

RESULT UPDATE

MID CAP

Share Data

| | |
|----------------------------------|---------|
| Reuters code | SKFB.BO |
| Bloomberg code | SKF IN |
| Market cap. (US\$ mn) | 770 |
| 6M avg. daily turnover (US\$ mn) | 0.5 |
| Issued shares (mn) | 53 |
| Target price (Rs) | 689 |

| Performance (%) | 1M | 3M | 12M |
|-----------------|-----|----|-----|
| Absolute | 2 | 10 | 31 |
| Relative | (2) | 13 | 26 |

Valuation ratios

| Yr to 31 Dec | CY11E | CY12E |
|--------------------|-------|-------|
| EPS (Rs) | 38.7 | 43 |
| +/- (%) | 15.4 | 11.1 |
| PER (x) | 16.8 | 15.1 |
| PBV (x) | 3.4 | 2.9 |
| Dividend/Yield (%) | 1.2 | 1.2 |
| EV/Sales (x) | 1.2 | 1.0 |
| EV/EBITDA (x) | 9.6 | 8.3 |

Major shareholders (%)

| | |
|-----------------|----|
| Promoters | 54 |
| FII's | 12 |
| MF's | 10 |
| BFSI's | 5 |
| Public & Others | 19 |

Financial highlights

| (Rs mn) | 2QCY10 | 2QCY11 | YoY (%) | 1HCY10 | 1HCY11 | YoY (%) | CY10 | YoY (%) | CY11E | YoY (%) | CY12E | YoY (%) |
|--------------------|--------|--------|---------|--------|--------|---------|--------|---------|--------|---------|--------|---------|
| Net sales | 5,049 | 5,957 | 18.0 | 10,054 | 12,238 | 21.7 | 20,684 | 31.7 | 24,349 | 17.7 | 27,752 | 14.0 |
| EBITDA | 727 | 718 | (1.3) | 1,386 | 1,586 | 14.4 | 2,675 | 55.9 | 3,101 | 15.9 | 3,503 | 13.0 |
| EBITDA margins (%) | 14.4 | 12.1 | - | 13.8 | 13.0 | - | 12.9 | - | 12.7 | - | 12.6 | - |
| Other Income | 39 | 53 | 38.7 | 76 | 105 | 38.1 | 327 | 81.5 | 340 | 4.0 | 310 | (8.8) |
| Interest | (44) | (82) | 86.5 | (84) | (164) | 96.2 | 8 | 0.0 | 5 | (34.2) | 5 | 0.0 |
| Depreciation | 85 | 96 | 13.8 | 160 | 188 | 17.7 | 333 | 15.0 | 387 | 16.0 | 420 | 8.7 |
| PBT | 725 | 757 | 4.4 | 1,386 | 1,667 | 20.3 | 2,661 | 66.4 | 3,049 | 14.6 | 3,388 | 11.1 |
| Tax | 241 | 242 | 0.7 | 465 | 542 | 16.5 | 891 | 82.3 | 1,006 | 13.0 | 1,118 | 11.1 |
| Tax (%) | 33.2 | 32.0 | - | 33.6 | 32.5 | - | 33.5 | - | 33.0 | - | 33.0 | - |
| PAT | 485 | 515 | 6.3 | 920 | 1,124 | 22.2 | 1,770 | 87.8 | 2,043 | 15.4 | 2,270 | 11.1 |
| Adjusted PAT | 485 | 515 | 6.3 | 920 | 1,124 | 22.2 | 1,770 | 59.4 | 2,043 | 15.4 | 2,270 | 11.1 |
| NPM (%) | 9.6 | 8.6 | - | 9.2 | 9.2 | - | 8.6 | - | 8.4 | - | 8.2 | - |
| EPS (Rs) | 9.2 | 9.8 | - | 17.5 | 21.3 | - | 33.6 | - | 38.7 | - | 43.0 | - |

SKF India

Maintain Outperformer

Price: Rs 650

BSE Index: 18,654

19 July 2011

2QCY11 Result – Margin disappoints

SKF India's (SKF) results were below our expectations on both the revenue and earnings front. The revenue has grown by 18.0% YoY to Rs 5.9 bn.

