

Timken India Ltd (TIL)

- Business with strong traction

Recommendation : Buy
CMP : Rs 681
Sector : Bearings

NSE Code : TIMKEN
BSE Code : 522113

Financial break up

Market Cap (Rs. Cr) : 5086
EPS (FY19) : 19.76
PE : 34.46
Face Value : Rs.10/-

Share Holding Pattern:

Promoters : 67.82
Others : 32.18

Background: TIL is the Indian subsidiary of the US based Timken Group, which is a global leader in tapered roller bearings. TIL is the fourth largest company in the Indian bearing market with ~8% market share. It commands ~40% share in tapered roller bearings which form ~62% of the topline in India. It is well diversified across segments catering mainly to mobile which constitutes 40-45% of revenues excluding exports and process industries which contribute 25% of revenues. In the mobile segment, TIL caters to OEMs and end users in industries like CVs and off highways and Railways. In the process industries, they cater to heavy industries, industrial processes, gear devices, energy and industry distribution.

Strong Parentage

TIL is a leading global supplier of bearings, power transmission and related services. Earlier, a key player in steel, aerospace, bearings and power transmission, it spun off its steel business into a separate company and restructured its aerospace business in 2014 to focus on the bearings & power transmission business. With more than a century of experience, TIL is spread across 28 countries with 62 manufacturing facilities.

TIL is the world leader and pioneer in tapered roller bearing. It is globally the sixth largest bearing manufacturing company and commands a global market share of ~19% in the tapered roller bearing market (~\$16 billion market).

Railways - Growth Driver

TIL is the leading supplier of railway bearings with a presence in specialised segments like locomotive, freight, fast trains & metro. The non-freight segment (passenger & locomotive) bearings form ~40% of Railways demand while freight segment demand forms ~60% of Railways bearings. The passenger segment can be further subdivided into normal passenger train, super fast trains (Rajdhani, Shatabdi, etc.) and Metro train. TIL is present in the specialised segments i.e., locomotive (still a niche segment in India), freight (commands ~50% share), fast trains and metro.

Strong Technology support

TIL has been a pioneer in bearing innovation and has come out with new products ranging from the introduction of tapered roller bearings to AP bearings used in railways. The company has four captive technology centres including the one at Bengaluru that develops and delivers innovative friction management and mechanical power transmission solutions & technical services. Timken India uses application engineering, manufacturing advancement and material/ metallurgical support from the Bengaluru technology centre. This helps in manufacturing processes including, raw material testing, analytical research, reverse engineering and product validation & reliability studies.

Outlook & Valuation

We recommend a **Buy** on TIL for long term investors. Given the Strong Parentage, Strong Technological support, Growing railway revenue stream, and Expanding product portfolio are key positives for the stock. At the CMP of INR 681, the stock trades at 34.46x EPS of FY19. The key risks to the business include increase in competition from peer companies, Slowdown in GDP growth, Currency Fluctuations and Steep increase in raw material cost are the key risks of the company.

Investment Arguments

Company Profile: TIL is the Indian subsidiary of the US based Timken Group, which is a global leader in tapered roller bearings. TIL is the fourth largest company in the Indian bearing market with ~8% market share. It commands ~40% share in tapered roller bearings which form ~62% of the topline in India. It is well diversified across segments catering mainly to mobile which constitutes 40-45% of revenues excluding exports and process industries which contribute 25% of revenues. In the mobile segment, TIL caters to OEMs and end users in industries like CVs and off highways and Railways. In the process industries, they cater to heavy industries, industrial processes, gear devices, energy and industry distribution. Exports are made to TIL's parent company mainly tapered roller bearings. In terms of clientele base, the major clients of TIL are Bhel, Titagarh Wagons, Tata Steel, Spicer India, JSW Ispat Steel, Indian Railways, Escorts Ltd, HAL, etc.

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TIL is the world leader and pioneer in tapered roller bearing. It is globally the sixth largest bearing manufacturing company and commands a global market share of ~19% in the tapered roller bearing market (~\$16 billion market). In the past decade, the company has changed its product offerings with increased importance to non bearing products and services.

