

NRB Bearings

BUY

INDUSTRY AUTOS

CMP (as on 23 May 2017) Rs 112

Target Price Rs 161

Nifty 9,386

Sensex 30,365

KEY STOCK DATA

Bloomberg NRBB IN

No. of Shares (mn) 97

MCap (Rsbn) / (\$ mn) 11/168

6m avg traded value (Rsmn) 10

STOCK PERFORMANCE (%)

52 Week high / low Rs 142/100

3M 6M 12M

Absolute (%) 2.8 1.2 (0.7)

Relative (%) (2.3) (15.3) (21.0)

SHAREHOLDING PATTERN (%)

Promoters 54.66

FIs & Local MFs 14.68

FPIs 19.12

Public & Others 11.54

Source : BSE

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Ready to take off

NRB Bearings (NRB) is the largest manufacturer of needle roller bearings in India, with ~70% segmental market share. With 65% revenue coming in from domestic OEMs, NRB is expected to be a key beneficiary of robust growth in the automobile sector. With an increased emphasis on weight reduction in vehicles and lower space utilisation, applications for needle roller bearings are increasing. NRB has globally competent technology, and ~20% of its revenue stems from exports.

We expect revenue CAGR at 12% and PAT CAGR at 23% over FY17-FY19E. This is owing to growth in the domestic automotive sector, incremental revenue from the Defence, Aerospace and Railway segments (aggregate ~Rs 600mn by FY19E) and a revival in exports. We assign a BUY rating to the stock, with a target price of Rs 161 (22x FY19E EPS).

Key highlights

- **Well-diversified revenue stream:** NRB caters to almost all the segments in the automobile sector viz. 2W (30%), CV (28%), PV (15%) and farm/off-highway (10%). OEMs contribute ~65% to NRB's topline. The company's client portfolio is well-diversified, with the average contribution of any customer not exceeding ~10% of revenue.
- **Leadership in needle roller bearings:** NRB commands ~70% share in the organised needle roller bearing market. Owing to its compact size, these bearings are

the preferred choice for applications like steering systems, gear boxes, front axles, engines etc. With the increasing use of automation in 4Ws and the need to make engines, transmissions and steering lighter and more compact, we expect demand to increase in the medium term.

- **Improved export outlook:** NRB exports to global OEMs like Renault Volvo and Daimler Trucks. After a period of strong growth (~27% CAGR over FY12-15), exports fell 16% in FY16. However, the outlook has improved in the last six months with a revival in PV and CV sales in Europe and USA, and the addition of two new clients (Meritor and Detroit).
- **Strong margin profile:** The company has a strong EBITDA margin (avg 18% in the last five years) and RoE (20%), on the back high-margin customised products (needle-roller bearings account for 42% of sales).

Financial Summary (Consolidated)

Y/E Mar (Rs. mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Sales	6,703	6,749	7,152	7,961	8,904
EBITDA	1,239	1,112	1,178	1,337	1,533
APAT	532	420	464	577	709
Diluted EPS (Rs)	5.5	4.3	4.8	6.0	7.3
P/E (x)	20.9	26.5	24.0	19.3	15.7
EV / EBITDA (x)	11.1	12.1	11.1	9.8	8.4
RoE (%)	22.5	15.7	15.7	17.4	18.8

Source: Company, HDFC sec Inst Research

The company has a diversified presence across various segments (2W, 4W and CV) of the Automobile Industry

NRB Bearings' client portfolio is well diversified, and no client has more than 10% revenue share

Key clients include Hero MotoCorp, Bajaj Auto, HMSI and TVS Motors in the two-wheeler space and Tata Motors, Maruti Suzuki, M&M and Ashok Leyland in the PV, CV space.

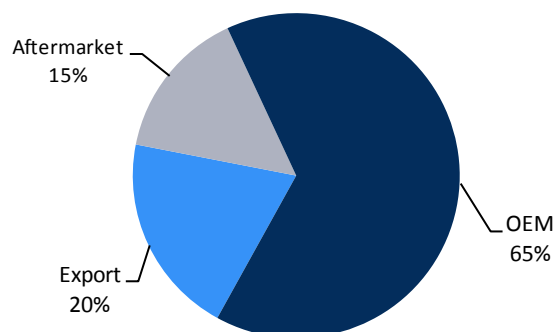
NRB's revenue growth of 6% CAGR over FY13-17 is identical to the overall auto sales volume growth of 6% CAGR in the same period, thereby clearly reflecting a strong correlation with domestic automotive industry growth

NRB has manufacturing facilities at Jalna, Waluj, Hyderabad, Aurangabad, Thane, Pantnagar, Ranchi (SNL Bearing) and Thailand.

Well-diversified revenue stream

- NRB is expected to be a key beneficiary of robust growth in the automobile sector, with the domestic OEM segment accounting for 65% of its revenue. Despite demonetisation, this sector posted 6% YoY growth in FY17 at ~26mn units, led by 2Ws, PVS (cars and UV) and tractors. This trend is likely to accelerate with the expected rise in per capita income and rural spending. NRB's domestic revenue (80% in FY16) could broadly be broken up into 2W 30%, CV 28%, PV 15%, farm and off Highway 10% and Aftermarket 16%. Exports account for 20% of revenue.
- The company has identified needle roller bearings (42% of revenue in FY16) as its focus area. These can bear sizeable radial loads, and operate at a high speed with moderate vibrations and sound. The company also manufactures cylindrical bearings, special tapered roller bearings and special ball bearings. With a proven track record of over 50 years,

OEM Contributes 65% To Total Revenue

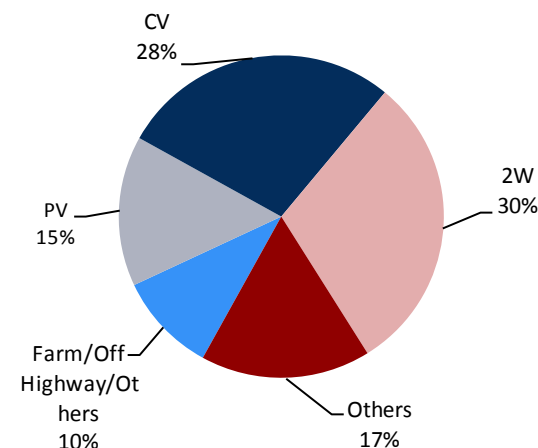


Source: Company, HDFC sec Inst Research

it is the preferred supplier to leading domestic OEMs such as Hero MotoCorp, Bajaj Auto, Maruti Suzuki, Tata Motors and Ashok Leyland, among others.

- NRB's client portfolio is well-diversified, and any customer's average contribution to revenue is not more than ~10%. The top 10 clients' contribution stands at ~50% of the top-line. The company also indicated that the constituents of the top-10 slot keep changing based on the segmental growth.
- Revenue growth in NRB's auto segment has mimicked that of overall auto sales volumes historically. For example, in FY10-12, when overall auto volumes grew ~28/25/14% YoY, respectively, NRB's revenue grew ~22%/34/17% YoY, respectively. Similarly, when the automotive segment was facing challenging times (muted 3% growth in FY16), NRB's revenue increased 1% YoY in FY16, exhibiting a strong correlation.

Sales Mix Of Domestic Revenue



Source: Company HDFC sec Inst Research

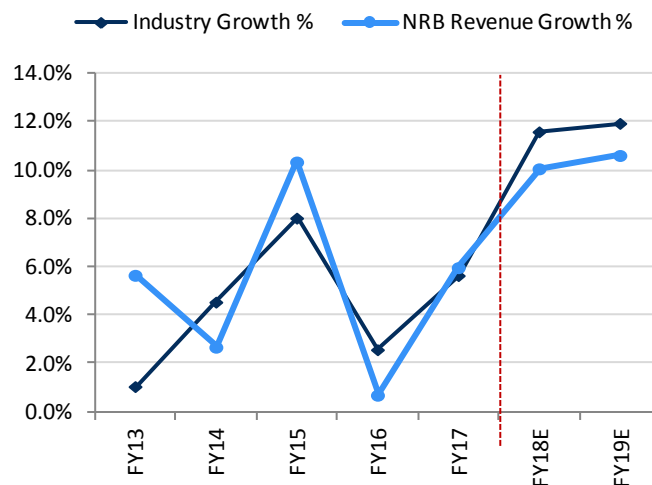
Needle roller bearings form ~10% of the Indian auto bearings industry, and NRB has a ~70% market share in this segment.

