

Timken India Limited

TIMKEN



Accumulate

Key Data

DATE	01-Jun-23
Reco Price	3,290-3,330
Target	4,300
Sector	Capital Goods - Bearings
BSE Code	522113
NSE Code	TIMKEN
EPS (FY23)	51.95
Face Value (Rs.)	10
Market Cap (Cr.)	25401.6
52-week High/Low (Rs)	3,761 / 2245

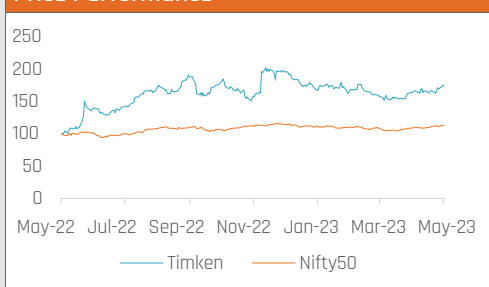
Source : NSE, BSE

Shareholding pattern (Mar-2023)

	%
Promoters	67.80
DII's	12.45
FII's	3.96
Public	15.78
Others	0.01
Total	100.00

Source : NSE, BSE

Price Performance



Rebase to 100

Timken India Limited

Company Background

Timken India Ltd is engaged in the manufacturing, distribution, and sale of anti-friction bearings, components, accessories, and mechanical power transmission products for the customer base across different sectors. It also provides maintenance contracts, refurbishment services and industrial services. It was incorporated in 1987 and is a part of the global Timken Group.

We hold a favourable view of the company based on the following factors:

Railways and Metros will be a key catalysts of growth

Increased bearing usage in Railways and Metros are a critical component in railway operations because it maintains the friction between moving parts in railway systems, ensuring that various components do not collide or separate. The bearings used in rails are used in a variety of applications, including the engine, wheels, interiors, and exteriors. Railways (such as Locomotives, Vande-Bharat Trains, Metro Trains) & commercial Vehicle segments are going to be a big opportunity for Timken in the coming 2-3 years by looking at its positioning in these segments as a Market Leader.

Robust growth in Automobile with EVs thrust

The automotive segment has emerged as the dominant force in the bearings market, driven by the increasing emphasis on electric vehicles (EVs) and the growing demand for automobiles equipped with technologically advanced solutions, necessitating an increase in vehicle manufacturing. The rise in demand for modern automobiles, as well as the improvements in vehicle capabilities, has increased the demand for bearing in the automotive sector. Bearing market growth is directly proportional to the development of automotive sector. Augmented commercial vehicles production is one of the imperative driving factors of the Roller bearing market in which Timken has huge opportunity.

Outlook and Valuation

Timken India has significant growth opportunities within the expanding automobile sector, encompassing all segments, including the advent of EVs and the "Make in India" initiative. Moreover, the government's substantial capital expenditure has fostered a surge in industrial and infrastructure activities, with railways receiving the highest budget allocation. This development directly benefits Timken India through order acquisition to supply CRB and SRB bearings for freight wagons. Additionally, the company has the opportunity to secure fresh orders for Vande Bharat Trains, DFC, and Metro rail projects. The company is a much bigger player in the large and medium-sized Bearings segments compared to other peers in the industry.

Additionally, Strong parent support & also scope for expansion of product portfolios in other segments by leveraging the support, technology & network of the parent company gives an edge to Timken India as a good Investment opportunity. Going ahead, we expect the company's revenue to grow at a CAGR of ~19% over FY23- FY26E. Hence, we recommend Timken India with a target price of ₹ 4,300 based on the PE Multiple of ~45x of FY26E EPS of ₹ 95.6; it's currently available at a valuation of 34.82x which is a lower end PE valuation of last 3 years. It's available at a very attractive valuation by looking at strong order inflow and earnings growth visibility in the next 3 years. Hence, **we recommend ACCUMULATE rating for the long term.**

Financial Snapshot

Particulars (Rs Cr.)	FY23	FY24E	FY25E	FY26E	CAGR (FY23-26)
Revenue	2,806.61	3,178.49	3,877.76	4,730.86	19.01%
EBITDA	560.35	683.38	833.72	1,040.79	22.92%
EBITDA Margin %	19.97%	21.50%	21.50%	22.00%	200bps
PAT	390.75	458.08	566.04	719.09	22.54%
EPS (Rs.)	51.96	60.92	75.27	95.62	22.54%

