

Weak Q4, auto demand key monitorable ahead...

SKF India (SKF) reported weak Q4FY19 results, below our estimates. Revenues grew 6.4% YoY at ₹ 748.4 crore. EBITDA margins came in at 14.8% vs. 15.1% YoY. Lower margins were on account of lower gross margins (-190 bps YoY). Other expenses de-grew 2.8% YoY. Accordingly, absolute EBITDA increased 4.6% YoY. PAT came in at ₹ 82.2 crore, up 14.9% YoY primarily due to higher other income (forex income of ₹ 6.7 crore) and lower depreciation expenses, which grew 55% and 0.3% YoY, respectively.

Weak auto performance, industrial segment steady

Revenues grew a muted 6.4% YoY due to subdued performance of the auto segment. Auto contributed 48% to the topline (including exports contribution of 5%). On the flip side, industrial segment contributed 52% to the topline led by a pick-up in railways, wind energy, heavy industry, construction and cement industry. The management has also indicated at continued growth in the industrial segment led by sectors like off highway, steel, metals, renewables, etc.

Railways, new products to act as growth drivers

For Q4FY19, railways contributed 7% to topline (up 25% YoY) led by improved offtake in both conventional, LHB coaches. **It has also started supplying bearings to wagon manufactures directly.** Accordingly, we expect the segment to do well in FY20-21E. The management also indicated that SKF's recent foray into the railway freight segment is also doing well (market size ~₹ 1000 crore). It is also moving into maintenance of rotary parts (from only stationary parts earlier). In the auto segment, SKF has introduced newer products like HUB-3 bearings. It has put up a manufacturing capacity of 5 lakh units for the same, which at full utilisation will bring in revenues of ₹ 50 crore. This facility became operational from May 2019.

Valuation & Outlook

Going ahead, weak auto sales may act as a spoilsport for the performance of bearing companies like SKF. Being the largest bearings supplier (~28% market share) with significant auto exposure (45-50% of sales), auto demand remains a key monitorable, going ahead. However, the silver lining remains a pick-up in industrial performance with segments like renewables, steel, construction and railways expected to show strong traction over FY20-21E. We expect SKF's key segments, auto and industrial to grow at 7% and 11% respectively, in FY19-21E. SKF has also strong capex plans of ₹ 100-150 crore in FY20E-21E. Accordingly, we expect sales, EBITDA and PAT CAGR of 9.1%, 9.1% and 8.4%, respectively, in FY19-21E. We value the company at 24x P/E on FY21E EPS to arrive at a target price of ₹ 1845/share. We have a **HOLD** recommendation on SKF.



Particulars

Particular	Amount
Market Capitalization	9,492
Total Debt (FY19) (₹ crore)	85
Cash & Inv (FY19) (₹ crore)	646
EV (FY19) (₹ crore)	8,936
52 week H/L (₹) (BSE)	2164 /1610
Equity capital (₹ crore)	49.4
Face value (₹)	10

Key Highlights

- Weak auto performance, industrial segment steady
- Railways, new products to act as growth drivers
- Weak auto performance may act as a spoilsport, going ahead
- Maintain our **HOLD** recommendation with a revised target price of ₹ 1845

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Key Financial Summary

	FY17	FY18	FY19	FY20E	FY21E	FY19-21E
Revenue (₹ crore)	2,631.4	2,750.4	3,034.5	3,271.3	3,613.9	9.1
EBITDA (₹ crore)	336.2	434.8	485.9	507.0	578.2	9.1
Net Profit (₹ crore)	243.9	295.9	335.8	356.5	394.3	8.4
EPS (₹)	46.3	57.6	65.4	69.4	76.8	
P/E (x)	39.0	31.3	27.6	26.0	23.5	
Price / Book (x)	5.3	5.0	5.5	4.7	4.1	
EV/EBITDA (x)	26.7	20.4	18.4	17.4	14.9	
RoCE (%)	20.1	23.7	29.4	27.1	26.3	
RoE (%)	13.5	16.1	19.8	18.1	17.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

