

# SKF India Limited

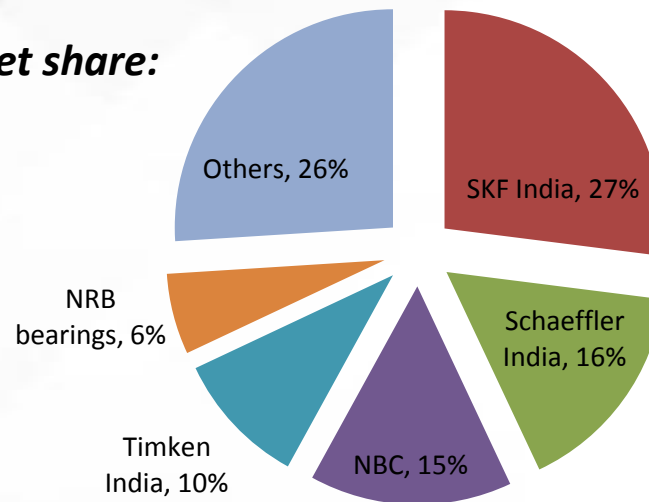
Initiating Coverage

9<sup>th</sup> June, 2020

# Industry Overview

The global bearings market size was estimated at \$78,779 million in 2014. It is estimated to be valued at \$140,792 million in 2022, registering a CAGR of 7.5% during the forecast period. Bearings, also referred to as anti-friction components, are modules that reduce resistance and improve the mobility of components. These components are widely used in automobiles, pumps, and gearboxes. These components facilitate the efficient operation of the machinery. They can range from a massive diameter bearing to a sequence of thin bearings. Bearings are mainly used to reduce friction. The other crucial functions include supporting the weight, facilitating efficient transmission of power, and ensuring proper alignment of movable components. The growth of the market is correlated to the growth of the automotive and industrial industries. Moreover, increase in production of commercial vehicles is one of the key drivers of the bearings industry.

## ***India bearing market's market share:***



Bearing Type	
Plain bearing	Are the least expensive and most common type of bearing, compact and lightweight with high load carrying capacity. As being capable of running indefinitely they are used in very critical applications where failure of bearings might have severe consequences. Thereby used for power plant steam turbine`s, compressors operating in critical pipeline applications, ship propeller shafts; almost exclusively in engines
Rolling Element bearing	Includes further – Ball bearings, Cylindrical roller bearings, Spherical roller bearings, Gear bearings, Tapered roller bearings, Needle roller bearings. Their application is for aviation cargo systems, engines, agriculture industry, heavy equipment and machinery, solar panels, medical equipment, automobile industry, power houses and many others
Jewel bearing	with largest use in mechanical watches
Fluid bearing	are frequently used in high load, high speed or high precision applications where ordinary ball bearings would have short life or cause high noise and vibration.
Magnetic bearing	used in several industrial applications such as electrical power generation, petroleum refinement, machine tool operation and natural gas handling
Flexure bearing	often used in sensitive precision measuring equipment.

# Company Background

SKF's roots in India can be traced back to 1923, when a trading arm of SKF Group was set up in Kolkatta. Since then SKF has been serving the Indian market with high quality bearings for over 3 decades. SKF India Ltd was incorporated in the year 1961 as a result of collaboration between AB SKF, Associated Bearing Company limited and Investment Corporation of India Ltd and the first manufacturing plant was commissioned in Pune in the year 1965.

Today, with 3 manufacturing facilities located in Pune, Bangalore and Haridwar, with 11 sales offices across India and a supplier network of over 300 distributors, SKF continues to serve the varied markets with reliable solutions.

Over the years the company has evolved from being a pioneer ball bearing manufacturing company to a knowledge-driven integrated solutions provider, helping customers achieve sustainable and competitive advantage.

# Investment Rationale

- **SKF is a market leader**

SKF India holds 40% share in ball bearings market and 27% market share in the Indian bearing market. India bearing market is expected to touch 95\$ bn and it contributes less than 5% of the demand in the global bearing market. Consumption wise currently India is catering of the requirement through domestic and rest is completed by imports. Despite there are many players in the industry 80% of the chunk is manufactured by top 5 players. Keeping the pace with the technology and customers' needs with their parent foreign holding group gives them strong footing to stay in the top 5.