NRB's key competitor is INA, Germany, of the Schaffeler group. However products are imported, so are more expensive as compared to NRB's products

The company has inherited the technology from its JV with Nadella and by the acquisition of SNL Bearings (which was a JV between INA Germany and Shriram Group).

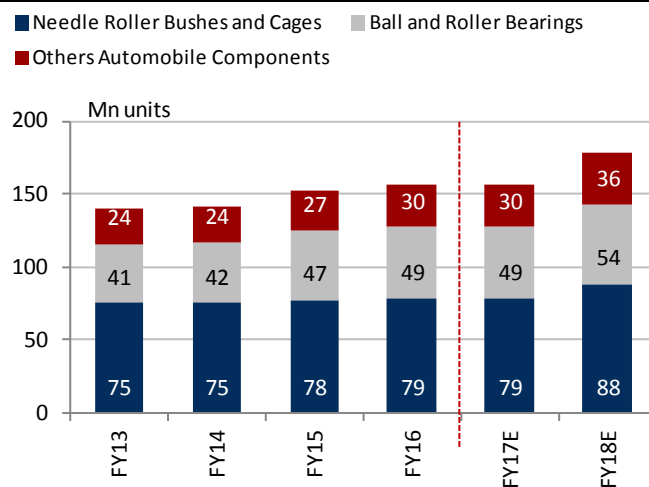
The company also manufactures cylindrical bearings, special tapered roller bearings and special ball bearings. All these are customized products, unlike its peers which derive a sizable portion from standardized products.

Revenue Mirror Automotive Sec's Volume Growth



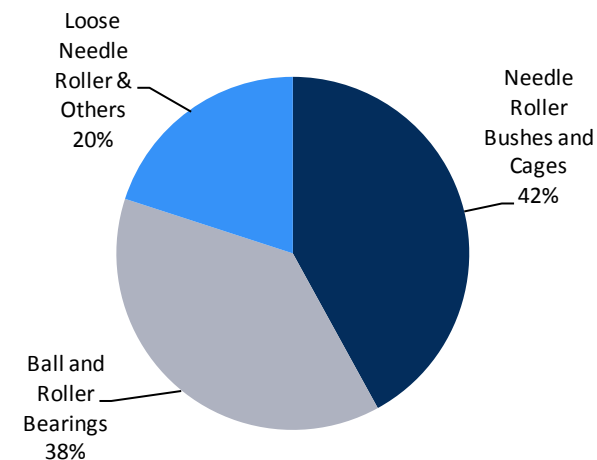
Source: SIAM, HDFC sec Inst Research

Continuously Adding Installed Capacity



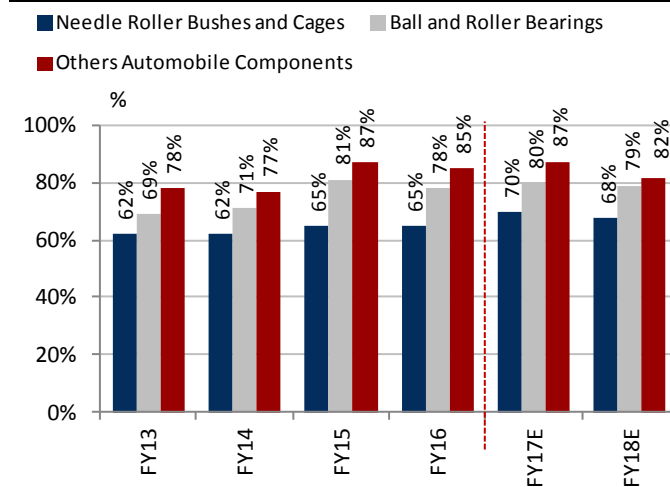
Source: Company, HDFC sec Inst Research

Needle Roller Bearings Form 42% Of Revenue



Source: Company, HDFC sec Inst Research

Capacity Utilisation



Source: Company, HDFC sec Inst Research

Needle bearings are used in critical automobile applications (such as gearbox/transmission system and steering systems), for which the company has laid down stringent control over processes such as heat treatment, grinding, etc. to ensure the quality of bearings

Precision is required to make customised bearings. Certain crank pins and needles require micron grades specification in diameters. A small variation in size could lead to rejection. This leads to significant entry barriers for new players. The bearings industry requires high-end technology and technical knowhow.

Key Clients In Export And Domestic Market

Domestic Market	Exports market
Ashok Leyland Ltd	Daimler Trucks
Bajaj Auto Ltd	Getrag Transmissions Corporation
Hero MotoCorp Ltd	GKN Driveline (European automotive and aerospace player)
Honda Motorcycle & Scooters	Renault Volvo
Mahindra and Mahindra Ltd	ZF Friedrichshafen AG (global leader providing driveline technology to auto OEMs)
Tata Motors Ltd	Audi
Maruti-Suzuki	

Source: Company, HDFC sec Inst Research

Leadership in needle roller bearings

- NRB commands ~70% share in the organised needle roller bearing market. Another key player is INA Bearings, part of the Schaeffler group, Germany. Needle roller bearings constituted ~42% of NRB's top-line in FY16. Being light, this translates into lower material costs, making them high-margin products.
- Another key product in NRB's stable is the cylindrical bearing. Needle and cylindrical bearings form ~68% of NRB's top-line. Needle roller bearing is a niche product and is used where the axial or thrust load is high. Owing to its compact size, the needle roller bearing is the preferred choice for applications like steering systems, gear boxes, front axles, engines etc. With the increased use of electronics and of automation in 4Ws, and the requirement to make engines, transmission and steering lighter and more compact, we expect the use of needle roller bearings to increase over time.
- As NRB prefers working with automotive OEMs from the product development stage, it has a strong affiliation with them. The principle advantage of this is that if selected, NRB is the sole or main supplier for the first few years (normally five). This helps it in

keeping margins and market share high, and also the competition at bay.

Advantages of needle roller bearings

- Most rolling-element bearings are either ball or roller bearings. These can be cylindrical, tapered, spherical or needle bearings. Needle roller bearings are the smallest and lightest component of the roller bearing family. A key advantage of these bearings is that despite these attributes, they are extremely rigid, can bear high radial loads and operate at elevated speeds, with moderate vibrations and sound. With an increased focus on weight reduction and lower space utilisation, applications for needle roller bearings are increasing. Key features include:
 - The surface area of the rollers and the high number of rolling, load-bearing elements provide needle roller bearings with exceptional load capacity and stiffness.
 - Being thinner, they require less clearance between the axle and the surrounding structure.
 - Accurate guidance of these rollers by the cage bars allows them to operate at high speeds.

