

Decent performance...

SKF reported a strong Q4FY21 performance, which was broadly in line with our estimates for the quarter. Sequentially, the margin profile seems to have cooled off (base being exceptionally high) but they still remain buoyant with respect to the larger picture. The company also announced a final dividend of ₹ 14.5 per share during the quarter.

Margins remain buoyant...

Revenue for the quarter came in at ₹ 847.5 crore, up 38.9% YoY & 3.5% QoQ (vs. I-direct estimate of ₹ 874 crore). Buoyant auto retails during Q4 and industrial pick-up aided the performance. Gross margins came in at 41% in Q4FY21 vs. 46.7% QoQ, 37.8% YoY. EBITDA margins came in at 17.5% in Q4FY21 vs. 22% QoQ, 10.1% YoY. Optically, margins seem to have deteriorated significantly on a sequential basis but it is important to note that Q3FY21 margins were an exception to the normal margin profile of the company. Absolute EBITDA came in at ₹ 148.3 crore, up 139.6% YoY, down 18% QoQ. Ensuing PAT for the quarter came in at ₹ 107.8 crore, up 39.2% YoY entailing a margin of 12.4%.

Recovery in capex cycle to propel industrial segment

For the last few quarters, industrial segment was on the back foot while auto segment saw a swift recovery. However, with capex announcement across the board from steel, cement and other sectors we expect industrial to perform better in coming quarters. Also, efforts are on to increase localisation and domestic manufacturing from current levels of 65%.

Clean balance sheet alongside superior return ratios

SKF remains a debt free company with ample liquidity. Going ahead, we expect the company to post RoCE & RoIC northwards of 20% led by improved margin profile and better utilisation levels. Furthermore, any upcoming capex would be funded by internal accruals. We expect SKF to post an earnings CAGR of 16.5% in FY21-23E with EBITDA margins at 16.8%, 17% for FY22E, FY23E, respectively.

Valuation & Outlook

Taking cognisance of recent auto numbers, recovery in industrials and management commentary, we broadly maintain our estimates. We pencil in 16.5%, 21.1% & 20.6% revenue, EBITDA & PAT CAGR, respectively for FY21-23E. We maintain our **BUY** rating on the stock. We value the stock at 33x FY23E earnings with an unchanged target price of ₹ 2890/share.



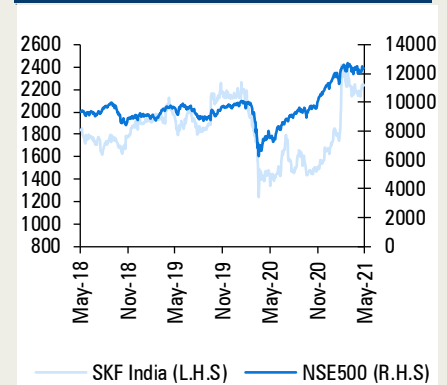
Particulars

Particular	Amount
Market Capitalization	11,435
Total Debt (FY21) (₹ crore)	0
Cash and Inv (FY21) (₹ crore)	500
EV (FY20) (₹ crore)	10,935
52 week H/L (₹) (BSE)	2514 /1386
Equity capital (₹ crore)	49.4
Face value (₹)	10

Key risk to our call

- Delayed recovery in industrial segment
- Further rise in steel prices, putting pressure on margins

Price Performance



Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Adil Khan
adil.khan@icicisecurities.com

Key Financial Summary

	FY19	FY20	FY21	FY22E	FY23E	CAGR FY21-23E
Revenue (₹ crore)	3,035	2,842	2,671	3,152	3,625	16.5
EBITDA (₹ crore)	486	349	420	530	616	21.1
EBITDA margin	16.0	12.3	15.7	16.8	17.0	
Net Profit (₹ crore)	335.8	289.0	297.7	371	433	20.6
EPS (₹)	67.9	58.5	60.2	75	88	
P/E (x)	34.1	39.6	38.4	31	26	
EV/EBITDA (x)	22.5	31.0	26.0	21	18	
RoCE (%)	29.4	20.3	24.8	27	26	
RoE (%)	19.8	15.2	19.0	20	20	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

Year	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ(%)	Comments
Income from Operation	847.5	874.1	610.2	38.9	818.7	3.5	Topline recovered on a sequential as well as YoY basis
Other Income	4.7	8.5	46.4	(90.0)	8.5	(45.3)	
Cost of material consumed	201.8	207.2	146.1	38.2	189.5	6.5	
Purchases of stock in trade	385.5	284.1	290.1	32.9	251.9	53.0	
Change in inventories	-87.9	8.7	-56.3		-5.1		
Gross margins (%)	41.1	42.8	37.8	332 bps	46.7	-563 bps	GMs remain bouyant
Employee cost	64.6	68.2	58.1	11.1	67.2	(3.9)	Employee cost increased 11.1% YoY
Other expenditure	135.3	144.2	110.4	22.6	134.8	0.4	Other expense increased 22.6% YoY
EBITDA	148.3	161.7	61.9	139.6	180.4	(17.8)	
EBITDA Margin (%)	17.5	18.5	10.1	735 bps	22.0	-454 bps	Operating margins improved YoY led by by better GMs
Depreciation	13.7	16.0	14.7	(6.5)	15.3	(10.1)	
Interest	0.5	0.5	1.8		0.0	4,900.0	
PBT	138.7	153.7	91.8	51.0	173.7	(20.1)	
Taxes	33.8	43.0	16.5	105.2	45.5	(25.7)	
PAT	104.9	110.7	75.3	39.2	128.1	(18.1)	

