

INDUSTRY	AUTOS		
CMP (as on 23 Dec 2014)	Rs 509		
Target Price	NA		
Nifty	8,267		
Sensex	27,506		
KEY STOCK DATA			
Bloomberg	TMKN IN		
No. of Shares (mn)	68		
MCap (Rs bn) / (\$ mn)	35/547		
6m avg traded value (Rs mn)	175		
STOCK PERFORMANCE (%)			
52 Week high / low	Rs 530/155		
	3M	6M	12M
Absolute (%)	27.6	97.5	211.6
Relative (%)	24.8	87.6	181.2
SHAREHOLDING PATTERN (%)			
Promoters	75.00		
FIs & Local MFs	5.31		
FIIIs	5.68		
Public & Others	14.01		
<i>Source : BSE</i>			

Quality play

We hosted the management of Timken India for a series of investor meetings. Timken India is a high quality franchise with potential to deliver strong earnings growth and significantly expand return ratios on the back of its asset light business model. With over 200% returns in the past 12 months, valuations appear heady at 52.3x on LTM earnings. Nevertheless, with strong earnings momentum and latent opportunities to enter into new product segments, premium valuations seem justified.

Below are the key takeaways from our interaction

- **Industry overview:** The size of the bearings industry in India is pegged at USD 1.5bn. Of the total, mobile industries (Rail, CVs, Off-highway, aftermarket) account for 65%, while process industries account for the balance 35% (heavy industries, gear drives etc).
- **Company structure:** Timken India has a single manufacturing facility at Jamshedpur, from which it churns out tapered roller bearings for mobile industries. The parent entity has a 100% subsidiary which manufactures bearings suitable for process industries from its plant in Chennai.
- **Diversified revenue stream:** Timken derives 25% of its revenues from Railways, 25-30% from exports, 25% from industrial and aftermarkets and balance from CVs, UVs and tractors. Further, ~25% of sales are from traded goods, which essentially comprise of imports of larger sized tapered, spherical and cylindrical roller bearings from its group companies.

- **Healthy growth prospects:** Timken has set a revenue target of Rs 12bn for FY17 from Rs 7.2bn in FY14. While the past couple of years have seen healthy growth in exports, the next leg of growth would be largely driven by domestic demand. Management expects Railways, CVs and aftermarkets to act as key growth engines.
- **Large opportunity in railways over the long term:** Timken India is a market leader for supply of tapered roller bearings for freight trains (and select passenger trains). Rail related revenue stream has been steady in the USD 25mn/year range for the past few years. In the near term, the company believes there is scope to increase revenue run-rate to ~USD30mn/year. Larger opportunities in this segment would flow through once railway infrastructure upgradation is completed, subsequent to which new wagon ordering would gain momentum.
- **Margin outlook:** Timken's operating margin profile weakened considerably in the past few years as a result of the rupee depreciation impact on imports and increase in proportion of low margin traded goods in overall sales. In the recent past, Timken has localised a considerable portion of its steel requirement, benefits of which are already reflecting in the company's gross margins in 1HFY15. On an overall basis, company is guiding for margins to remain in a wide range of 12% to 17%.
- **Capex plans:** Timken India plans to invest USD 6-8mn per year towards capex at its existing facilities and for augmenting its service network. Green-field expansion would be considered only once a sharp recovery is seen in domestic demand.

INCOME STATEMENT : STANDALONE

Year ending March (Rs mn)	FY12*	FY13	FY14	1H14	1H15
Net Sales	8,308	6,885	7,201	3,494	4,622
Growth (%)	-	-	4.6%	3.0%	32.3%
Material Expenses	4,810	4,174	4,457	2,110	2675.6
Employee Expenses	613	523	529	292	324
Other Operating Expenses	1,821	1,454	1,500	744	869
EBIDTA	1,063	735	716	348	753
EBIDTA (%)	12.8%	10.7%	9.9%	10.0%	16.3%
EBIDTA Growth (%)	-	-30.9%	-2.6%	7.3%	116.5%
Other Income	203	55	108	98	35
Depreciation	149	139	158	74	84.1
EBIT	1,118	650	666	372	704
Interest	12	13	9	5	3
PBT	1,106	637	657	367	701
Tax	299	195	209	114	234
PAT	807	442	448	253	467
EO items (net of tax)	-	-	-	-	-
APAT	807	442	448	253	467
APAT Growth (%)	-	-	1.2%	25.2%	84.5%
EPS	12.7	6.9	6.6	3.7	6.9
EPS Growth (%)	-	-	-5.2%	17.4%	84.5%

Source: Company, HDFC sec Inst Research

* FY12 financials are for 15 months due to change of accounting year from CY to FY.