Post the spin-off of the steel business and restructuring of the aerospace and defence segment, TIL has segmented its business into two areas viz.

Mobile industries: This segment consists of five business units that offer and deliver a full range of products, solutions and services to both OEMs and aftermarket customers. The business units are: heavy truck, light vehicle, off-highway, rail and aerospace/defence.

Process industries: This segment consists of six business units that offer and deliver a full range of products, solutions and services to both OEMs as well as aftermarket customers. The business units are: agriculture, energy, metals, mining, construction and industrial services.

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Railways

TIL is the leading supplier of railway bearings with a presence in specialised segments like locomotive, freight, fast trains & metro. The overall Railway bearings demand is pegged at ~Rs 1200-1300 crore. Segment wise, it can be classified into passenger, locomotive & freight.

The non-freight segment (passenger & locomotive) bearings form ~40% of Railways demand while freight segment demand forms ~60% of Railways bearings. The passenger segment can be further subdivided into normal passenger train, super fast trains (Rajdhani, Shatabdi, etc.) and Metro train. TIL is present in the specialised segments i.e., locomotive (still a niche segment in India), freight (commands ~50% share), fast trains and metro (another niche segment from an Indian perspective).

As per the management, 60% of the existing wagons need to be replaced. Therefore, larger opportunities in this segment would flow through once new wagon ordering gains momentum.

Metro & Fast trains - Gaining Traction

Timken is also present in specialised segments such as fast trains and metro railways, which are niche currently from the Indian perspective.

While currently some metro projects are operational, there is a healthy pipeline of under construction projects that are expected to become operational in the next three or four years. Furthermore, various cities across India have also proposed and approved the construction of metro projects that are expected to be constructed in the next five years. We believe that as these projects become operational, they would provide a huge opportunity for TIL's bearing demand for metro coaches.

TIL is the only company in India that produces these semi high speed passenger train bearings and is a market leader with Indian railways in that application. Currently, the company provides bearings for Shatabdi and Rajdhani trains. According to Indian Railways speeds in nine railway corridors is being increased to 160-200 km per hour from 110- 130 km per hour now. This would lead to incremental demand for railway coaches wherein TIL has a leadership position in bearings.

Services & repairs business

TIL's services business includes bearing reconditioning and repair, condition monitoring and reliability services for industrial and railway customers that involves inspection of bearings and, if required, replacing non-usable components. The company also provides maintenance and refurbishment services to large industrial equipment used in the metal and energy sectors. Apart from that, it also provides on-site services of rolling mill maintenance of steel plants and gear box maintenance services.



Bearing repair and maintenance programs for industrial and rail customers



Repair and assembly of gear box



Rebuild & Machining: Chock / Bearing Housing
Rebuild Pulverizer Journal Rebuild and Assembly



Condition monitoring services

Inhouse Competence

BEL has developed in-house competencies for every stage in a property development life cycle, commencing from property development inception, which involves identification of parcels of land and the conceptualization of the development, to execution, which involves planning, designing and overseeing the construction activities, marketing and sales culminating in property delivery, which involves interfacing their marketing and sales and customer service team with customers. BEL's team comprises of 1,928 permanent employees, which includes 442 employees in engineering, architecture and design. In addition to their in-house competencies, the company also leverages the expertise of external professionals with specializations to match their wide range of operations, such as architects, interior designers, landscapers, engineers, building services consultants and communication consultants for the development and management of their properties. The company also provides facility management services through our Associate, Tandem Allied Services which provides a comprehensive range of value added services in facility management, realty services, financial services and interior solutions.

Rolling shop maintenance

'MILLTEC' services business entails on-site maintenance and servicing of steel mills. TIL undertakes assembling, disassembling, maintenance, repair, overhauling and other related activities in steel rolling mills. The company is currently operating out of the facilities of Tata Steel, JSW Steel and Essar Steel for maintaining its roll bearings and steel mill rolls.