Source: Company, ICICI Direct Research

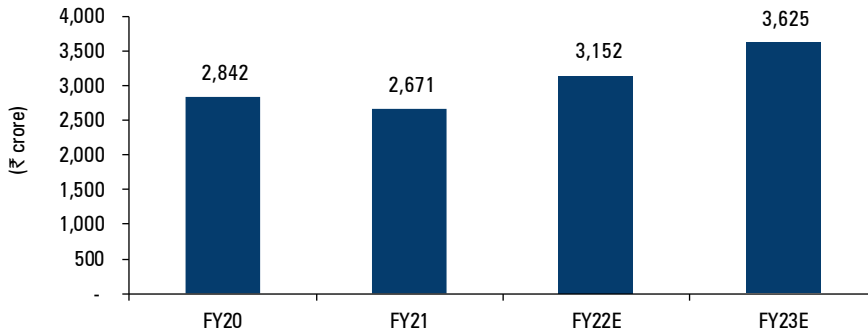
Exhibit 2: Change in estimates

(₹ Crore)	FY20	FY21	FY22E			FY23E		
	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	2,841.6	2,670.7	3,022.6	3,151.9	4.1	3,625.3	3,625.3	0.0
EBITDA	349.5	420.1	423.2	529.5	20.1	616.3	616.3	0.0
EBITDA Margin (%)	12.3	15.7	14.0	16.8	-280 bps	17.0	17.0	0 bps
PAT	289.0	297.7	295.0	371.1	20.5	432.9	432.9	0.0
EPS (₹)	58.5	60.2	59.7	75.1	20.5	87.6	87.6	0.0

Source: Company, ICICI Direct Research

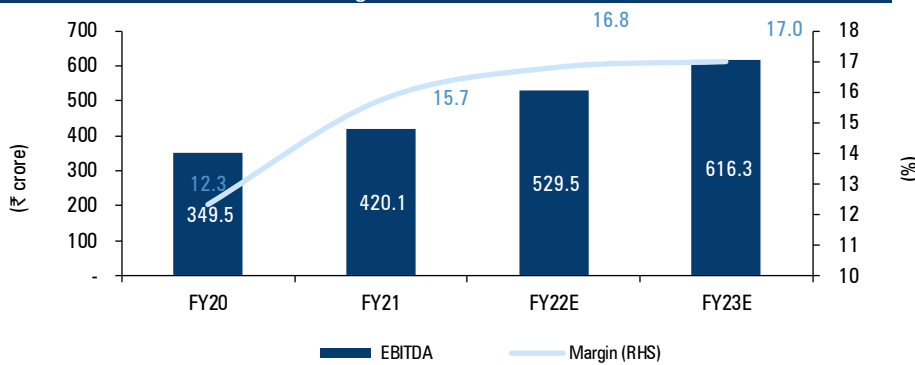
Financial story in charts

Exhibit 3: Revenue trend (consolidated)



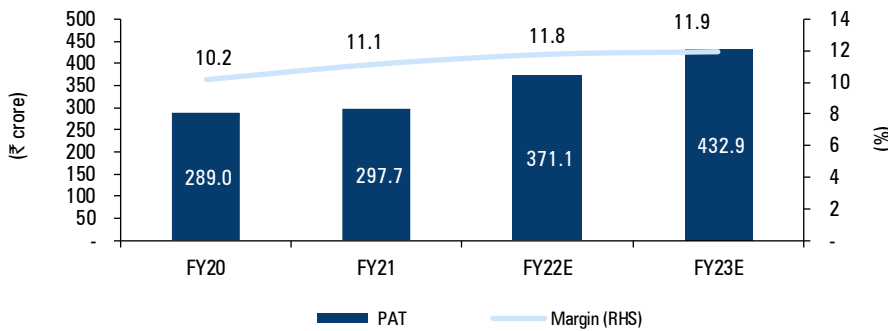
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