The company also manufactures components like shafts, cages, and kingpin etc

NRB Bearings focuses on the niche customised bearings segment, which helps to differentiate it from global bearing manufacturers who largely focus on off-the-shelf bearings

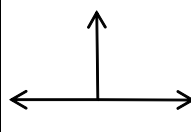
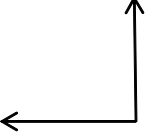
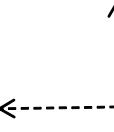
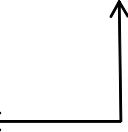
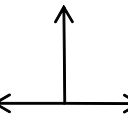
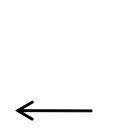
For compact size applications, typically needle roller bearings are preferred. Two-wheeler machinery is more compact than four-wheeler machinery, hence, needle roller bearings are largely used in two-wheelers

Bearings cost to vehicle cost are 1.5% for 2W, 2-3% for CV and PV

- The ability to handle a larger, more rigid shaft in a given application.
- Excellent rolling characteristics within a small cross-section.
- Needle roller bearings are used in a variety of applications, such as radial piston pumps, automotive

steering and braking systems, transmissions, engines, valve trains, copiers, fax machines, outboard engines and lawn trimmers. These bearings were invaluable in the development of small, efficient and reasonably-priced cars. The increasing requirement for needle roller bearings has led to a considerable expansion of the product range in just a few years

Key Characteristics of Different Types of Bearings

Bearing Type	DEEP GROOVE BALL BEARING	ANGULAR CONTACT BALL BEARING	CYLINDRICAL ROLLER BEARING	NEEDLE ROLLER BEARING	TAPERED ROLLER BEARING	SELF ALIGNING ROLLER BEARING	THRUST BALL BEARING
Characteristics							
							
HIGH ROTATION SPEED	EXCELLENT	EXCELLENT	EXCELLENT	GOOD	GOOD	AVERAGE	BELOW AVERAGE
LOW NOISE/VIBRATION	EXCELLENT	GOOD	AVERAGE	AVERAGE	WEAK	WEAK	BELOW AVERAGE
LOW FRICTION TORQUE	EXCELLENT	GOOD	BELOW AVERAGE	WEAK	WEAK	WEAK	WEAK
HIGH RIGIDITY	WEAK	WEAK	AVERAGE	AVERAGE	AVERAGE	GOOD	WEAK

Source: Company, HDFC sec Inst Research

To expand its footprint and foray into new platforms, NRB is focussing on exports, wherein it caters to global players such as Daimler Trucks, Renault, Volvo and Getrag

Europe and US together contribute ~65% to the total export revenue

NRB also exports to the ASEAN region, with special focus on Srilanka and Nepal

Revival in key export markets

- NRB is among the few manufacturers of needle roller bearings globally (INA, Koyo, Nadella and NSK, among others). The key reason for NRB's success in the overseas market are (1) Working with the customers from the design stage helps build a rapport and bag orders, (2) Most OEMs and Tier 1 suppliers are looking at adding vendors, and there are very few for needle roller bearings, (3) Cost advantage, (4) Technology at par with MNCs, (5) High customisation and willingness to supply smaller batch sizes and (6) Low turnaround time.
- NRB exports to global OEMs like Renault Volvo, VW and Daimler Trucks. The company also supplies to Tier-I clients like ZF and Getrag. The association with global OEMs has helped the company enhance its engineering capabilities and benchmark its quality to global standards. The company exports to Europe, US and Latin America. Europe and US together contribute ~65% to the total export revenue.
- After a period of strong growth (~27% CAGR over FY12-15), exports fell 16% in FY16, owing to a slowdown in Europe and fall in the Euro-INR

exchange rate. The company has major clients in the European region including Renault, Volvo, Daimler Trucks and Audi. Large global OEMs were circumspect about on-boarding new suppliers.

- Global OEMs were also reviewing their procurement policies in the wake of emission-related violations by Volkswagen. Consequently, the company was unable to expand its customer base in FY16. However, the situation has improved in the last six months, with a revival in key markets and the addition of new clients like Meritor and Detroit.
- Management indicated that it plans to expand its geographical presence as well as client base to mitigate its dependence on Europe and US. NRB also exports to the ASEAN region, with a special focus on Sri Lanka and Nepal. The company is making inroads into Iran, given the growing demand in the region. We believe these initiatives would help NRB diversify its client base and market for exports.
- Going ahead, we expect NRB's export revenue to grow at 12% CAGR over FY17-19E.

PV and CV each constitute 50% of export sales

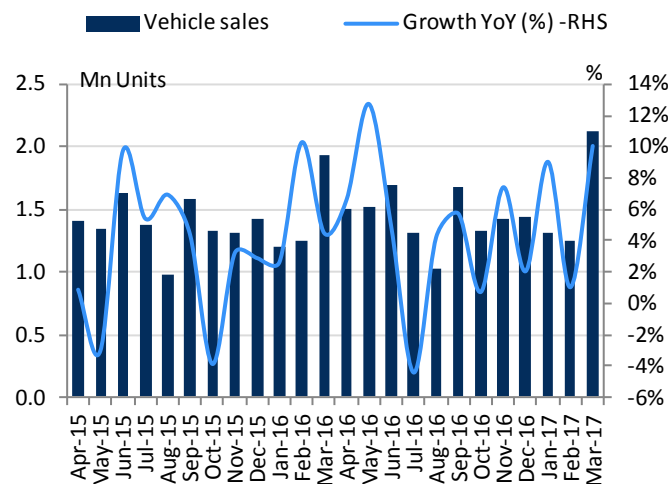
The company has added two new clients, namely Meritor and Detroit recently

Meritor is a leading global supplier of drivetrain, mobility, braking and aftermarket solutions for commercial vehicle and industrial markets.

Detroit Diesel Corporation (DDC) is an American diesel engine manufacturer and a subsidiary of Daimler Trucks North America. Detroit offers a full portfolio of heavy duty and mid-range diesel engines along with transmissions, axles, safety systems.

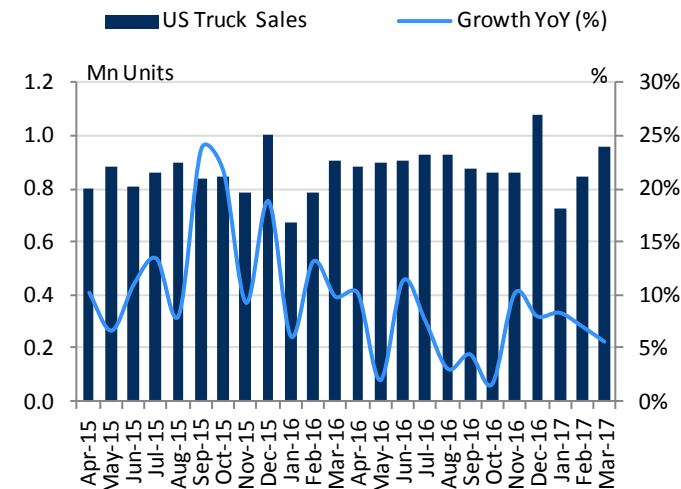
Contribution of exports has fallen 20% in FY16 vs 26% in FY13

European Automotive Industry Showing Signs of Revival



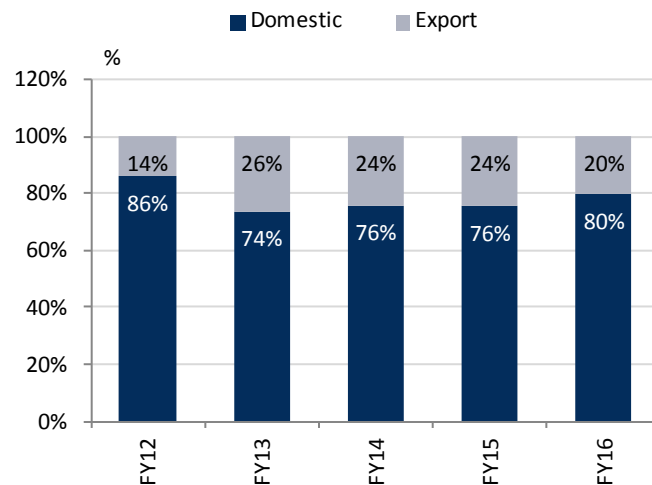
Source: Bloomberg, HDFC sec Inst Research

US CV Market Started Picking Up



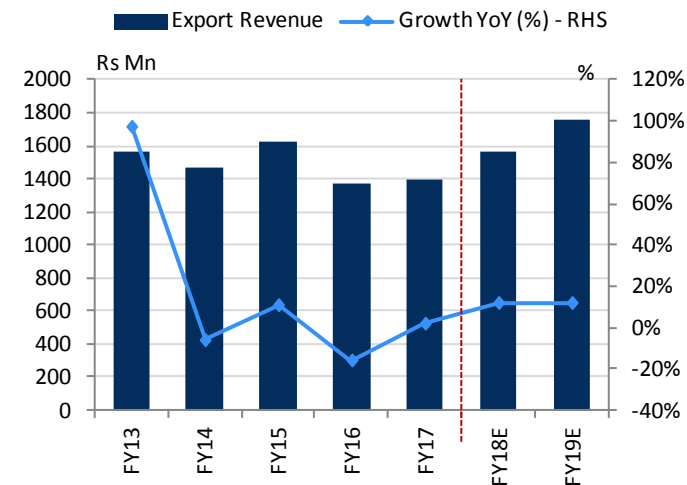
Source: Bloomberg, HDFC sec Inst Research