The company's EBITDA margin has declined by 230 bps YoY due to increase in raw material cost by 120 bps and increase in other costs by 180 bps. Employee expenses, as percentage of net sales, have improved by 70 bps YoY which helped to limit the fall in EBITDA margin.

Net profit for the company stood at Rs 515 mn with margins lowered by 100 bps YoY, from 9.6 % to 8.6%. Enhanced contribution from other income and higher interest income, capped the fall in margin.

We have realigned our estimates for CY11E and CY12E, based on the increased interest income due to increase in prevailing interest rates. At the current market price of Rs 650, the stock is trading at 16.8x CY11E and 15.1x CY12E revised earnings of Rs 38.7 and Rs 43.0, respectively. Considering the leadership position of SKF, Zero debt status and stable performance by the company, we maintain our Outperformer rating on the stock with a revised target price of Rs 689 (based on 16x CY12E earnings).

Highlights

- Net sales increased by 18.0% YoY to Rs 5.9 bn, in line with the auto industry production growth.
- Raw material cost (including traded goods) increased by 120 bps YoY due to Steel price increase and Euro appreciation.
- Operating profit was Rs 718 mn, with margin decline of 230 bps YoY, due to increase in cost of raw material and other costs.

- Higher interest income and enhanced contribution from other income capped the fall in net margins to decline only by 100 bps YoY to 8.6%.

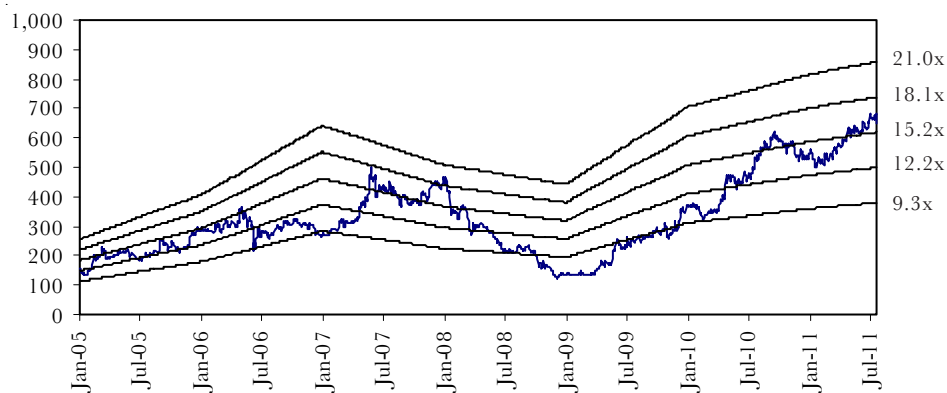
Outlook

SKF India, the largest bearing manufacturer in the country caters to both industrial and automotive bearing segment. The company has witnessed improvement in revenue in line with growth in the automotive sector and industrial sector and we expect this trend to continue. The management has indicated that the company plans to invest Rs 1.6 bn in CY11 to increase capacities in all its three plants at Pune, Bangalore and Haridwar. The capital expenditure shall increase capacities by 25% to 30% across all its units.

The new Haridwar plant, which primarily caters to two-wheeler is currently operating at 50% to 55% capacity utilisation and ramping up is under progress. Pune and Bangalore plants are operating close to peak capacity and capacity increase through de-bottlenecking in both the plants is under progress.

