INVasset Knowledge Bank

TIMKEN

Timken India Limited

6th DECEMBER, 2022

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India's Best Performing and Most Customer Centric PMS

Timken India (TIL) is a subsidiary of The Timken Company which is a US based leading manufacturer of taper roller bearings. Company is into manufacturing, distribution and sale of antifriction bearings, primarily tapered roller bearings, cylindrical roller bearing and other bearing components and accessories. They are also into power transmission product brands & having partnership with renewable energy companies to power some of the world's largest wind mills. Timken offers products to the defence, mining, aerospace, agriculture, rail, energy and automotive industries. It has state-of-the-art manufacturing plants in Jamshedpur in Jharkhand and Bharuch in Gujarat. Company's 75% revenue comes from domestic and 25% from export.

Investment rationale

Railways could be a key catalyst for growth: – Indian Railways (IR) is taking various initiatives to modernize & 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 a traditionally strong player with healthy market share in railway freight wagon bearings due to lower field failure rate.

Acquisition of ABC Bearing provided entry into new segments and synergies benefits were available: – Bearings can mainly be categorized into three segments, which includes differential, pinion and wheel-end segment. In the first two categories the company has high market share. However, in the last category, the company did not have any presence. The company did not enter into this segment, as this market was flooded with Chinese players. However, with the acquisition of ABC bearings in 2018, the company got an entry into wheel end bearings. Also big consumers require a performance guarantee which has driven out many unorganized players and cheap imports, which allowed TIL to grow in this segment.

New Manufacturing facility: - Company's new manufacturing facility will be set up at Bharuch, Gujarat to manufacture Spherical Roller Bearings (SRB) and Cylindrical Roller Bearings (CRB) and components thereof. The Company already has a manufacturing plant at Bharuch, Gujarat wherein primarily Tapered Roller Bearings (TRB) and its components are manufactured. At the same premises wherein the existing plant is situated, a new facility will be set up to manufacture SRB and CRB and components thereof which will enhance manufacturing capacity of the company.

Valuation & Outlook:

At CMP of Rs 3497, stock is trading at a TTM P/E multiple of 64.6 to its TTM EPS of Rs 54.1. Timken is likely to benefit over cyclical recovery in its key segments driven by large tender of 90,000 wagons by Indian Railways, with additional volumes for DFC corridor and high speed rail rolling stock, cyclical uptick in CV volumes and shift in production lines by parent company to India in order to enjoy low cost benefits. Operating margins are also likely to improve with reduction of cost pressure, better sales mix, improvement of utilization at ABC plant and continued price hike.

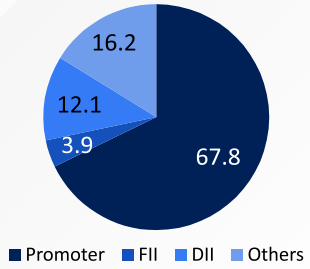
Company Update

Rating Matrix & Stock Info

CMP	Rs.3497
Rating	Buy
52 week H/L	Rs.3758/1713
Face value	Rs.10
Market Cap.	Rs.26672cr
BSE	522113
NSE	TIMKEN
Routers	TIMK.BO
Bloomberg	TMKN.IN
Sector	Bearings

Shareholding Pattern (%)

Particular	Sep 22
Promoters	67.8%
FII	3.9%
DII	12.1%
Others	16.2%



Financials in Cr

Particulars	FY19	FY20	FY21	FY22	TTM
Revenue	1664	1617	1411	2203	2572
EBIDTA	289	363	252	511	598
EBITDA Margin (%)	17.4%	22.4%	17.9%	23.2%	23.3%
PAT	149	246	143	327	407
NPM (%)	9.0%	15.2%	10.1%	14.8%	15.8%
ROE (%)	11.1%	15.6%	10.6%	19.7%	21.9%
EPS (Rs)	19.8	32.7	19.0	43.5	54.1
P/E (x)	176.6	106.9	184.1	80.4	64.6

