



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

**Retail Note @ Dalal & Broacha**

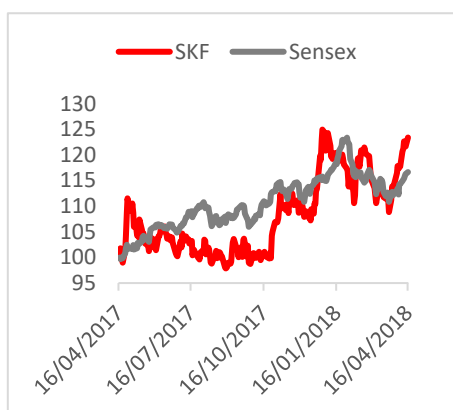
#### ACCUMULATE

Current Price	1887
52 Week Range	1490/2010

#### Key Share Data

Market Cap (Rs.bn)	86
Market Cap (US\$ mn)	1326
No of o/s shares (mn)	51.33
Face Value	10
Monthly Avg.	
Vol(BSE+NSE) Nos ('000)	47
BSE Code	500472
NSE Code	SKFINDIA
Bloomberg	SKF:IN

#### Price performance



% Shareholding	Mar-18	Dec-17
Promoters	52.32	52.32
Public	47.68	47.68
Others	0	0
<b>Total</b>	<b>100.00</b>	<b>100.00</b>

#### Consolidated Financials (In INR Mn)

Year	Net Sales	% growth	EBITDA	EBITDA Margins	PAT	PAT Margins	EPS	ROE (%)	ROCE (%)
2015	24136	6%	3601	15%	2028	8%	37	15%	22%
2016	29973	24%	4630	15%	2559	9%	39	13%	20%
2017	26314	-12%	4230	16%	2439	9%	43	14%	21%

**Rs.10bn Opportunity in the railway segment:** SKF currently generates Rs. 1.9 bn in revenues from the Passenger railway segment. 40% of the Rs. 10bn Segment constitutes to Passenger railways presenting a big opportunity for SKF. Growth in this segment will be driven by different tenders for wagon and maintenance purposes. Furthermore, from 2019, SKF India becoming a part 1 supplier will be able to bid for 100% tender as compared to 10% in earlier years.

**Effective Cost management leading to Higher Operating Profits:** The company has recognized the increase in commodity prices, and has worked on the aspects of its major costs. SKF has achieved higher EBITDA margins at ~18% on backs of lower employee Costs and other fixed costs as compared to previous quarters. The Management expects to maintain its margins in coming quarters on back of new products developments and efficient cost measures.

**Capital Expenditure of Rs. 1bn per year for the next 3 years:** Over the past 3 years the company's average capex was ~0.5bn; and is currently operating at full capacity. Going forward SKF has given a guidance of doubling the capex to Rs. 1bn every year for development and introduction of new product lines.

**Double Digit growth in earnings and ROCE to be maintained above 25%:** It is expected that SKF will give good growth numbers on back of new product developments, usage of new bearings such as Generation 3 bearings in 4W, and pinion bearings in CV which will give better realizations thus maintain margins. This would aid ROCE for the company.

**Outlook and Valuation:** SKF has strong growth drivers in place on account of cyclical uptick in Auto OEMs and auto replacement market post GST stabilization; industrial aftermarket has also improved on account of demand from steel, mining and construction industry. New product development such as Gen 3, pinion bearings, greased for life wheel bearings would help sustain high EBITDA margins going forward.

At CMP, the stock is trading at 29x FY19E EPS of Rs. 66 and 25x FY20E EPS of Rs. 75. We Recommend **ACCUMULATE** for this stock.



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