

Industry	Auto Ancillary
Bloomberg	SKF IN
BSE CODE	500472

Hub-3, Railways and EVs new growth avenues

RATING	ACCUMULATE
CMP	1796
Price Target	1990
Potential Upside	11%

Rating Change	↓
Estimate Change	↑
Target Change	↔

Stock Info

52wk Range H/L	2010/1571
Mkt Capital (Rs Cr)	9221
Free float (%)	48%
Avg. Vol 1M (,000)	16
No. of Shares (Cr.)	5
Promoters Pledged %	0%

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Key Highlights

- SKFINDIA is the largest bearing manufacturer in India with revenue equally split between automotive and industrials. The company holds market share of 27% and 45% in overall bearing industry and ball bearing segment, respectively.
- The company is seeing strong traction of growth in upcoming quarters on the railway front (passenger wagon side and freight side). Growth opportunity of Rs.800 crores is seen from overall railway segment.
- The company also manufactures ceramic bearing which is used in electric vehicles and currently supplies to Tesla.
- Production at Hub 3 bearings plant (Capacity of 35,000 units) is likely to be commissioned by Q4FY19. Full utilization is expected in next two years.

2Q FY19 Result Update

Net sales grew by 13%YoY to Rs.766 crores. This was primarily driven by strong growth in automotive (+14%YoY) and industrial (+18%YoY) segments. EBITDA margin has also improved by 64bps QoQ to 16% despite increase in commodity prices in 2QFY19 on account of operating leverage benefit. PAT for the quarter stood at Rs.84 crores which grew by 14% YoY. PAT margin also elevated to 11% (+30bps QoQ).

View and Valuation

SKFINDIA has come up with strong operational performance in 2QFY19. EBITDA margin has improved by 60bps QoQ on account of improved trading-manufacturing mix, increased replacement demand and operating leverage benefit. The commodity prices have continued to surge in 2QFY19 also but we expect margins to improve in 3QFY19 on account of double digit volume growth, improvement in branded bearings demand and operational efficiencies going ahead. The management has indicated that the capex to the tune of Rs.150 crores for next 2 years primarily towards capacity addition and new product development. The introduction of Hub-3 bearings passenger cars (1.75x higher realization than traditional bearing), implementation of ABS in 2Ws and rise of electric vehicles coupled with Rs.800 crores opportunity in railways space gives us better growth prospects going ahead for the company. We largely maintain our FY20 EPS estimate and expect revenue and PAT to grow at 10% and 15% CAGR respectively, over FY18-20. We value SKFINDIA at 26x FY20e EPS to arrive at a target price of Rs.1990 and recommend ACCUMULATE.

Key Risks to our rating and target

- Sharp increase in steel prices
- Shift towards trading goods will lead to reduction in margins

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	3099	2719	2822	3127	3427
EBITDA	364	336	435	513	575
EBIT	296	288	389	469	522
PAT	257	244	296	350	393
EPS (Rs)	49	46	58	68	77
EPS growth (%)	26.8	(5.1)	24.5	18.2	12.4
ROE (%)	16.4	13.5	16.1	16.5	16.2
ROCE (%)	18.8	15.9	21.2	22.2	21.6
BV	298	344	358	412	471
P/B (X)	4.2	3.7	4.9	4.4	3.8
P/E (x)	25.9	27.3	30.2	26.4	23.5

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2QFY19 Results

Better than expectation

Financials	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	680	700	704	755	766	13%	1%	2,631	2,750	4.5%
Other Income	16	20	19	23	21	30%	-5%	87	71	-18.3%
Total Income	696	721	722	777	787	13%	1%	2,719	2,822	3.8%
COGS	381	402	404	443	435	14%	-2%	1,625	1,607	-1.1%
Staff Cost	59	60	60	61	70	19%	14%	222	237	6.6%
Other Exp.	129	116	134	135	138	7%	3%	448	472	5.4%
Expenditure	569	577	598	639	643	13%	1%	2,295	2,316	0.9%
EBITDA	111	123	106	116	123	10%	6%	336	435	29.4%
Depreciation	11	11	12	12	12	2%	-1%	48	46	-4.5%
EBIT	100	112	95	104	111	11%	6%	288	389	35.0%
Interest	2	2	2	2	2	25%	22%	-	5	#DIV/0!
PBT	114	130	112	125	130	14%	4%	376	455	21.3%
Excpt. Item	-	-	-	-	-	0%	0%	-	-	0.0%
Tax	41	44	40	44	46	14%	4%	132	160	21.2%
PAT	74	86	73	81	84	14%	4%	244	296	21.3%

Decent revenue growth supported by both automotive and industrial segments

Revenue grew by 13% YoY to 766 crores on the back of strong growth in industrial and automotive markets. Automotive/Exports and industrials mix continued to be same as 43%/7% and 50% respectively. Automotive segment posted 14% YoY growth on the back of strong volume growth across categories. Industrial segment also reported 18% YoY growth due to improvement in demand scenario in mining, steel, cement sectors and wind energy. Exports however remained blip during the quarter and declined by 19% YoY due to strong order book from domestic markets.