- **Bearing is least expensive yet important attribute in automotive and industrial segment**

Bearing as a component is not pondered enough but it is very essential in automotive and industrial segment for the getting the desired motion and reducing friction between moving parts.. Its application is not limited to any specific manufacturing industry which gives it a wider growth prospect provided one can keep up the pace of the changing trend

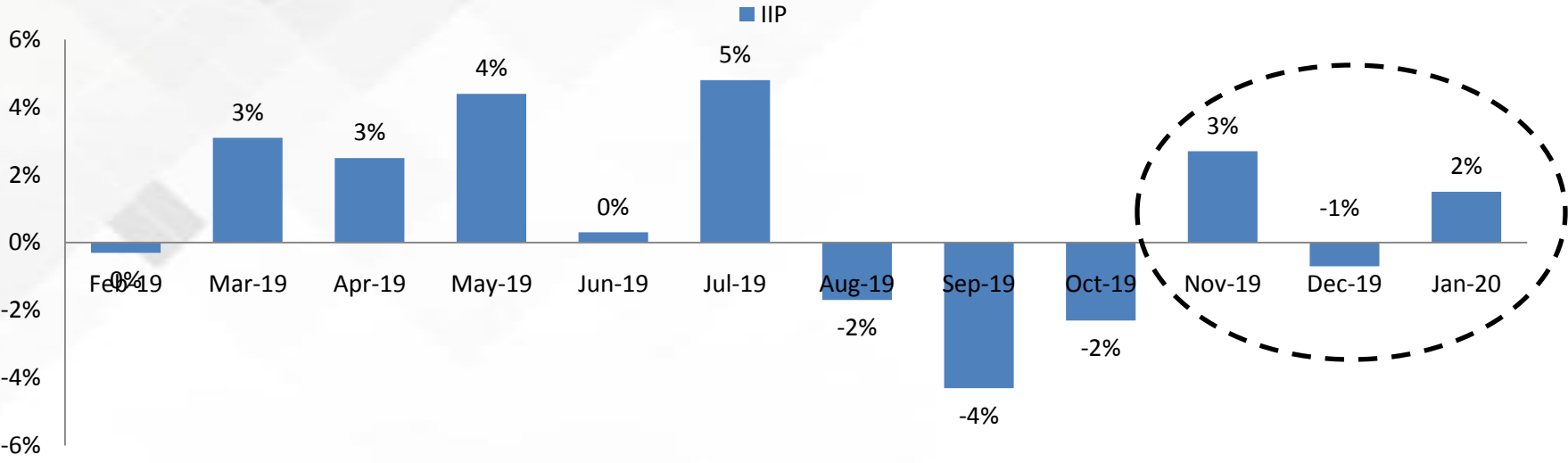
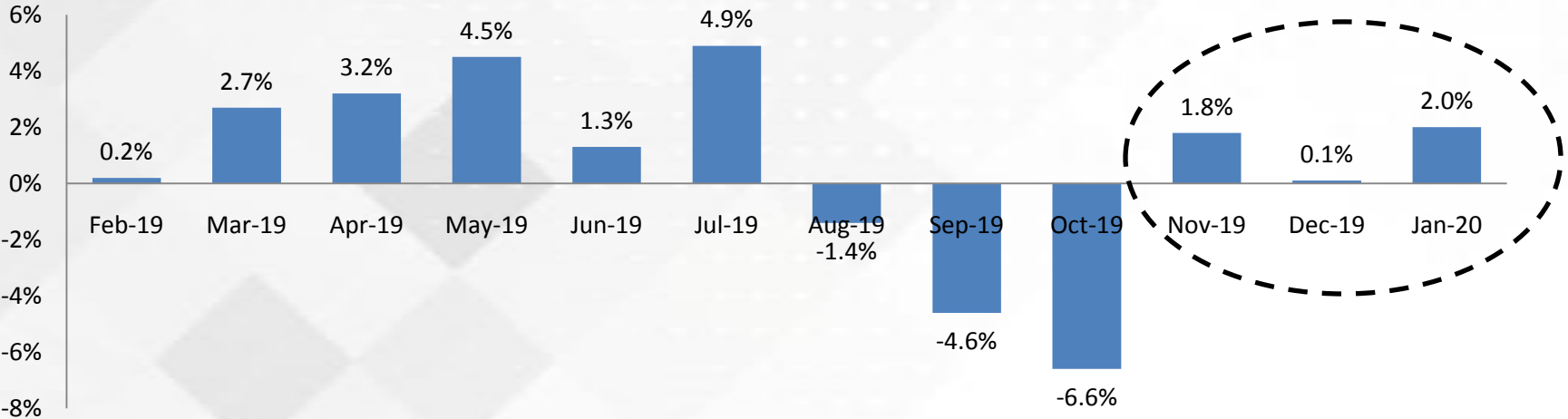
- **Manufacturing activities picking up**