Domestic And Exports Revenue Contribution



Source: Company, HDFC sec Inst Research

Revenue From Exports and Growth



Source: Company, HDFC sec Inst Research

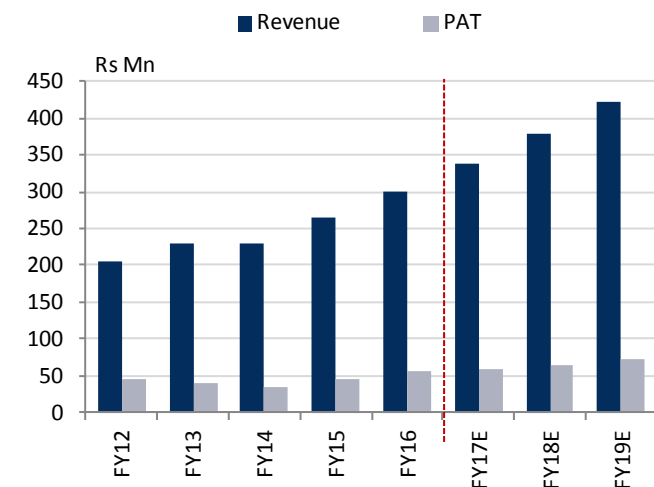
SNL Bearings was acquired by NRB in 2000. SNL was a JV between INA and the Shriram group. NRB acquired it for certain technical capabilities and turned around the company which was loss-making earlier

The company is targeting new businesses, with European and Japanese customers

Turn around in subsidiaries

- NRB has three subsidiaries, two of which are overseas in Thailand and Europe. The company has acquired a majority stake in SNL Bearings to access INA's technology.
- The company has set up a wholly-owned subsidiary in Thailand to provide bearings to Japanese and Korean automotive OEMs. In FY15, NRB set up another wholly-owned subsidiary in Germany, with a view to increase exports to Europe. This subsidiary provides marketing and customer support services to clients.
- SNL Bearings (SNL): SNL (earlier known as Shriram Needle Bearings), was a JV between INA and the Shriram group. In 2000, NRB acquired a 45% stake in the company, which it gradually increased to 73.5%.

Sales And PAT Of SNL Bearing

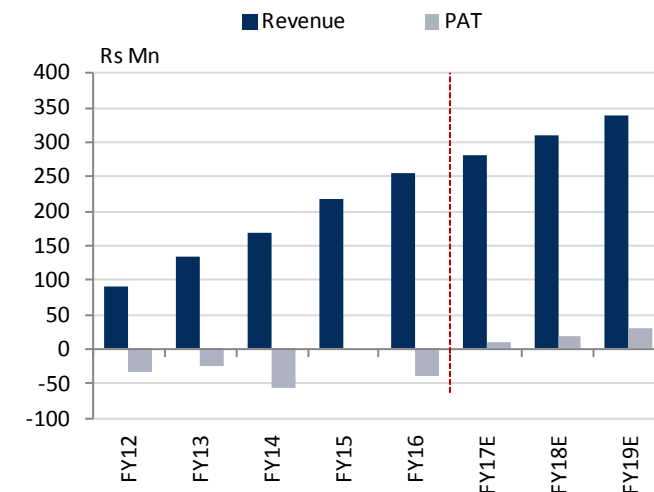


Source: Company, HDFC sec Inst Research

SNL also manufactures needle roller bearings at Ranchi. This company was acquired mainly to consolidate its technical and mechanical expertise, given that the products of both companies are similar. NRB has turned SNL around in five years, and now it enjoys a strong EBITDA margin of 25% to 30%.

- **NRB Bearings Thailand (NBT):** In the initial years, this subsidiary was only involved in the trading of goods, and was making losses until FY16. Today, however, manufacturing activity is increasing, and contributes 40% to revenue. New business deals are being finalised with European and Japanese customers. The introduction of new products in the market, as well as enhanced production of needle roller bearings helped the company to turn profitable in FY17.

Sales And PAT Of NRB Bearing Thailand



Source: Company, HDFC sec Inst Research

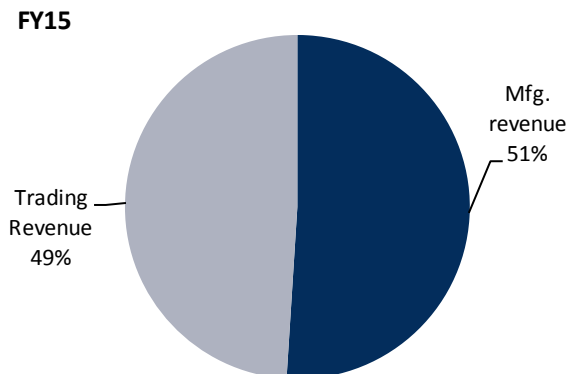
The company is looking to procure incremental revenue from the Defence, Marine and Railway segments (aggregate ~Rs. 600mn by FY19E)

Railway, which contributes only 1 % (Rs.70mn) to overall revenue, is expected to touch Rs. 200mn by FY19

Another Rs. 400 mn would be contributed by Aerospace (Rs. 50mn) and Defence (Rs. 350mn)

Imports of a key raw material from Europe and Japan - stand at 23%,

Trading Vs Manufacturing Revenue(NBT) FY15

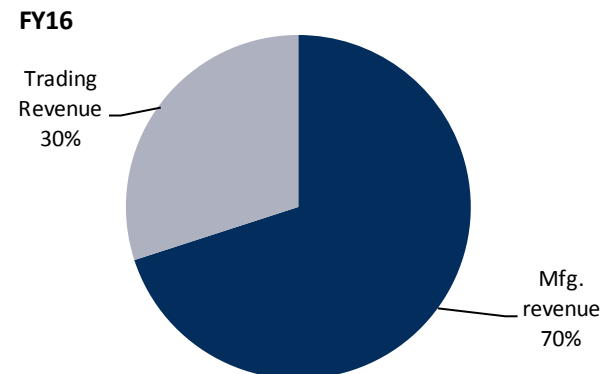


Source: Company, HDFC sec Inst Research

Railways, Aerospace and Defence: Poised For The Next Big Leap

- After Automotive, the Railways stands as the second-largest sector in the country. With the focus on increasing safety in trains, the modernisation and expansion of the railway's rolling stock/locomotives, an increasing number of fast trains and track kilometres, introduction of high-speed trains, and the DFC (Dedicated Freight Corridor) project, along with the expansion of the metro train network to a number of cities are all expected to drive demand for bearings by a double-digit CAGR in the next few years. Defence and Aerospace are also gaining strong traction, owing to the government's Make In India initiatives.
- The company is looking at the Defence, Aerospace and Railway segments as sources of incremental revenue (aggregate ~Rs. 600mn by FY19E).

Trading Vs Manufacturing Revenue(NBT) FY16



Source: Company, HDFC sec Inst Research

Risks

Corporate guarantee to group company (NIBL)

- NRB Industrial Bearings Ltd (NIBL) was demerged from NRB Bearings in October 2012. NRB Bearings is being managed by Harshbeena Zaveri, and NIBL by her brother, Devesh Sahney. The demerger agreement mandates NRB Bearings to cater to the Automobile segment, and NIBL to the Industry segment. However, on the expiry of the demerger agreement (was valid till 2016), there will be no such restrictions for either company. Related party transactions suggest that NRB Bearings has provided guarantees to NIBL of Rs 263mn and an inter-corporate deposit of Rs 90.7mn. NIBL has been continually making losses.