Favorable product mix and operating leverage benefit drives margin

The gross margin increased by 190bps QoQ to 43.2% on account of favorable product mix, improved trading-manufacturing mix and price hikes. On the other hand, EBITDA margin has improved by 64bps YoY to 16% on account of higher replacement demand and operating leverage benefit. Going ahead, rising commodity prices remains a concern but the company is working on cost cutting activities and will take pricing actions in order to mitigate the impact.

High other income led to PAT growth of 14%YoY

PAT for the quarter stood at Rs.84 crores which grew by 14% YoY. However, PAT margin improved marginally by 30bps QoQ to 11% due to shrinkage in EBITDA margin.

Concall highlights

- ❑ The company expects low double digit growth from automotive segment in FY19.
- ❑ There is healthy pipeline of products in the automotive segment which may help the company to gain market share in this segment.
- ❑ On the railway side, the company grew by 7% during the quarter and is expecting to grow in higher single Capex of Rs. 80- 100 crores in FY19 and Rs.150 crores in FY20.
- ❑ digit by next quarter
- ❑ The company is seeing strong traction of growth in upcoming quarters on the railway front (passenger wagon side and freight side). Growth opportunity of 800 crores is seen from overall railway segment.
- ❑ The wind energy business has gone through severe turbulence and it seems to be recovering at faster pace as it has shown positive numbers in the current quarter.
- ❑ The company has seen slowdown of non branded products in aftermarket.
- ❑ The management is making constant effort to improve product mix and move towards higher margin products.
- ❑ Hub 3 bearings plant – Production will start from Q4FY19. The capacity is expected to be 350000 units of bearings in this plant and it is to be fully utilized by next two years. Capex to be spent is Rs.20-25 crores.
- ❑ Forex loss for the quarter was Rs.116 million.
- ❑ Capex of Rs. 80- 100 crores in FY19 and Rs.150 crores in FY20.

Exhibit: Sales and Sales Growth Trend

Net sales growth was supported by both automotive (+14%YoY) and industrial segments(+18%YoY)

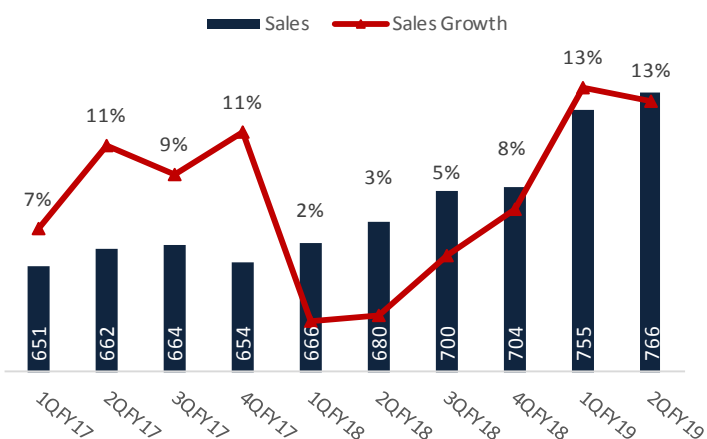


Exhibit: COGS and Gross Margin Trend

Price hikes and shift in mix towards manufacturing lead to 190bps QoQ increase in Gross Margins

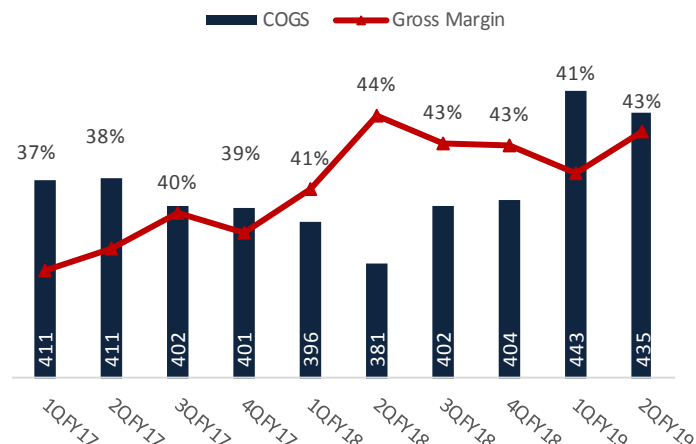


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

Higher operating leverage coupled with improvement in industrial revenues led to expansion in EBITDA margin