As per the management, right now this service is being undertaken by most steel manufacturers themselves. However, going ahead, in the long run, the scope of such services by third parties would improve as steel companies move towards focusing on core activities.

Gear box repair business

In order to expand its services portfolio, TIL has established a greenfield operation centre in Raipur, Chhattisgarh for repair of gearboxes. The facility is backed by the technical know-how of Philadelphia Gears which was acquired by parent in 2011. It is a dedicated service centre with advanced inspection techniques and machine tools to serve the heavy process industry segment covering metals (steel & aluminium), cement, power generation and mining industries.

TIL has a vision to set up six such facilities at various industrial zones in the long run with an aggregate sales opportunity of ~Rs. 800 crore.

Acquisition of ABC Bearings

TIL a leader in the niche segments of engineered bearings and mechanical power transmission products, has acquired ABC Bearings Ltd in 2018 through a court-approved amalgamation process. ABC Bearings (ABC) is a manufacturer of tapered, cylindrical and spherical roller bearings and slewing rings. ABC operates primarily out of manufacturing facilities in Bharuch, Gujarat and Dehradun, Uttarakhand.

Entry into wheel end bearings

Bearings can broadly be categorised into three segments, viz. differential, pinion and wheel-end segment. In the first two categories, Timken has high market share of 60-100%. However, in the last category, the company does not have any presence. The market size of this segment is ~Rs.500 crore. The company did not make inroads into this segment, as it was flooded with Chinese players. However, post FY17, the company witnessed a significant improvement in this segment. This was primarily due to an increase in 'performance guarantee' requirement by the major consumer from this segment. ABC has a significant presence in this segment, which has enabled TIL foray in this segment.

Key-Risks

Changing demand scenario: Adverse changes in the industrial environment due to economic slowdown or Government policy making could lead to reduction in demand of customers' finished products, which in turn could have a direct impact on demand for TIL's products. Timken's performance largely depends on the demand & growth of manufacturing and core infrastructure sectors in India.

Raw material price volatility: 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 challenging and competitive environment could hurt its profitability.

Foreign Exchange Fluctuations: Since exports account for a significant chunk of revenues, appreciation in exchange rate of rupee could impact its financials.

Financials

Standalone P&L

Standalone Profit & Loss account (Rs.Cr)	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Income					
Sales Turnover	967.11	1,109.66	1,117.22	1,251.77	1,664.43
Excise Duty	38.14	59.93	61.04	17.76	0
Net Sales	928.97	1,049.73	1,056.18	1,234.01	1,664.43
Other Income	5.94	2.87	8.78	21.53	16.57
Stock Adjustments	16.36	21.71	-6.86	53.18	50.88
Total Income	951.27	1,074.31	1,058.10	1,308.72	1,731.88
Expenditure					
Raw Materials	606.81	691.21	655.69	842.24	1,052.64
Power & Fuel Cost	10.65	17.09	18.52	27.01	34.68
Employee Cost	66.79	68.18	73.72	90.5	122.69
Miscellaneous Expenses	127.36	132.74	143.41	164.18	216.67
Total Expenses	811.61	909.22	891.34	1,123.93	1,426.68
Operating Profit	133.72	162.22	157.98	163.26	288.63
PBDIT	139.66	165.09	166.76	184.79	305.2
Interest	0.57	0.92	0.84	1.22	1.76
PBDT	139.09	164.17	165.92	183.57	303.44
Depreciation	16.76	22.47	28.89	43.14	79.33
Profit Before Tax	122.33	141.7	137.03	140.43	224.11
PBT (Post Extra-ord Items)	122.33	141.7	137.03	140.43	224.11
Tax	41.62	49.83	40.98	47.76	75.18
Reported Net Profit	80.69	91.81	97.2	91.99	148.64
Earning Per Share (Rs)	11.87	13.5	14.29	13.53	19.76

Standalone Balance Sheet (Rs. Cr)

