

CRISIL IER

Independent Equity Research

Enhancing investment decisions



NRB Bearings Ltd

Q1FY18 Results Update

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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NRB Bearings Ltd

September 22, 2017

Forex headwinds and GST arrested revenue growth

Fundamental Grade: 4/5 (Superior fundamentals)
Valuation Grade: 4/5 (CMP has upside)
Industry: Auto Components
Fair Value: ₹135
CMP: ₹122

NRB Bearings Ltd's (NRB's) Q1FY18 standalone earnings were broadly in line with CRISIL Research's expectations. Standalone revenue grew a moderate 2.9% y-o-y to ₹1,792 mn, as healthy export volumes were partly offset by the appreciating rupee. EBITDA margin contracted 87 bps y-o-y to 15.3% owing to lower net realisations because of forex headwinds and lower aftermarket sales, which typically fetch superior margins. Consequently, with depreciation, finance costs and other income being broadly stable, PAT declined 3.2% y-o-y to ₹127 mn. Given NRB's diversified presence across various automobile segments, it is well placed to benefit from the upbeat domestic auto market and gradual revival in the global auto industry. Its growing non-automotive customer base on the back of strong research and engineering capabilities is expected to support growth. We maintain the fundamental grade of **4/5**.

Appreciating rupee and slowdown in aftermarket segment led to lower revenue growth
 Revenue increased 2.9% y-o-y, but declined 5.1% q-o-q, to ₹1,792 mn primarily on account of the appreciating rupee (4.3% against the US\$ and 2.6% against the euro in H1CY17). Apart from this, subdued demand in the replacement market as a result of the recently implemented GST contributed to slower growth in the aftermarket segment. In the long run a) positive outlook on the auto industry (OEM offtake expected to grow 10-12% over FY17-22 versus ~4% in FY12-17); b) growing non-auto customer base especially in defence, railways and aerospace; and c) expansion to newer geographies such as the Middle East are likely to augment NRB's growth. We, thus, estimate revenue CAGR of 11.4% over FY17-19.

EBITDA margin contracted y-o-y on account of subdued demand

EBITDA margin expanded 102 bps q-o-q after the adverse effect of demonetisation, but contracted ~87 bps y-o-y to 15.3% owing to subdued demand in the relatively higher-margin aftermarket segment as a result of GST. This reflected in an increase in the cost of raw materials as a percentage of revenue (expanded 217 bps y-o-y to 45.4%), which may also be attributable to increasing commodity prices to an extent. Owing to a mix of factors such as short-term disruptions owing to GST and current uptrend in steel prices, we expect EBITDA margin of 16% in FY18. Subsequently, we estimate EBITDA margin to expand 50 bps to 16.5% in FY19.

Maintain fair value at ₹135 per share

We maintain our revenue and earnings estimates. Subsequently, we retain our DCF-based fair value at ₹135 per share, which implies P/E multiples of 21.7x FY18E and 17.5x FY19E EPS. At the current market price of ₹122, our valuation grade is **4/5**.

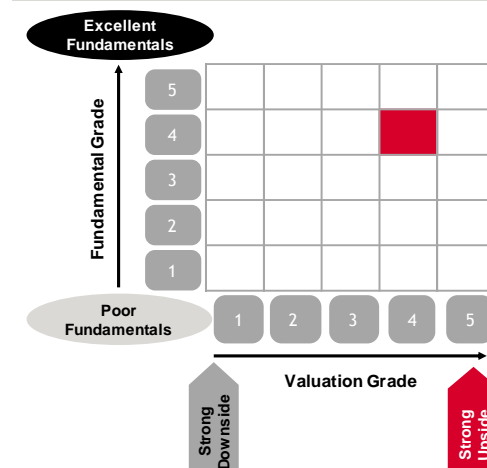
KEY FORECAST (CONSOLIDATED)

(₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Operating income	6,685	6,726	7,326	8,022	9,087
EBITDA	1,261	1,133	1,256	1,280	1,500
Adj Net income	534	433	536	602	746
Adj EPS-₹	5.5	4.5	5.5	6.2	7.7
EPS growth (%)	60.8	(18.9)	23.7	12.4	23.9
Dividend yield (%)	1.2	1.2	1.1	1.3	1.6
RoCE (%)	16.9	13.8	15.7	15.8	18.5
RoE (%)	22.3	16.0	17.7	17.5	19.0
PE (x)	22.1	27.2	22.0	19.6	15.8
P/BV (x)	4.6	4.2	3.7	3.2	2.8
EV/EBITDA (x)	11.7	12.9	11.4	11.0	9.3

