




Industry
Bloomberg
BSE CODE

Auto Ancillary
SKF IN
500472

RATING	BUY
CMP	1896
Price Target	2234
Potential Upside	18%

Rating Change	
Estimate Change	
Target Change	

STOCK INFO	
52wk Range H/L	2164/1610
Mkt Capital (Rs Cr)	9372
Free float (%)	48%
Avg. Vol 1M (,000)	16
No. of Shares (Cr)	4.94
Promoters Pledged %	0%

Industrial segment to drive growth led by infrastructure demand

1QFY20 Result Update

- SKFINDIA reported a revenue growth of 2.9% YoY to Rs.777 crores (vs our estimates of Rs.768 crores) largely driven by growth in the industrial segment which consist of 53% of revenue.
- Automotive, industrial and exports mix stands at 38%, 53% and 9% respectively.
- On the automotive side- OEM and aftermarket de-grew by 14% and 5% YoY respectively while Industrial OEM and aftermarket grew by 8% and 10% YoY respectively. Exports grew by 24%YoY.
- Gross margin contracted by 100 bps QoQ to 39.7% based on higher traded goods during the quarter. Traded and manufacturing goods mix stood at 46:54.
- EBITDA margin expanded by 60bps QoQ to 15.4% due to cost efficiency (lower production based on slowdown in automotive segment) and the improvement in the receivable side (provision for doubtful debts).
- PAT during the quarter declined by 4%YoY to Rs.78 crores (vs. our estimates of Rs.85 crores). Lower other income due to forex loss of Rs.4 crores and higher depreciation expense led to reduction in the PAT.

View and Valuation

SKFINDIA has reported 60bps improvement in EBITDA margins on sequential basis based on improved product mix and better cost efficiencies. The industrial segment performed better while automotive continues to struggle during the quarter. The management does not expect recovery in the domestic automotive industry in the near future. On the industrial side the demand is coming from infrastructure led segments while consumption led segments still lag behind. Going ahead we expect improvement in auto exports and strong recovery in wind energy business coupled with growth opportunities in freight bearings on railways will drive the growth ahead. Further introduction of Hub-3 bearings from 2QFY20 in passenger cars will add to the revenue and margins ahead. Hence we largely maintain our EPS estimates for FY20 and FY21. We value the stock at 27x FY21e EPS and maintain our previous target price of Rs.2234 and recommend BUY.

Key Risks to our rating and target

- Sharp increase in steel prices
- Shift towards trading goods will lead to reduction in margins
- Slow acceptability of Hub-3 bearings

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KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	2631	2750	3035	3243	3528
EBITDA	336	435	486	507	566
EBIT	288	389	440	462	508
PAT	244	296	336	353	405
EPS (Rs)	46	58	68	71	82
EPS growth (%)	-5%	25%	18%	4%	15%
ROE (%)	13%	16%	20%	18%	18%
ROCE (%)	16%	21%	26%	23%	22%
BV	344	358	343	398	463
P/B (X)	3.7	4.9	5.4	4.8	4.1
P/E (x)	27.3	30.2	27.3	26.5	23.1

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Revenue In line with expectation

1QFY20 Results

FINANCIALS	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	755	764	768	748	777	3%	4%	2,750	3,035	10.3%
Other Income	23	21	34	29	17	-24%	-41%	71	92	29.3%
Total Income	777	786	801	778	794	2%	2%	2,822	3,127	10.8%
COGS	443	435	455	444	469	6%	6%	1,607	1,776	10.6%
Staff Cost	61	70	64	63	64	5%	2%	237	258	9.0%
Other Exp.	135	137	128	130	124	-8%	-5%	472	514	8.9%
Expenditure	639	642	646	637	657	3%	3%	2,316	2,549	10.1%
EBITDA	116	123	122	111	120	3%	8%	435	486	11.8%
Depreciation	12	12	11	12	14	18%	20%	46	46	1.2%
EBIT	104	111	110	100	106	2%	7%	389	440	13.0%
Interest	2	2	2	2	3	55%	45%	5	8	
PBT	125	130	142	127	121	-4%	-5%	455	524	15.1%
Excpt. Item	-	-	-	-	-			-	-	
Tax	44	46	53	45	43	-3%	-4%	160	188	18.1%
PAT	81	84	88	82	78	-4%	-5%	296	336	13.5%

Revenue growth of 2.9% YoY due to growth in the industrial segment

Net sales grew by 2.9% YoY to Rs.777 crores on account of growth in the industrial segment of 9% YoY. Within industrial segment OEMs and aftermarket grew by 8% and 10% YoY respectively. However, automotive segment de-grew by 8% YoY enclosed by growth in aftermarket by 5% YoY and OEMs decline by 14% YoY. Export segment grew by 24% YoY during the quarter.