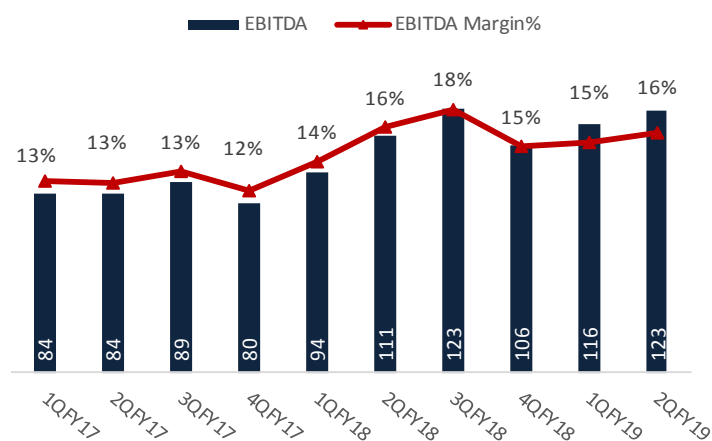


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Higher other income coupled with improvement in EBITDA margin leads to increase in PAT

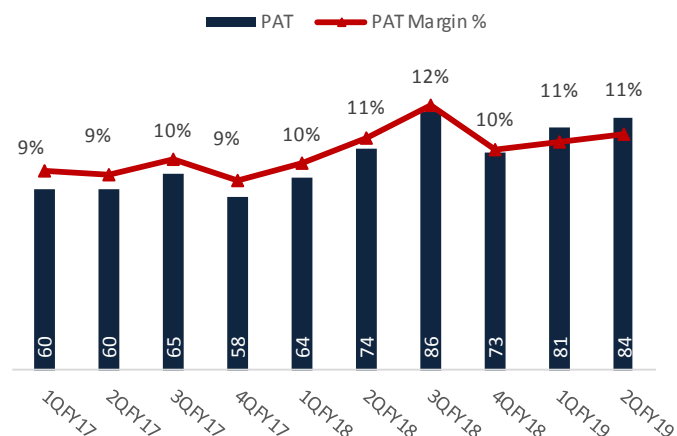


Exhibit: Segmental Revenue

Exports contribution declined due to higher sales in the domestic markets

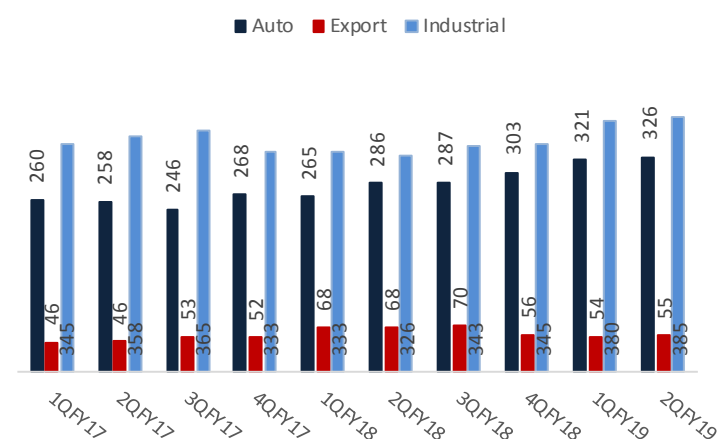
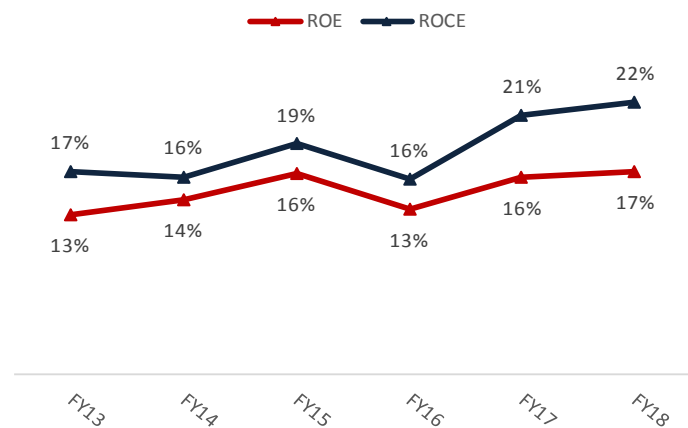


Exhibit: Return Ratios

Strong growth in automotive and industrial segments lead to higher profitability.



