

SKF India Limited

COMPANY SNAPSHOT					
CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs1793	Rs1942	Rs2620	46%	BUY	Rs89.2

About the Company:

SKF India Limited (SKF) was incorporated in 1961, as an associated bearing company of Swedish SKF Group. It has a wide range of product portfolio consisting of bearings, linear motion products, seals, mechatronics, lubrication systems, special steel, high-tech industrial components and services like technical support, maintenance and reliability services, engineering consulting, etc. These products find applications in automotive, industrial, electrical, service and textile machinery, etc. SKF is the market leader, with 40% share in ball bearings and overall 27% market share in the Indian Bearing market. SKF offers the unique service of Rotating Equipment Performance (REP) based solution, thus achieving its innovation based growth led by customer centricity, coming a long way from being only a pioneer bearing based company. The third factory in Haridwar manufactures DGBB for two wheelers only.

Results Declared:

- The total revenue for the quarter grew by 6.4% to Rs7,484mn as compared to Rs7,036mn in the same quarter last year.
- The EBITDA margin for the quarter under review stood at 14.8% in comparison to 15.1% in the corresponding quarter.
- The net profit grew by 14.9% to Rs822mn as against Rs716mn in the comparative quarter.
- The EPS stands at Rs16.3.
- For the full year, the company has clocked revenue growth of 8.2% and ended the year with net profit growth of 13.5%.
- The Board has recommended a dividend of Rs12/- per share on the equity share of Rs10 each.

Conference Call Highlights:

- The Auto segment grew by 5.6% y-o-y while the Industrial segment clocked growth of 13.5% y-o-y.
- The Railway segment grew by 25% and wind segment clocked growth of 45%. The other segments of business clocked higher single digit growth during the quarter.
- In FY19, manufacturing goods which cater to the Auto space has decreased (58% to 56%) while the traded goods catering to the industrial segment has increased (42% to 44%), clearly indicating the tilt towards industrial segment of business.
- HUB3 production started from April 2019 although not in full capacity due to slowdown in automotive sector and has not been a contributing factor to the market share yet.
- Other income includes forex gains of Rs67mn this quarter.
- In the industrial segment, Railways (especially freight) is a bright spot. Energy, heavy industry will continue to grow going forward as well.
- As far as utilisation level is concerned, company has 15% spare capacity due to less demand from auto industry.
- Service and performance contracts are growing at 7%.
- Price improvement has been seen in this quarter as compared to last quarter.
- For FY20, Rs1000-1500mn capex is in progress where one line has already been installed, but seeing the market conditions, further installations will be slower.
- As industrial segment is gaining momentum, localisation is in progress instead of importing from sister concerns.

Financials:

Result Update (Q4&FY2019)								
Q4&FY19 Result (Rs mn)	Mar-19	Mar-18	y-o-y	Dec-18	q-o-q	FY19	FY18	y-o-y
Total Revenue	7484	7036	6.4%	7677	(2.5%)	30345	28048	8.2%
EBITDA	1110	1061	4.6%	1216	(8.8%)	4859	4348	11.7%
Other Income	292	188	55.0%	338	(13.8%)	924	714	29.5%
Interest	18	17	7.1%	21	(12.1%)	77	50	54.1%
Depreciation	116	115	0.3%	115	0.6%	464	457	1.4%
Tax	446	402	11.0%	535	(16.6%)	1884	1596	18.1%
Net Profit	822	716	14.9%	885	(7.1%)	3358	2959	13.5%

Outlook and Recommendations:

The company delivered good set of numbers even after slow down being witnessed in auto industry, benefitting from its diversified business model. For the year, the results are below expectations at the bottomline. Management's focus on industrial segment and the gradual shift from auto to industrial, where growth prospects are anticipated to be higher; we feel the company will continue to gain market share, especially through the Railways growth potential. Thus, we maintain our BUY stance for the company with the target price of Rs2620 with a 12 month horizon.

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