CMP: Current market price;

Source: Company, CRISIL Research estimates

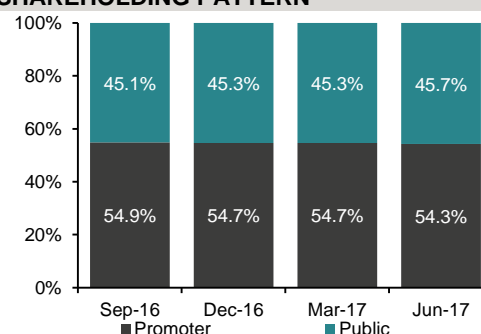
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	10122/32370
NSE/BSE ticker	NRBBEARING
Face value (₹ per share)	2
Shares outstanding (mn)	96.9
Market cap (₹ mn)/(US\$ mn)	11,728/182
Enterprise value (₹ mn)/(US\$ mn)	14,226/220
52-week range (₹)/(H/L)	157/103
Beta	0.5
Free float (%)	45.7%
Avg daily volumes (30-days)	121,387
Avg daily value (30-days) (₹ mn)	27.9

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

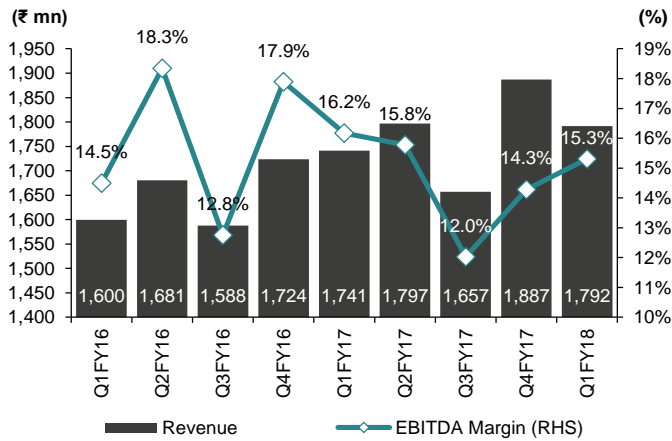
	Returns			
	1-m	3-m	6-m	12-m
NRB	8%	-11%	14%	-5%
NIFTY 500	4%	4%	14%	18%

Q1FY18 Results Summary (Standalone)

(₹ mn)	Q1FY18	Q4FY17	Q1FY17	q-o-q (%)	y-o-y (%)
Net sales	1,792	1,887	1,741	(5.1)	2.9
Raw material cost	814	804	754	1.3	8.0
Raw material as % of sales	45.4%	42.6%	43.3%	285 bps	217 bps
Other expenses	414	531	414	(22.0)	0.0
Employees cost	289	283	293	2.3	(1.1)
EBITDA	274	270	282	1.7	(2.6)
EBITDA margin	15.3%	14.3%	16.2%	102 bps	-87 bps
Depreciation	72	74	74	(2.2)	(3.0)
EBIT	202	196	207	3.2	(2.5)
Interest and finance charges	34	36	32	(5.5)	7.5
Operating PBT	168	160	176	5.2	(4.3)
Other income	16	13	14	19.5	16.1
PBT	184	173	189	6.3	(2.9)
Tax	57	43	58	31.1	(2.1)
PAT	127	130	131	(2.0)	(3.2)
Adj PAT	127	130	131	(2.0)	(3.2)
Adj PAT margin	7.1%	6.9%	7.5%	22 bps	-44 bps
No of equity shares (mn)	96.9	96.9	96.9	-	-
Adj EPS (₹)	1.31	1.34	1.35	(2.0)	(3.2)