Year	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ(%)	Comments
Income from Operation	748.4	765.5	703.6	6.4	767.7	(2.5)	
Other Income	29.2	12.1	18.8	55.0	33.8	(13.8)	
Cost of material consumed	185.4	164.8	172.9	7.2	172.3	7.6	
Purchases of stock in trade	276.9	261.5	273.9	1.1	290.5	(4.7)	
Change in inventories	-18.3	28.5	-43.1		-8.3		
Gross margins (%)	40.7	40.6	42.6	-194 bps	40.8	-11 bps	
Employee cost	63.1	64.0	59.6	5.9	64.0	(1.4)	
Other expenditure	130.4	127.1	134.2	(2.8)	127.5	2.3	
EBITDA	111.0	119.7	106.1	4.6	121.6	(8.8)	
EBITDA Margin (%)	14.8	15.6	15.1	-25 bps	15.8	-102 bps	Lower margins were on account of lower gross margins (down 190 bps YoY) and higher proportion of (low margin) traded goods during the quarter
Depreciation	11.6	11.7	11.5	0.3	11.5	0.6	
Interest	1.8	2.1	1.7		2.1		
PBT	126.8	118.1	111.7	13.5	141.9	(10.7)	
Taxes	44.6	36.2	40.2	11.0	53.5	(16.6)	
PAT	82.2	81.9	71.6	14.9	88.5	(7.1)	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY18	FY19	FY20E		% Change	FY21E		% Change
	Actual	Actual	Old	New		Old	New	
Revenue	2,750.4	3,034.5	3,405.5	3,271.3	(4.1)	3,762.9	3,613.9	(4.1)
EBITDA	434.8	485.9	534.7	507.0	(5.5)	651.0	578.2	(12.6)
EBITDA Margin (%)	15.8	16.0	15.7	15.5	20 bps	17.3	16.0	130 bps
PAT	295.9	335.8	350.8	356.5	1.6	441.3	394.3	(11.9)
EPS (₹)	57.6	65.4	68.3	69.4	1.6	86.0	76.8	(12.0)

Source: Company, ICICI Direct Research

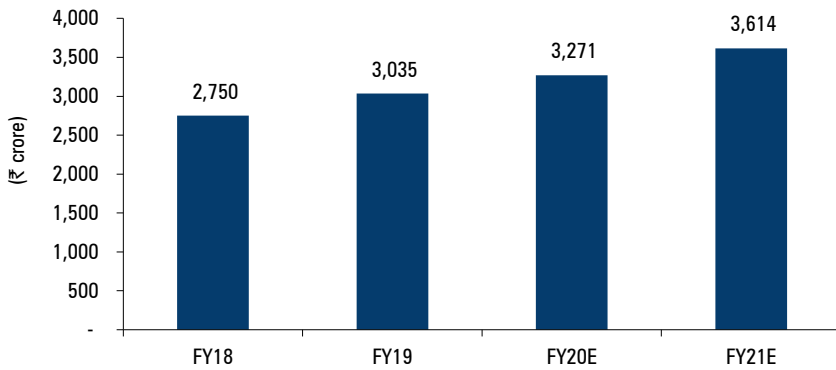
Conference call takeaways – Q4FY19 and FY19

- **Segmental break-up Q4FY19**
 - Auto - 43% (OEM 28%, after markets 15%)
 - Exports (all auto) 5 %. **Total auto – 48%**
 - Total manufacturing 56%

 - Industrial – 52%
 - Industrial (OEM –half and after-market – half)
 - Traded goods 44%
- The management commentary suggested the railways segment will continue to perform well due to increasing focus on safety/efficiency and modernisation programme of Indian Railways
- New capex will be for new product development and setting up of manufacturing lines for existing “traded industrial goods” is under anvil
- Loan of ~₹ 145 crore to SKF Technologies to be repaid by FY22. If necessary, the global parent will put equity into the company

