

22 February 2013

SKF India*Long-term bet; Buy*Rating: **Buy**

Target Price: ₹724

Share Price: ₹554

Key takeaways

Muted revenue growth, as expected. SKF India (SKF) reported revenue of ₹5.2bn (down 13.8%, yoy, 4% below our estimates). Decline in sales was primarily on account of lower demand from its key target market i.e. auto and industrial. For CY12, contribution from export came down to 6.5%. We had expected a sharper decline in the export and industrial segments. Management is focused on tightening its working capital requirements. We expect the demand to pick up in 2HCY13.

High other expenditure, low utilisation. Other expenditure was up 100bps, causing margin erosion of 185bps, yoy. In the past few quarters, SKF has been facing margin pressures due to slowing revenue growth and its inability to pass on higher costs. With facilities underutilized, margins will remain muted, primarily owing to lower fixed cost absorption. Depreciation was up 16% yoy due to regular capex incurred in CY12. Effective income tax rate is however down 556bps yoy, restricting PAT decline to 20.3% yoy, to ₹322m (21% below estimated). Other income came at ₹151m, up 235% yoy.

SKF has maintained dividend per share at ₹7.5 since the past three years despite almost similar earnings. We expect revenue CAGR of 15.5% over CY12-14e and PAT CAGR of 22%.

Our take. A debt-free company, with ₹2.2bn in cash at end CY11, SKF has been generating strong operating cash flow over years. We value it at a one-year forward PE of 15x (on par with its past two-year average), at price target of ₹724. Though there is no near-term trigger, the long-term story remains intact. **Risks.** Slowdown in industrial activity, auto sales; commodity price fluctuations and increase in import

Key data	SKF IN / SKFB.BO
52-week high / low	₹729 / ₹541
Sensex / Nifty	19325 / 5852
3-m average volume	US\$0.3m
Market cap	₹29bn / US\$0.54bn
Shares outstanding	52.7m

Shareholding pattern (%)	Dec '12	Sep '12	Jun '12
Promoters	53.6	53.6	53.6
- of which, Pledged	-	-	-
Free Float	46.4	46.4	46.4
- Foreign Institutions	15.8	14.6	14.1
- Domestic Institutions	16.2	17.5	17.7
- Public	14.4	14.3	14.6

Financials (YE Dec)	CY13e	CY14e
Sales (₹m)	26,586	29,399
Net profit (₹m)	2,438	2,839
EPS (₹)	46.2	53.8
Growth (%)	28.3	16.4
PE (x)	12.0	10.3
PBV (x)	2.2	1.9
RoE (%)	19.7	20.0
RoCE (%)	21.3	21.7
Dividend yield (%)	2.2	2.7
Net gearing (%)	(35.6)	(39.8)

Source: Anand Rathi Research

Quarterly results (YE Dec)	4QCY11	4QCY12	% yoy	CY11	CY12	% yoy
Sales (₹m)	6,007	5,179	(13.8)	24,349	22,276	(8.5)
EBITDA (₹m)	621	439	(29.2)	2,979	2,584	(13.3)
EBITDA margin (%)	10.3	8.5	(185)bps	12.2	11.6	(63)bps
Interest (₹m)	(83)	-	(100.0)	-	-	-
Depreciation (₹m)	99	115	15.9	385	436	13.2
Other income (₹m)	45	151	234.6	546	683	25.2
PBT (₹m)	649	475	(26.8)	3139	2831	(9.8)
Tax (₹m)	246	153	(37.6)	1,054	931	(11.7)
Tax rate (%)	37.8	32.3	(556)bps	33.6	32.9	(72)bps
PAT (₹m)	404	322	(20.3)	2,085	1,901	(8.8)

Source: Company

Girish Solanki
+9122 6626 6712
girishsolanki@rathi.com

Rohan Korde
+9122 6626 6733
rohankorde@rathi.com

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Dec	CY10	CY11	CY12e	CY13e	CY14e
Net sales	20,684	24,167	22,041	26,586	29,399
Sales growth (%)	31.7	16.8	(8.8)	20.6	10.6
- Op. expenses	13,511	15,737	14,415	17,361	19,110
EBIDTA	2,506	2,807	2,349	3,096	3,570
EBITDA margins (%)	12.1	11.6	10.7	11.6	12.1
- Interest	(200)	(339)	(235)	(619)	(727)
- Depreciation	333	385	436	460	484
+ Other income	288	378	683	416	460
- Tax	891	1,054	931	1,233	1,435
Effective tax rate (%)	33.5	33.6	32.9	33.6	33.6
Reported cons.PAT	1,770	2,085	1,901	2,438	2,839
+/- Extraordinary items	-	-	-	-	-
Adjusted cons. PAT	1,770	2,085	1,901	2,438	2,839
FDEPS (₹/share)	33.6	39.5	36.0	46.2	53.8
Adj. FDEPS growth (%)	87.8	17.8	(8.8)	28.3	16.4
DPS (₹/share)	7.0	7.5	7.5	12.0	15.0

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Dec	CY10	CY11	CY12e	CY13e	CY14e
Share capital	527	527	527	527	527
Reserves & surplus	7,960	9,585	11,023	12,721	14,634
Shareholders' fund	8,487	10,112	11,550	13,249	15,162
Debt	0	-	-	-	-
Minority interests	-	-	-	-	-
Deferred Tax Liab (net)	30	16	16	16	16
Capital employed	8,517	10,128	11,566	13,265	15,178
Net Fixed assets	3,193	3,619	3,648	3,688	3,704
Working capital	3,205	4,265	4,282	4,863	5,439
Cash	2,119	2,244	3,637	4,713	6,034
Capital deployed	8,517	10,128	11,566	13,265	15,178
Net Debt	(2,119.0)	(2,244.4)	(3,636.7)	(4,713.3)	(6,034.1)
No. of shares (m)	52.7	52.7	52.7	52.7	52.7
Net Debt/Equity (%)	(25.0)	(22.2)	(31.5)	(35.6)	(39.8)
W C turn (days)	43	56	71	63	64
Book Value (₹/share)	161	192	219	251	288

