

08th February 2024

CMP – ₹3,065.9

View – **ACCUMULATE**

Q3FY24 Result Highlights

- **Weakness in exports and revenue decline from the rail and after market segment** – Topline grew by ~1% YoY and declined 10.2% QoQ to ₹6.12bn likely to due to weakness in exports (13% of revenue at ₹793mn down from ₹1530mn in Q3FY23 and ₹1685mn in Q2FY24) and revenue decline from rail and aftermarket segment resulting in EBITDA de-growth of 1.2% YoY and 24.4% QoQ to ₹1.03bn. EBITDA margin was at 16.7%, -28 bps YoY and -313 bps QoQ. The export segment had remained weak in last few quarters due to the global economic slowdown; with likely gradual recovery in the coming quarters (peak expected from Q2FY25). Timken USA guided for organic revenue decline of 2.5-4.5% YoY in CY24, given the weak demand environment, which will weigh on Timken India's export segment in Q4FY24.
- We are likely to see improvement of Rail orders from Q1FY25 as within the Indian Railways there is a shift to higher capacity bearings in railways due to commissioning of DFC and addition of 90,000 freight wagons over 3 years. Indian Railways wagons orderbook looks robust. As per the management, Indian railways would require 80,000 bearings (not Class-K) for 10,000 wagons in the near future and with further 30,000 wagons in pipeline. It expects strong traction to continue led by shift to higher capacity bearings in railways due to commissioning of DFC over 3 years.
- The management expects improvement in export markets with demand from Heavy haulage trucks reaching normal level by Apr-May'24. As demand from Tippers and Heavy haulage trucks improves realisation tends to be better at aggregate levels. Currently Rail and MHCV has equal revenue share in exports.
- The foundation work for the new Greenfield facility at Bharuch has been laid with orders for equipment been placed. From Jan'25 onwards the order ramp up likely to take place. The facility will manufacture spherical and cylindrical roller bearings which will aid revenue growth beyond FY25 as the domestic CV segment will likely to have steady growth over the next two years, aided by steady demand trends in the replacement segment and fleet operators' profitability.
- The company is developing more distributors to enhance channel management in India.

View

Timken India Q3FY24 performance was impacted by the sustained weakness in the export market and slowdown in wagons demand by Indian railways with likely orders in Q4FY24-end or Q1FY25. Medium-term growth prospects remain strong given the cyclical nature of end-product segments (35-40% of its revenue comes from the CV segment) and the expected improvement in domestic markets in coming quarters, Medium term growth remains strong and is likely to be priced in at CMP. Hence, **we continue to view it as ACCUMULATE stock trading at P/E 40.6x FY26E EPS Rs75.5**

Important Statistics

Nifty	21,892
Sensex	72,041
MCAP (₹ bn)	230.6
52 Week H/L (₹)	3576/2659
NSE Code	TIMKEN
BSE Code	522113
Bloomberg Code	TMKN:IN

Shareholding Pattern	Dec'23 (%)
Promoters	57.7
DIIs	22.6
FIIIs	7.1
Public	12.6

Financials

Particulars	FY21	FY22	FY23
Revenue	14,105	22,032	28,066
EBITDA	2,518	5,106	5,604
EBITDA Margin (%)	17.9	23.2	20.0
Net Profit	1,432	3,271	3,907
EPS (₹)	19.0	43.5	52.0
DPS (₹)	1.5	1.5	1.5
RoE (%)	10.7	19.7	19.2
RoCE (%)	9.4	19.4	18.5
P/E (x)	161.0	70.5	59.0
EV/EBITDA (x)	91.0	45.2	40.9
P/BV (x)	17.2	13.9	11.3

Particulars	FY24E	FY25E	FY26E
Revenue	27,595	31,738	37,984
EBITDA	5,107	6,583	8,114
EBITDA Margin (%)	18.5	20.7	21.4
Net Profit	3,487	4,431	5,676
EPS (₹)	46.4	58.9	75.5
DPS (₹)	2.0	2.5	3.0
RoE (%)	15.9	17.1	18.5
RoCE (%)	16.8	19.7	22.8
P/E (x)	66.1	52.0	40.6
EV/EBITDA (x)	43.5	33.8	26.9
P/BV (x)	9.8	8.3	6.9

Return (%)	1 Yr	3Yr	5 Yr
Timken	5.1	123.1	458.4
Nifty 50	22.6	44.8	100.0
Sensex	18.8	40.3	97.1