Financial story in charts

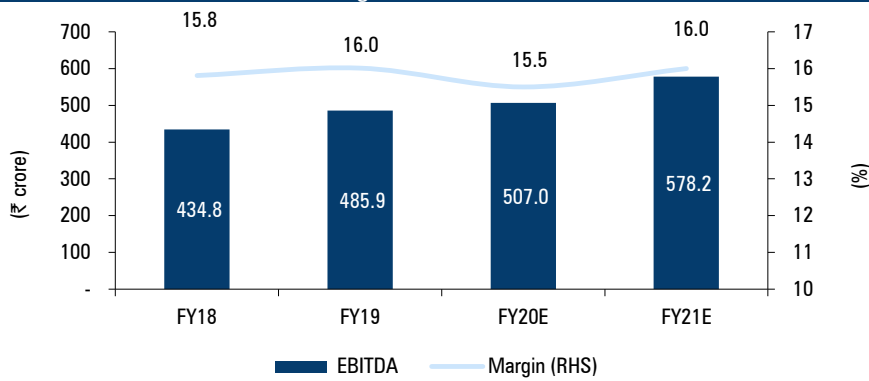
Exhibit 3: Revenue trend (consolidated)



Growth to be driven by industrial segment

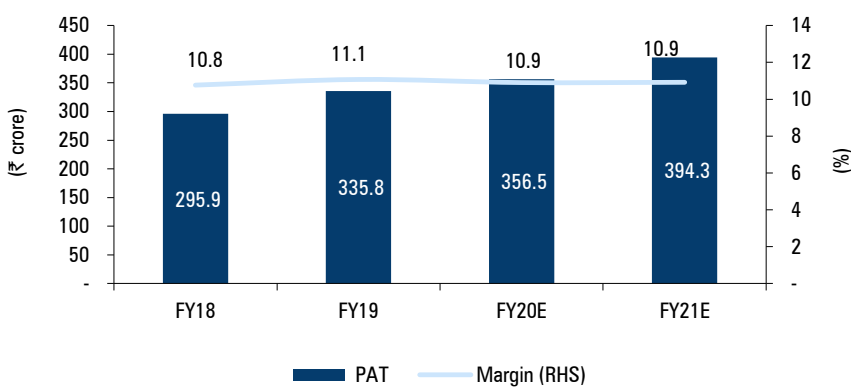
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin



