NRB Bearings (NRBBEA)

₹ 122

Reasonable valuations, improved outlook…

We upgrade NRB Bearings from **HOLD** to **BUY** on reasonable valuations (19x FY19E earnings) and an improving growth outlook from its key segment – automotive and the after-market segment. **The auto/ industrial bearings space has recently witnessed a number of deals at premium valuations.** For example, German industrial and automotive supplier Schaeffler Group announced a merger of its Indian entities Schaeffler India Ltd (formerly Fag Bearings India Ltd), INA Bearings India Pvt Ltd and LuK India Pvt Ltd. **The latter companies i.e. INA Bearings India Pvt Ltd and LuK India Pvt Ltd are proposed to merger with Schaeffler India Ltd at an implied price to earnings multiple of 50.9x and 43.1x, respectively. On EV/sales, the implied valuation was at 3.5x and 3.6x, respectively.**

Exhibit 1: Premium valuations for automotive

	Schaeffler India	INA Bearings	LuK India	Consolidated Entity (Proforma)
INRm	CY16	CY16	CY16	CY16
Revenue	1813.9	1041.8	729.8	3585.5
% growth	5.20%	15.10%	16.60%	
EBITDA	296.1	146.1	126.2	568.4
% margin	16.30%	14.00%	17.30%	
PAT	194.5	68.5	61.1	324.1
% margin	16.50%	9.60%	12.20%	
Net debt	-640.6	181.6	2.3	-456.7
Net worth	1452.5	199.2	278.8	1930.5
EBITDA (%)	16.3	14.0	17.3	15.9
RoE (%)	13.4	34.4	21.9	16.8
RoCE (%)	36.5	38.4	44.9	38.6
No. of Shares	1.66	0.82	0.62	3.1
Mcap	7055	3485	2635	13175
Implied EV	6414	3667	2635	12718.3
EV/EBITDA	21.7	25.1	20.9	22.4
EV/Sales	3.5	3.5	3.6	3.5
Implied P/E	36.3	50.9	43.1	40.7

Source: Company, ICICIdirect.com Research

Similarly, Timken acquired ABC bearings at an implied valuation of 2.6x MCap/sales and 41x P/E (FY17). **We believe such premium valuations for bearings companies augurs well for companies like NRB. NRB despite being a market leader in needle bearing ~70% market share, commands P/E valuation of 21.3x (FY17) and EV/sales of 1.9x 9FY17).**

Topline growth may accelerate due to recovery in auto, after-markets

While FY17 witnessed a slight recovery in auto volumes, we believe the same will gain traction in FY17-19E. We estimate the auto industry will grow at 6-8% CAGR in FY17-19E. Accordingly, we expect bearings demand from the OEM segment to grow at CAGR of 10% in FY17-19E. Similarly, we expect the business from the after-market segment to grow at a CAGR of 9% in FY17-19E. Thus, we expect NRB's OEM segment and after-market segment to clock revenues of ₹ 575 crore and ₹ 110 crore, respectively.

Upgrade to BUY

We marginally revise our earnings estimate upwards to account for better growth in FY19. Thus, we now estimate topline and bottomline growth of 9.8% and 14.2% CAGR, respectively, over FY17-19E. We now value the company at 22x FY19E EPS of ₹ 7.3 to arrive at a target price to ₹ 160. We have a **BUY** recommendation on the company.

Rating matrix

Rating	:	Buy
Target	:	₹ 160
Target Period	:	12 months
Potential Upside	:	31%

What's Changed?

Target	Changed from ₹ 130 to ₹ 160
EPS FY18E	Unchanged
EPS FY19E	Changed from ₹ 6.8 to ₹ 7.3
Rating	Changed from Hold to Buy

Key Financials

₹ Crore	FY16	FY17	FY18E	FY19E
Revenue	674.9	727.6	795.2	876.9
EBITDA	112.6	119.4	130.4	146.1
Net Profit	42.0	54.0	59.1	70.5
EPS (₹)	4.3	5.6	6.1	7.3

