



(Investment Idea)

SKF India Limited

SKF India, 53.5% subsidiary of SKF group – Sweden, has reported excellent performance for Q1 CY 2007. Sales grew by 21.6% to Rs.359.82 crore (Rs.295.93 crore). OPM% improved significantly to 16.82% (12.34%) mainly due to decline in raw material costs to 59.60% of Net Sales (64.34%). Company has changed method of valuation of Inventories from weighted average to FIFO. Higher sales growth coupled with enhanced margins and higher net interest income of Rs.2.6 crore (Rs.1.19 crore) led to 74.1% jump in PBT to Rs.57.35 crore (Rs.32.94 crore). A higher average tax rate of 34.9 % (29%) restricted growth in PAT to 62.8% at Rs.36.66 crore (Rs.22.52 crore).

SKF is a market leader in domestic bearing industry (market share of ~ 30%) catering to all consumer segments – automotive, electrical, industrial and aftermarket. It is a total solutions provider of wide range of bearing-related products and systems to major industries like steel, cement, paper and engineering. SKF's power transmission products have been launched recently in domestic market as an extension to its business model in order to offer integrated solution for all transmission needs. SKF's new focus area is on Wind energy and would be catering to this segment through continuous product innovation & application.

In addition to domestic dominance, company's products also have good export potential. SKF Global wants to make SKF India a manufacturing hub for its several type of small, roller bearings and customized products that demand manual craft.

On back of buoyancy in demand, company has embarked on an expansion spree. In July 2006, SKF India completed Rs.100 crore expansion to enhance capacities at both Bangalore and Pune plants. SKF plans to invest Rs 300-500 crore over next 3 years to ramp up its manufacturing capacity of bearings & seals. Growth in GDP of Indian economy and upswing in its users industries, viz, Automotive, Industrial & Electrical has put forth emerging opportunities for SKF India. Company can leverage these for accelerating its growth. Its dominant market leadership coupled with product quality, global group support and financial strengths (Surplus cash of Rs.162 crore) shall provide SKF India excellent opportunities for growth in domestic as well as international market.

At CMP Rs. 370.65, stock is trading at 12.8 times CY 2007 expected EPS of Rs. 29 and 10 times CY 2008 expected EPS of Rs.37. In view of excellent prospects, we recommend to "BUY" the share at CMP.

Disclosures:

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