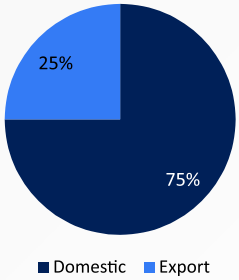
Stock Performance (%)	3m	6m	1 Yr
Timken	6.4%	46.5%	81.9%
Nifty50	5.5%	13.2%	8.2%

Company Overview

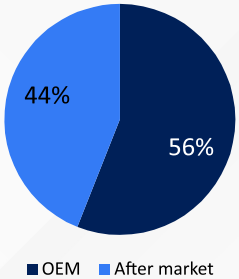
The Timken Company, a top producer of taper roller bearings with headquarters in the US, has a subsidiary called Timken India (TIL). The business manufactures, distributes, and sells antifriction bearings, notably cylindrical and tapered roller bearings as well as various bearing parts and accessories. They cooperate with renewable energy firms to power some of the biggest wind turbines in the world, and they are also into power transmission equipment brands. Timken provides goods for the automotive, mining, rail, aerospace, defense, and agricultural sectors. Modern manufacturing facilities are located in Jamshedpur, Jharkhand, and Bharuch, Gujarat. 25% of the company's revenue is from exports and 75% is from domestic sales.

TIL started manufacturing bearings in India nearly three decades ago and today has state-of-the-art manufacturing plants in Jamshedpur and Bharuch to serve local bearing market needs and beyond. Employing the highly collaborative technical selling model for which Timken is known for, the India team works directly with large OEM customers & with end users through a network of authorized distributors to make design and application recommendations to optimize performance and reliability. The Timken Technology Centre in Bangalore, is one of four such centres in the world, which provides customers access to engineering expertise & the latest technological advancements. It also offers a breadth of bearing repair and related mechanical power transmission services to its customers.

Region wise revenue breakup as on Q2FY23



After market Vs OEM revenue breakup



Strengths, Opportunities, Threats and Outlook of the company

Strengths	Opportunities	Threats	Outlook
Strong base of Tapered Roller Bearings.	Leveraging the capabilities of various Acquisitions	Continued contraction created in the Indian Economy due to the world-wide pandemic	Focus on localization and improvement in indigenous components sourcing in the on- coming years
Flag bearer of localization with dedicated focus on localized finished goods and indigenously sourced steel requirements.	Providing complete offering in mechanical drive train like belts, industrial chains, couplings, clutches, lubrication systems and housed units.	Unforeseen and sudden currency volatility and raw material prices & availability.	Value proposition of all Timken Associated Brands.
Technologies and R&D capabilities of Timken Group with significant design and process Innovation capability.	Product portfolio expansion with electrification of Indian Railways.	Any adverse modifications in the industrial environment or government policy making affecting our customers' demand.	Risk mitigation by educating customers on importance of using genuine high-quality bearings procured from authorized channel partner.
Custom application knowledge, and proactive service and engineering engagement with customer to provide energy and cost-effective solutions.	Channel foot print strengthening to penetrate General MRO market and address regional gaps with value added services.	Safety and operational risks posed by low quality counterfeit or spurious products.	

Comprehensive Investment rationale

Railways could be a key catalyst for growth. Indian Railways (IR) is launching new trains with upgraded coaches and installing new tracks as part of a number of projects to modernize and expand the carrying capacity of its network. Due to a lower field failure rate, Timken has always been a significant player in the freight sector with a substantial market share in railway freight wagon bearings. Announcement of 400 Vande Bharat trains, 90,000 wagons in next three years will help Timken to utilise the railways segment capacity is hovering around 55-60%. With rapid urbanization, the pressure is mounting on the public transport system from the people living in cities and towns across the country. Mass Rapid Transport System, MRTS has emerged as one of the most effective means of mobility for the citizens in tier-1 and tier-2 cities and Metro has been a major player. In metro coaches, bearings are required in single/double-stage gear boxes and wheels. TIL currently has ~60-70% share in metro bearings market.



