

## Outlook remains positive, focusing on increasing localisation

In Q1FY25 SKF India posted a revenue at INR 12.1bn up 5% YoY and down 4.5% QoQ and was broadly in-line with the JMFe of INR 12.4bn, 5 year CAGR +9%, Schaeffler +13%, Timken +12%). Growth in the revenue was mainly driven by the Auto segment followed by Industrial along with some pickup in the exports. Gross margin was at 39.3% vs 39.8% YoY and 41.2% QoQ. EBITDA was at INR 1.9bn down 4.5% YoY and 4.9% QoQ. OPM was at 16.1% vs 17.6% YoY and 17.7% QoQ (JMFe OPM at 15.9%); lower margins mainly because of the negative operating leverage. EBITDA 5 year CAGR was at +10% for SKF, Schaeffler +19%, Timken +8%). Net profit was at INR 1.5bn down 3% YoY and 12%QoQ. 5 year CAGR was +15% for SKF, Schaeffler +25%, Timken +14%). We transfer the coverage to Deepak Agarwal and resume the coverage with BUY rating.

- Growth backed by Auto:** The Automotive segment grew c.7.5% YoY to INR 4.9bn mainly driven by the improved demand traction in 2-Wheelers (13% of sales) and tractors however in the Passenger Vehicle (PV-4Wheeler) segment demand is moving towards electric vehicles. In Q1 Automotive segment contributed c.41% of the sales.
- Demand in industrial segment improved:** Industrial segment was up 3% YoY mainly driven by the infrastructure demand led by Heavy Industrials and aftermarket. However the growth was lower mainly on the account of Elections. In wind (3% of sales); they are having low market share as the competition is high + auction prices are lower hence no premium here. In Railways (7% of sales) it is having good market share especially in metros, passenger trains but facing high competition in Freight.
- Focusing on increasing localisation:** Overall; SKF has done localisation of c.60%. In Auto localisation is c.95% while in that of Industrial's the localisation is c.45% only. Management has guided for a capex of INR 1.4bn for FY25 of which c.INR 300mn will be maintenance capex and rest will be towards increasing localisation in Industrial and its aftermarket services. Expect localisation in Industrial to be 65% in next 2-3 years. Also parent of SKF India is shutting down its Korea business and will transfer some of its facility to India. Current manufacturing vs trading mix is 64:36 and with all the above localisation will improve and hence inch up manufacturing leading to improve margins.
- New opportunities:** Strong growth in EV (hybrid bearings) will lead to market share gain. It will also start manufacturing for high speed trains, semiconductors, machine tools (both high speed/ low friction bearings) and will expand its service business (c.6% of revenue). Looking to grow ahead of industry growth of c.11% over next 3-5 year.
- Outlook & Valuation:** We expect SKF to report revenue/earning CAGR of 14%/19% over FY24-26 mainly driven by (1) Strong industry tailwinds both in auto and industrial, (2) significant focus on increasing localisation, (3) new product development, (4) revival in exports and (5) de-leveraging unprofitable segments/customers. SKF trades at P/E of 37x/33x on FY25/FY26; we value it at a P/E of 40x on FY26 EPS to arrive at a target price of 5,870 up 15% from CMP and hence maintain BUY.

### Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	36,659	43,049	45,701	51,702	59,834
Sales Growth (%)	37.3	17.4	6.2	13.1	15.7
EBITDA	5,557	7,495	7,176	8,488	9,904
EBITDA Margin (%)	15.2	17.4	15.7	16.4	16.6
Adjusted Net Profit	3,951	5,246	5,518	6,755	7,760
Diluted EPS (INR)	79.9	106.1	111.6	136.6	157.0
Diluted EPS Growth (%)	32.7	32.8	5.2	22.4	14.9
ROIC (%)	29.2	34.2	34.8	35.2	34.8
ROE (%)	22.9	24.8	22.0	23.7	24.1
P/E (x)	63.8	48.1	45.7	37.3	32.5
P/B (x)	13.4	10.8	9.4	8.3	7.4
EV/EBITDA (x)	44.2	32.1	33.1	28.1	23.8
Dividend Yield (%)	0.6	1.0	1.1	1.3	1.5

Source: Company data, JM Financial. Note: Valuations as of 14/Aug/2024

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### Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	5,870
Upside/(Downside)	15.1%
Previous Price Target	5,700
Change	3.0%

### Key Data – SKF IN

Current Market Price	INR5,100
Market cap (bn)	INR252.1/US\$3.0
Free Float	47%
Shares in issue (mn)	49.4
Diluted share (mn)	49.4
3-mon avg daily val (mn)	INR470.3/US\$5.6
52-week range	7,350/4,025
Sensex/Nifty	79,106/24,144
INR/US\$	84.0

