bn, with plans to double it over the next two-to-three years. Major investments will be directed towards the industrial division.
- **Localization:** Achieved 30% localization in the industrial division and 50% in the automotive division. The goal is to reach 70% in the medium term.
- **Inventory level:** The company has built up inventory in the automotive division due to high demand, which is expected to normalize within the next two quarters. Inventory in the railway division was also built up due to strong demand expectations.
- **New business lines:** Over the past one-to-two years, the company has entered the industrial bearing services business, including remote monitoring, remanufacturing, uptime-based services, and predictive failure analytics. It is also developing new, more efficient, and competitive bearings for the metal processing industry.
- **SKF Engineering:** The company produces different types of bearings and supplies globally. There are no plans currently to merge with SKF Engineering.
- **Wind division:** FY24 was a weak year for the wind mill division, but management expects its performance to improve in the coming years.

Figure 1: Quarterly results comparison

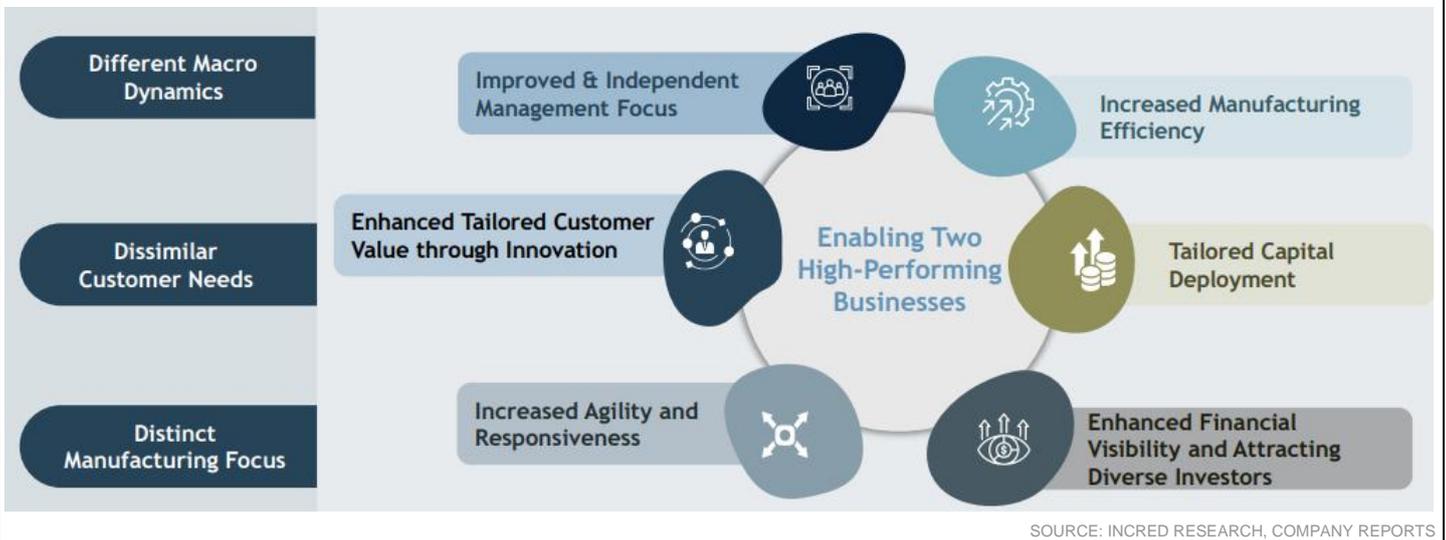
Y/E Mar (Rs m)	4QFY25	4QFY24	yoy % chg	3QFY24	qoq % chg	FY25	FY24	yoy % chg
<b>Total Revenue</b>	<b>12,134</b>	<b>12,034</b>	<b>0.8%</b>	<b>12,561</b>	<b>-3.4%</b>	<b>49,199</b>	<b>45,705</b>	<b>7.6%</b>
Net Raw Materials Consumed	6,190	7,071	-12.5%	8,375	-26.1%	30,166	28,011	7.7%
Other Expenses	2,094	1,938	8.0%	2,096	-0.1%	8,203	7,159	14.6%
Personnel Costs	1,005	891	12.7%	877	14.5%	3,598	3,434	4.8%
Total Expenditure	9,288	9,900	-6.2%	11,349	-18.2%	41,967	38,603	8.7%
<b>EBITDA</b>	<b>2,845</b>	<b>2,134</b>	<b>33.4%</b>	<b>1,212</b>	<b>134.7%</b>	<b>7,233</b>	<b>7,102</b>	<b>1.8%</b>
Less: Depreciation	218	189	15.6%	214	2.1%	831	746	11.4%
<b>EBIT</b>	<b>2,627</b>	<b>1,945</b>	<b>35.1%</b>	<b>999</b>	<b>163.1%</b>	<b>6,402</b>	<b>6,356</b>	<b>0.7%</b>
Less: Interest Paid	1	2	-41.7%	2	-6.7%	7	13	(44.4%)
Non-operating Income	125	349	-64.2%	475	-73.7%	1,235	1,014	21.8%
Profit Before Tax	2,751	2,292	20.0%	1,472	86.9%	7,630	7,358	3.7%
<b>Profit Before Tax Excl. Extraordinary Items</b>	<b>2,751</b>	<b>2,292</b>	<b>20.0%</b>	<b>1,472</b>	<b>86.9%</b>	<b>7,630</b>	<b>7,358</b>	<b>3.7%</b>
Less: Total Tax	724	544	33.1%	376	92.7%	1,973	1,840	7.2%
<b>Normalized PAT</b>	<b>2,033</b>	<b>1,752</b>	<b>16.0%</b>	<b>1,095</b>	<b>85.6%</b>	<b>5,657</b>	<b>5,517</b>	<b>2.5%</b>
<b>Normalized EPS (Rs.)</b>	<b>41</b>	<b>35</b>	<b>16.0%</b>	<b>22.1</b>	<b>85.6%</b>	<b>114.4</b>	<b>111.6</b>	<b>2.5%</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 2: Demerger status and timeline**