Acquisition of ABC Bearing provided entry into new segments and synergies benefits were available: There are three basic categories into which bearings can be placed: differential, pinion, and wheel-end section. The firm has a significant market share in the first two categories. The business, however, had no presence in the final category. Due to the overwhelming number of Chinese players in this market, the corporation decided against entering this niche. However, the company has gained access to wheel end bearings after purchasing ABC Bearings in 2018. A "performance guarantee" is also required by large users, which has driven out many disorganized businesses and inexpensive imports and allowed TIL to expand in this market. In July 2017, TIL announced the acquisition of ABC Bearings (ABC) which was completed in Aug-18 post merger of the two companies. This merger enhanced TIL's capacity in tapered roller bearings (TRB) and marked its entry into a new segment: wheel end bearings. Timken is enjoying synergy benefits out of this merger especially in CV and off-highway segments. The capacity buffer at ABC's plant is now being used by Timken for manufacturing products for India/markets abroad. ABC's products were mainly consumed by CV, tractors and other.

New Manufacturing facility: The company will establish a new production plant in Bharuch, Gujarat to produce cylindrical and spherical roller bearings, as well as their individual parts. The company already operates a manufacturing facility in Bharuch, Gujarat, where Tapered Roller Bearings (or "TRB") and its parts are principally produced. A new facility will be built at the same location as the current plant to produce SRB, CRB, and their component parts, increasing the company's manufacturing capability. Commercial production is expected to be started in January 2025. The new facility will incur a cost of Rs.600 crore, which will be funded by the internal accruals. The company will target both domestic and International markets including the US and Europe.

Timken is working at maximum capacity utilisation in India. The company, at present, does not manufacture SRB and CRB in India. SRB and CRB are mainly imported from Timken group companies across the world and are sold in India. Since SRB and CRB have a good market in India, indigenization would help Timken to expand its EBITDA margins going ahead.



Strong Operating Margins : TIL's margins have expanded on its twin brand (ABC and Timken) strategy and with a proper cost structure. It has been reporting 20%+ OPM for the last several quarters except for the recent quarter where it reported 19%. The reason for posting 20%+ margin consistently is better cost structure for ABC branded products and TIL's attempts to push these products has been a key reason behind it. However, increase in RM cost and lag of pass through higher cost led to decline in margin to 19% this quarter, however we expect margin to improve with normalization of sales mix and continuous price hike, TIL's robust supply chain network has succeeded in reducing waste and optimizing working capital requirements.

Strong support from parent: 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 & 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 the company. Promoters keenly seek growth in India and are fully backing TIL.

Industry overview

The global bearing market is projected to register a growth of CAGR of 9.1% between 2014 and 2025 India contributes to ~3% of the overall global bearing market. Bearings are an integral component of all equipment, and the rising demand is a derivative of its diversified application in the global manufacturing sector, mainly the automotive and industrial sector.

Indian Automotive Industry.

The Automotive sector is a major sector for consumption of Bearings. The industry witnessed an overall slump in the market due to COVID restrictions and country wide pandemic induced lockdowns which impacted growth. However, with the gradual upliftment of restrictions and subsequent increase in production activities, the overall automotive bearing market is expected to witness growth. The Vocal for Local movement has encouraged auto-ancillary manufacturers to enhance their capabilities to decrease dependencies on imports.

The Commercial Vehicle sector will soon emerge as a sector leader with the government's scrap page policy which aims to phase out CVs older than 15 years & certified unfit for usage. With the government's focus on Make in India, bearing localization will be a key for growth for major manufacturers to reduce dependency on imports and have more control on overall supply chain.

The automotive industry, which is the largest consumer of bearing among all the other industries, witnessed a substantial reduction in vehicle production in FY21 primarily owing to the supply chain disruptions and restrictions on the movement of people but witnessed a steep growth in FY22 compared to FY21. Also, government's stern focus on implementing Electric Vehicles for Public Transport will aid a sustainable growth in automotive sector.

Tractor Market

India Agriculture Tractor Market is expected to grow significantly by volume during 2021-2028 with the increased adoption of precision farming. Amongst the same, 41-60 HP segment is betted to be the market leader and sustaining the position will help in increasing bearing demand.