Margins expanded on account of localization and cost efficiency

Gross margin contracted by 100 bps QoQ to 39.7% based on higher traded goods, where Traded and manufacturing goods mix stood at 46:54 during the quarter. Whereas, EBITDA margin expanded by 60bps QoQ to 15.4% due to lower production and improvement in the receivable side through provision of doubtful debts. Decline in steel prices also improved margins during the quarter.

PAT de-grew by 3.6% YoY led by lower other income and higher depreciation cost

PAT during the quarter stood at Rs.78 crores (vs. our estimates of Rs.85 crores) which de-grew by 3.6% YoY. Forex loss of Rs.4 crores reduced the other income and higher depreciation impacted the PAT.

Concall highlights

- Revenue contribution from automotive and industrials stood at 38% and 53% during the quarter. However, automotive side-OEM and aftermarket de-grew by 14% and 5% YoY respectively and Industrial side – OEM and aftermarket grew by 8% and 10% YoY respectively.
- Exports contributed 9% of revenue, which grew by 24% YoY and 65% QoQ.
- Traded and manufacturing goods mix stood at 46:54 during the quarter. However, growth in the industrial segment leads to higher traded goods.
- Decline in the steel prices improved margins in the industrial side during the quarter.
- The management expect festival season and BS-VI related pre-buying may push the auto sector but other than that there is no sign of improvement.
- In the industrial sector the demand is coming from infrastructure led segments while consumption led segment still lagging behind.
- Management expects to increase the market share in the freight side of railway, which is currently at a single digit.
- Growth in the railway side is expected to be from the freight side by the management going forward.
- Decline in the other expenses during the quarter was due to the cost efficiency and the improvement in the receivable side.
- Forex loss of Rs.4 crores during the quarter.
- HUB 3 bearing will start its production from August 2019 and will generate revenue from 2QFY20.
- Capex of Rs. 80-120 crores planned by the management for FY20.

Exhibit: Sales (Rs.crore) and Sales Growth Trend

Sales grew by 3% YoY largely driven by growth in industrial segment.

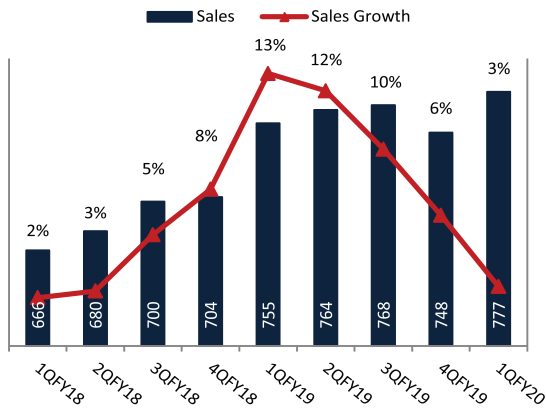


Exhibit: COGS (Rs.crore) and Gross Margin Trend

Gross margins decline on account of higher raw material to sales.

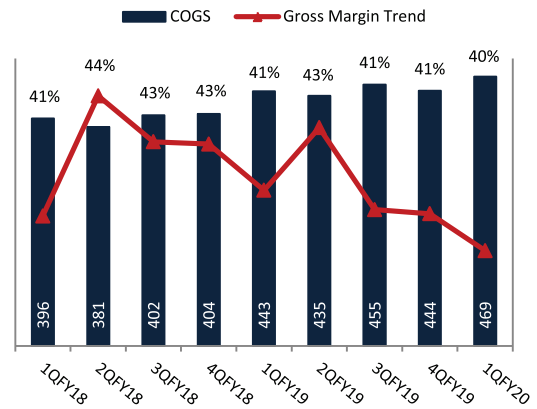


Exhibit: EBITDA (Rs. Crore) and EBITDA Margin Trend

EBITDA margins expanded by 60bps QoQ to 15.8% in 1QFY20.