Source: Company, Way2wealth Research

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 View – **ACCUMULATE**
FINANCIAL PERFORMANCE

(₹ mn)

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	6,122	6,094	0.5	6,820	(10.2)	20,118	20,040	0.4
Cost of Matl	2,079	2,156	(3.6)	2,024	2.7	6,543	6,806	(3.9)
Stock Purchases	2,287	2,051	11.5	2,249	1.7	6,585	5,647	16.6
Inventories Changes	(725)	(522)	39.0	(289)	151.4	(1,284)	(793)	62.0
Employee Exps	384	418	(8.0)	412	(6.7)	1,216	1,199	1.4
Other Exps	1,072	954	12.3	1,068	0.3	3,321	3,107	6.9
EBITDA	1,025	1,037	(1.2)	1,355	(24.4)	3,737	4,074	(8.3)
EBITDA Margin (%)	16.7	17.0	(28)	19.9	(31.3)	18.6	20.3	(175)
Other Income	106	144	(26.5)	101	4.9	300	465	(35.5)
Depreciation	210	224	(6.3)	211	(0.4)	634	659	(3.8)
Finance Cost	9	5	70.0	9	(5.9)	27	14	91.7
PBT	912	952	(4.2)	1,236	(26.2)	3,377	3,866	(12.7)
Tax Exps	237	246	(3.7)	306	(22.5)	870	1,003	(13.3)
Net Profit	675	706	(4.3)	930	(27.4)	2,507	2,863	(12.4)
EPS (₹)	9.0	9.4	(4.3)	12.4	(27.4)	33.3	38.1	(12.4)

As % of Sales	Q3FY24	Q3FY23	YoY (BPS)	Q2FY24	QoQ(BPS)	9MFY24	9MFY23	YoY (BPS)
Raw Mat Cost	59.5	60.5	(99)	58.4	105	58.9	58.2	69
Gross Profit	40.5	39.5	99	41.6	(105)	41.1	41.8	(69)
Employee Exps	6.3	6.9	(58)	6.0	24	6.0	6.0	6
Other Exps	17.5	15.7	185	15.7	184	16.5	15.5	100

Source: Company, Way2Wealth

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 View – **ACCUMULATE**
FINANCIALS & VALUATIONS

(₹ mn)

Particulars	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Revenue	12,518	16,644	16,178	14,105	22,032	28,066	27,595	31,738	37,984
YoY Growth (%)	12.0	33.0	(2.8)	(12.8)	56.2	27.4	(1.7)	15.0	19.7
EBITDA	1,633	2,886	3,633	2,518	5,106	5,604	5,107	6,583	8,114
EBITDA Margin (%)	13.0	17.3	22.5	17.9	23.2	20.0	18.5	20.7	21.4
Net Profit	920	1,486	2,461	1,432	3,271	3,907	3,487	4,431	5,676
YoY Growth (%)	(5.4)	61.6	65.6	(41.8)	128.4	19.5	(10.8)	27.1	28.1
EPS (₹)	12.2	19.8	32.7	19.0	43.5	52.0	46.4	58.9	75.5
DPS (₹)	1.0	1.0	50.0	1.5	1.5	1.5	2.0	2.5	3.0
RoE (%)	13.1	11.1	15.6	10.7	19.7	19.2	15.9	17.1	18.5
RoCE (%)	12.3	11.8	14.5	9.4	19.4	18.5	16.8	19.7	22.8
Debtor Days	65	66	66	96	89	75	82	74	72
Inventory Days	123	125	66	95	93	125	121	101	100
Creditor Days	99	92	63	106	71	76	76	71	69
Cash Balances	268	240	4,167	1,742	182	1,617	1,562	4,331	5,986
FCF	(334)	1,314	2,406	1,104	(474)	2,791	23	2,874	4,442
P/E (x)	250.7	155.1	93.7	161.0	70.5	59.0	66.1	52.0	40.6
EV/EBITDA (x)	141.4	80.0	62.5	91.0	45.2	40.9	43.5	33.8	26.9
P/BV (x)	32.8	17.2	14.6	17.2	13.9	11.3	9.8	8.3	6.9
Net Debt/Equity (x)	0.0	0.0	(0.2)	(0.1)	0.0	(0.1)	(0.1)	(0.2)	(0.2)

Source: Company, Way2Wealth

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Name of the analyst	Jayakanth Kasthuri
Analysts' ownership of any stock related to the information contained	
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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