Source: Company, Asit C. Mehta Research

Investment Rationale

Localized manufacturing facilities

The company caters to a comprehensive range of bearings, including Tapered Roller Bearings, Cylindrical Roller Bearings, Spherical Roller Bearings, and Slewing Bearings, with a focus on localized manufacturing. It operates facilities in Jamshedpur and Bharuch, sourcing manufacturing requirements locally. This localization strategy provides a cost advantage to the company. Currently, both plants are operating at full capacity to meet demand requirements.

Strong expertise in the domain

The company's expertise in metallurgy, tribology, and mechanical systems enables fruitful collaboration with OEMs to tailor solutions according to customer requirements and diverse applications through in-house design and development.

Railways and Metros will be a key catalysts of growth

Indian Railways (IR) is taking various initiatives to modernize and increase the carrying capacity of its network by introducing new trains with better coaches and laying new tracks. On the freight side, Timken has been traditionally a strong player in railway freight wagon bearings. In metro coaches, bearings are required in single/double-stage gearboxes and wheels.

Government incentives to give an edge

Multiple nationwide projects and initiatives, such as the development of industrial corridors, smart cities, and the 'Make in India' campaign, among others, are expected to significantly boost the performance of the industrial sector in the coming years. Furthermore, several measures are currently being implemented to enhance India's railway infrastructure. These measures encompass the modernization of railway stations, the construction, and expansion of metro stations, as well as the replacement of older coaches. Notably, the Union Budget has allocated INR 1.40 lakh crore to focus on the manufacturing of 400 new-generation Vande-Bharat Trains with improved energy efficiency over the next three years.

Strong support from parent company

TIL is a subsidiary of the US-based "The Timken Company" which designs a growing portfolio of engineered bearings and power transmission products. With more than a century of knowledge and innovation, it serves a diverse mix of end markets. It continues to be a mainstay in the industrial and transportation sectors, while expanding its presence in areas such as wind and solar energy. OEM relationships of the parent are being leveraged by TIL.

Scrappage policy to give an edge

The Commercial Vehicle sector will soon be a witness to India's emergence as a segment leader with government's scrappage policy, which aims to phase out CVs older than 15 years and certified unfit for usage.

Robust growth in Automobiles with EVs thrust

The government is continuously focusing on implementing Electric Vehicles for Public Transport which will aid sustainable growth in the automotive sector. India's Agriculture Tractor Market is expected to grow significantly at a CAGR of 5.8% by volume during 2021-2028 with the increased adoption of precision farming. Strong sales headway and future growth across CV, PV & M&HCV will serve as vital growth catalysts for both industry and company.

Strong footprints to leverage growth opportunities

With a strong footprint of channel partners across India, TIL reaches out to end markets for its product & services and assists customers in improving the reliability and efficiency of equipment, machinery, and vehicles. The Company, with its visionary leadership, product portfolio, and world-class manufacturing facilities, aims to leverage these growing opportunities in the market and deliver enduring value as it moves forward.

Strong Export Opportunity

The company has a significant advantage in export opportunities due to its low-cost local manufacturing, coupled with leveraging the supply chain distribution of its parent company on a global scale. Furthermore, the global bearing market is experiencing steady growth, with a projected CAGR of 8% from 2023 to 2032. This presents a substantial opportunity for a strong, established player like Timken on a global scale. Additionally, the establishment of new manufacturing facilities in India for CRB and SRB Bearings will further enhance its competitive edge in the export market, paving the way for future growth opportunities.

Scope of Margin Expansion

The margin is influenced by the product mix and raw material prices. Based on a recent conference call with management, it is expected that the margin will improve going forward. Considering the recent decline in commodity prices, especially in metal prices, and a better revenue mix, the company is anticipated to enhance its margin moving forward.

