



COMPANY NAME	: <b>Timken India</b>
BSE Code	: <b>522113</b>
Time Duration	: <b>1 year</b>
CMP	: <b>₹690.50 (as on 17 May, 2018)</b>
Target Price	: <b>₹911</b>

The Mid Bridge for the month of May is Timken India Limited. It is a subsidiary of The Timken Company, which is a leading manufacturer of taper roller bearings in the US. Timken India mostly manufactures tapered roller bearings and sources other bearings from other plants of the parent company.

By the end of September 2017, the company's 35% revenue was generated through exports. Of the domestic sales, 17% was generated from railways, 22% from mobiles, 8% from processing sector and 18% from the distribution segment. The demand from newer segment like Indian Navy for its products is also increasing. Its railway segment is getting stronger, and with the recent capacity expansion, we expect the railway segment would contribute majorly towards company's growth. Also, North America is contributing heavily to the company's exports. The capacity expansion and merger with ABC Bearings would trigger the topline and profitability of the company from FY19E onwards. Also, Timken's return ratios are strong with ROE ranging around ~18% on a TTM basis.

#### Acquisition of ABC Bearings

Recently, in April 2018, the National Company Law Tribunal (NCLT) has given approval for the amalgamation scheme of ABC Bearings with Timken India. ABC Bearings' shares are to be dissolved and merged into Timken's equity. The shareholders of ABC will receive five shares of Timken for every eight shares of ABC. ABC Bearings is a manufacturer of tapered, cylindrical and spherical roller bearings and slewing rings in India. This acquisition will bring out the operational synergies and will improve the market share of Timken India in commercial vehicles and off-highway segment. ABC Bearings is currently running at 40% capacity utilisation, while Timken plans to take the utilisation to 70% post-merger. This will help Timken to cater to the increasing demand for the products across the globe. We expect strong growth in the topline and profits would be reflected from FY19 onwards.

#### Capacity expansion at Jamshedpur plant

The company has recently carried out major expansion plans at its Jamshedpur plant. It has laid a plant and machinery for man-

ufacturing railway bearings considering the rising domestic and global demand. It has spent Rs 125 crore for this capacity expansion. We expect the company will deliver robust performance in the railway segment on the back of orders to be received due to increased budget allocation by the government. Also, it has spent Rs 64 crore towards expansion of tapered roller bearings 0-8 inches finishing capacity at the Jamshedpur plant. As these expansion plans have been executed, the revenue generation has started from June 2017 and we expect it to show growth from Q1FY19 onwards. In the past 10 years, the company has added assets worth around Rs 120 crore to its gross block in the form of new plant and machinery, which is adding to its growth story.

#### Foray into wheel end bearings segment

Generally, bearings are divided into three segments, namely, differential, pinion and wheel-end. Timken has market share ranging from 60-100% in the segments of differential and pinion. It has minimal presence in the wheel-end segment, the market for which is worth Rs 400 crore. ABC Bearings has considerable presence in this segment, thus post-merger, Timken will foray into the wheel-end segment and can achieve a significant market share. In the global market, China has a dominant presence in this segment.

#### Growth in exports

Of its total exports, the company has strong presence in North America. It mainly caters to the railway and trucks segment in North America. Over the year, the demand for class 8 trucks in North America has increased by ~54%. This has augured well for the company and its exports are getting stronger. With new capacity for railway bearings, the company has obtained international certifications which has enabled it to export to European markets. Gradually, over the years, the exports of the company have increased from 25% to 35% of its total revenue.

#### Risk Factor

Metal components and stainless steel are the major raw materi-  
*Continued On PG 2...*

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als used by the company for manufacturing bearings. The changes in the metal prices in the domestic and global markets may bring about pressures on the margin levels of the company.

### Financial Performance

Over FY15-17, the company's revenue has grown at a CAGR of 13.5%, whereas its PAT has grown at CAGR of 28.7%. Since FY15, it has maintained its EBITDA margin levels in the range of 14-15%. In FY17. Although the revenue growth was flattish, the PAT grew by 5.8% YoY. FY17 had been flat as the company was focusing on its expansion plans and expanding its existing capacity. The company is totally debt-free and has financed its capex through its internal accruals. It has a strong line of fixed assets, which is leading to higher depreciation costs on a YoY basis.

