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SKF INDIA

CMP:RS 1857

TRGT:RS 2140

TIME HORIZON: 1 YEAR

SKF India is looking a good buy with good Q2FY19 earnings reported by the company, while it also announced buyback of 3.7% of the paid up capital at Rs. 2,100, being at 18% premium. For Q2YF19, SKF India reported strong performance with Income rising to Rs. 787 crores from Rs. 696 crores YoY, showing good growth of 13%, while PAT rose by 14% YoY to Rs. 84.3 crores from Rs. 74 crores. For H1FY19, SKF India has delivered strong revenue growth of 9% and PAT growth of 20%, which are seen quite impressive, with EPS of Rs. 32.2 in H1FY19. SKF India is a 52.32% subsidiary of USD 8 billion Sweden-headquartered AB SKF and the largest technology and solutions provider for bearings, seals, lubrication systems, mechatronics and related services in India. Company has 3 manufacturing facilities located in Pune, Bangalore and Haridwar, 11 sales offices and supplier network of over 300 distributors. Its sales mix is broadly split between a) Automotive (52%) 30% OEM, of which 5% passenger cars, 7% CVs and tractors, 17%two wheelers and power transmission, 12% aftermarket and 10% exports b) Industrial (48%) split almost equally between OEM and aftermarket Going ahead, the management has indicated for continued growth in the auto segment led by newer products and addition of newer capacity. For the industrial segment, it expects growth to pick up led by segments like mining, steel, cement, etc. Currently, SKF is major supplier in LHB coaches. However, the company was unable to supply its bearings to conventional coaches, as railway policies did not allow procurement of over 10% of the requirement from a single supplier. This is likely to change from H2FY19 onwards as production factories and railways will now separately float tenders for their requirements. This will allow players like SKF to supply higher quantities in both these segments. Furthermore, the company has also forayed into the railway freight segment that has a market potential of —Rs. 1,000 crore. Other projects like Dedicated Freight Corridor (DFC) and expansion of metro rail network in a number of cities are also likely to augur well for the company. In the auto segment, SKF is introducing newer products (like HUB-3 bearings) with the Indian auto industry moving from first generation bearing to third generation bearing. New products are also likely to open up export opportunities for the company. Currently, only 5% of total revenue comes from the electric vehicle segment. The company is well placed to capitalise on any such opportunity as SKF's parent company has already built in competencies in this space. As per the management,SKF is already a supplier to leading electric auto majors, where it supplies ceramic bearings (in place of metal bearings). Thus, SKF India considers itself to be in a sweet spot for any new/better solutions that the electric vehicle industry may require in the coming years. The company is operating at — 100%capacity utilisation and new capex will be for new product development and setting up of manufacturing lines for new and existing orders. On an estimated EPS of Rs. 65 and EBITDA of Rs. 600 crores, stock is trading at PE of 28.5x and EV/EBITDA of 15.7x, which are seen attractive, given its MNC tag, expanding margins, strong product portfolio and century old brand. Peer Schaeffer India is ruling at much higher current year valuation multiples of 35x (PE) and 18x (EV/EBITDA), while it is in the process of consolidating two of its subsidiaries, which are lower margin businesses, at a rich valuation. Also, smaller MNC TimkenIndia, after considering merger with ABC India, is trading at PE of 32x and EV/EBITDA of 17x on FY19 estimates, making SKF an attractive stock. Share ruling at Rs. 1,857 can move to Rs. 2140 in 1 year.

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Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.