Financial Details

Balance Sheet

Y/E March	CY12	CY13	CY14	FY16	FY17	FY18	FY19E	FY20E
Share Capital	53	53	53	53	53	51	51	51
Reserves	1,103	1,223	1,363	1,517	1,758	1,786	2,061	2,368
Networth	1,155	1,276	1,416	1,569	1,811	1,837	2,113	2,419
Debt	-	-	-	-	34	85	85	85
Other Non Cur Liab	-	-	-	-	-	-	-	-
Total Capital Employed	1,155	1,276	1,416	1,569	1,845	1,922	2,198	2,504
Net Fixed Assets (incl CWIP)	407	401	385	310	334	330	379	476
Non Cur Investments	-	-	-	19	-	-	-	-
Other Non Cur Asst	-	-	-	-	9	9	9	9
Non Curr Assets	650	655	617	536	484	551	599	696
Inventory	249	255	293	335	417	403	446	488
Debtors	320	330	373	418	514	491	543	594
Cash & Bank	307	376	535	697	591	743	847	940
Other Curr Assets	4	9	13	18	48	62	68	75
Curr Assets	950	1,041	1,294	1,548	1,820	1,893	2,145	2,397
Creditors	268	251	337	293	304	390	417	456
Provisions (both)	75	68	45	121	15	16	18	19
Other Curr Liab	75	74	86	72	35	17	19	21
Curr Liabilities	417	394	468	487	429	493	524	567
Net Curr Assets	950	1,041	1,294	1,548	1,820	1,893	2,145	2,397
Total Assets	1,600	1,695	1,911	2,084	2,304	2,444	2,744	3,093

Income Statement

Y/E March	CY12	CY13	CY14	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	2,228	2,275	2,416	2,998	2,631	2,750	3,043	3,331
Change (%)	(9)	2	6	24	(12)	5	11	9
Other Income	68	63	77	101	87	71	83	95
EBITDA	258	261	283	364	336	435	513	575
Change (%)	(13)	1	8	29	(8)	29	18	12
Margin (%)	11.6	11.5	11.7	12.1	12.8	15.8	16.9	17.3
Depr & Amor.	44	49	54	68	48	46	44	53
EBIT	215	212	229	296	288	389	469	522
Int. & other fin. Cost	-	-	-	-	-	5	12	12
EBT	283	275	306	396	376	455	539	604
Exp Item	-	22	-	-	-	-	-	-
Tax	93	86	103	139	132	160	190	212
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	190	167	203	257	244	296	350	393
Adjusted PAT	190	167	203	257	244	296	350	393
Change (%)	(9)	(12)	22	27	(5)	21	18	12
Margin(%)	8.5	7.3	8.4	8.6	9.3	10.8	11.5	11.8

Financial Details

Key Ratios

Y/E March	CY12	CY13	CY14	FY16	FY17	FY18	FY19E	FY20E
ROE	16%	13%	14%	16%	13%	16%	17%	16%
ROCE	19%	17%	16%	19%	16%	21%	22%	22%
Asset Turnover	1.39	1.34	1.26	1.44	1.14	1.13	1.11	1.08
Debtor Days	52	53	56	51	71	65	65	65
Inv Days	41	41	44	41	58	53	53	53
Payable Days	44	40	51	36	42	52	50	50
Int Coverage	-	-	-	78	38	42	-	-
P/E	19	17	21	26	27	30	26	23
Price / Book Value	3.2	2.3	3.0	4.2	3.7	4.9	4.4	3.8
EV/EBITDA	13	10	13	16	18	19	16	14
FCF per Share	287	172	255	123	157	418	421	550

Cash Flow Statement

Y/E March	CY12	CY13	CY14	FY16	FY17	FY18	FY19E	FY20E
PBT	283	275	306	396	376	455	539	604
(inc)/Dec in Working Capital	11	(46)	32	(152)	(105)	94	(79)	(58)
Non Cash Op Exp	44	49	54	68	48	46	44	53
Int Paid (+)	0	-	-	-	-	5	12	12
Tax Paid	(89)	(87)	(112)	(142)	(141)	(173)	(190)	(212)
others	(50)	(47)	(62)	(80)	(62)	(60)	-	-
CF from Op. Activities	199	122	218	91	115	367	328	400
(inc)/Dec in FA & CWIP	(88)	(51)	(37)	(32)	(42)	(50)	(93)	(150)
Free Cashflow	111	71	180	59	73	317	235	250
(Pur)/Sale of Inv	199	122	218	91	115	367	328	400
others	324	209	438	875	904	678	-	-
CF from Inv. Activities	(101)	(165)	(3)	(174)	147	(265)	(137)	(207)
inc/(dec) in NW	120	141	153	242	26	276	306	(2,419)
inc/(dec) in Debt	-	-	-	-	(31)	51	-	-
Int. Paid	-	-	-	-	-	(5)	(12)	(12)
Div Paid (inc tax)	(46)	(46)	(46)	(16)	(95)	(62)	(74)	(87)
others	-	-	(46)	-	-	(209)	-	-
CF from Fin. Activities	(46)	(46)	(93)	(16)	(126)	(225)	(87)	(99)
Inc(Dec) in Cash	52	(89)	123	(99)	136	(123)	104	94
Add: Opening Balance	108	160	71	193	95	230	743	847
Closing Balance	160	71	193	95	230	108	846	941

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A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

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