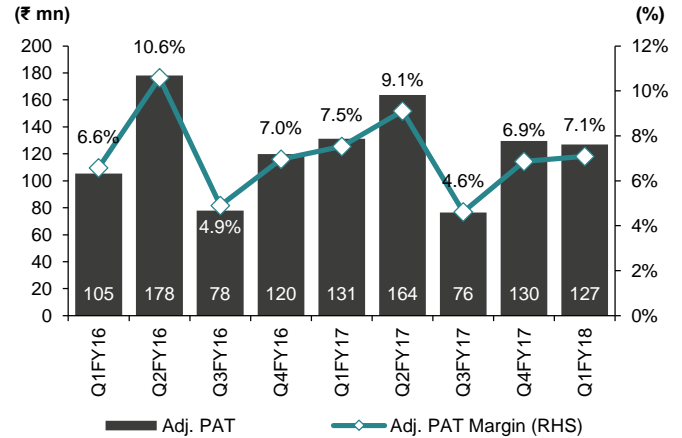
Source: Company, CRISIL Research

Moderate revenue growth and lower EBITDA margin...



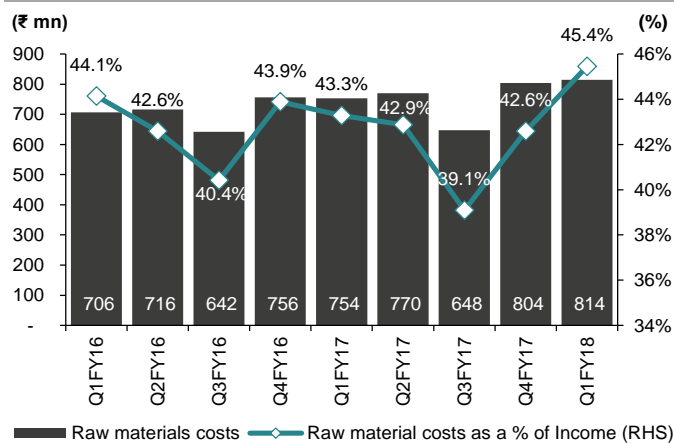
Source: Company, CRISIL Research

... resulted in lower adjusted PAT y-o-y



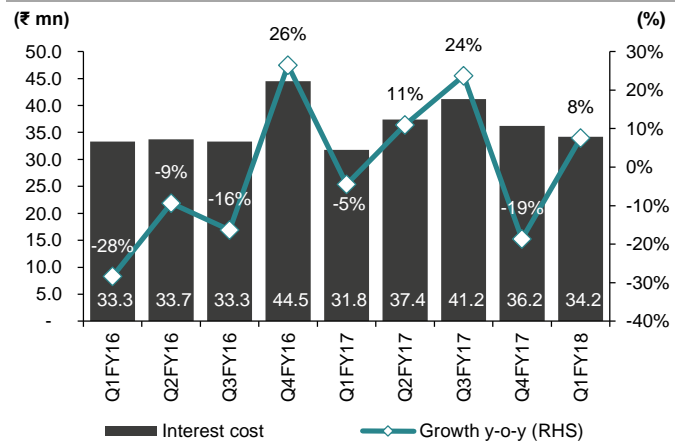
Source: Company, CRISIL Research

Gross margin impacted owing to forex fluctuations



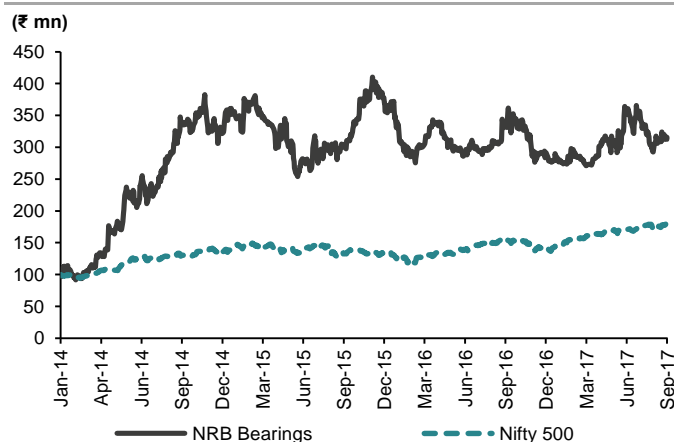
Source: Company, CRISIL Research

Interest cost declining gradually with reduction in debt



Source: Company, CRISIL Research

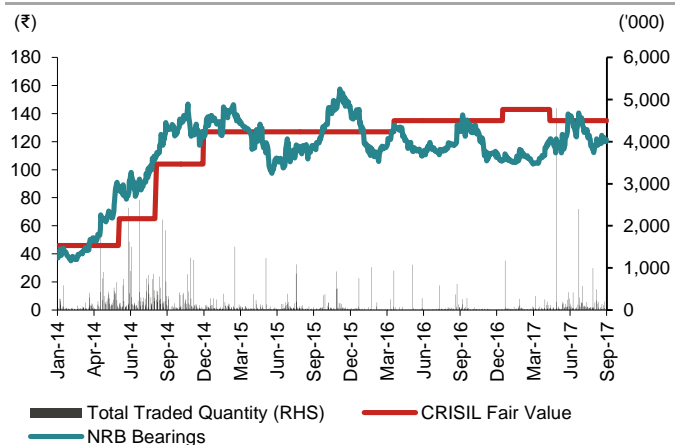
Share price movement