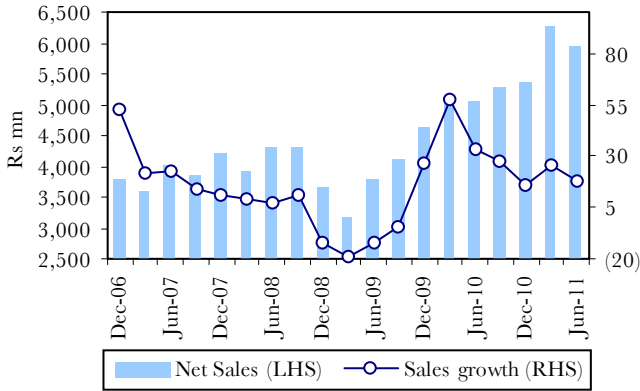
Going forward, margins will continue to be under pressure due to increase in steel prices, as the company will be getting price increases with time lag. We expect better volumes for traded goods, as the parent company has setup a plant in Ahmedabad to manufacture large size bearings which were being previously imported.

PER Band

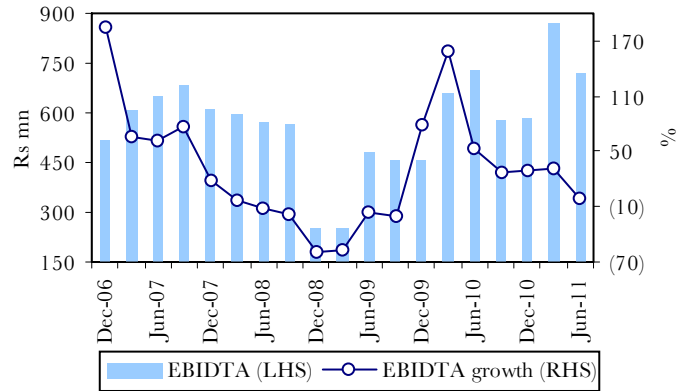


Source: B&K Research

Sales trend

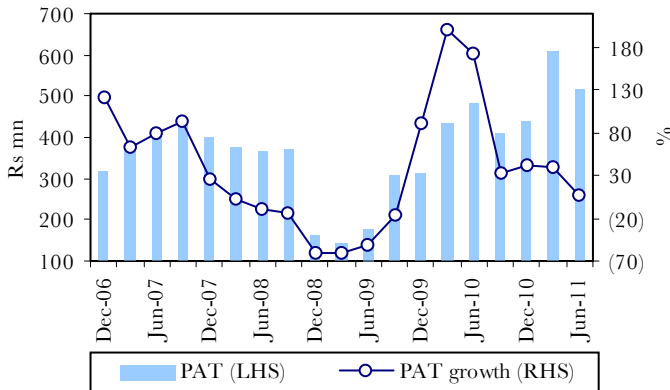


EBITDA trend

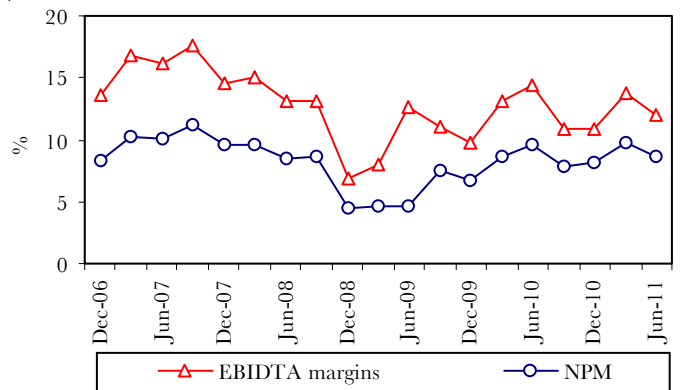


Source: Company, B&K Research

PAT trend



Margins trend



Source: Company, B&K Research

Income Statement

| Yr end 31 Dec (Rs mn) | CY09 | CY10 | CY11E | CY12E |
|------------------------------|---------------|---------------|---------------|---------------|
| Net sales | 15,709 | 20,684 | 24,349 | 27,752 |
| <i>Growth (%)</i> | <i>(3.0)</i> | <i>31.7</i> | <i>17.7</i> | <i>14.0</i> |
| Operating expenses | (14,076) | (18,137) | (21,409) | (24,392) |
| Operating profit | 1,633 | 2,547 | 2,940 | 3,359 |
| Other operating income | 83 | 128 | 161 | 144 |
| EBITDA | 1,716 | 2,675 | 3,101 | 3,503 |
| <i>Growth (%)</i> | <i>(17.5)</i> | <i>55.9</i> | <i>15.9</i> | <i>13.0</i> |
| Depreciation | (290) | (333) | (387) | (420) |
| Other income | 180 | 327 | 340 | 310 |
| EBIT | 1,606 | 2,668 | 3,054 | 3,393 |
| Interest paid | (8) | (8) | (5) | (5) |
| Pre-tax profit | 1,599 | 2,661 | 3,049 | 3,388 |
| (before non-recurring items) | | | | |
| Non-recurring items | (168) | – | – | – |
| Pre-tax profit | 1,431 | 2,661 | 3,049 | 3,388 |
| (after non-recurring items) | | | | |
| Tax (current + deferred) | (489) | (891) | (1,006) | (1,118) |
| Net profit | 943 | 1,770 | 2,043 | 2,270 |
| Adjusted net profit | 1,110 | 1,770 | 2,043 | 2,270 |