Bearing manufacturing companies lean mainly towards automotive and manufacturing industries. On the revenue front, majority of the topline around ~45-50% is contributed by automobile segment and rest comes from industrial segment such as heavy machinery, power, capital goods, etc. Ongoing trend in the auto sector is not so attractive due to BS VI norms, increased tenure for vehicle insurance and weakened consumer sentiment. But all these negative are priced in and bottomed out. Looking at the industrial activities IIP in the before 3 months was de-growing which has starting reporting positive growth in the last 3 months. Similarly trend is being witnessed in the manufacturing production index as well. This visible green shoot might bring back the lost growth in the sector in coming quarters.

- **Growth intact in tough times**

The company has been able to keep its topline on stable growth despite the slowdown faced in the automobile segment which contributes 50% of the revenue mix. The company's expenses are majorly taken by raw material cost, which constitutes almost 60% of the topline. Bearing's main raw material is steel, this brings us to check the steel price trend. At the end of CY2019 steel prices bottomed out and no major recovery has come since then. This has bode well for the company as this would be aiding the company to maintain its margin in tough times and also higher chance now that recovery on card in auto sector and infrastructure & capex cycle to pick would bring good topline growth in medium to long term.

# Measuring Industrial Activities



■ India Manufacturing Production

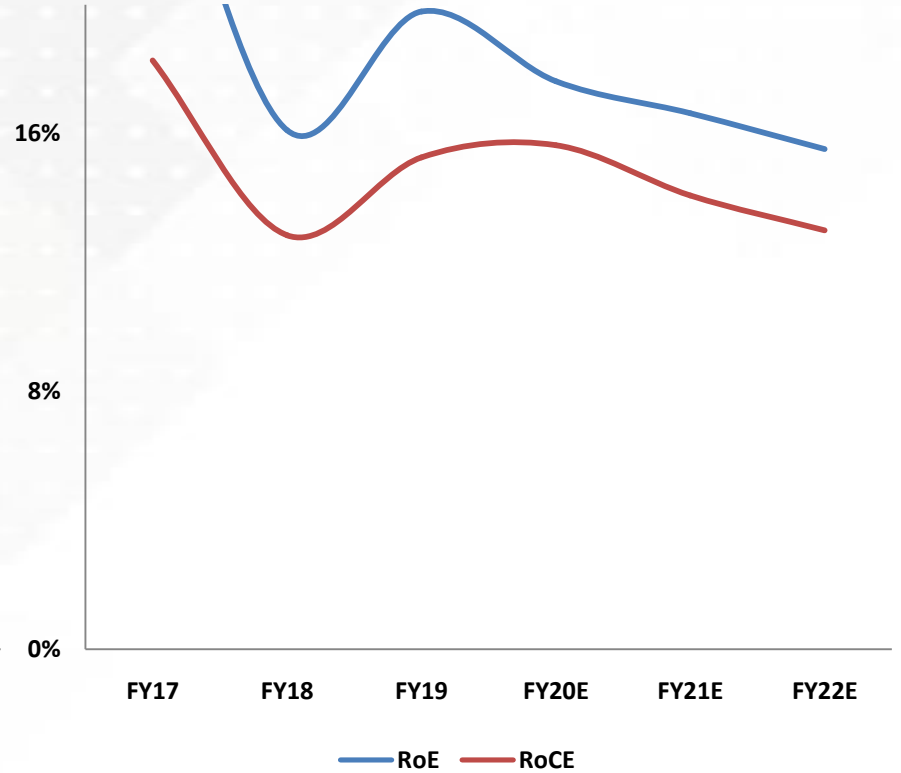
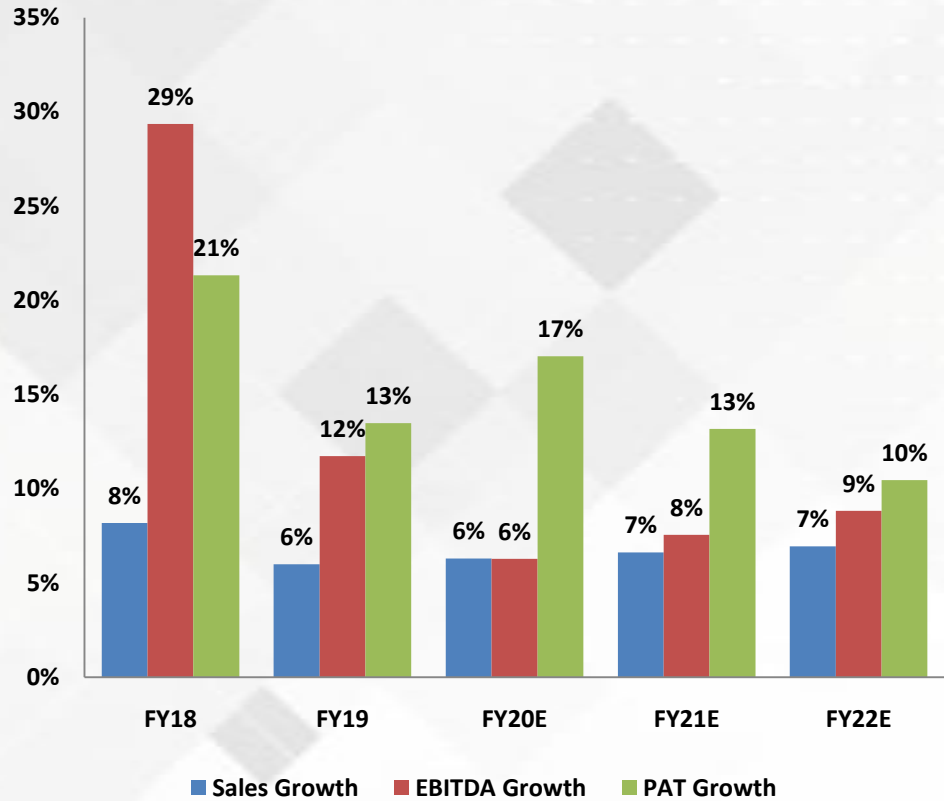
# Domestic Vehicle Sales