Standalone Balance Sheet	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Sources Of Funds					
Total Share Capital	67.99	67.99	67.99	67.99	75.21
Equity Share Capital	67.99	67.99	67.99	67.99	75.21
Reserves	370.46	462.04	549.88	634.34	1,265.54
Networth	438.45	530.03	617.87	702.33	1,340.75
Secured Loans	0	0	0	0	23.08
Unsecured Loans	2.52	4.31	8.4	15.94	0
Total Debt	2.52	4.31	8.4	15.94	23.08
Total Liabilities	440.97	534.34	626.27	718.27	1,363.83
Application Of Funds					
Gross Block	304.95	159.14	281.1	341.09	959.45
Less: Accum. Depreciation	198.1	21.97	50.48	89.99	164.86
Net Block	106.85	137.17	230.62	251.1	794.59
Capital Work in Progress	26.81	21.06	58.13	53.83	63.51
Investments	16.68	38.39	90.58	55.2	175.75
Inventories	167.46	185.94	188.03	245.45	317.08
Sundry Debtors	174.22	192.95	192.07	223.18	301.89
Cash and Bank Balance	23.72	33.38	18.35	26.78	24
Total Current Assets	365.4	412.27	398.45	495.41	642.97
Loans and Advances	69.65	93.44	99.46	123.34	98.91
Total CA, Loans & Advances	435.05	505.71	497.91	618.75	741.88
Current Liabilities	122.38	144.1	221.47	244.53	356.21
Provisions	22.05	23.88	29.5	16.08	55.71
Total CL & Provisions	144.43	167.98	250.97	260.61	411.92
Net Current Assets	290.62	337.73	246.94	358.14	329.96
Total Assets	440.96	534.35	626.27	718.27	1,363.81

Standalone Cash Flow Statement

Cash Flow Statement (Rs.Cr)	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Net Profit Before Tax	122.31	141.64	138.18	139.75	148.64
Net Cash From Operating Activities	44.66	101.45	164.07	38.99	248.78
Net Cash (used in)/from Investing Activities	-25.6	-66.89	-125.09	-63.84	-109.74
Net Cash (used in)/from Financing Activities	-25.7	1.33	-4.71	-1.9	-23.3
Net (decrease)/increase In Cash and Cash Equivalents	-6.65	35.89	33.82	-27.04	117.97
Opening Cash & Cash Equivalents	45.71	39.06	71.39	105.21	79.67
Closing Cash & Cash Equivalents	39.06	74.96	105.21	78.17	197.63

Standalone Key Financial ratio's

Key Financial Ratios	Mar '15	Mar '16	Mar '17	Mar '18	Mar '19
Operating Profit Per Share (Rs)	19.66	23.86	23.23	24.01	38.37
Operating Profit Margin(%)	14.39	15.45	14.95	13.23	17.34
Profit Before Interest And Tax Margin(%)	12.5	13.23	12.1	9.57	12.45
Gross Profit Margin(%)	12.58	13.31	12.22	9.73	12.57
Cash Profit Margin(%)	10.42	11.11	11.82	10.76	13.56
Net Profit Margin(%)	8.68	8.74	9.2	7.45	8.93
Return On Capital Employed(%)	27.86	27.24	22.19	19.62	16.54
Return On Net Worth(%)	18.4	17.32	15.73	13.09	11.08
Return on Assets Including Revaluations	64.48	77.95	90.86	103.28	178.25
Current Ratio	2.96	2.94	1.92	2.24	1.62
Quick Ratio	1.83	1.88	1.22	1.43	1.03
Debt Equity Ratio	0.01	0.01	0.01	0.02	0.02
Interest Cover	213.86	158.4	166.09	115.92	128.24
Total Debt to Owners Fund	0.01	0.01	0.01	0.02	0.02
Inventory Turnover Ratio	5.78	5.97	5.94	5.1	5.25
Debtors Turnover Ratio	5.76	5.72	5.49	5.94	6.34
Fixed Assets Turnover Ratio	3.05	6.61	3.76	3.62	2.76

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