CRBs & SRBs to open Multi-fold business opportunities

The Company announced on November 2022, its plans to set up a new manufacturing plant to manufacture Spherical Roller Bearings ('SRB') and Cylindrical Roller Bearings ('CRB') and components thereof at the same premise of its existing plant located at Bharuch, Gujarat with a capex of Rs 600cr from Internal accruals. The Production will commence on 24 December 2024. It plans to localize the production of CRBs and SRBs, which were imported until now.

Why is this a good business?

Particulars (Rs Cr.)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR (FY23-FY26E)
EBITDA	163	289	363	252	511	560	683	834	1,041	22.92%
EBITDA Margin %	13.24%	17.35%	22.42%	17.86%	23.19%	19.97%	21.50%	21.50%	22.00%	200 bps

Source: Company, Asit C. Mehta Research

Favourable EBITDA Margin trajectory - We expect a ~23% EBITDA CAGR growth over FY23-FY26E due to an EBITDA margin expansion of over 200bps over FY23-FY26E.

Ratios	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
EBITDA/Sales	13%	17%	22%	18%	23%	19.97%	21.50%	21.50%	22.00%
ROCE	12.84%	10.90%	15.38%	10.38%	19.37%	18.90%	20.55%	21.79%	22.34%

Source: Company, Asit C. Mehta Research

ROCE- Return ratios have bounced back and are expected to remain robust.

Company Overview

Timken India Limited was incorporated in 1987 as Tata Timken Limited, a JV between Tata Iron and Steel Company and The Timken Company. It commenced commercial production at its Jamshedpur plant in March 1992. TISCO and TIMKEN each held a 40% equity stake in the company and the public held the rest. In 1999, Timken acquired from Tata Steel its 40% stake in Tata Timken Limited. The name of the Company was changed to Timken India Limited on July 2, 1999.

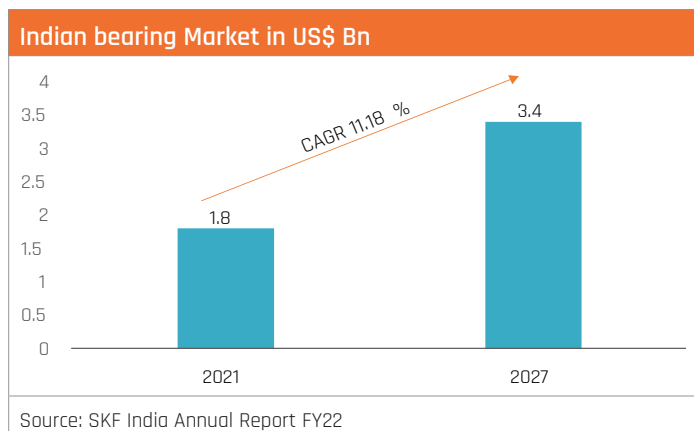
In 2017, the company acquired ABC Bearings which is in to Manufacture tapered and cylindrical roller bearings and industrial bearings including spherical roller bearings and slewing rings. ABC Bearings Limited with manufacturing facilities at Bharuch and Dehradun merged with Timken India Limited.

Product/ Services Offerings & Clientele

The company's products include a wide range of engineered bearings and power transmission products like Bearings, Linear Motion, Lubrication Systems, Drives & Gears, Belts & Chain Couplings, and Clutches & Brakes under the brand names Timken, Beka, Diamond, Drives, Rollon and a few more. The Company serves diverse markets such as aerospace, mining, railroads, construction, automotive (including trucks), energy, wind sector, and other after-market sectors.