During 9MFY18, the revenue was up 7.7% YoY. However, the EBITDA and PAT de-grew marginally due to the low numbers delivered in Q3FY18. In Q3FY18, the company's operating profit was

down by 10.4% due to high employee costs and other operating and manufacturing expenses. The low EBITDA generation and high depreciation cost led to de-growth in PAT by 30.9% YoY.

### Valuation

The company is trading at TTM P/E of 49.7x with TTM EPS of Rs 13.83. For FY17, it has delivered ROE and ROCE of 16.9% and 23.9%, respectively. On a consolidated basis, post the merger with ABC Bearings, we expect the company's topline and net profit would grow in low double digits. The strong demand from North America and European markets is boosting the exports of the company. We see a potential upside of 32% with a target price of Rs 911 over a period of one year.

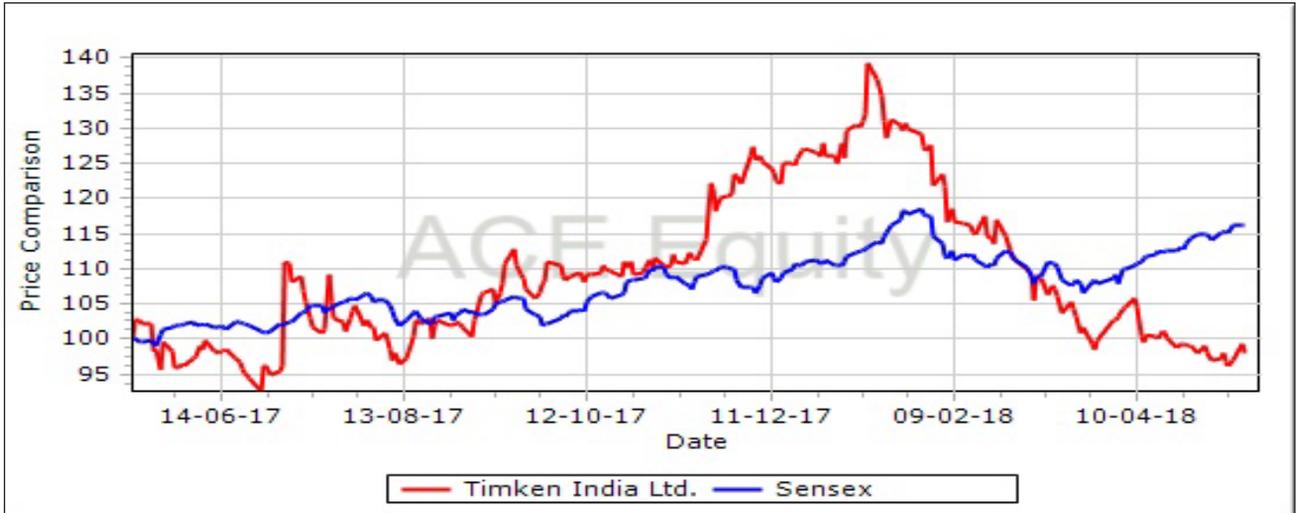
Due to the inconsistent order line from the railways, the earnings of the company might differ on a QoQ basis. Also, due to the volatility in market condition and prices, we urge investors to invest in four tranches.

### Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201403	201303
Net Sales	1056.18	1050.83	928.96	720.14	688.52
Total Income	1066.10	1056.65	934.91	731.32	694.12
Total Expenditure	898.19	888.60	795.26	648.93	615.17
PBIDT	167.90	168.04	139.65	82.39	78.94
PAT	97.20	91.81	80.69	44.75	44.24
Dividend %	10.00	10.00	30.00	65.00	20.00
Adj. EPS(Rs)	14.30	13.50	11.87	6.58	6.94

### Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201712	201709	Q on Q Var%	201612	Y on Y Var%
Net Sales	278.58	310.16	-10.18	244.49	13.94
Total Expenditure	257.86	256.39	0.57	220.71	16.83
PBIDT (Excl OI)	20.72	53.77	-61.47	23.78	-12.87
PAT	9.17	37.25	-75.38	13.28	-30.95
PBIDTM% (Excl OI)	7.44	17.34	-57.09	9.73	-23.54
PBIDTM%	8.36	22.11	-62.19	10.63	-21.35
PATM%	3.29	12.01	-72.61	5.43	-39.41
Adj. EPS(Rs)	1.35	5.48	-75.36	1.95	-30.77



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