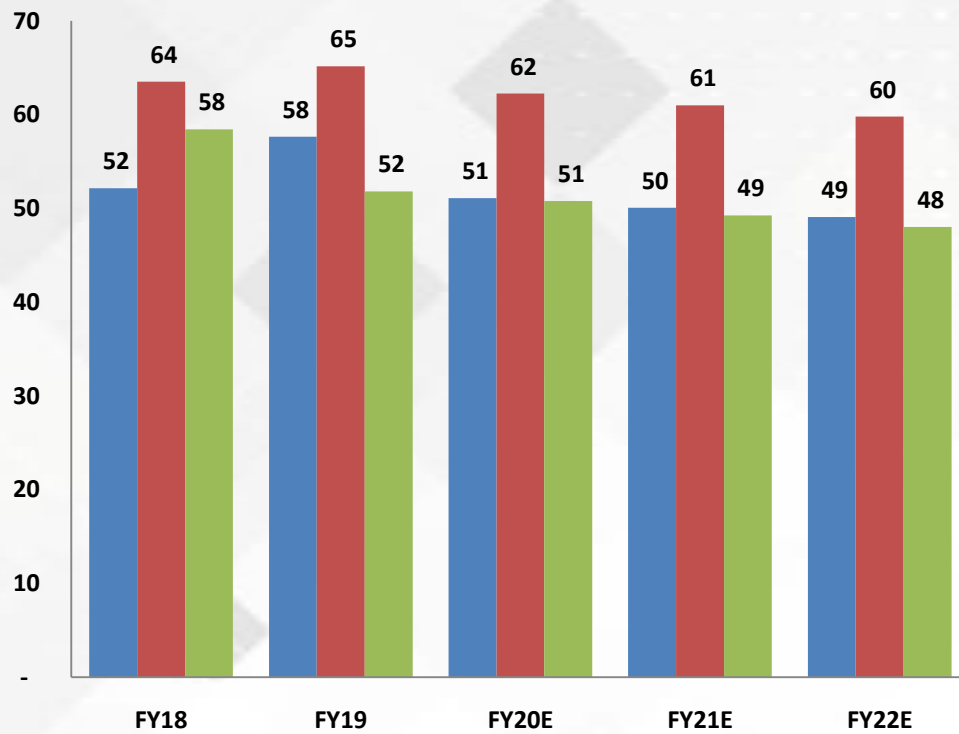


Since automobile is single biggest contributor to the revenue it becomes more crucial to track. Since last few quarters sales has been projecting bad number but on the other side the Government has been taking variety of measure to revive the sector such as reducing GST from 12% to 5% for electric vehicles and allowing 100% FDI under automatic route and FAME India (Faster Adoption and Manufacturing of (Hybrid) & Electric Vehicle). Sales are at the lowest level now but with companies towards electric vehicle and manufacturing and new inventory for BS VI norms the demand for bearings looks rosy.