Industry Overview

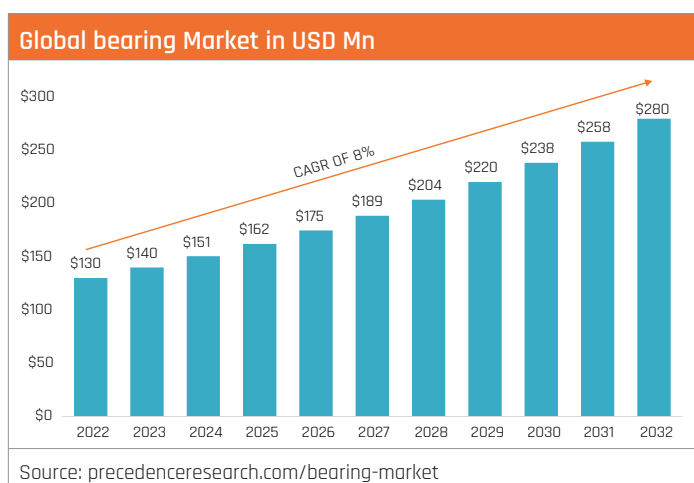
The market for bearings has gained significant impetus led by the growing preference for bearings in motors and the rising popularity of electric vehicles (EV). Several government initiatives such as 'Make in India' and 'Atmanirbhar Bharat' aimed at reviving the manufacturing sector from the impact of Covid-19-related disruptions, work well for the ball bearings demand.



- Indian Bearing Market size was valued at US\$1.8 bn in 2021 and is projected to expand up to US\$ 3.4 bn by the end of 2027. The Market is registering growth at a CAGR of 11.18% during the forecast period 2021-2027.
- The roller Bearing Market dominated the largest share of more than ~50% and further, this segment is anticipated to continue its dominance and emerge as the fastest-growing segment by 2027.
- Growing use of bearings in motors and the demand for automotive electrification are expected to boost market growth.
- Indian Railways has prepared a National Rail Plan (NRP) for India - 2030, which envisages creating a "Future Ready" Railway system. The NRP is aimed to formulate strategies based on both operational capacities and commercial policy initiatives to increase the modal share of the Railways in freight to 45% (currently 27%). The objective of the Plan is to create capacity & upgradation of speed (both Passenger coach & Wagons) ahead of demand by 2030, which leads to strong visible growth from Railway segments.
- The growth in Energy consumption of ~3,000-watt consumption per head in India and the US is 10 times more which will also be a growth driver for the Industry.
- The growth in defence also required a lot of Bearings, particularly in Naval ships, Air-craft Engines, Gear Box, etc. SRB Bearings are used in Revolver and Machine guns.
- Timken India will be the largest beneficiary of this uptick in railways and metro expansion. The company has the largest market share in freight wagon bearings and metro projects.

Global Bearing Market Size 2023-2032E (USD Mn)

The global bearing market size was valued at USD 130.22 billion in 2022 and it is predicted to hit over USD 279.83 billion by 2032, poised to with a registered CAGR of 8% during the forecast period 2023 to 2032E.



Investment Idea

- The demand for electric vehicles will be primarily driven by an increase in automobile sales and increased adoption of these vehicles. On average, a passenger automobile has 35 bearings, which vary substantially depending on the model of the vehicle and the widely used technology. The most recent technological advancements in automatic dual-clutch transmissions necessitate the installation of three additional bearings, two main shafts of the second gearbox, and one on the dual-clutch. Furthermore, the development of high-capacity bearings, coupled with enhanced lubrication performance, will significantly drive the growth of the bearings market.
- The bearings are important for delivering energy to a few spinning elements and sustaining the load-bearing features of various mechanical devices. The growing demand for tailored solutions to meet industry-specific requirements, such as aircraft support systems, gas meters, and medical imaging equipment, will substantially drive the growth of the bearings market during the forecast period.
- The factors such as increased bearing usage in railways and rolling mills followed by increased bearing usage in motors, desire for automotive electrification, and demand for bearing in continuously variable transmission have boosted the global bearings market's demand. Further, growing construction activities across the globe also boost the growth of the bearing market globally.