Forex risk may impact financial performance

- Exports constitute a significant portion of NRB's business (~20% of revenue in FY16). The company also imports certain raw materials and spares (~23% of total requirement). Apart from this the company has Rs ~600 mn debt in foreign currency

Owing to vast usage, growth of the bearings industry is directly correlated with the automotive and industrial sectors. The industrial sector accounts for the greatest demand (52%) for bearings in the Indian market, whereas automotive accounts for 48%

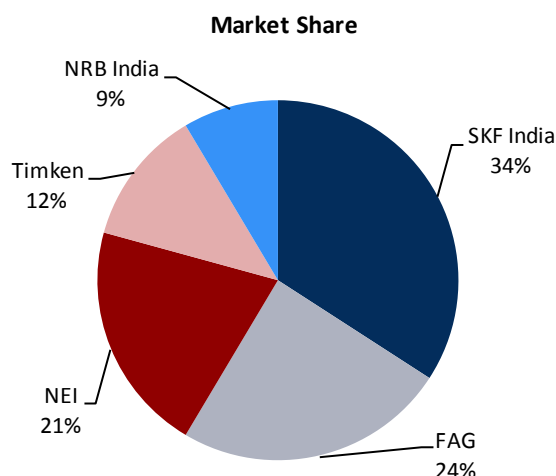
With the Indian economy undergoing rapid industrialisation, the bearing industry is expected to show strong growth

Industry overview

- This industry is expected to grow in double-digits for the next five years.
- The Indian bearing industry will continue to be dominated by leading global players. With the organised market size at Rs ~90bn, the industry in the country is skewed towards the local listed franchise of leading global players like SKF AB, Timken Co, FAG-Schaeffler AG, and also players of Indian origin like NRB Bearings and NEI (National Engineering Industry).

- Global players are present in India either as listed entities and/or wholly-owned subsidiaries or joint ventures. The top five players (SKF India, FAG, NEI, Timken India, and NRB Bearings) enjoy ~82% market share. The organised sector primarily caters to OEMs, which are predominantly in the Automotive, Railways and other industrial sectors.
- The unorganised sector primarily caters to the replacement market and the extremely low-end segment, as it manufactures counterfeit products.

Market Share Of The Top Five Bearing Companies



Source: Company, HDFC sec Inst Research

4 Years CAGR Growth Of The Bearings Ind

Net Sales(Rs mn)	FY12	FY16	4 Yr CAGR %
ABC Bearings Ltd.	1,769	1,796	0.4%
AKS Bearings Ltd.	29	18	-11.2%
Austin Engineering Company Ltd.	1,067	722	-9.3%
Bimetal Bearings Ltd.	1,752	1,527	-3.4%
Deccan Bearings Ltd.	61	14	-30.3%
FAG Bearings India Ltd.	14,467	17,244	4.5%
Galaxy Agrico Exports Ltd.	58	57	-0.5%
Galaxy Bearings Ltd.	438	367	-4.3%
Menon Bearings Ltd.	876	1,114	6.2%
National Engineering Industries Ltd.	18,226	26,462	9.8%
NRB Bearings Ltd.	5,600	6,749	4.8%
SKF India Ltd	24,349	23,765	-0.6%
SNL Bearings Ltd.	205	301	10.0%
Timken India Ltd.	8,308	10,619	6.3%
Vishal Bearings Ltd.	162	231	9.3%
Total	77,366	90,989	4.1%

Source: Capital line, HDFC sec Inst Research

In terms of types of bearings, ball bearings comprise 48% of the total bearings while roller bearings form the remaining 52%. Within roller bearings, tapered, cylindrical, spherical and needle form 42%, 29%, 17% and 9-10%, respectively.

India is amongst the fastest growing markets for bearings. Close to 40% of the total demand is fulfilled via imports, with the balance being met by indigenous products.

Players specialise in different categories

- A technological edge on account of parentage, innovation and capacity to invest allows the large players to identify their respective niche areas, and lead in that product category.
- SKF India is the biggest and most diversified player in the bearing industry, with the largest share in OEMs as well as after-market segments. It is the largest player in the deep groove ball bearings market. The company manufactures almost all varieties of bearings required for the automotive segment.
- FAG enjoys the status of being the second-largest player in the overall bearings market in India. The company has a strong presence in automotive OEMs. In addition to manufacturing various types of

bearings, it has a high share in the wheel-bearing segment. FAG is the leader in the manufacture of roller bearings: cylindrical and spherical.

- Timken India is the leader in tapered roller bearings, and has a dominant market share in the MHCV segment. The company is not present in the ball bearing segment.
- NRB Bearings is a pure play in the automotive segment. It is the market leader in needle roller bearings, with ~70% market share in this product category. Needle roller bearings find applications when space is a constraint and a large load-bearing capability is needed. The company is the largest supplier of this product to automotive OEMs.

Each Player Is A Leader In One Type Of Bearing

	Specialised and Leadership in	Market share in specialised product (%)	Nearest competitor
SKF India	Deep groove ball bearing	45	FAG
FAG	Spherical and Cylindrical ball bearing	40	SKF, Timken
NEI	Spherical and Cylindrical ball bearing	20	Timken
Timken India	Tapered roller bearing	45	NEI, FAG
NRB Bearings	Needle roller bearing	70	INA

Source: HDFC sec Inst Research

Segment-Wise Revenue Contribution (%)

	SKF	Timken	NRB Bearings	FAG
Industrial	50	55-60	NA	30-35
Automotive	50	40-45	100	65-70
OEM	55	85	60-65	80-85
Aftermarket	45	15	12-18	15-20
Exports	8	30-35	20-23	15-18
Domestic	92	65-70	77-80	82-85

Source: HDFC sec Inst Research

35% to 40% of demand met through official imports

- Out of total estimated market size of Rs 90bn, official imports of bearings by leading multinational players from their respective overseas parent stand at 30%-35% of total imports. Imports by other non-listed and smaller players contribute 5% to 10% to total imports. For leading multinational players, these imports form a part of traded goods for revenue classification. They enjoy lower margins, but high RoCE. Over the last few years, an equivalent amount of imports of low-end and small-sized bearings, mainly for automotive applications from Asian countries, especially China, have increased significantly.
- Ball bearing is the largest category of imported bearings and occupies over 50% share in total imports of bearings. Following slowing demand in the developed markets of US and Europe, cheap imports from China and other South-East Asian countries exerted pressure on Indian suppliers, leading them to price their products lower. They are proving to be a big threat for the domestic bearing industry, as many customers opt for cheaper imported bearings. A ready supply chain and strong focus on reducing costs, minimising waste and increasing efficiency of operations are effective ways to counter the same.

With the auto industry finally showing signs of a recovery after nearly two years of a demand slump, we estimate revenue to grow at 12% CAGR over FY17-19E.

NRB is expected to be a key beneficiary of robust automobile growth, incremental revenue from the Defence, Marine and Railway segments, and a revival in exports.

The key reasons for the co having a better EBITDA margin than peers is comprising higher-margin customised products (42% of sales are from needle-roller bearings) and absence of low-margin traded goods

We expect the company's interest costs to recede, given the reduction in debt levels

Financials

Revenue to record 12% CAGR over FY17-19E

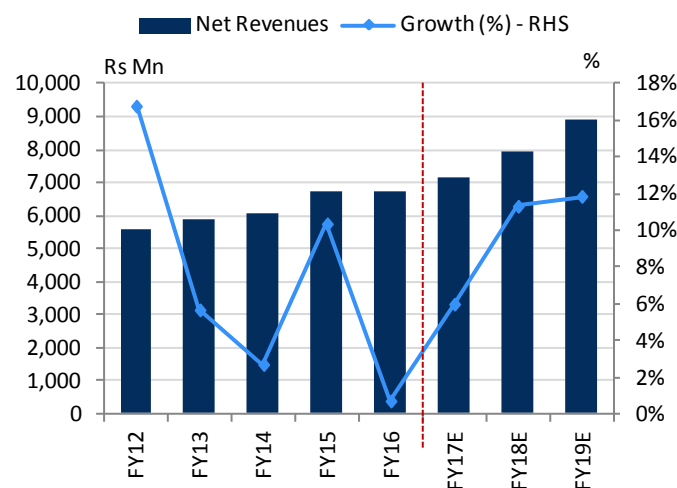
- We estimate revenue to grow at 12% CAGR over FY17-19E. This is likely to be driven by a domestic and export revenue CAGR of 12%. Growth in the domestic automobile industry will be the key determinant of the company's performance.