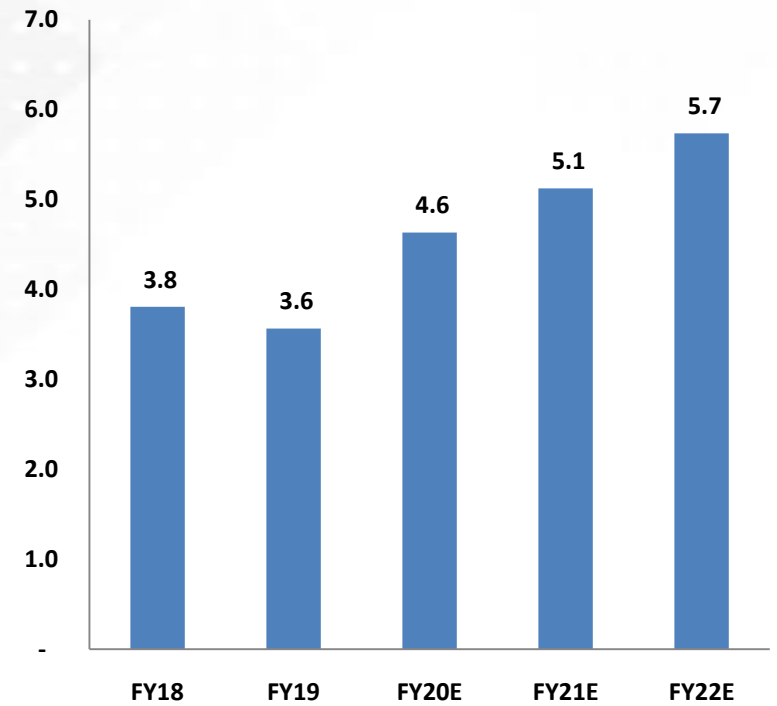


# Story in charts





■ Inventory Days ■ Debtors Days ■ Payable Days

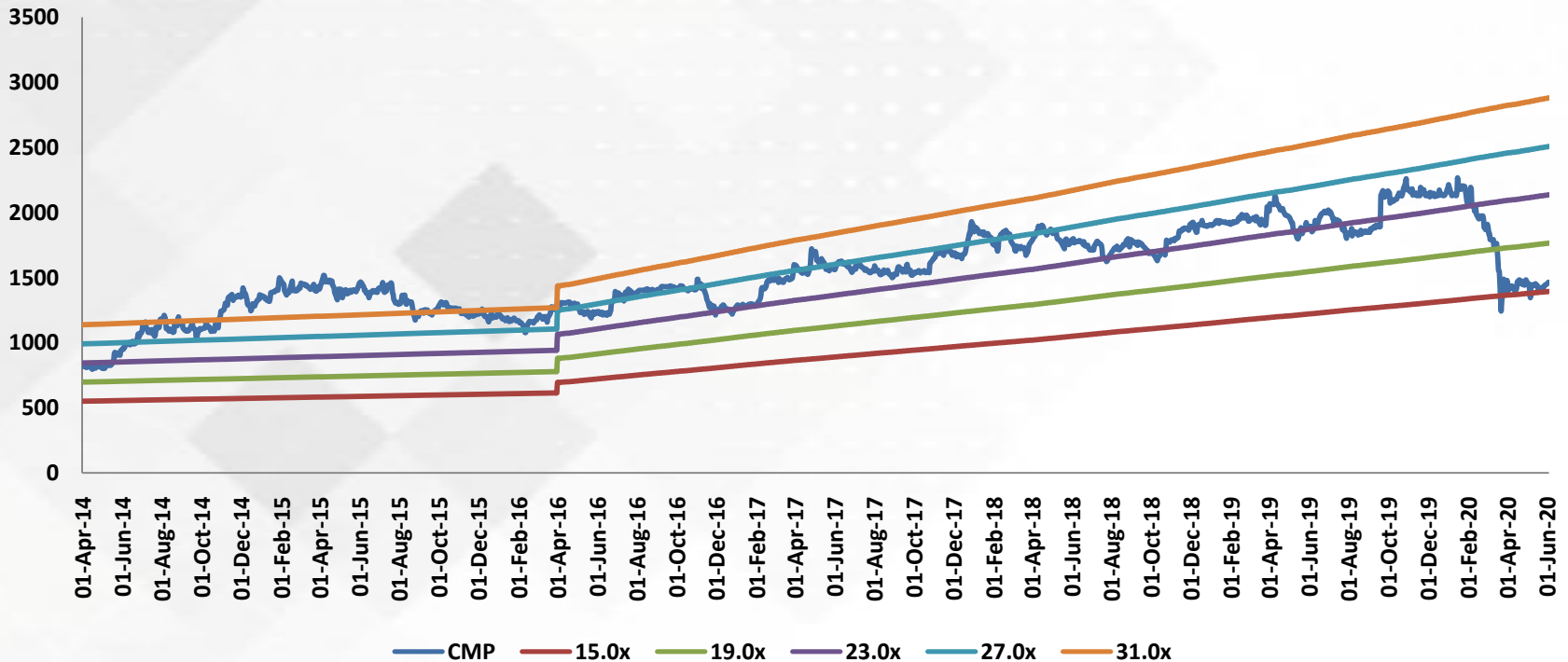


■ Current Ratio

# Peer Comparison

Description	NRB Bearings Ltd.	Schaeffler India Ltd.	SKF India Ltd.	Timken India Ltd.
CMP	72.85	3748	1520	935
Market Capitalization (in Crs)	496.244	12535.711	7692.794	6005.84
Year End	201903	201812	201903	201903
Adjusted EPS (Rs.)	10.19	134.293	67.915	19.764
Book Value (Rs)	48.906	865.681	343.232	178.271
PBIDTM (%)	18.357	18.218	19.055	18.319
PATM (%)	10.505	9.203	11.065	8.93
ROE (%)	22.854	16.736	19.001	14.551
ROCE (%)	23.708	24.787	28.677	21.669
Net Sales Growth(%)	13.192	15.976	10.33	34.91
Total Debt/Equity(x)	0.546	0.021	0.053	0.017
Current Ratio(x)	1.567	2.619	3.016	2.136

# P/E band Chart



Recent correction has given an opportunity to buy industry leaders at much discounted valuation and price. SKF India perfectly fit the scenario and it is trading at an attractive P/E multiple of 17x. We are bullish on the stock at the **CMP of Rs. 1520** with the **target of Rs. 1989**.