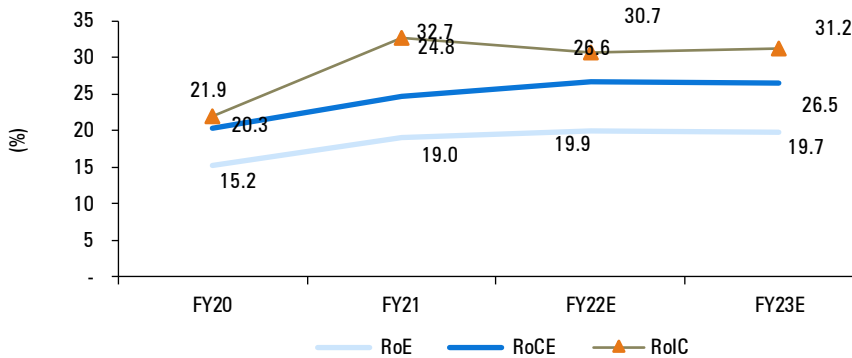
Source: Company, ICICI Direct Research

Exhibit 5: PAT and margins trend



Source: Company, ICICI Direct Research

Exhibit 6: RoE and RoCE trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Revenue	2,842	2,671	3,152	3,625
Growth YoY (%)		-6%	18%	15%
Other Income	104	36	65	75
Total Revenue	2,946	2,707	3,217	3,700
Cost of materials consumed	603	595	700	798
Purchase of stock-in-trade	1,203	956	1,056	1,214
Change in inventories	(16)	10	32	36
Employee cost	240	246	315	363
Other Expenses	462	443	520	598
Total expenditure	2,492	2,251	2,622	3,009
EBITDA	349	420	530	616
Growth YoY (%)		20%	26%	16%
Interest	-	2	5	5
PBDT	453	454	590	686
Depreciation	57	58	74	85
Profit Before Tax	387	396	515	601
Tax	98	99	144	168
PAT	289	298	371	433
Growth YoY (%)		3%	25%	17%
EPS	58.5	60.2	75.1	87.6

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Share Capital	49.4	49.4	49.4	49.4
Reserves & Surplus	1,856	1,514	1,814	2,148
Networth	1,905	1,564	1,863	2,197
Total Debt	-	-	45.0	45
Other non-current liabilities	-	45.7	45.7	46
Total Liabilities	1,905	1,610	1,954	2,288
Gross Block	554	664	814	934
Acc: Depreciation	240	298	372	372
Net Block	352	345	442	562
Capital WIP	41	65	100	100
Investments	237	261	261	261
Inventory	452	468	479	551
Sundry debtors	436	583	689	792
Cash and bank balances	618	500	469	583
Other financial assets	275	21	21	21
Other current assets	60	59	66	76
Total Current Assets	1,840	1,631	1,723	2,023
CL& Prov.	517	693	573	658
Net Current Assets	1,324	938	1,150	1,364
Total Assets	1,953	1,610	1,954	2,288

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	289	298	371	433
Depreciation	57	58	74	85
Interest	9	2	5	5
Other income	(104)	(36)	(65)	(75)
Prov for Taxation	98	99	144	168
Cash Flow before WC changes	349	420	530	616
Change in Working Capital	(83)	267	(243)	(100)
Taxes Paid	(98)	(99)	(144)	(168)
Cashflow from Operations	168	589	142	348
(Purchase)/Sale of Fixed Assets	(104)	(75)	(207)	(205)
(Purchase)/Sale of Investments	3	(25)	-	-
Other Income	104	36	65	75
Cashflow from Investing	3	(64)	(142)	(130)
Issue/(Repayment of Debt)	(90)	-	45	-
Changes in Minority Interest	-	-	-	-
Changes in Networth	(81)	75	-	-
Interest	(9)	(2)	(5)	(5)
Dividend paid	-	(714)	(72)	(99)
Cashflow from Financing	(180)	(641)	(32)	(104)
Changes in Cash	(9)	(116)	(31)	114
Opening Cash/Cash Equivalent	603	618	500	469
Closing Cash/ Cash Equivalent	593	502	469	583

*calculated, Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Per share data (₹)				
EPS	58.5	60.2	75.1	87.6
Cash EPS	70.0	71.9	90.0	104.8
BV	385.4	316.3	376.9	444.4
DPS	130.0	14.5	14.5	20.0
Cash Per Share	48.5	60.2	75.2	75.2
Operating Ratios (%)				
EBITDA Margin	12.3	15.7	16.8	17.0
PBT / Net Sales	10.3	13.6	14.4	14.7
PAT Margin	10.2	11.1	11.8	11.9
Inventory days	58.0	64.0	55.5	55.5
Debtor days	56.0	79.7	79.7	79.7
Creditor days	64.7	92.9	64.7	64.7
Return Ratios (%)				
RoE	15.2	19.0	19.9	19.7
RoCE	20.3	24.8	26.6	26.5
RoIC	21.9	32.7	30.7	31.2
Valuation Ratios (x)				
P/E	39.6	38.4	30.8	26.4
EV / EBITDA	31.0	26.0	20.8	17.7
EV / Net Sales	3.8	4.1	3.5	3.0
Market Cap / Sales	4.0	4.3	3.6	3.2
Price to Book Value	6.0	7.3	6.1	5.2
Solvency Ratios				
Debt/EBITDA	-	-	0.1	0.1
Net Debt / Equity	-	-	-	-
Current Ratio	3.0	2.3	3.0	3.0
Quick Ratio	2.2	1.6	2.1	2.2

Source: Company, ICICI Direct Research

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Sell: < -15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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