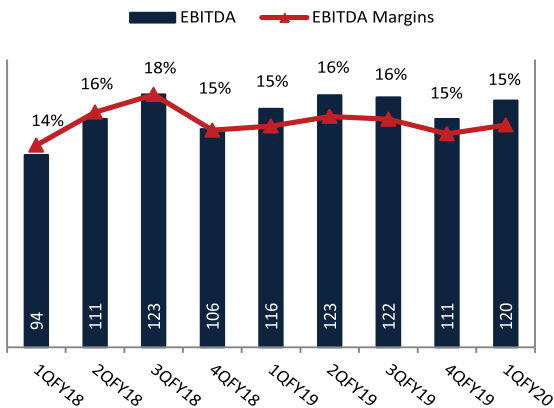


Exhibit: PAT (Rs. Crore) and PAT Margin Trend

Lower other income contracted PAT margins during the quarter.

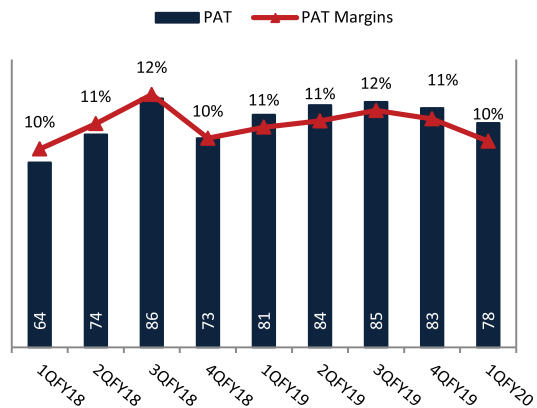


Exhibit: Segmental Revenue (Rs.crore)

Industrial and Automotive segment grew by 21% and 7% whereas exports de-grew by 34% YoY.

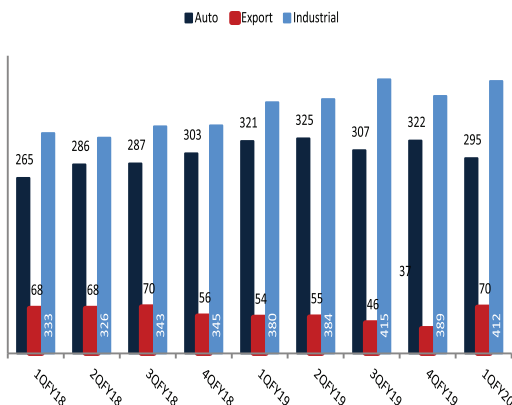
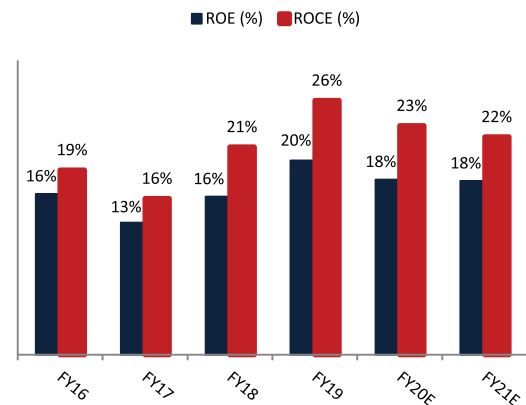


Exhibit: Return Ratios

Growth across automotive and industrial segment leads to profitability.



Financial Details

Balance Sheet

Y/E March	CY13	CY14	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	53	53	53	53	51	49	49	49
Reserves	1,223	1,363	1,517	1,758	1,786	1,648	1,918	2,239
Networth	1,276	1,416	1,569	1,811	1,837	1,697	1,967	2,289
Debt	-	-	-	34	85	90	90	80
Other Non Cur Liab	26	27	27	29	28	32	32	32
Total Capital Employed	1,276	1,416	1,569	1,845	1,922	1,787	2,057	2,369
Net Fixed Assets (incl CWIP)	401	385	310	334	330	346	399	440
Non Cur Investments	-	-	19	-	-	-	-	-
Other Non Cur Asst	655	617	517	484	551	585	638	680
Non Curr Assets	655	617	536	484	551	585	638	680
Inventory	255	293	335	417	403	461	493	536
Debtors	330	373	418	514	491	521	557	606
Cash & Bank	376	535	697	591	743	603	628	705
Other Curr Assets	80	93	98	297	257	125	278	415
Curr Assets	1,041	1,294	1,548	1,820	1,893	1,711	1,955	2,262
Creditors	251	337	293	304	390	349	373	406
Provisons (both)	90	72	149	21	22	26	28	29
Other Curr Liab	52	59	45	104	82	102	103	105
Curr Liabilities	394	468	487	429	493	477	504	540
Net Curr Assets	647	826	1,061	1,390	1,400	1,234	1,451	1,722
Total Assets	1,695	1,911	2,084	2,304	2,444	2,296	2,593	2,942