### Price Performance

%	1M	6M	12M
Absolute	-12.9	13.0	2.0
Relative*	-11.2	2.9	-15.6

\* To the BSE Sensex

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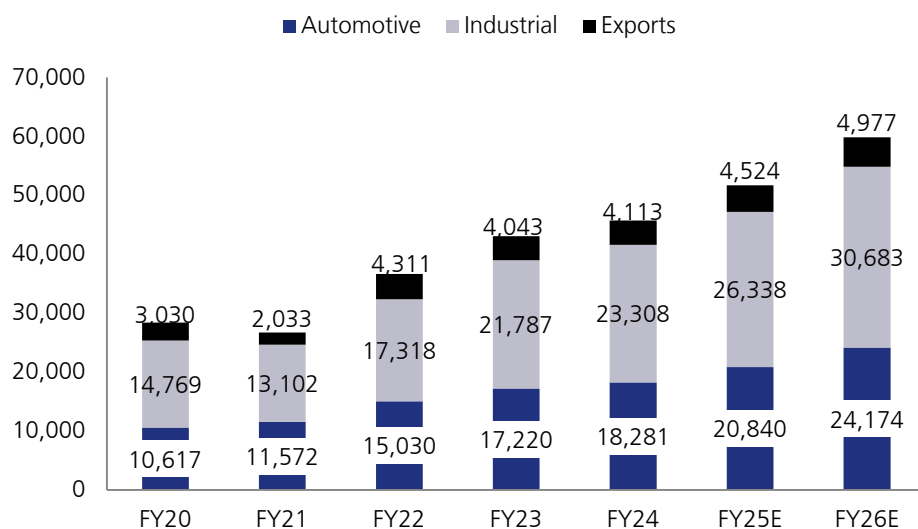
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## Exhibit 1. Quarterly performance

INR Mn	1QFY25	1QFY24	YoY (%)	4QFY24	QoQ (%)	1QFY25E	Var (%)
<b>Net Sales</b>	<b>12,062</b>	<b>11,496</b>	<b>4.9</b>	<b>12,034</b>	<b>-4.5</b>	<b>12,416</b>	<b>-2.8</b>
Expenditure	10,126	9,467	7.0	9,900	-4.4		
<b>EBITDA</b>	<b>1,937</b>	<b>2,029</b>	<b>-4.5</b>	<b>2,134</b>	<b>-4.9</b>	<b>1,972</b>	<b>-1.8</b>
<b>EBITDA (%)</b>	<b>16.1</b>	<b>17.6</b>	<b>-160bps</b>	<b>17.7</b>	<b>-10bps</b>	<b>15.9</b>	<b>20bps</b>
Other income	401	225	-43.7	349	-35.5		
Depreciation	198	175	-11.4	189	-7.2		
EBIT	2,139	2,079	-2.8	2,294	-9.4		
Interest	2	3	26.1	2	20.8		
PBT before Eol	2,137	2,076	-2.9	2,292	-9.4		
Eol	0	0		0			
PBT	2,137	2,076	-2.9	2,292	-9.4		
Tax	547	532	-2.7	544	-2.2		
Tax rate (%)	25.6	25.6		23.7			
Tax on Eol (assumed)	0	0		0			
<b>PAT</b>	<b>1,590</b>	<b>1,544</b>	<b>-2.9</b>	<b>1,748</b>	<b>-11.7</b>	<b>1,551</b>	<b>2.6</b>
EPS (INR)	32.2	31.2	-2.9	35.4	-11.7	31.4	2.6

Source: JM Financial, Company

## Exhibit 2. We expect revenue CAGR of c.14% over FY24-26



Source: JM Financial, Company

## Exhibit 3. Valuation

Brands	EPS			Growth (YoY)			ROE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Schaeffler India	58	70	84	5%	19%	21%	20	21	22
Timken India	52	63	78	2%	20%	24%	18	18	19
<b>SKF India</b>	<b>112</b>	<b>137</b>	<b>157</b>	<b>5%</b>	<b>22%</b>	<b>15%</b>	<b>22</b>	<b>24</b>	<b>24</b>
Harsha Engineers	12	18	22	-10%	44%	24%	10	13	14
Rolex Rings	69	82	100	-5%	19%	21%	23	23	23
Brands	P/E (x)			P/B (x)			EV/EBITDA		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
Schaeffler India	68	57	47	13	11	10	45	37	31
Timken India	70	58	47	11	10	8	47	39	32
<b>SKF India</b>	<b>46</b>	<b>37</b>	<b>33</b>	<b>9</b>	<b>8</b>	<b>7</b>	<b>33</b>	<b>28</b>	<b>24</b>
Harsha Engineers	42	29	23	4	3	3	27	19	15
Rolex Rings	32	27	23	7	6	5	23	18	15