-Indexed to 100

Source: NSE, CRISIL Research

Fair value movement since initiation



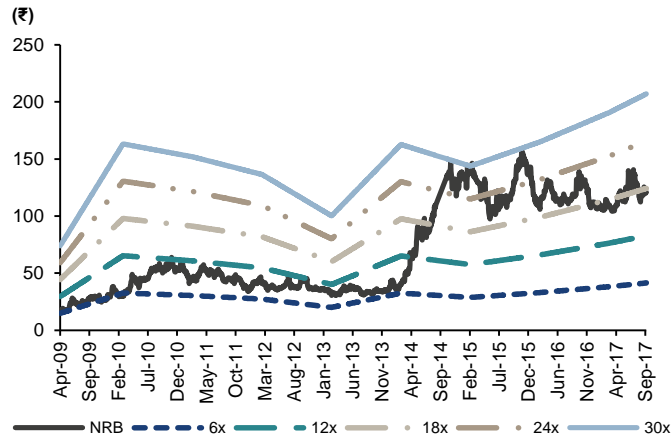
Source: NSE, BSE, CRISIL Research

Valuation

Grade: 4/5

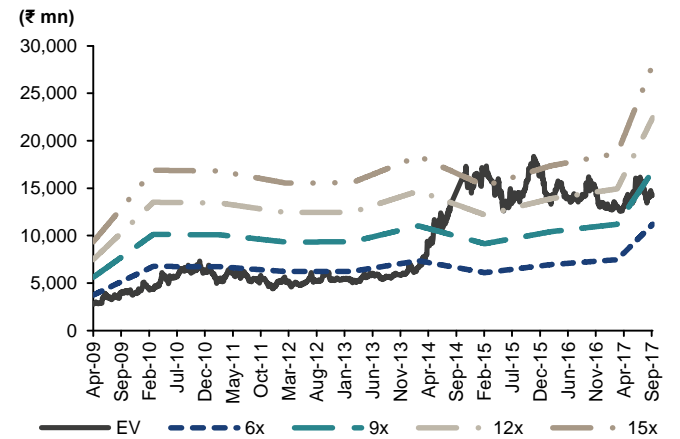
We maintain our revenue and earnings estimates for FY18 and FY19. Subsequently, we retain our DCF-based fair value at ₹135 per share, which implies P/E multiples of 21.7x FY18E and 17.5x FY19E EPS. At the current market price of ₹122, our valuation grade is 4/5.

One-year forward P/E band



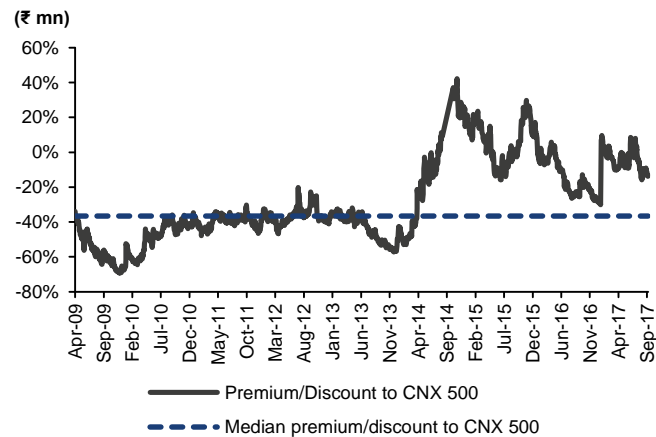
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