Income Statement

Y/E March	CY13	CY14	FY16	FY17	FY18	FY19E	FY20E	FY21E
Revenue from Operation	2,275	2,416	2,998	2,631	2,750	3,035	3,243	3,528
Change (%)	2%	6%	24%	-12%	5%	10%	7%	9%
Other Income	63	77	101	87	71	92	90	124
EBITDA	261	283	364	336	435	486	507	566
Change (%)	1%	8%	29%	-8%	29%	12%	4%	12%
Margin (%)	11.5%	11.7%	12.1%	12.8%	15.8%	16.0%	15.6%	16.0%
Depr & Amor.	49	54	68	48	46	46	45	58
EBIT	212	229	296	288	389	440	462	508
Int. & other fin. Cost	-	-	-	-	5	8	8	8
EBT	275	306	396	376	455	524	544	623
Exp Item	22	-	-	-	-	-	-	-
Tax	86	103	139	132	160	188	191	218
Minority Int & P/L share of Ass.	-	-	-	-	-	-	-	-
Reported PAT	167	203	257	244	296	336	353	405
Adjusted PAT	167	203	257	244	296	336	353	405
Change (%)	-12%	22%	27%	-5%	21%	14%	5%	15%
Margin(%)	7.3%	8.4%	8.6%	9.3%	10.8%	11.1%	10.9%	11.5%

Financial Details

Key Ratios

Y/E March	CY13	CY14	FY16	FY17	FY18	FY19	FY20E	FY21E
ROE	13%	14%	16%	13%	16%	20%	18%	18%
ROCE	17%	16%	19%	16%	21%	26%	23%	22%
Asset Turnover	1.34	1.26	1.44	1.14	1.13	1.32	1.25	1.20
Debtor Days	7	6	7	5	6	6	6	6
Inv Days	41	44	41	58	53	55	55	55
Payable Days	9	7	10	9	7	9	9	9
Int Coverage	-	-	78	57	57	-	-	-
P/E	17	21	26	27	30	27	26	23
Price / Book Value	2.3	3.0	4.2	3.7	4.9	5.4	4.8	4.1
EV/EBITDA	10	13	16	18	19	18	17	15
FCF per Share	33	48	23	30	81	46	93	103

Cash Flow Statement

Y/E March	CY13	CY14	FY16	FY17	FY18	FY19E	FY20E	FY21E
PBT	275	306	396	376	455	524	544	623
(inc)/Dec in Working Capital	(46)	32	(152)	(105)	94	(107)	(44)	(60)
Non Cash Op Exp	49	54	68	48	46	46	45	58
Int Paid (+)	-	-	-	-	5	8	8	8
Tax Paid	(87)	(112)	(142)	(141)	(173)	(212)	(191)	(218)
others	(69)	(62)	(80)	(62)	(60)	(78)	-	-
CF from Op. Activities	122	218	91	115	367	181	362	411
(inc)/Dec in FA & CWIP	(51)	(37)	(32)	(42)	(50)	(46)	(98)	(100)
Free Cashflow	71	180	59	73	317	135	265	311
(Pur)/Sale of Inv	-	-	-	(149)	(5)	109	(149)	(133)
others	(114)	35	(142)	338	(210)	243	-	-
CF from Inv. Activities	(165)	(3)	(174)	147	(265)	306	(247)	(233)
inc/(dec) in NW	-	-	-	-	(209)	(400)	-	-
inc/(dec) in Debt	-	-	-	(31)	51	5	-	(10)
Int. Paid	-	-	-	-	(5)	(8)	(8)	(8)
Div Paid (inc tax)	(46)	(93)	(16)	(95)	(62)	(74)	(83)	(83)
others	-	-	-	-	-	-	-	-
CF from Fin. Activities	(46)	(93)	(16)	(126)	(225)	(477)	(91)	(101)
Inc/Dec) in Cash	(89)	123	(99)	136	(123)	11	25	77
Add: Opening Balance	160	71	193	95	230	108	603	628
Closing Balance	71	193	95	230	108	118	628	705

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