Source: JM Financial, Company

## Exhibit 4. Rating &amp; Target Price under Bearings Sector Coverage

Companies	CMP	Target Price	Upside/(Downside)	Rating
Schaeffler India	3,952	4,140	5%	HOLD
Timken India	3,669	4,355	19%	BUY
<b>SKF India</b>	<b>5,103</b>	<b>5,870</b>	<b>15%</b>	<b>BUY</b>
Harsha Engineers	511	660	29%	BUY
Rolex Rings	2,243	2,990	33%	BUY

Source: JM Financial, Company

## Financial Tables (Standalone)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	36,659	43,049	45,701	51,702	59,834
Sales Growth	37.3%	17.4%	6.2%	13.1%	15.7%
Other Operating Income	0	0	0	0	0
<b>Total Revenue</b>	<b>36,659</b>	<b>43,049</b>	<b>45,701</b>	<b>51,702</b>	<b>59,834</b>
Cost of Goods Sold/Op. Exp	22,452	25,658	27,783	31,486	36,379
Personnel Cost	2,857	2,996	3,434	3,714	3,978
Other Expenses	5,793	6,900	7,309	8,014	9,574
<b>EBITDA</b>	<b>5,557</b>	<b>7,495</b>	<b>7,176</b>	<b>8,488</b>	<b>9,904</b>
EBITDA Margin	15.2%	17.4%	15.7%	16.4%	16.6%
EBITDA Growth	32.3%	34.9%	-4.3%	18.3%	16.7%
Depn. & Amort.	571	668	746	849	934
EBIT	4,986	6,826	6,430	7,639	8,969
Other Income	344	519	940	1,448	1,468
Finance Cost	21	15	12	20	20
PBT before Excep. & Forex	5,310	7,330	7,358	9,067	10,417
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	5,310	7,330	7,358	9,067	10,417
Taxes	1,358	2,084	1,840	2,312	2,656
Extraordinary Inc./Loss(-)	0	0	0	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	3,951	5,246	5,518	6,755	7,760
<b>Adjusted Net Profit</b>	<b>3,951</b>	<b>5,246</b>	<b>5,518</b>	<b>6,755</b>	<b>7,760</b>
Net Margin	10.8%	12.2%	12.1%	13.1%	13.0%
Diluted Share Cap. (mn)	49.4	49.4	49.4	49.4	49.4
<b>Diluted EPS (INR)</b>	<b>79.9</b>	<b>106.1</b>	<b>111.6</b>	<b>136.6</b>	<b>157.0</b>
Diluted EPS Growth	32.7%	32.8%	5.2%	22.4%	14.9%
Total Dividend + Tax	1,581	2,623	2,759	3,378	3,880
Dividend Per Share (INR)	32.0	53.1	55.8	68.3	78.5

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shareholders' Fund	18,859	23,415	26,828	30,205	34,085
Share Capital	494	494	494	494	494
Reserves & Surplus	18,365	22,921	26,333	29,711	33,591
Preference Share Capital	0	0	0	0	0
Minority Interest	0	0	0	0	0
Total Loans	0	0	0	0	0
Def. Tax Liab. / Assets (-)	-222	-208	-311	-311	-311
<b>Total - Equity &amp; Liab.</b>	<b>18,637</b>	<b>23,207</b>	<b>26,516</b>	<b>29,894</b>	<b>33,774</b>
Net Fixed Assets	4,540	4,875	5,360	6,010	5,576
Gross Fixed Assets	7,381	8,265	9,243	10,743	11,243
Intangible Assets	0	0	0	0	0
Less: Depn. & Amort.	3,356	4,024	4,770	5,620	6,554
Capital WIP	515	634	887	887	887
Investments	25	24	341	341	341
Current Assets	21,499	26,674	30,503	34,450	40,480
Inventories	6,768	6,860	6,839	9,207	10,655
Sundry Debtors	6,871	6,787	7,513	9,207	10,655
Cash & Bank Balances	4,019	9,580	12,221	11,078	13,431
Loans & Advances	3,840	3,448	3,930	4,958	5,738
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	7,428	8,365	9,687	10,907	12,623
Current Liabilities	5,244	6,079	7,131	7,791	9,016
Provisions & Others	2,183	2,286	2,556	3,116	3,606
Net Current Assets	14,072	18,309	20,816	23,543	27,857
<b>Total - Assets</b>	<b>18,637</b>	<b>23,207</b>	<b>26,516</b>	<b>29,894</b>	<b>33,774</b>