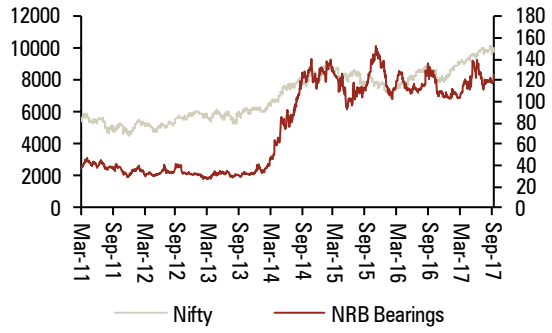
Valuation summary

	FY16	FY17	FY18E	FY19E
P/E (x)	27.5	21.3	19.5	17.4
Target P/E	30.0	23.3	21.3	19.0
EV/EBITDA	12.1	11.7	10.5	9.5
P/BV	4.1	3.6	3.3	2.9
RoE (%)	15.0	17.0	16.8	16.7
RoCE (%)	16.0	16.1	17.8	18.1

Stock data

Particular	Amount
Market Capitalization	1,182
Total Debt (FY17)	265
Cash and Investments (FY17)	23
EV (FY17)	1,388
52 week H/L (₹)	157 / 103
Equity capital	19.4
Face value (₹)	2.0

Price Chart



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Valuation matrix of listed bearings space...

Exhibit 2: Comparative Valuation matrix

NRB Bearings Ltd

₹ Crore	FY16	FY17	FY18E	FY19E
Revenue	674.9	727.6	795.2	876.9
EBITDA	112.6	119.4	130.4	146.1
Net Profit	42.0	54.0	59.1	70.5
EPS (₹)	4.3	5.6	6.1	7.3

	FY16	FY17	FY18E	FY19E
P/E (x)	28.2	21.9	20.0	16.8
Target P/E	36.9	28.7	26.2	22.0
EV/EBITDA	12.3	11.9	10.7	9.4
P/BV	4.2	3.7	3.4	3.0
RoE (%)	15.0	17.0	16.8	17.6
RoCE (%)	16.0	16.1	17.8	18.9

Particular	Amount
Market Capitalization	1,182
Total Debt (FY17)	265
Cash and Investments (FY17)	23
EV (FY17)	1,388
52 week H/L (₹)	157 / 103
Equity capital	19.4
Face value (₹)	2.0
Mcap/ Sales	**1.6**
EV/Sales	**1.9**
EV/EBITDA	**11.9**

Timken India Ltd

₹ Crore	FY16	FY17	FY18E	FY19E*
Net Sales	1,051	1,056	1,217	1,699
EBITDA	162	158	194	288
Net Profit	92	97	108	166
EPS (₹)	13.5	14.3	15.9	22.1

**Merged entity numbers*

	FY16	FY17	FY18E	FY19E
P/E	51.1	48.3	43.3	35.8
Target P/E	64.2	60.6	54.4	39.2*
EV/EBITDA	28.7	29.7	24.0	20.1
P/BV	9.0	7.7	6.8	6.0
RoNW (%)	18.2	16.0	15.7	16.6
RoCE (%)	27.8	22.7	24.2	25.5

Particular	Amount
Market Capitalization (₹ crore)	4,691
Total Debt (FY17) (₹ crore)	8
Cash and Investments (FY17)	11
EV (₹ crore)	4,689
52 week H/L (₹)	747 / 510
Equity capital (₹ crore)	68.0
Face value (₹)	10.0
Mcap/ Sales	**2.8**
EV/Sales	**3.8**
EV/EBITDA	**29.7**

SKF Bearings Ltd

₹ Crore	FY16	FY17	FY18E	FY19E
Revenue	2,998	2,631	2,869	3,218
EBITDA	364	336	377	447
Net Profit	257	244	272	317
EPS (₹)	48.8	46.3	53.0	61.7

	FY16	FY17	FY18E	FY19E
P/E	32.0	33.7	29.4	25.3
Target P/E	36.9	38.9	34.0	29.2
EV/EBITDA	20.7	22.7	20.9	17.4
P/BV	4.9	4.5	4.5	3.9
RoNW (%)	12.4	13.5	15.1	15.6
RoCE (%)	19.0	20.7	23.1	23.8

Particular	Amount
Market Capitalization	8,226
Total Debt	0
Cash and Investments (FY17)	591
EV	7,635
52 week H/L (₹)	1864 /1243
Equity capital (FY17)	₹ 52.7 Crore
Face value	₹ 10
Mcap/ Sales	**2.6**
EV/Sales	**2.9**
EV/EBITDA	**22.7**