EBITDA margin to remain at ~16.5-17%

- NRB's operating margin (18% average in the last five years) is higher than its peers, owing to its superior

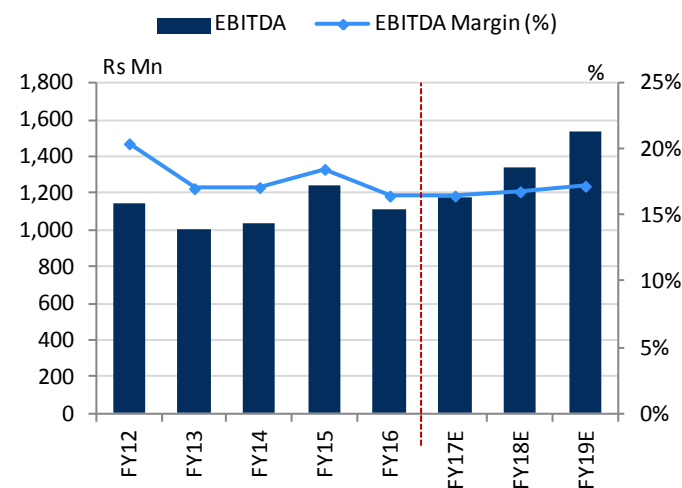
product mix comprising higher-margin customised products (42% of sales are from needle-roller bearings), absence of revenue from low-margin traded goods and integrated manufacturing (right from designing to production, in-house R&D which helps save money on royalty payments and trademark fees, and a higher share of exports in revenue). Although margins in the last two years declined by 150-200 bps to 16.5% owing to a fall in exports, we expect them to move up hereon, led by an improvement in operating leverage and revival in exports.

Revenue To Grow At 12% CAGR Over FY17-19E



Source: Company, HDFC sec Inst Research

EBITDA Margin To Remain At 16.5-17%



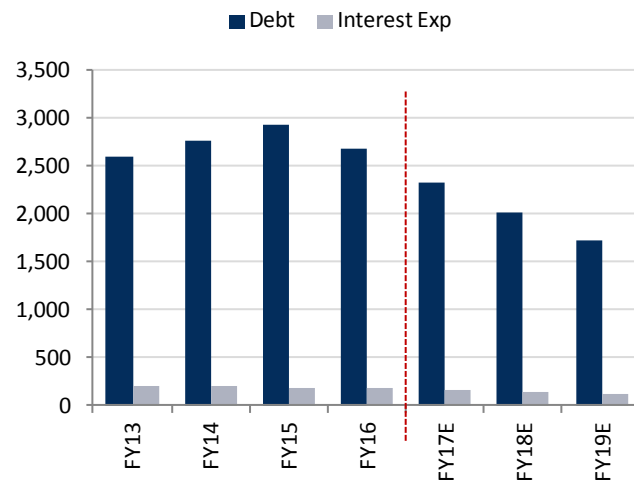
Source: Company, HDFC sec Inst Research

An improvement in operating leverage, debt repayment and no large borrowing in the absence of major capex, coupled with the fall in interest rates are likely to augur well for PAT growth

NRB has a higher net working capital compared to its peers, (mainly on account of a smaller after-sales segment), higher exports (warrants inventory levels in various geographies) and higher number of SKUs

Average capex will be ~ 400-500mn, including capacity addition and new product development

Debt and Interest Expenses To Go Down

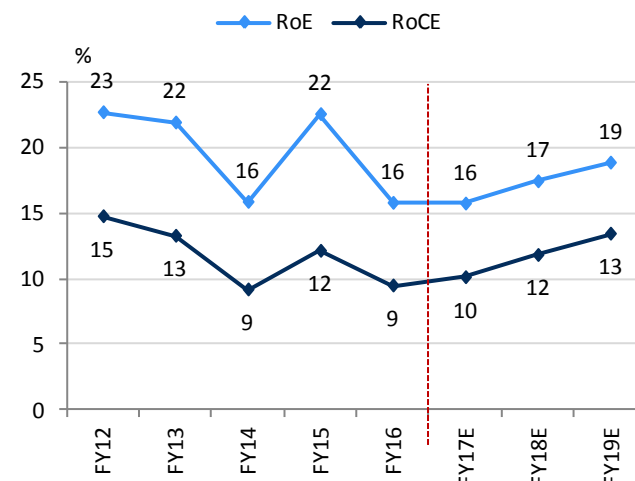


Source: Company, HDFC sec Inst Research

PAT to grow at 23% CAGR over FY17-19E

- We estimate PAT to grow at 23% CAGR over FY17-19E to Rs 709mn, against a decline over FY13-FY16. This will be led by revenue CAGR of 12% and stable average EBITDA margin at 17%, given the improvement in operating leverage. Debt repayment and no large borrowings in the absence of major capex, coupled with the fall in interest rates, are likely to augur well for PAT growth. As a result, ROE and ROCE are expected to increase to 19%/ 13% by FY19E from 16%/ 9% in FY16, respectively.
- NRB's ROCE is lower than peers, despite better operating margins, as the company has lower asset turnover (absence of traded revenues) and higher working capital requirements.
- The reason for high working capital requirements are: 1) Lower sales from the aftermarket business 2) Company maintains a large number of SKUs (as high as 2.5x the nearest competitor) 3) NRB has more

ROE And ROCE To Improve In Next Two Years



Source: Company, HDFC sec Inst Research

customised bearings, and the exports business requires maintaining inventory at warehouses in different geographies 4) Working capital higher owing to revenue mix, absence of trading revenue and higher SKUs

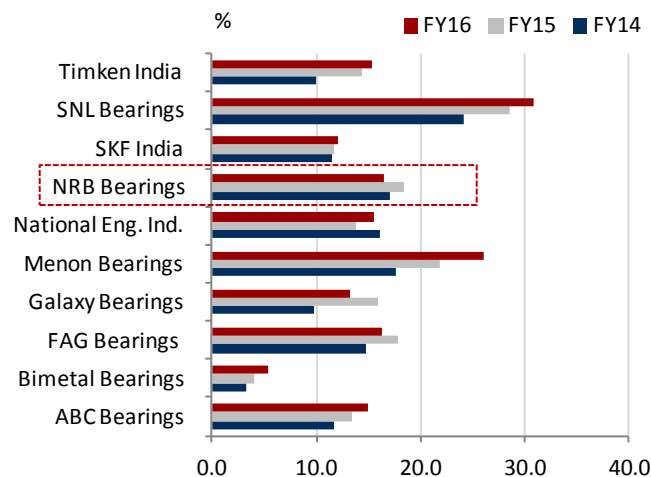
FCF generation to improve, going ahead

- Strong topline growth, coupled with an improvement in margins, is expected to boost the operating cash flow for NRB, going ahead. The company expects capex requirement of ~Rs 400 to 500mn every year over FY17-19E. Consequently, we expect NRB to generate an FCF of ~Rs 400 mn each year over FY17-19E. The strong FCF is also expected to be a key driver for a reduction in debt-equity.
- Going ahead, given the strong cash flow generation on the back of impressive topline growth and margin improvement, we expect NRB's net debt-to-equity to come down to 0.4x by FY19E.