**Figure 3: Key drivers of demerger**



**Figure 4: EPS revision summary**

	FY26F		FY27F	
	Old	New	Old	New
Revenue	58195	54,744	66,411	61,919
Change (%)		-6%		-7%
EBITDA	9856	8,928	11,294	10,226
Change (%)		-9%		-9%
EBITDA Margin	16.9%	16.3%	17.0%	16.5%
Change (bp)		(63)		(49)
PAT	7,747	7,074	8,833	8,005
Change (%)		-9%		-9%
EPS	157	143	179	162
Change (%)		-9%		-9%

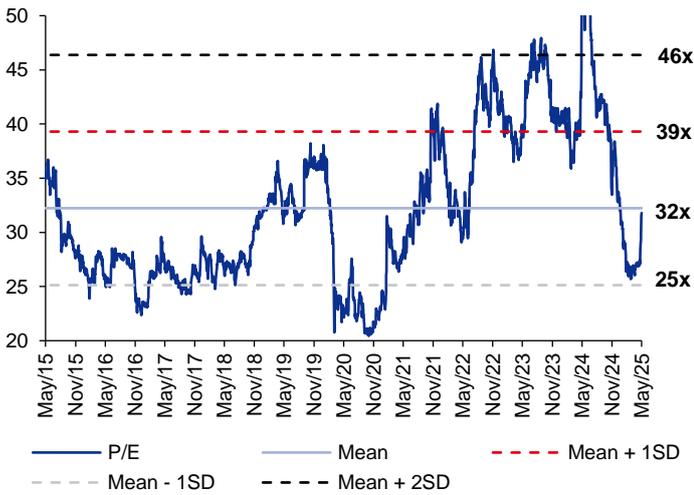
SOURCE: INCRED RESEARCH, COMPANY REPORTS