Key Growth Drivers

- The company is planning to focus on other growth markets in India, including defence, aerospace, food and beverage, and medical equipment.
- The company plans to focus on critical applications in mining, power gen, pulp and paper, metal, wind, gear drives, and port cranes.
- Timken has secured the bulk of the 90,000 wagon orders from Indian railways. 30000 Wagons to be delivered per year for the next three years which is indicating strong earning visibility for the next 3years.
- In the bearing market 80% is organised and dominated by most 3 reputed players including TIL. TIL has a strong market share in Tapered Roller Bearings (TRBs) Market in India.
- The growth in sectors like Automobile, Railways, Infrastructure & Construction, Defence, Capital goods & Engineering, and many others, etc. in the coming 3 to 5 years, will lead to strong growth in earnings & profitability of the company.
- The Spherical Roller Bearing (SRBs) market in India is roughly INR 1,700 crores market and growing at a decent CAGR and Cylindrical Roller Bearing (CRBs) market is INR ~ 2,000 crores market.
- The company is highly optimistic and intends to continue the current growth momentum in revenue and profitability in the coming years, which is supported by a strong order book.
- The company is very well equipped with modern technology such as Robotics, Process Automation, and the Modernisation of plants which leads to timely execution, and process improvements with minimum waste.
- The company's exports currently contribute 25% to 30% of the top line. The company is actively engaged in exporting to Europe, the USA, and other markets. Additionally, the parent company maintains its focus on outsourcing products to low-cost countries such as India. Any revival in the world economy will significantly impact the company's top line and bottom line, leading to strong contributions.
- Over the years, the Timken Company (Parent Company) has actively diversified by acquiring companies and expanding its product portfolio, transitioning from engineered bearings to Industrial motion products and services. This expansion includes couplings, belts, gear drives, automatic lubricant systems, industrial clutches, brakes, and powertrain rebuild & repair services. Timken's access to these products for local production, with the aim of achieving critical mass in India, is an important strategy. It would enable Timken to upgrade from being a component manufacturer to a complete system-based offerings player, potentially turning it into an export hub for the Parent Company.

Story in Charts (in Cr.)

Exhibit 1: Revenue CAGR of 19.01% (FY23-FY26E)

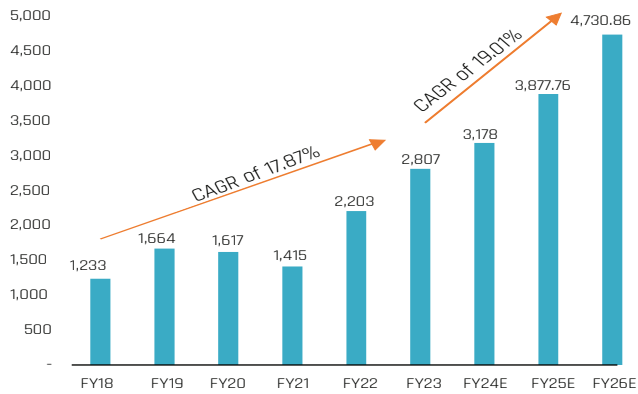


Exhibit 2: EBITDA & EBITDA Margin (%)

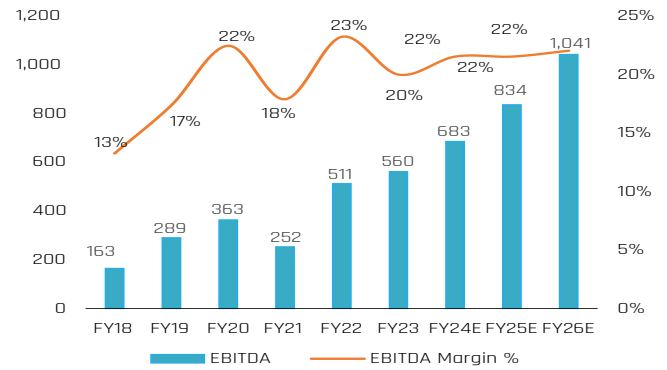


Exhibit 3: PAT & PAT Margin (%)

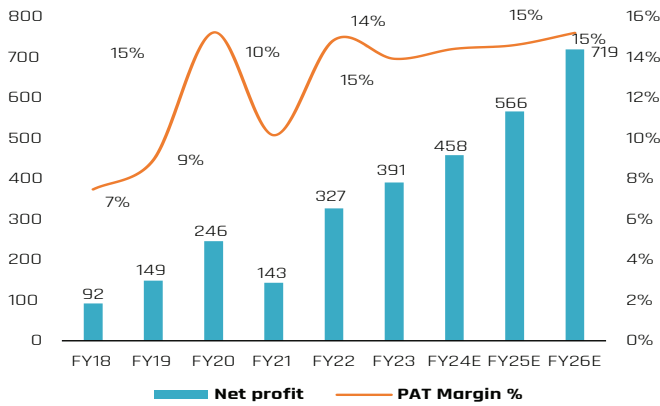
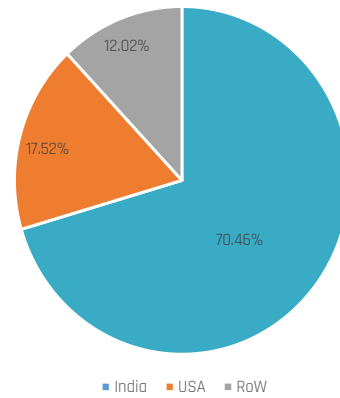