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

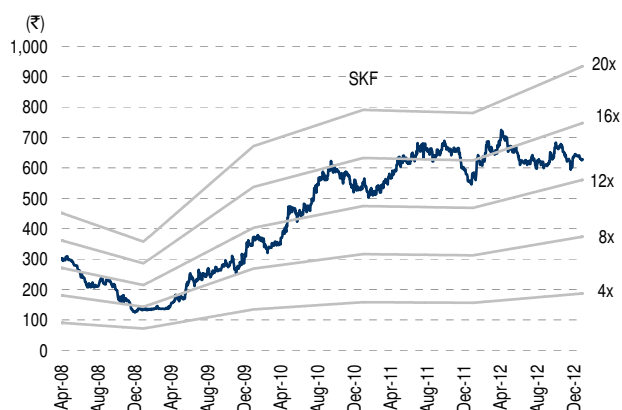
Year-end: Dec	CY10	CY11	CY12e	CY13e	CY14e
PAT	1,770	2,085	1,901	2,438	2,839
+Non Cash Items	372	371	436	460	484
Cash profit	2,142	2,456	2,337	2,898	3,322
- Incr/(Decr) in WC	1,526	1,060	17	581	576
Operating cash flow	617	1,396	2,320	2,317	2,746
-Capex	959	811	465	500	500
Free cash flow	(342)	585	1,855	1,817	2,246
-Dividend	430	460	463	740	925
+ Equity raised	(0)	(0)	(0)	-	-
+ Debt raised	(1)	(0)	-	-	-
-Investments	-	-	-	-	-
-Misc. items	-	-	-	-	-
Net cash flow	(774)	125	1,392	1,077	1,321
+Opening cash	2,893	2,119	2,244	3,637	4,713
Closing cash	2,119	2,244	3,637	4,713	6,034

Source: Company, Anand Rathi Research

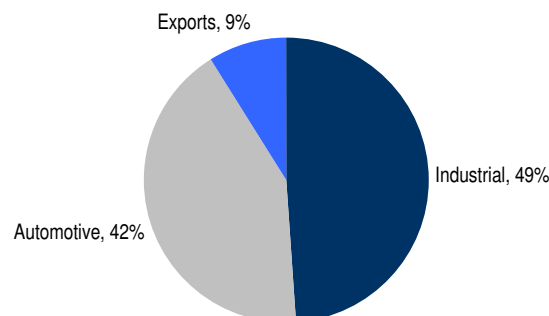
Fig 4 – Ratio analysis @ ₹554

Year-end: Dec	CY10	CY11	CY12e	CY13e	CY14e
P/E (x)	16.5	14.0	15.4	12.0	10.3
Cash P/E (x)	13.6	11.9	12.5	10.1	8.8
EV/EBITDA (x)	10.8	9.6	10.9	7.9	6.5
EV/Sales (x)	1.3	1.1	1.2	0.9	0.8
P/B (x)	3.4	2.9	2.5	2.2	1.9
RoAE (%)	22.6	22.4	17.5	19.7	20.0
RoACE (%)	27.7	26.0	17.7	21.3	21.7
Dividend yield (%)	1.3	1.4	1.4	2.2	2.7
Dividend payout (%)	24.3	22.0	24.3	30.4	32.6
Debt/Equity (x)	0.0	-	-	-	-
Receivables days	43.0	48.6	55.0	54.0	53.0
Inventory days	37.4	38.9	39.0	32.6	35.7
Payables days	85.5	83.6	84.0	81.0	80.0
Working capital days	43.1	56.4	70.8	62.8	64.0
Fixed asset T/O (x)	7.2	7.1	6.1	7.2	8.0

Source: Company, Anand Rathi Research

Fig 5 – Valuation chart (PE band)


Source: Bloomberg, Anand Rathi Research

Fig 6 – Revenue break-up (CY11)


Source: Company

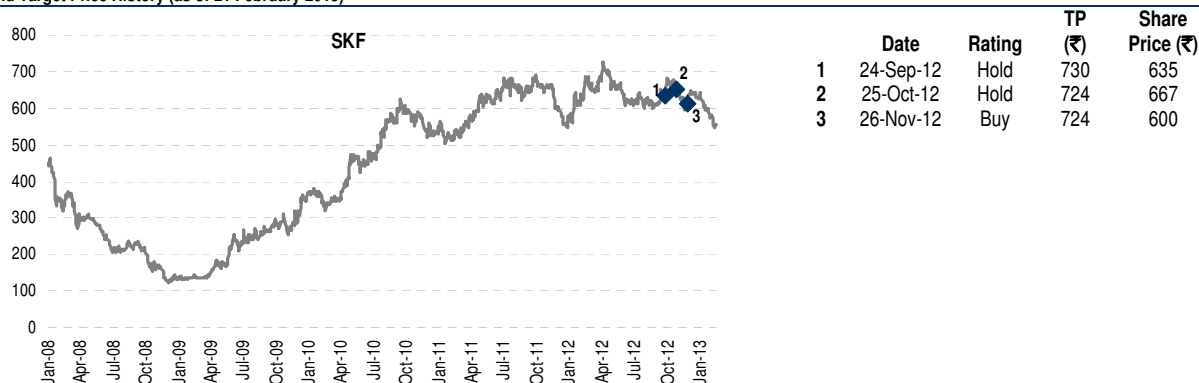
Appendix

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