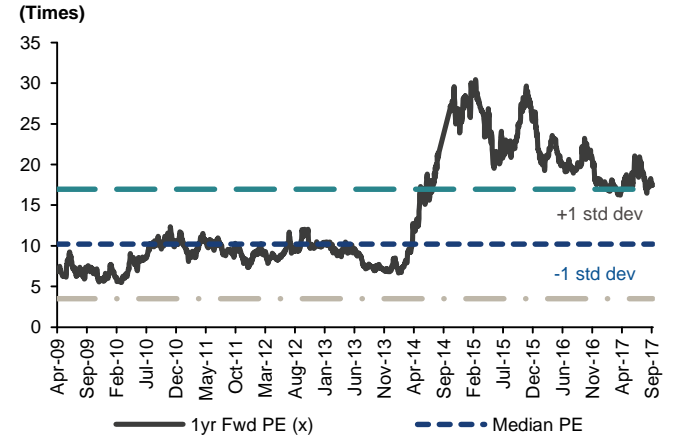
Source: NSE, CRISIL Research

P/E – premium / discount to CNX 500



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

CRISIL IER reports released on NRB Bearings Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
02-Jan-2014	Detailed report	4/5	₹46	5/5	₹36
07-Feb-2014	Q3FY14 result update	4/5	₹46	4/5	₹38
02-Jun-2014	Q4FY14 result update	4/5	₹65	2/5	₹85
01-Sep-2014	Q1FY15 result update	4/5	₹104	3/5	₹110
26-Dec-2014	Q2FY15 result update	4/5	₹127	3/5	₹123
30-Dec-2015	Detailed report	4/5	₹127	3/5	₹138
07-Apr-2016	Q3FY16 result update	4/5	₹135	3/5	₹130
28-Jun-2016	Q4FY16 result update	4/5	₹135	4/5	₹114
21-Sep-2016	Q1FY17 result update	4/5	₹135	3/5	₹131
30-Dec-2016	Detailed report	4/5	₹143	5/5	₹107
25-Apr-2017	Q3FY17 result update	4/5	₹135	4/5	₹119
14-Jul-2017	Q4FY17 result update	4/5	₹135	3/5	₹132
22-Sep-2017	Q1FY18 result update	4/5	₹135	4/5	₹122

Annexure: Financials (Consolidated)