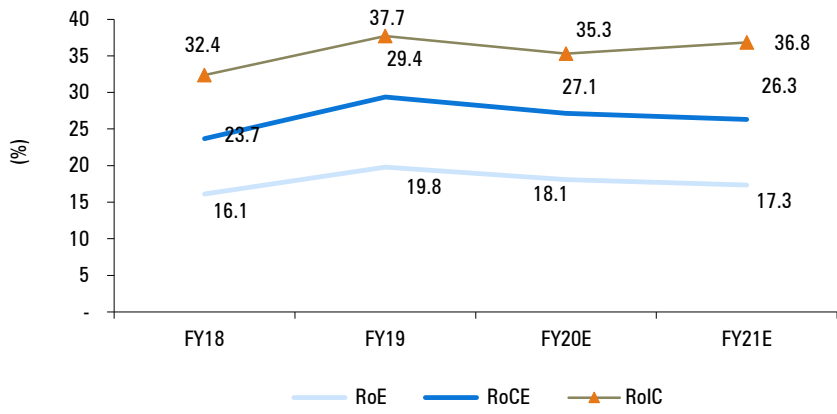
Source: Company, ICICI Direct Research

Exhibit 5: PAT trend and margins



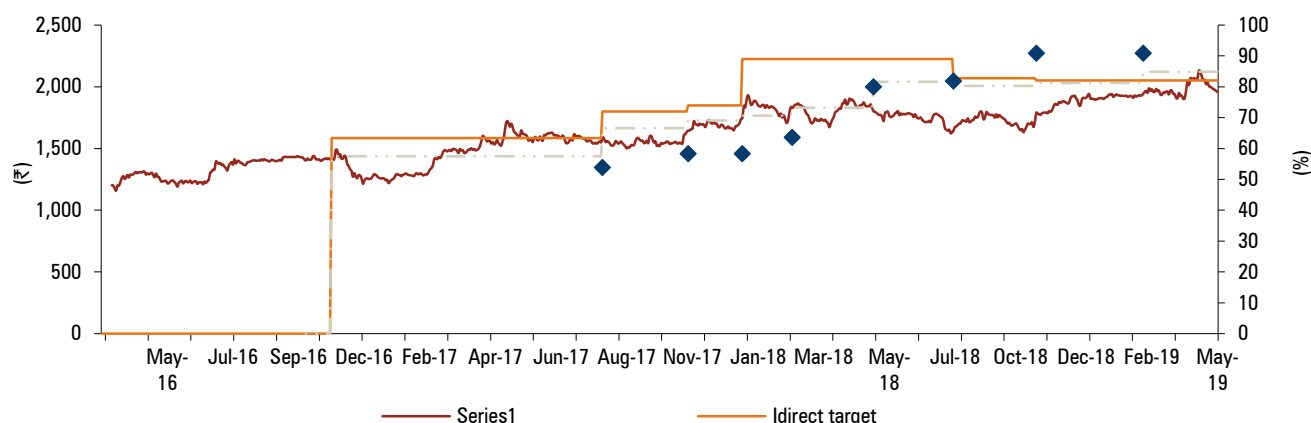
Source: Company, ICICI Direct Research

Exhibit 6: RoE and RoCE trend



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Filing Date	O/S	Position	Change
1	SKF AB	04-03-2019	45.85%	22.67M	0
2	HDFC Asset Management Co., Ltd.	31-03-2019	11.99%	5.93M	0
3	SKF UK, Ltd.	04-03-2019	6.33%	3.13M	0
4	Franklin Templeton Asset Management (India) Pvt. Ltd.	04-03-2019	5.40%	2.67M	-0.04M
5	Stewart Investors	04-03-2019	2.77%	1.37M	-0.06M
6	SBI Funds Management Pvt. Ltd.	31-03-2019	2.74%	1.35M	+0.09M
7	UTI Asset Management Co. Ltd.	31-03-2019	2.12%	1.05M	-0.01M
8	DSP Investment Managers Pvt. Ltd.	31-03-2019	2.06%	1.02M	+0.04M
9	First State Investments (Singapore)	28-02-2019	1.40%	0.69M	-0.04M
10	The New India Assurance Co. Ltd.	04-03-2019	1.16%	0.57M	-0.02M

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Investor name			Investor name		
Investor name	Value	Shares	Investor name	Value	Shares
Axis Asset Management Company Limited	+3.50M	+0.12M	Franklin Advisers, Inc.	-15.57M	-0.58M
SBI Funds Management Pvt. Ltd.	+2.63M	+0.09M	Stewart Investors	-1.88M	-0.06M
DSP Investment Managers Pvt. Ltd.	+1.06M	+0.04M	Kotak Mahindra Asset Management Co Ltd.	-1.58M	-0.05M
Tata Asset Management Limited	+0.11M	+0.00M	Franklin Templeton Asset Management (India)	-1.33M	-0.04M
Reliance Nippon Life Asset Management Limited	+0.06M	+0.00M	Samsung Asset Management Co., Ltd.	-0.93M	-0.04M