| <i>Growth (%)</i> | <i>(13.0)</i> | <i>59.4</i> | <i>15.4</i> | <i>11.1</i> |
| Net income | 943 | 1,770 | 2,043 | 2,270 |

Balance Sheet

| Yr end 31 Dec (Rs mn) | CY09 | CY10 | CY11E | CY12E |
|---------------------------------------|---------------|---------------|---------------|---------------|
| Current assets | 8,236 | 9,586 | 10,885 | 12,565 |
| Net fixed assets | 2,568 | 3,193 | 3,917 | 4,357 |
| Other non-current assets | 122 | 0 | 0 | 0 |
| Total assets | 10,925 | 12,779 | 14,802 | 16,921 |
| Current liabilities | 3,664 | 4,262 | 4,723 | 5,057 |
| Total debt | 1 | 0 | 2 | 2 |
| Other non-current liabilities | 114 | 30 | 40 | 50 |
| Total liabilities | 3,778 | 4,292 | 4,765 | 5,109 |
| Share capital | 527 | 527 | 527 | 527 |
| Reserves & surplus | 6,620 | 7,960 | 9,509 | 11,285 |
| Shareholders' funds | 7,147 | 8,487 | 10,036 | 11,812 |
| Total equity & liabilities | 10,925 | 12,779 | 14,802 | 16,921 |

Cash Flow Statement

| Yr end 31 Dec (Rs mn) | CY09 | CY10 | CY11E | CY12E |
|---------------------------------|--------------|--------------|----------------|--------------|
| Pre-tax profit | 1,431 | 2,661 | 3,049 | 3,388 |
| Depreciation | 120 | 154 | 387 | 420 |
| Chg in working capital | 521 | (1,709) | 1,378 | (455) |
| Total tax paid | (520) | (852) | (996) | (1,108) |
| Cash flow from oper. (a) | 1,553 | 253 | 3,817 | 2,245 |
| Capital expenditure | (302) | (779) | (1,111) | (860) |
| Cash flow from inv. (b) | (302) | (779) | (1,111) | (860) |
| Free cash flow (a+b) | 1,252 | (526) | 2,706 | 1,385 |
| Debt raised/(repaid) | (1) | (1) | 2 | 0 |
| Dividend (incl. tax) | (278) | (247) | (430) | (494) |
| Cash flow from fin. (c) | (278) | (248) | (429) | (494) |
| Net chg in cash (a+b+c) | 973 | (773) | 2,278 | 892 |