Income statement						Balance Sheet					
(₹ mn)	FY15	FY16	FY17	FY18E	FY19E	(₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Operating income	6,685	6,726	7,326	8,022	9,087	Liabilities					
EBITDA	1,261	1,133	1,256	1,280	1,500	Equity share capital	194	194	194	194	194
EBITDA margin	18.9%	16.8%	17.1%	16.0%	16.5%	Reserves	2,348	2,598	2,977	3,392	3,907
Depreciation	310	319	323	327	344	Minorities	29	41	55	67	82
EBIT	951	813	933	953	1,156	Net worth	2,571	2,832	3,226	3,653	4,183
Interest	194	185	174	141	128	Convertible debt	-	-	-	-	-
Operating PBT	757	629	759	812	1,028	Other debt	3,273	3,107	2,714	2,439	2,239
Other income	45	26	21	47	37	Total debt	3,273	3,107	2,714	2,439	2,239
Exceptional inc/(exp)	(2)	(13)	4	-	-	Deferred tax liability (net)	120	117	127	127	127
PBT	800	641	783	859	1,065	Total liabilities	5,964	6,056	6,066	6,219	6,549
Tax provision	263	210	230	245	303	Assets					
Minority interest	5	12	14	12	15	Net fixed assets	2,569	2,581	2,460	2,493	2,564
PAT (Reported)	532	420	540	602	746	Capital WIP	203	121	189	179	159
Less: Exceptionals	(2)	(13)	4	-	-	Total fixed assets	2,772	2,701	2,649	2,673	2,724
Adjusted PAT	534	433	536	602	746	Investments	2	8	11	11	11
Ratios						Current assets					
	FY15	FY16	FY17	FY18E	FY19E	Inventory	1,642	1,447	1,723	1,912	2,116
Growth						Sundry debtors	2,120	2,284	2,212	2,537	2,820
Operating income (%)	9.7	0.6	8.9	9.5	13.3	Loans and advances	547	579	597	562	582
EBITDA (%)	17.3	(10.2)	10.9	1.9	17.2	Cash & bank balance	278	313	216	152	151
Adj PAT (%)	60.8	(18.9)	23.7	12.4	23.9	Marketable securities	1	1	11	11	11
Adj EPS (%)	60.8	(18.9)	23.7	12.4	23.9	Total current assets	4,588	4,624	4,759	5,173	5,680
Profitability						Total current liabilities	1,411	1,290	1,362	1,647	1,875
EBITDA margin (%)	18.9	16.8	17.1	16.0	16.5	Net current assets	3,177	3,334	3,397	3,526	3,805
Adj PAT Margin (%)	8.0	6.4	7.3	7.5	8.2	Intangibles/Misc. expenditure	14	14	10	10	10
RoE (%)	22.3	16.0	17.7	17.5	19.0	Total assets	5,964	6,056	6,066	6,219	6,549
RoCE (%)	16.9	13.8	15.7	15.8	18.5	Cash flow					
RoIC (%)	14.3	11.7	13.1	13.8	15.2						
Valuations						(₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Price-earnings (x)	22.1	27.3	22.1	19.6	15.8	Pre-tax profit	802	654	779	859	1,065
Price-book (x)	4.6	4.2	3.7	3.2	2.8	Total tax paid	(266)	(212)	(220)	(245)	(303)
EV/EBITDA (x)	11.8	12.9	11.4	11.1	9.3	Depreciation	310	319	323	327	344
EV/Sales (x)	2.3	2.2	2.0	1.8	1.6	Working capital changes	(334)	(122)	(150)	(193)	(280)
Dividend payout ratio (%)	27.3	34.0	24.7	25.7	25.7	Net cash from operations	513	639	733	748	825
Dividend yield (%)	1.2	1.2	1.1	1.3	1.6	Cash from investments					
B/S ratios						Capital expenditure	(218)	(249)	(267)	(350)	(395)
Inventory days	128	107	121	118	115	Investments and others	(0)	(6)	(13)	-	-
Creditors days	74	72	75	74	75	Net cash from investments	(219)	(255)	(280)	(350)	(395)
Debtor days	109	114	102	108	106	Cash from financing					
Working capital days	149	151	147	143	137	Equity raised/(repaid)	-	-	-	-	-
Gross asset turnover (x)	1.2	1.2	1.2	1.3	1.4	Debt raised/(repaid)	111	(166)	(393)	(275)	(200)
Net asset turnover (x)	2.7	2.6	2.9	3.2	3.6	Dividend (incl. tax)	(175)	(174)	(160)	(187)	(231)
Sales/operating assets (x)	2.4	2.5	2.7	3.0	3.4	Others (incl extraordinary)	(7)	(10)	4	-	-
Current ratio (x)	3.3	3.6	3.5	3.1	3.0	Net cash from financing	(72)	(350)	(549)	(462)	(431)
Debt-equity (x)	1.3	1.1	0.8	0.7	0.5	Change in cash position	222	34	(97)	(64)	(1)
Net debt/equity (x)	1.2	1.0	0.8	0.6	0.5	Closing cash	278	313	216	152	151
Interest coverage						Quarterly financials (Standalone)					
EBIT/Interest (x)	4.9	4.4	5.4	6.7	9.0						
EBITDA/Interest (x)	6.5	6.1	7.2	9.0	11.7	(₹ mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Per share						Net Sales	1,741	1,797	1,657	1,887	1,792
	FY15	FY16	FY17	FY18E	FY19E	Change (q-o-q)	1.0	3.2	(7.8)	13.9	(5.1)
Adj EPS (₹)	5.5	4.5	5.5	6.2	7.7	EBITDA	282	283	199	270	274
CEPS (₹)	8.7	7.8	8.9	9.6	11.2	Change (q-o-q)	(8.7)	0.6	(29.7)	35.2	1.7
Book value (₹)	26.5	29.2	33.3	37.7	43.2	EBITDA margin	16.2	15.8	12.0	14.3	15.3
Dividend (₹)	1.5	1.5	1.4	1.6	2.0	PAT	131	164	76	130	127
Actual o/s shares (mn)	96.9	96.9	96.9	96.9	96.9	Adj PAT	131	164	76	130	127
						Change (q-o-q)	9.3	24.8	(53.3)	69.5	(2.0)
						Adj PAT margin	7.5	9.1	4.6	6.9	7.1
						Adj EPS	1.4	1.7	0.8	1.3	1.3

Source: Company, CRISIL Research

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About CRISIL Limited

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Last updated: April 2016

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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