BALANCE SHEET : STANDALONE

Year ending March (Rs mn)	FY12*	FY13	FY14	1H14	1H15
SOURCES OF FUNDS					
Share Capital	637	637	680	680	680
Reserves	2,494	2,777	3,143	3,466	3,610
Total Shareholders Funds	3,131	3,415	3,823	4,146	4,290
Long Term Debt	-	-	-	-	-
Short Term Debt**	148	-	32	23	28
Total Debt	148	-	32	23	28
Deferred Taxes	(27)	(44)	(45)	(43)	(50)
Long Term Provisions & Others	86	99	90	107	96
TOTAL SOURCES OF FUNDS	3,338	3,469	3,900	4,232	4,365
APPLICATION OF FUNDS					
Net Block	797	792	965	899	1,018
CWIP	102	257	256	292	250
Investments, LT Loans & Advs	784	445	396	1,190	431
Inventories	1,476	1,403	1,368	1,508	1,618
Debtors	1,094	1,294	1,486	1,190	1,613
Cash & Equivalents	118	140	201	266	459
ST Loans & Advances, Others	196	256	280	274	333
Total Current Assets	3,668	3,538	3,731	4,426	4,452
Creditors	974	658	730	1,044	902
Other Current Liabilities & Provns	255	459	322	341	453
Total Current Liabilities	1,229	1,118	1,052	1,385	1,355
Net Current Assets	2,439	2,421	2,679	3,042	3,097
TOTAL APPLICATION OF FUNDS	3,338	3,469	3,900	4,232	4,365

Source: Company, HDFC sec Inst Research

* FY12 financials are for 15 months due to change of accounting year from CY to FY.

**Short term debt for FY includes current maturities on long term debt. HY does not include the same as details not available

CASH FLOW : STANDALONE

Year ending March (Rs mn)	FY12*	FY13	FY14
Reported PAT	807	442	448
Non-operating & EO items	-	-	-
PAT from Operations	807	442	448
Interest expenses	12	13	9
Depreciation	149	139	158
Working Capital Change	(528)	(462)	(160)
Others	(99)	(1)	3
OPERATING CASH FLOW (a)	341	131	457
Capex	(443)	(302)	(307)
Free cash flow (FCF)	(102)	(170)	150
Investments	(59)	131	-
Others	1	0	7
INVESTING CASH FLOW (b)	(502)	(170)	(300)
Debt Issuance	149	(149)	32
Interest expenses	(9)	(9)	(7)
Share capital Issuance	-	-	491
Dividend	(1,458)	-	(676)
FINANCING CASH FLOW (c)	(1,318)	(158)	(159)
NET CASH FLOW (a+b+c)	(1,479)	(197)	(2)
Non-operating and EO items	121	-	(22)
Closing Cash & Equivalents	776	459	435

Source: Company, HDFC sec Inst Research

* FY12 financials are for 15 months due to change of accounting year from CY to FY.

KEY RATIOS : STANDALONE

	FY12*	FY13	FY14	1H14#	1H15#
PROFITABILITY (%)					
GPM	42.1	39.4	38.1	39.6	42.1
EBITDA Margin	12.8	10.7	9.9	10.0	16.3
APAT Margin	9.7	6.4	6.2	7.2	10.1
RoE	18.6	13.5	12.4	12.2	21.8
RoIC or Core RoCE	20.8	13.7	11.0	12.8	24.4
RoCE	11.7	1.8	4.5	5.3	17.4
EFFICIENCY					
Tax Rate (%)	27.0	30.6	31.9	31.0	33.4
Asset Turnover (x)	2.0	2.0	1.8	1.7	2.1
Inventory (days)	81	74	69	79	64
Debtors (days)	60	69	75	62	64
Payables (days)	53	35	37	55	36
Cash Conversion Cycle (days)	88	108	108	86	92
Debt/EBITDA (x)	0.2	0.0	0.0	0.0	0.0
Net D/E	-0.18	-0.14	-0.11	-0.31	-0.16
Interest Coverage (x)	91.5	50.5	75.2	79.1	260.6
PER SHARE DATA					
EPS (Rs/sh)	9.5	6.5	6.6	3.7	6.9
CEPS (Rs/sh)	12.0	9.1	8.9	4.8	8.1
DPS (Rs/sh)	20	2	7	-	-
BV (Rs/sh)	39	44	46	51	53
VALUATION					
P/E	53.6	78.2	77.3	68.4	37.1
P/BV	13.0	11.7	11.0	10.0	9.6
EV/EBITDA	37.4	43.5	47.8	47.9	22.5
OCF/EV (%)	0.9	0.4	1.3	-	-
FCF/EV (%)	(0.3)	(0.5)	0.4	-	-
FCFE/mkt cap (%)	0.1	(1.0)	0.5	-	-
Dividend Yield (%)	3.1	0.4	1.3	-	-

Source: Company, HDFC sec Inst Research

* FY12 financials are for 15 months due to change of accounting year from CY to FY.

Half yearly ratios have been calculated on annualised basis wherever applicable

Rating Definitions

BUY	:	Where the stock is expected to deliver more than 10% returns over the next 12 month period
NEUTRAL	:	Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
SELL	:	Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

Disclosure:

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