Valuation

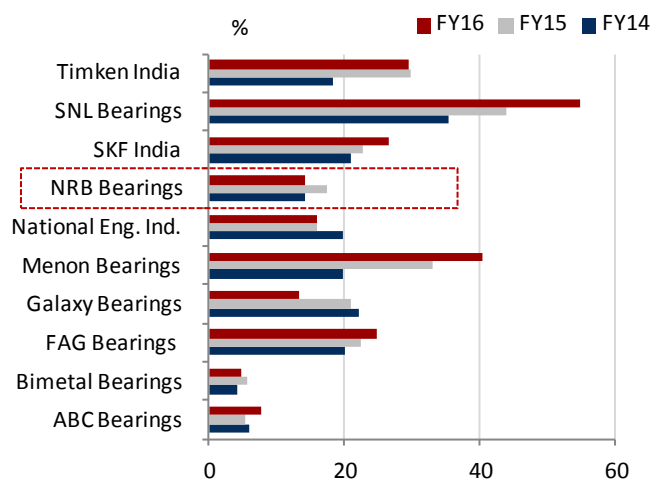
Peers Comparison

EBITDA Margin: Better Than Peers



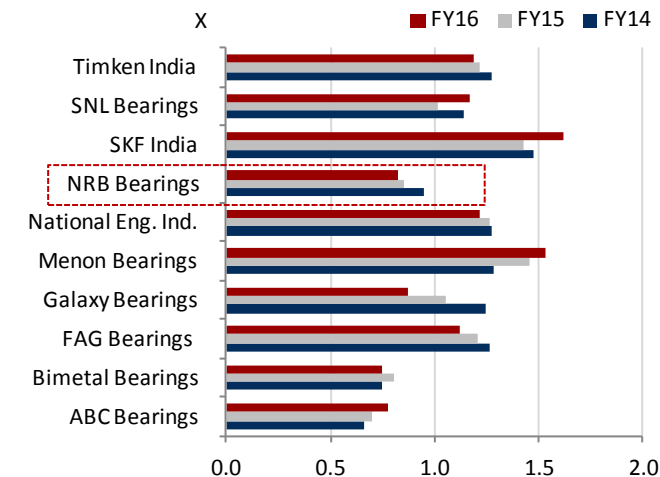
Source: Capital-line, HDFC sec Inst Research

Lead to Lower RoCE Than peers



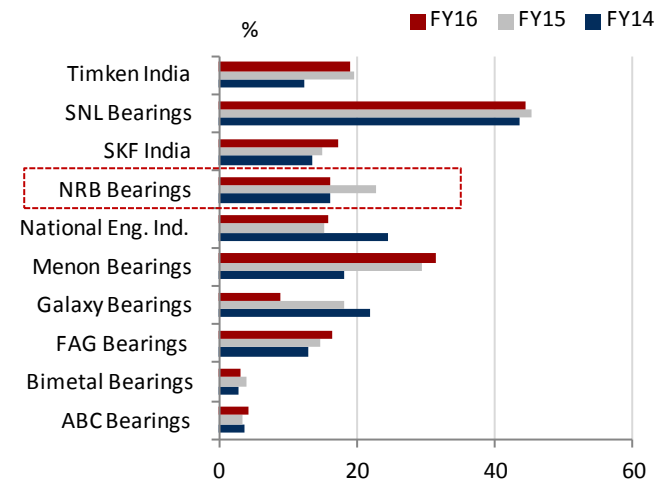
Source: Source: Capital-line, HDFC sec Inst Research

But Low Gross Asset Turnover...



Source: Capital-line, HDFC sec Inst Research

RoE Better Than Peers



Source: Capital-line, HDFC sec Inst Research

2W, PV and tractor will be key growth drivers of Revenue

Current valuations at 16x FY19E is far below its historical mean (24x)

Key Assumption

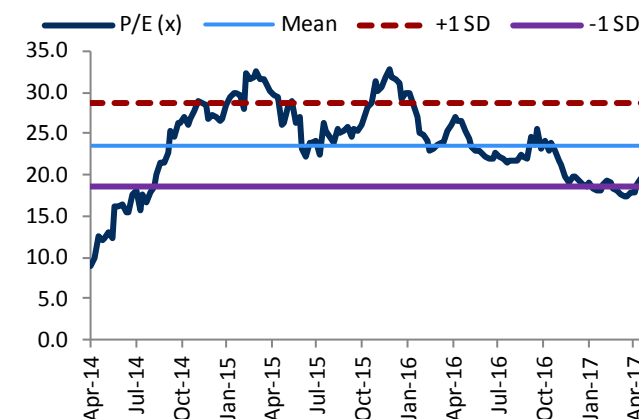
	FY15	FY16	FY17	FY18E	FY19E
Domestic Revenue	5075.18	5379.16	5754.72	6395.52	7150.72
Growth(%)	10%	6%	7%	11%	12%
OEM	4189.43	4420.84	4720.54	5254.16	5876.57
Growth(%)	11%	6%	7%	11%	12%
Aftermarket	885.75	958.32	1034.18	1141.36	1274.16
Growth(%)	5%	8%	8%	10%	12%
Export	1627.91	1370.21	1397.61	1565.33	1753.17
Growth(%)	11%	-16%	2%	12%	12%
Total Revenue	6703.09	6749.37	7152.33	7960.85	8903.89
Growth(%)	10%	1%	6%	11%	12%
Revenue Break Up(Domestic)					
2W	33%	30%	30%	30%	30%
PV	14%	15%	15%	16%	16%
CV	25%	28%	26%	25%	24%
Tractor & Farm Equip	10%	10%	12%	12%	12%
Others	18%	17%	17%	18%	18%

Source: Company, HDFC sec Inst Research

Valuation

- NRB, being an important player in the automotive bearings space with a leadership position in needle roller bearings, is expected to be a key beneficiary of robust automobile growth, incremental revenue from the Defence, Marine and Railway segments, and a revival in exports. We expect revenue CAGR of 12% and PAT CAGR of 23% over FY17-FY19E. **We assign a BUY rating to the stock, with a target price of Rs 161 (22x FY19E EPS).**

One-Year Forward P/E Band



Source: Company, Bloomberg, HDFC sec Inst Research

Peer Valuations

	Mcap (Rsbn)	CMP (Rs/sh)	Rating	TP	Adj EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			RoE (%)		
					FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E	FY17E	FY18E	FY19E
Bharat Forge	244	1,047	NEU	943	24.8	31.0	40.0	42.3	33.8	26.2	19.0	16.4	13.4	15.6	17.5	19.6
Exide Industries	193	227	BUY	262	8.2	9.3	11.2	27.8	24.4	20.2	17.0	16.1	13.8	17.6	21.4	22.1
Balkrishna Industries	143	1,480	NEU	1,152	65.8	76.6	84.2	22.5	19.3	17.6	12	10.5	9.7	31.4	31.7	30.8
Endurance Tech	113	800	BUY	810	23.5	29.1	35.4	34.0	27.5	22.6	15.6	13.1	11.0	20.0	20.1	20.5
SKF India*	83	1,576	NA	NA	47.2	55.8	65.2	33.4	28.2	24.2	22.9	19.7	16.8	14.9	15.8	17
FAG bearings*	74	4,473	NA	NA	140.9	166.4	222.7	31.7	26.9	20.1	18.7	16.1	12.6	14.5	14.8	16.7
Timken India*	47	690	NA	NA	15.3	19.1	24	45.2	36.2	28.8	27.4	21.7	17.8	17.9	19	19.9
Suprajit Engineering	32	244	BUY	281	8.9	11.9	15.6	27.3	20.6	15.7	16.4	12.7	10.3	23.3	24.8	26
Jamna Auto	18	225	BUY	249	11.1	13.2	17.7	20.3	17	12.7	9.6	8.2	6.3	31.5	30.1	33
Ramkrishna Forgings	14	484	BUY	537	8.3	24.4	37	58.4	19.8	13.1	13.2	9.4	7.6	4.9	13.4	17.8
Subros	15	245	NR	-	5.9	10	13.8	41.7	24.4	17.7	9.1	6.8	5.4	10.1	15.7	19.3
NRB Bearings	11	112	BUY	161	4.8	6	7.3	23.2	18.6	15.2	10.8	9.5	8.1	15.7	17.4	18.8
Lumax Autotech	6	460	BUY	681	26.8	37.2	45.0	19.5	15.8	13	9.1	6.8	5.5	12.2	15.1	16.2