Key Ratios

| Yr end 31 Dec (%) | CY09 | CY10 | CY11E | CY12E |
|-------------------|--------|--------|--------|--------|
| EPS (Rs) | 21.1 | 33.6 | 38.7 | 43.0 |
| EPS growth | (13.0) | 59.4 | 15.4 | 11.1 |
| EBITDA margin | 10.9 | 12.9 | 12.7 | 12.6 |
| EBIT margin | 10.2 | 12.9 | 12.5 | 12.2 |
| RoCE | 23.2 | 33.8 | 32.8 | 30.9 |
| Net debt/Equity | (40.5) | (25.0) | (43.8) | (44.8) |

Valuations

| Yr end 31 Dec (x) | CY09 | CY10 | CY11E | CY12E |
|-------------------|------|------|-------|-------|
| PER | 30.9 | 19.4 | 16.8 | 15.1 |
| PCE | 24.5 | 16.3 | 14.1 | 12.7 |
| Price/Book | 4.8 | 4.0 | 3.4 | 2.9 |
| Yield (%) | 0.6 | 1.1 | 1.2 | 1.2 |
| EV/Net sales | 2.0 | 1.6 | 1.2 | 1.0 |
| EV/EBITDA | 18.3 | 12.0 | 9.6 | 8.3 |

Du Pont Analysis – ROE

| Yr end 31 Dec (x) | CY09 | CY10 | CY11E | CY12E |
|----------------------|------|------|-------|-------|
| Net margin (%) | 7.1 | 8.6 | 8.4 | 8.2 |
| Asset turnover | 1.5 | 1.7 | 1.8 | 1.7 |
| Leverage factor | 1.5 | 1.5 | 1.5 | 1.5 |
| Return on equity (%) | 16.3 | 22.6 | 22.1 | 20.8 |

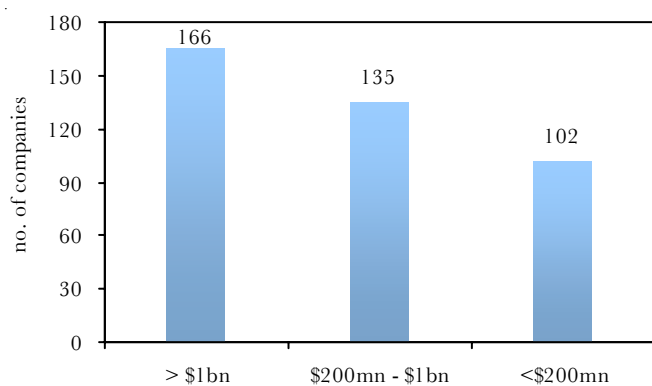
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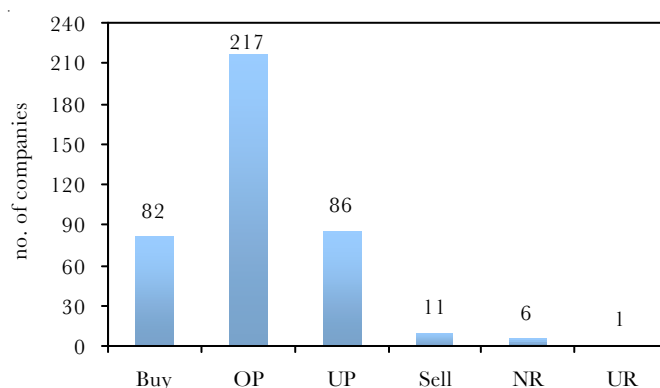
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B&K Universe Profile

By Market Cap (US\$ mn)



By Recommendation



B&K Securities is the trading name of Batlivala & Karani Securities India Pvt. Ltd.

B&K Investment Ratings:

1. **BUY:** Potential upside of > +25% (absolute returns)
2. **OUTPERFORMER:** 0 to +25%
3. **UNDERPERFORMER:** 0 to -25%
4. **SELL:** Potential downside of < -25% (absolute returns)

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