**Figure 5: Valuation table**

	1-year forward
EPS (Rs.)	164.5
P/E(x)	32.0
Target price (Rs)	5,265

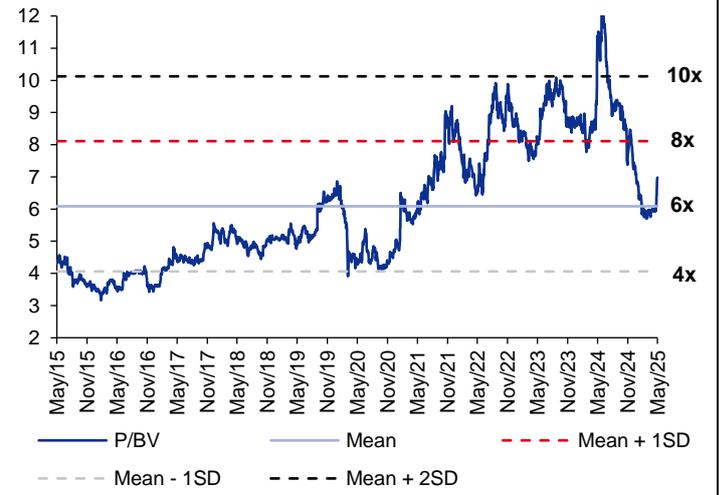
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: One-year forward P/E below the 10-year mean level



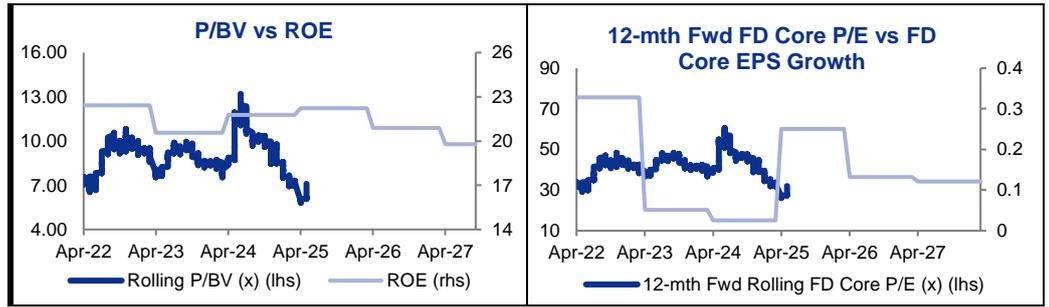
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: One-year forward P/BV below the +1SD level



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
<b>Total Net Revenues</b>	45,701	49,199	54,744	61,919	70,000
<b>Gross Profit</b>	17,918	19,034	21,350	24,334	27,650
<b>Operating EBITDA</b>	7,176	7,233	8,928	10,226	11,563
Depreciation And Amortisation	(746)	(831)	(949)	(1,173)	(1,409)
<b>Operating EBIT</b>	6,430	6,403	7,978	9,053	10,154
Financial Income/(Expense)	(12)	(7)	(7)	(7)	(7)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	940	1,235	1,536	1,713	1,916
<b>Profit Before Tax (pre-EI)</b>	7,358	7,631	9,508	10,759	12,062
Exceptional Items					
<b>Pre-tax Profit</b>	7,358	7,631	9,508	10,759	12,062
Taxation	(1,840)	(1,973)	(2,434)	(2,754)	(3,088)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	5,518	5,658	7,074	8,005	8,974
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	5,518	5,658	7,074	8,005	8,974
Recurring Net Profit	5,518	5,658	7,074	8,005	8,974
<b>Fully Diluted Recurring Net Profit</b>	5,518	5,658	7,074	8,005	8,974

Cash Flow

(Rs mn)	Mar-24A	Mar-25A	Mar-26F	Mar-27F	Mar-28F
<b>EBITDA</b>	7,176	7,233	8,928	10,226	11,563
Cash Flow from Invt. & Assoc.	182	398	580	533	499
Change In Working Capital	1,059	(3,904)	(438)	(1,674)	(2,676)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	746	831	949	1,173	1,409
Other Operating Cashflow	(940)	(1,235)	(1,536)	(1,713)	(1,916)
Net Interest (Paid)/Received	(12)	(7)	(7)	(7)	(7)
Tax Paid	(1,840)	(1,973)	(2,434)	(2,754)	(3,088)
<b>Cashflow From Operations</b>	6,371	1,342	6,041	5,783	5,785
Capex	(1,384)	(915)	(2,700)	(2,900)	(3,000)
Disposals Of FAs/subsidiaries					
Acq. Of Subsidiaries/investments					
Other Investing Cashflow	940	1,235	1,536	1,713	1,916
<b>Cash Flow From Investing</b>	(444)	320	(1,164)	(1,187)	(1,084)
Debt Raised/(repaid)	(27)	(48)	(69)		
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(6,427)	(720)	(1,236)	(1,483)	(1,978)
Preferred Dividends					
Other Financing Cashflow					
<b>Cash Flow From Financing</b>	(6,454)	(768)	(1,305)	(1,483)	(1,978)
Total Cash Generated	(527)	894	3,572	3,113	2,723
<b>Free Cashflow To Equity</b>	5,900	1,614	4,808	4,597	4,701
<b>Free Cashflow To Firm</b>	5,939	1,670	4,885	4,604	4,708