Indian Industrial Industry

The key indicator to a country's economic development is the growth of its industrial sector. The Government intends to solidify its Make in India foundation to support manufacturing and increase the contribution to GDP.

The Government of India continues to provide higher emphasis to the manufacturing and mining sector in India. With the focused approach, the mining sector and manufacturing sector are growing at a good pace To sustain the high growth rate, the government has allocated a massive budgetary outlay of Rs 7.50 lakh crore for 2022-2023 (A whopping 35.4% increase from previous Rs 5.54 lakh crore). This is likely to have a multiplier effect on the core sector industries like steel and cement and with renewed focus on the affordable housing segment leading to an uptick in demand in infrastructure, realty, cement, steel and other commodity-focused businesses. Multiple nation-wide projects and initiatives such as development of industrial corridors, smart cities and Make in India, among others, are likely to aid performance of the industrial sector over the next few years. All these factors will help bearings demand to grow.

Railway Infrastructure

A host of measures are underway to strengthen India's railway infrastructure. This includes up gradation of railway station, building and expanding metro stations and replacing older coaches, which will also aid in improving bearing demand. A host of measures are underway to strengthen India's railway infrastructure. This includes the upgradation of railway stations, building and expanding metro stations and replacing older coaches. Union Budget 2022 had allocated Rs 1.40 lakh crore with the focus on manufacturing 400 new-generation Vande - Bharat Trains with better energy efficiency in the next three years. However, the Ministry of Railways has requested for 30% higher budgetary allocation for FY24 to support the launch of new trains(Vande Bharat trains) and the upgradation of existing railway infrastructure like laying up new railway tracks and enhancement of security.

Q2FY23 result analysis:

Rs cr	Q2FY23	Q2FY22	Q1FY23	YOY	Q0Q
Net Revenue	**695**	**558**	**699**	***24.6%***	***-0.5%***
EBITDA	**132**	**124**	**172**	***6.7%***	***-23%***
EBITDA margin %	*19.0%*	*22.2%*	*24.5%*	*(320) bps*	*(550) bps*
PAT	**98**	**79**	**118**	***23.2%***	***-17.4%***
PAT margin %	*14.1%*	*14.1%*	*16.9%*	*-*	*(280) bps*

Strong Revenue growth: Revenue from operation showed a good growth of 24.6%YoY and declined marginally by 0.5% QoQ to Rs. 695 cr. Healthy YoY growth in the top line was backed by expected recovery in commercial vehicle and tractor sales. Spends in railway also improved leading to sustain momentum in demand.

Margin pressure due to high RM cost: EBIDTA on YoY basis was up by 6.7% and declined by 23% QoQ to Rs 132 cr, However operating margin contracted by 320 bps YoY and 550 bps QoQ t0 19% Margin pressure was mainly due to high RM cost pressure, high cost of inventory and lag in pass through of price hike.

Net Profit Margin: Net profit margin stood flat YoY basis but declined by 280 bps QOQ to 14.1%. Poor operating performance on QoQ basis led to contraction in Net profit margin on QoQ basis.
Source : Company financials

Key Risk & Concerns

Volatility in metal prices : Metal components are one of the key raw materials for TIL's products, prices of which are dependent on global demand-supply. Inability of the company to pass on any adverse price changes due to the challenging and competitive environment could hurt its profitability.

Adverse changes in Industrial environment and government regulation : Any adverse changes in the industrial environment or government regulations could affect the end user industries of the company's products which in turn can have a negative on demand of company's products.

Competitive Industry: The industry in which the company operates is highly competitive and also availability of low quality counterfeit or spurious products is high. This can hurt large manufacturers like Timken India.

Railway Capex: Delay in railway modernization capex and/or sharp reversal in industrial demand cycle could dampen TIL's growth prospects.

Increasing penetration of EV's: Another long-term risk is increasing penetration of EVs. Number of bearings required in an EV would be lower as they won't need many bearings on engine and transmission fronts due to the fact that moving parts in EVs are much lesser than in ICE (Internal combustion engines) vehicles.