Exhibit 4: Geography wise breakup



Source: Company, Asit C. Mehta Research

Financial Statements

Income Statement:

Particulars (in Cr.)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	1,233.47	1,664.07	1,616.87	1,410.52	2,203.24	2,806.61	3,178.49	3,877.76	4,730.86
EBITDA	163.27	288.64	362.57	251.88	510.85	560.35	683.38	833.72	1,040.79
EBITDA Margin %	13.24%	17.35%	22.42%	17.86%	23.19%	19.97%	21.50%	21.50%	22.00%
Other Income	20.84	16.27	23.4	19.5	14.12	53.17	25.5	28.5	30.5
Interest	1.22	1.76	2.75	1.44	2.45	2.81	3.1	2.5	2.5
Depreciation	43.14	79.33	76.86	74.88	84.34	87.19	95	105	110
Profit before tax	139.75	223.82	306.36	195.06	438.18	523.52	610.78	754.72	958.79
Tax	47.51	75.18	60.26	51.88	111.08	132.77	152.69	188.68	239.7
Net profit	92.23	148.64	246.1	143.18	327.1	390.75	458.08	566.04	719.09
PAT Margin %	7.48%	8.93%	15.22%	10.15%	14.85%	13.92%	14.41%	14.60%	15.20%
Number of Shares	6.8	7.52	7.52	7.52	7.52	7.52	7.52	7.52	7.52
EPS (Rs.)	13.56	19.76	32.72	19.04	43.49	51.96	60.92	75.27	95.62

Source: Company, Asit C. Mehta Research

Balance Sheet:

Particulars (in Cr.)	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Liabilities:									
Equity Share Capital	67.99	75.21	75.21	75.22	75.22	75.22	75.22	75.22	75.22
Reserves	634.34	1,265.54	1,501.47	1,268.29	1,581.72	1,961.95	2,120.03	2,486.07	3,105.16
Borrowings	15.94	23.08	23.65	35.35	31.73	30.54	33.64	36.14	38.64
Other Liabilities	260.61	410.71	380.11	509.63	505.12	488.41	537.61	727.8	752.64
Total	978.88	1,774.54	1,980.44	1,888.49	2,193.79	2,556.12	2,766.50	3,325.23	3,971.66
Assets:									
Net Block	251.1	794.6	747.99	818.32	860.16	843	1046	1,121.00	1,131.00
WIP	54	64	157	97	50	53	55	75	55
Investments	55.2	175.75	13.2	0.03	98.99	235.89	185.89	185.89	185.89
Other Assets	591.75	716.68	645.73	798.67	1,167.10	1,262.00	1,461.26	1,494.10	2,080.64
cash & bank	26.83	23.51	417	174.47	17.54	162.23	18.35	449.24	519.13
Total	978.88	1,774.54	1,980.44	1,888.49	2,193.79	2,556.12	2,766.50	3,325.23	3,971.66

Source: Company, Asit C. Mehta Research

Risks and concerns

- Steel is the primary raw material used by the company to manufacture rings, rollers, bars, tubes, wire rods, and cages. Fluctuations in steel prices may impact the company's margins. Margins can be affected by increases in steel prices, currency fluctuations, and changes in the mix of exports and domestic sales.
- Export orders are decent, but there are concerns about a global slowdown and potential recessions in the US and Europe.
- Low cost and easy availability of counterfeit products from unorganized Players pose a threat to the organized ball bearings market in general.
- Any kind of overall slowdown in the GDP growth of the country will affect company's Performance.

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