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-24A</b>	<b>Mar-25A</b>	<b>Mar-26F</b>	<b>Mar-27F</b>	<b>Mar-28F</b>
Total Cash And Equivalents	12,221	7,188	10,768	13,888	16,618
Total Debtors	7,513	8,486	9,299	10,687	12,466
Inventories	6,839	8,733	9,299	10,518	12,082
Total Other Current Assets	4,041	4,842	5,067	5,669	6,370
<b>Total Current Assets</b>	<b>30,614</b>	<b>29,249</b>	<b>34,432</b>	<b>40,762</b>	<b>47,536</b>
Fixed Assets	5,611	5,762	7,513	9,240	10,831
Total Investments	90	90	90	90	90
Intangible Assets					
Total Other Non-Current Assets	311	391			
<b>Total Non-current Assets</b>	<b>6,012</b>	<b>6,243</b>	<b>7,603</b>	<b>9,330</b>	<b>10,921</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	7,131	6,630	7,499	8,652	9,589
Other Current Liabilities	2,438	2,623	2,919	3,301	3,732
<b>Total Current Liabilities</b>	<b>9,569</b>	<b>9,253</b>	<b>10,418</b>	<b>11,953</b>	<b>13,321</b>
Total Long-term Debt	118	69			
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities					
<b>Total Non-current Liabilities</b>	<b>118</b>	<b>69</b>			
Total Provisions					
<b>Total Liabilities</b>	<b>9,687</b>	<b>9,322</b>	<b>10,418</b>	<b>11,953</b>	<b>13,321</b>
Shareholders Equity	26,828	25,980	31,817	38,339	45,336
Minority Interests					
<b>Total Equity</b>	<b>26,828</b>	<b>25,980</b>	<b>31,817</b>	<b>38,339</b>	<b>45,336</b>

<b>Key Ratios</b>					
	<b>Mar-24A</b>	<b>Mar-25A</b>	<b>Mar-26F</b>	<b>Mar-27F</b>	<b>Mar-28F</b>
Revenue Growth	6.0%	9.6%	11.3%	13.1%	13.1%
Operating EBITDA Growth	(4.2%)	0.8%	23.4%	14.5%	13.1%
Operating EBITDA Margin	16.0%	14.7%	16.3%	16.5%	16.5%
Net Cash Per Share (Rs)	244.81	143.99	217.79	280.91	336.13
BVPS (Rs)	542.65	525.48	643.56	775.46	916.98
Gross Interest Cover	531.40	914.66	1,139.78	1,293.25	1,450.52
Effective Tax Rate	25.0%	25.9%	25.6%	25.6%	25.6%
Net Dividend Payout Ratio	116.5%	12.7%	17.5%	18.5%	22.0%
Accounts Receivables Days	57.10	59.35	59.29	58.91	60.36
Inventory Days	89.99	94.21	98.55	96.22	97.39
Accounts Payables Days	(86.78)	(83.25)	(77.22)	(78.42)	(78.61)
ROIC (%)	43.6%	33.8%	38.4%	37.5%	35.7%
ROCE (%)	23.9%	24.6%	25.1%	23.6%	22.4%
Return On Average Assets	15.1%	16.0%	16.8%	16.0%	15.4%

<b>Key Drivers</b>					
	<b>Mar-24A</b>	<b>Mar-25A</b>	<b>Mar-26F</b>	<b>Mar-27F</b>	<b>Mar-28F</b>
Auto OEM	14.4%	11.4%	N/A	N/A	N/A
Auto aftermarket	(22.5%)	(2.1%)	N/A	N/A	N/A
Exports (largely Auto)	(4.6%)	(4.3%)	N/A	N/A	N/A
Total auto	0.1%	5.5%	N/A	N/A	N/A
Industrial OEM	(0.6%)	22.4%	N/A	N/A	N/A
Industrial after market	28.3%	(2.9%)	N/A	N/A	N/A
Total Industrials	(0.6%)	22.4%	N/A	N/A	N/A
Total sales	12.0%	9.8%	N/A	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.