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	52.3	52.3	52.3	52.3	52.3
FII	9.6	9.3	9.3	9.4	7.9
DII	24.5	24.8	24.9	24.8	26.0
Others	13.6	13.6	13.5	13.5	13.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
₹ crore				
(₹ Crore)	FY18	FY19	FY20E	FY21E
Revenue	2,750.4	3,034.5	3,271.3	3,613.9
Growth YoY (%)		10.3%	7.8%	10.5%
Other Income	71.4	92.4	99.8	107.8
Total Revenue	2,821.8	3,126.9	3,371.0	3,721.6
Cost of materials consumed	656.4	734.3	785.1	867.3
Purchase of stock-in-trade	923.4	1,085.9	1,148.2	1,225.1
Change in inventories	27.1	(43.7)	3.3	28.9
Employee cost	236.8	258.3	278.1	307.2
Other Expenses	472.0	513.9	549.6	607.1
Total expenditure	2,315.6	2,548.7	2,764.2	3,035.6
EBITDA	434.8	485.9	507.0	578.2
Growth YoY (%)		11.7%	4.4%	14.0%
Interest	5.0	7.7	8.5	10.2
PBDT	501.2	570.6	598.3	675.8
Depreciation	45.7	46.4	54.1	69.1
Profit Before Tax	455.5	524.2	544.2	606.6
Tax	159.6	188.4	187.8	212.3
PAT	295.9	335.8	356.5	394.3
Growth YoY (%)		13.5%	6.2%	10.6%
EPS	57.6	67.9	72.1	79.8

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
₹ crore				
(₹ Crore)	FY18	FY19	FY20E	FY21E
Share Capital	51.3	49.4	49.4	49.4
Reserves & Surplus	1,786	1,648	1,920	2,225
Networth	1,837	1,697	1,969	2,274
Total Debt	85.0	90.0	45.0	45.0
Other non-current liabilities	21.9	24.0	24.0	24.0
Total Liabilities	1,944	1,811	2,038	2,343
Gross Block	446	501	581	691
Acc: Depreciation	171	217	271	341
Net Block	275	284	310	351
Capital WIP	37	62	75	70
Investments	239	239	239	239
Inventory	403	461	497	549
Sundry debtors	491	521	562	621
Cash and bank balances	743	646	756	962
Other financial assets	195	53	53	53
Other current assets	62	28	69	76
Total Current Assets	1,893	1,709	1,936	2,260
CL& Prov.	500	486	524	579
Net Current Assets	1,393	1,223	1,412	1,681
Total Assets	1,944	1,811	2,038	2,343

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
₹ crore				
(₹ Crore)	FY18	FY19	FY20E	FY21E
Profit after Tax	295.9	335.8	356.5	394.3
Depreciation	45.7	46.4	54.1	69.1
Interest	5.0	7.7	8.5	10.2
Other income	(71.4)	(92.4)	(99.8)	(107.8)
Prov for Taxation	159.6	188.4	187.8	212.3
Cash Flow before WC changes	434.8	485.9	507.0	578.2
Change in Working Capital	142.0	72.9	(78.4)	(63.3)
Taxes Paid	(159.6)	(188.4)	(187.8)	(212.3)
Cashflow from Operating Activities	417.2	370.3	240.9	302.6
(Purchase)/Sale of Fixed Assets	(42.3)	(80.5)	(92.8)	(105.0)
(Purchase)/Sale of Investments	(69.9)	(0.6)	-	-
Other Income	71.4	92.4	99.8	107.8
Cashflow from Investing Activities	(40.8)	11.3	7.0	2.8
Issue/(Repayment of Debt)	51.0	5.0	(45.0)	-
Changes in Minority Interest	-	-	-	-
Changes in Networth	(188.2)	(396.8)	0.0	-
Interest	(5.0)	(7.7)	(8.5)	(10.2)
Dividend paid	(81.6)	(79.3)	(84.3)	(89.2)
Cashflow from Financing Activities	(223.8)	(478.8)	(137.8)	(99.4)
Changes in Cash	152.6	(97.1)	110.1	205.9
Opening Cash/Cash Equivalent	591.5	742.6	645.5	755.6
Closing Cash/ Cash Equivalent	744.1	645.5	755.6	961.5