# Disclaimer

Dealmoney Securities Private Limited (hereinafter referred to as “Dealmoney”) is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited and MCX Stock Exchange Limited. Dealmoney is also registered as a Depository Participant with CDSL. Dealmoney is in the process of making an application with SEBI for registering it as a Research Entity in terms of SEBI (Research Analyst) Regulations, 2014. Dealmoney or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market and no material disciplinary action has been taken by SEBI/other regulatory authorities impacting Dealmoney’s Equity Research Analysis. Dealmoney or its associates /analyst including its relatives do not hold any actual/beneficial ownership of more than 1% in the company/ies covered by Analyst (hereinafter referred to as “Subject Company/ies”). Dealmoney or its associates/analyst including its relatives may hold financial interest in the company/ies covered by Analyst (hereinafter referred to as “Subject Company/ies”). Dealmoney or its associates/analysts or his/her relative does not receive any compensation or other benefits from the subject company/ies mentioned in this research report (hereinafter referred to as “Report”) or from a third party in connection with preparation of the report. Accordingly, Dealmoney or its associates/analyst or his/her relative does not have any other material conflict of interest at the time of publication of the Report.

Research analyst/s engaged in preparation of the Report, has not received any compensation / managed or co-managed public offering of securities of the subject company/ies / has not received compensation for investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company/ies / has not received compensation or other benefits from the subject company/ies or third party in connection with the Report of the subject company/ies during the past twelve months / has not served as an officer, director or employee of subject Company/ies and is not engaged in market making activity of the subject Company/ies.

Dealmoney group companies provides finance related product services like distribution of financial products and as such is a provider of many services like loans, mutual funds, tax & trust planning etc. mentioned in this brochure. And hence, Dealmoney do not warranty / guarantee about performance of any products and customer servicing w.r.t third party products per se.

Third party products are subject to code of conduct to be adhered to by the representatives of Dealmoney and Dealmoney is not responsible for the losses, whether actual or notional incurred by any investor. Services assured and expected may vary from actual service and Dealmoney does not guarantee about the quality of services. Investments in securities and commodities are subject to market and other risks and there is no assurance or guarantee that the objectives of any of the Investments/Schemes/product would be achieved. Past performances are only indicative and returns are not assured and guaranteed by Dealmoney group companies. The price, value of and income from any of the securities or financial instruments mentioned in this report can fall as well as rise. The value of securities and financial instruments is subject to exchange rate fluctuation that may have a positive or adverse effect on the price or income of such securities or financial instruments.

Reports on technical and derivative analysis are based on studying charts of a stock’s price movement, outstanding positions and trading volume as opposed to focussing on a company’s fundamentals and as such, may not match with a report on a company’s fundamentals. The opinions expressed in the Report are our current opinions as of the date of this report and may be subject to change from time to time without notice. Dealmoney or any persons connected with it do not accept any liability arising from use of this material/document/Report.

Information/ opinion conveyed through this material/document/Report are strictly meant for the registered Clients of Dealmoney group of Companies of the respective segments. This information is not intended for distribution to, or use by, any person or entity in any jurisdiction or country where such distribution or use would be contrary to law or regulation or which would subject Dealmoney or its affiliates to any registration requirement within such jurisdiction or country. This information does not constitute an offer to sell or a solicitation of an offer to buy any financial products to any person in any jurisdiction where it is unlawful to make such an offer or solicitation. No part of this material may be duplicated in whole or in part in any form and / or redistributed without the prior written consent of Dealmoney. This material/document/Report is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on directly or indirectly.

Recipients of the Report shall always independently verify reliability and suitability of the Report and opinions before investing.

For Company details, please visit our website [www.dealmoneyonline.com](http://www.dealmoneyonline.com)

For research related query, write to us at [research@dealmoney.in](mailto:research@dealmoney.in)