Peer Comparison

Particulars (Rs in cr)	Timken India Limited	SKF India Limited	Schaeffler India Limited
CMP (as on 06-12-2022)	3497	4767	2683
Revenue	2572	4139	6596
EBIDTA	598	681	1236
PAT	407	483	839
Margins			
EBITDA Margin%	23.2%	16.4%	18.7%
PAT Margin%	15.8%	11.7%	12.7%
Return Ratios			
ROE (%)	21.9%	23.0%	21.8%
ROCE (%)	27.1%	29.2%	26.4%
Leverage			
Debt-Equity (x)	0.0	0.0	0.0
Valuation			
EPS	54.1	97.7	53.6
P/E	64.6	48.7	50.1

*Financials are as on TTM basis

Technical Outlook



Timken India on a weekly timeframe is moving in a channel and is in a strong uptrend since the 2020 Covid 19 mayhem. Accumulation can be seen with rising volume in the past 6 weeks. On the **upper side** Timken looks ready for 4100 where we have the trendline resistance placed. Once that is taken out doors open to 4500, 5000 levels. On the **lower side** 3300 will act as a good support.

This strong trend is supported by Moving Averages as the **20 Days Moving Average > 50 Days Moving Average > 200 Days Moving Average.** This further indicates that improvement in the fundamentals is rewarded with the upward price movement which add rationale to the bullish momentum.

Income Statement

Y/E March (Rs Cr)	FY19	FY20	FY21	FY22	TTM
Revenues	**1664**	**1617**	**1411**	**2203**	**2572**
Total operating Expense	**1375**	**1254**	**1159**	**1692**	**1974**
EBITDA	**289**	**363**	**252**	**511**	**598**
Other Income	16	23	20	14	40
Depreciation	79	77	75	84	88
Interest	2	3	1	2	2
PBT	**224**	**306**	**195**	**438**	**547**
Tax	75	60	52	111	140
Rate (%)	*33%*	*20%*	*27%*	*25%*	*26%*
PAT	**149**	**246**	**143**	**327**	**407**

Source: Company Financials

Balance Sheet

Y/E March (Rs Cr)	FY19	FY20	FY21	FY22	H1FY23(Sep)
Sources of Funds					
Share Capital	75	75	75	75	75
Reserves & Surplus	1266	1501	1268	1582	1787
Net Worth	1341	1576	1343	1657	1862
Long term debt	23	24	35	32	22
Other Liabilities & Provisions	411	380	510	505	516
Capital Employed	**1775**	**1980**	**1888**	**2194**	**2400**
Application of Funds					
Fixed Asset	795	748	818	860	854
Capital WIP	64	157	97	50	45
Investment	176	13	0	99	193
Other Asset	**741**	**1063**	**973**	**1185**	**1307**
Total Assets	**1775**	**1980**	**1888**	**2194**	**2400**

Source: Company Financials

Cash Flow Statement

Y/E March (Rs Cr)	FY19	FY20	FY21	FY22	H1FY23 (Sep)
Cash Flow from operating Activity	249	348	189	33	160
Cash Flow from Investing Activity	-106	-104	-67	-75	-32
Cash Flow from Financing Activity	**-23**	**-13**	**-379**	**-15**	**-13**
Net Cash Flow	120	231	-257	-57	115

Key Ratios

Y/E March (Rs cr)	FY19	FY20	FY21	FY22	TTM
Per share (Rs)					
EPS	19.8	32.7	19.0	43.5	54.1
Valuation (x)					
P/E	176.6	106.9	184.1	80.4	64.6
Return Ratios (%)					
EBIDTA Margin	17.4%	22.4%	17.9%	23.2%	23.3%
PAT Margin	9.0%	15.2%	10.1%	14.8%	15.8%
ROE	11.1%	15.6%	10.6%	19.7%	21.9%
ROCE	22.0%	21.0%	13.0%	29.0%	27.1%
Leverage Ratio (%)					
Total D/E	0.0	0.0	0.0	0.0	0.0
Turnover Ratios					
Receivable Days	66	66	96	89	87
Inventory Days	126	124	171	171	107
Payable days	92	92	156	100	65

Source: Company Financials

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