*calculated, Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	57.6	65.4	69.4	76.8
Cash EPS	66.5	74.4	80.0	90.3
BV	357.9	330.5	383.6	443.0
DPS	15.9	15.5	16.4	17.4
Cash Per Share	33.3	42.3	52.9	66.3
Operating Ratios (%)				
EBITDA Margin	15.8	16.0	15.5	16.0
PBT / Net Sales	14.1	14.5	13.8	14.1
PAT Margin	10.8	11.1	10.9	10.9
Inventory days	53.5	55.5	55.5	55.5
Debtor days	65.1	62.7	62.7	62.7
Creditor days	63.4	55.3	55.3	55.3
Return Ratios (%)				
RoE	16.1	19.8	18.1	17.3
RoCE	23.7	29.4	27.1	26.3
RoIC	32.4	37.7	35.3	36.8
Valuation Ratios (x)				
P/E	31.2	27.5	25.9	23.4
EV / EBITDA	20.3	18.4	17.3	14.8
EV / Net Sales	3.2	2.9	2.7	2.4
Market Cap / Sales	3.5	3.1	2.9	2.6
Price to Book Value	5.0	5.4	4.7	4.1
Solvency Ratios				
Debt/EBITDA	0.2	0.2	0.1	0.1
Net Debt / Equity	-	-	-	-
Current Ratio	3.4	3.4	3.6	3.8
Quick Ratio	2.6	2.5	2.6	2.9

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
L&T (LARTOU)	1325	1,680	Buy	183824	48.1	53.4	61.2	27.5	24.8	21.7	11.7	12.6	13.2	12.6	12.9	13.6
Bhel (BHEL)	62	60	Hold	22762	2.6	3.5	4.3	23.0	17.1	13.9	5.0	6.2	7.2	2.9	3.9	4.8
AIA Engineering (AIAENG)	1770	1,890	Buy	16695	52.2	63.9	74.6	32.0	26.1	22.4	19.4	21.5	22.5	14.4	15.8	16.5
KEC International (KECIN)	271	315	Hold	6967	19.2	23.4	27.3	14.9	12.2	10.5	25.7	25.6	25.6	20.6	20.7	20.2
Kalpataru Power(KALPOW)	453	550	Buy	6952	26.1	31.5	37.0	17.8	14.8	12.6	18.3	19.0	19.9	12.6	13.0	13.4
Greaves Cotton (GREAVE)	140	150	Hold	3419	6.9	8.4	9.3	21.2	17.5	15.8	26.2	28.2	30.1	18.2	19.7	21.1
Bharat Electronics (BHAELE)	89	110	Buy	26803	6.6	7.0	7.8	11.4	10.6	9.6	25.6	25.0	25.3	18.2	17.4	17.3
Engineers India (ENGIND)	106	110	Hold	7413	5.6	7.0	7.9	19.1	15.3	13.5	20.6	24.0	24.1	15.5	18.9	20.3
VaTech Wabag (VATWAB)	262	295	Hold	1493	20.9	25.5	36.7	13.2	10.8	7.5	16.6	19.3	22.8	9.4	10.2	13.2
Cochin Shipyard (COCSHI)	360	410	Buy	4,644	35.6	36.5	39.9	9.7	9.5	8.6	15.0	13.6	13.6	13.8	13.2	13.5
SKF (SKFIND)	1805	1,845	Hold	9729	65.4	69.4	76.8	27.5	25.9	23.4	29.4	27.1	26.3	19.8	18.1	17.3
Timken India (TIMIND)	533	640	Buy	4351	15.7	17.9	21.7	32.6	28.5	23.5	12.8	14.2	15.5	9.4	9.8	10.7
NRB Bearing (NRBBEA)	167	215	Buy	2084	9.5	11.9	13.7	19.6	15.6	13.6	23.0	24.4	24.3	21.1	22.6	22.3
Grindwell Norton (GRINOR)	581	625	Buy	6699	16.1	17.6	19.7	37.5	34.3	30.7	24.4	24.4	25.0	16.4	16.4	16.7

Source: Company, ICICI Direct Research

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Buy: > 15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: < -15%



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