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profit before Tax	5,310	7,330	7,358	9,067	10,417
Depn. & Amort.	571	668	746	849	934
Net Interest Exp. / Inc. (-)	-163	-345	-627	-1,428	-1,448
Inc (-) / Dec in WCap.	-3,614	1,321	747	-3,871	-1,961
Others	-46	48	125	0	0
Taxes Paid	-1,486	-2,119	-1,983	-2,312	-2,656
<b>Operating Cash Flow</b>	<b>571</b>	<b>6,903</b>	<b>6,366</b>	<b>2,305</b>	<b>5,287</b>
Capex	-916	-1,053	-1,281	-1,500	-500
Free Cash Flow	-345	5,849	5,085	805	4,787
Inc (-) / Dec in Investments	590	604	-300	0	0
Others	0	0	0	0	0
<b>Investing Cash Flow</b>	<b>-326</b>	<b>-449</b>	<b>-1,582</b>	<b>-1,500</b>	<b>-500</b>
Inc / Dec (-) in Capital	0	0	0	0	0
Dividend + Tax thereon	-717	-719	-1,974	-3,378	-3,880
Inc / Dec (-) in Loans	0	0	-52	0	0
Others	-63	-66	-12	1,428	1,448
<b>Financing Cash Flow</b>	<b>-780</b>	<b>-786</b>	<b>-2,038</b>	<b>-1,949</b>	<b>-2,433</b>
<b>Inc / Dec (-) in Cash</b>	<b>-535</b>	<b>5,668</b>	<b>2,747</b>	<b>-1,144</b>	<b>2,354</b>
Opening Cash Balance	4,554	3,912	9,580	12,221	11,078
Closing Cash Balance	4,019	9,580	12,326	11,078	13,431

Source: Company, JM Financial

Dupont Analysis		FY22A	FY23A	FY24A	FY25E	FY26E
Y/E March						
Net Margin	10.8%	12.2%	12.1%	13.1%	13.0%	
Asset Turnover (x)	2.2	2.1	1.8	1.8	1.9	
Leverage Factor (x)	1.0	1.0	1.0	1.0	1.0	
RoE	22.9%	24.8%	22.0%	23.7%	24.1%	

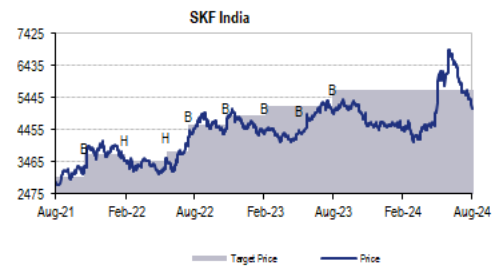
Key Ratios		FY22A	FY23A	FY24A	FY25E	FY26E
Y/E March						
BV/Share (INR)	381.5	473.6	542.6	611.0	689.5	
ROIC	29.2%	34.2%	34.8%	35.2%	34.8%	
ROE	22.9%	24.8%	22.0%	23.7%	24.1%	
Net Debt/Equity (x)	-0.2	-0.4	-0.5	-0.4	-0.4	
P/E (x)	63.8	48.1	45.7	37.3	32.5	
P/B (x)	13.4	10.8	9.4	8.3	7.4	
EV/EBITDA (x)	44.2	32.1	33.1	28.1	23.8	
EV/Sales (x)	6.7	5.6	5.2	4.6	3.9	
Debtor days	68	58	60	65	65	
Inventory days	67	58	55	65	65	
Creditor days	62	62	68	66	66	

Source: Company, JM Financial

## History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
9-Apr-20	Hold	1,400	
7-May-20	Hold	1,350	-3.6
24-Jul-20	Hold	1,500	11.1
25-Aug-20	Buy	2,000	33.3
29-Oct-20	Buy	2,000	0.0
18-May-21	Buy	2,700	35.0
26-Jul-21	Buy	3,000	11.1
28-Oct-21	Buy	3,700	23.3
11-Feb-22	Hold	3,500	-5.4
1-Jun-22	Hold	3,800	8.6
29-Jul-22	Buy	4,600	21.1
4-Nov-22	Buy	4,900	6.5
17-Feb-23	Buy	5,200	6.1
17-May-23	Buy	5,200	0.0
13-Aug-23	Buy	5,700	9.6

## Recommendation History



## APPENDIX I

## JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

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Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
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