Source: Company, HDFC sec Inst Research *Bloomberg estimates

Income Statement (Standalone)

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
Net Revenues	6,703	6,749	7,152	7,961	8,904
Growth (%)	10.3%	0.7%	6.0%	11.3%	11.8%
Material Expenses	2,535	2,621	2,778	3,092	3,458
Power & Fuel expenses	278	294	312	347	388
Employee Expenses	1,121	1,284	1,361	1,514	1,674
Other Operating Expenses	1,530	1,438	1,524	1,671	1,851
EBITDA	1,239	1,112	1,178	1,337	1,533
EBITDA Margin (%)	18.5%	16.5%	16.5%	16.8%	17.2%
EBITDA Growth (%)	19.2%	-10.3%	6.0%	13.5%	14.7%
Depreciation	310	319	342	369	396
EBIT	929	792	836	967	1,136
Other Income (Incl. EO Items)	45	32	32	33	33
Interest	194	185	166	142	118
PBT	780	639	702	859	1,052
Tax (Incl Deferred)	243	207	225	266	326
Minority Interest	5	12	14	15	17
RPAT	532	420	464	577	709
APAT	532	420	464	577	709
APAT Growth (%)	59.4%	-19.6%	10.4%	24.4%	22.8%
Adjusted EPS (Rs)	5.5	4.3	4.8	6.0	7.3

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

(Rs mn)	FY15	FY16	FY17E	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital - Equity	194	194	194	194	194
Reserves	2,348	2,598	2,922	3,326	3,822
Total Shareholders' Funds	2,542	2,792	3,116	3,520	4,016
Minority Interest	29	41	55	70	87
Long Term Debt	1,008	618	468	318	168
Short Term Debt	1,932	2,058	1,854	1,704	1,554
Total Debt	2,940	2,676	2,322	2,022	1,722
Net Deferred Taxes	120	117	117	117	117
Long Term Provisions & Others	133	129	57	57	57
TOTAL SOURCES OF FUNDS	5,765	5,755	5,667	5,787	6,000
APPLICATION OF FUNDS					
Net Block	2,582	2,595	2,552	2,683	2,786
CWIP	35	48	53	58	63
Investments					
LT Loans & Advances	805	640	484	484	492
Total Non-current Assets	3,423	3,283	3,090	3,225	3,342
Inventories	1,642	1,447	1,528	1,701	1,903
Debtors	1,998	2,259	2,312	2,530	2,732
Other Current Assets	35	37	38	40	42
Cash & Equivalents	280	320	342	129	47
Total Current Assets	3,955	4,064	4,222	4,400	4,725
Creditors	891	899	851	944	1,050
Other Current Liabilities & Provns	719	693	793	895	1,016
Total Current Liabilities	1,610	1,592	1,644	1,839	2,066
Net Current Assets	2,344	2,472	2,578	2,562	2,658
TOTAL APPLICATION OF FUNDS	5,767	5,754	5,668	5,787	6,000

Source: Company, HDFC sec Inst Research

Cash Flow Statement(Standalone)

(Rsmn)	FY15	FY16	FY17E	FY18E	FY19E
Reported PBT	780	639	702	859	1,052
Non-operating & EO items					
Interest expenses	194	185	166	142	118
Depreciation	310	319	342	369	396
Working Capital Change	(384)	141	(54)	(197)	(186)
Tax Paid	(243)	(207)	(225)	(266)	(326)
Other operating Items	-	-			
OPERATING CASH FLOW (a)	657	1,077	932	906	1,054
Capex	(235)	(192)	(305)	(505)	(505)
Free cash flow (FCF)	422	885	627	401	549
Investments			-		
Non-operating Income	-	-		-	-
INVESTING CASH FLOW (b)	(235)	(192)	(305)	(505)	(505)
Debt Issuance/(Repaid)	100	(488)	(300)	(300)	(300)
Interest Expenses	(194)	(185)	(166)	(142)	(118)
FCFE	329	212	161	(41)	131
Share Capital Issuance					
Dividend	(107)	(281)	(139)	(173)	(213)
FINANCING CASH FLOW (c)	(200)	(845)	(605)	(615)	(630)
NET CASH FLOW (a+b+c)	222	40	22	(214)	(81)
EO Items, Others	58	280	320	342	129
Closing Cash & Equivalents	280	320	342	129	47

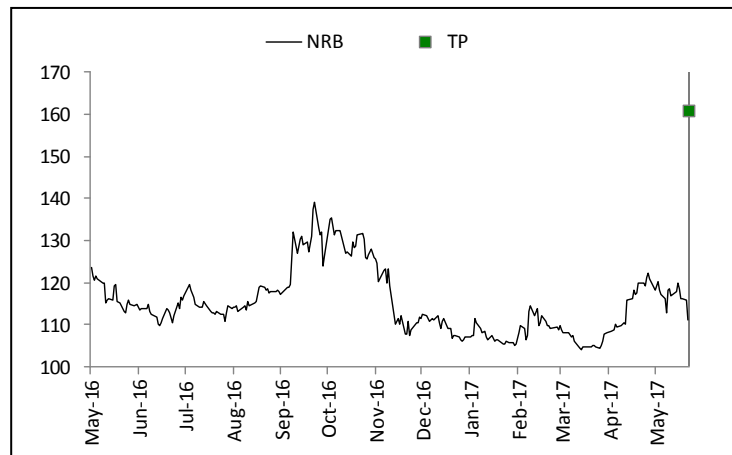
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY15	FY16	FY17E	FY18E	FY19E
PROFITABILITY (%)					
GPM	62.2	61.2	61.2	61.2	61.2
EBITDA Margin	0.2	0.2	0.2	0.2	0.2
APAT Margin	7.9	6.2	6.5	7.2	8.0
RoE	22.5	15.7	15.7	17.4	18.8
RoIC (or Core RoCE)	13.8	10.7	11.2	12.6	14.2
RoCE	12.1	9.5	10.1	11.8	13.4
EFFICIENCY					
Tax Rate (%)	31.2	32.4	32.0	31.0	31.0
Fixed Asset Turnover (x)	1.36	1.30	1.39	1.52	1.63
Inventory (days)	89.4	78.3	78.0	78.0	78.0
Debtors (days)	108.8	122.2	118.0	116.0	112.0
Other Current Assets (days)	1.9	2.0	2.0	1.9	1.7
Payables (days)	48.5	48.6	43.4	43.3	43.0
Other Current Liab&Provns (days)	39.1	37.5	40.5	41.0	41.7
Cash Conversion Cycle (days)	112.4	116.4	114.1	111.5	107.0
Debt/EBITDA (x)	2.4	2.4	2.0	1.5	1.1
Net D/E (x)	1.0	0.8	0.6	0.5	0.4
Interest Coverage (x)	4.8	4.3	5.0	6.8	9.6
PER SHARE DATA (Rs)					
EPS	5.5	4.3	4.8	6.0	7.3
CEPS	8.7	7.6	8.3	9.8	11.4
Dividend	1.2	1.6	1.8	3.0	4.2
Book Value	26.2	28.8	32.2	36.3	41.4
VALUATION					
P/E (x)	20.9	26.5	24.0	19.3	15.7
P/BV (x)	4.4	4.0	3.6	3.2	2.8
EV/EBITDA (x)	11.1	12.1	11.1	9.8	8.4
EV/Revenues (x)	2.1	2.0	1.8	1.6	1.4
OCF/EV (%)	4.8	8.0	7.1	6.9	8.2
FCF/EV (%)	3.1	6.6	4.8	3.1	4.3
FCFE/Mkt Cap (%)	2.9	1.9	1.4	(0.4)	1.2
Dividend Yield (%)	1.0	1.4	1.5	2.6	3.6

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
24-May-17	112	BUY	161

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12-month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12-month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12-month period

INSTITUTIONAL RESEARCH

Disclosure:

We, **Abhishek Jain, MBA & Sneha Prashant, MBA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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