Source: Company, ICICIdirect.com Research

Financial summary (NRB Bearings)

Profit and loss statement ₹ Crore

(₹ Crore)	FY16	FY17	FY18E	FY19E
Net Sales	666.8	719.6	784.2	863.9
Other Operating Income	8.1	8.0	11.0	13.0
Total Operating Income	674.9	727.6	795.2	876.9
% YoY Growth	*0.7*	*7.8*	*9.3*	*10.3*
Other Income	2.4	7.8	8.4	9.8
Total Revenue	677.3	735.4	803.6	886.7
Cost of materials consumed	251.7	279.7	305.8	336.9
Change in inventories	8.1	(7.8)	(8.5)	(9.3)
Employee cost	126.3	130.2	142.3	157.0
Other Expenses	176.3	206.0	225.1	246.2
Total expenditure	562.4	608.2	664.8	730.8
EBITDA	112.6	119.4	130.4	146.1
% YoY Growth	*(8.5)*	*6.0*	*9.2*	*12.0*
Interest	17.0	16.9	15.2	15.5
PBDT	(24.8)	(3.0)	3.3	6.8
Depreciation	32.0	32.3	33.9	34.3
PBT	63.9	78.0	89.7	106.1
Tax	20.7	22.5	29.1	34.0
PAT	42.0	54.0	59.1	70.5
% YoY Growth	*(21.1)*	*28.7*	*9.4*	*19.2*
EPS	4.3	5.6	6.1	7.3

Source: Company, ICICIdirect.com Research

Cash flow statement ₹ Crore

(₹ Crore)	FY16	FY17	FY18E	FY19E
Profit after Tax	42.0	54.0	59.1	70.5
Depreciation	32.0	32.3	33.9	34.3
Interest	17.0	16.9	15.2	15.5
Other income	(2.4)	(7.8)	(8.4)	(9.8)
Prov for Taxation	20.7	22.5	29.1	34.0
Change in Working Capital	70.8	(85.7)	(19.5)	(35.5)
Taxes Paid	(21.0)	(21.6)	(27.8)	(34.0)
Cashflow from Operating Activities	159.1	10.7	81.7	75.0
(Purchase)/Sale of Fixed Assets	(34.5)	(23.8)	(21.2)	(25.0)
(Purchase)/Sale of Investments	-	-	-	-
Other Income	2.4	7.8	8.4	9.8
Cashflow from Investing Activities	(32.1)	(16.0)	(12.8)	(15.2)
Issue/(Repayment of Debt)	(90.1)	27.5	(34.2)	4.0
Changes in Minority Interest	1.2	1.4	1.5	1.7
Changes in Networth	(17.0)	(16.1)	(23.4)	(23.4)
Interest	(17.0)	(16.9)	(15.2)	(15.5)
Others	-	-	-	-
Cashflow from Financing Activities	(123.0)	(4.1)	(71.4)	(33.2)
Changes in Cash	4.0	(9.4)	(2.5)	26.6
Opening Cash/Cash Equivalent	28.0	32.0	22.6	20.1
Closing Cash/ Cash Equivalent	32.0	22.6	20.1	46.8

Source: Company, ICICIdirect.com Research

Balance sheet ₹ Crore

(₹ Crore)	FY16	FY17	FY18E	FY19E
Share Capital	19.4	19.4	19.4	19.4
Reserves & Surplus	259.8	297.7	333.4	380.5
Total Shareholders fund	279.2	317.1	352.8	399.9
Minority Interest	4.1	5.5	7.0	8.7
Total debt	237.2	264.7	230.5	234.5
Deferred tax liability (net)	11.7	12.7	14.0	14.0
Total Liabilities	532.2	600.0	604.3	657.1
Gross Block	603.5	619.9	639.9	659.9
Acc: Depreciation	344.5	373.4	407.3	441.6
Net Block	259.0	246.5	232.6	218.2
Capital WIP	4.8	8.8	10.0	15.0
Investments	0.1	0.1	0.1	0.1
Inventory	144.7	172.3	180.5	198.8
Sundry debtors	225.9	221.2	249.3	274.6
Cash	32.0	22.6	20.1	46.8
Loans & Advances	64.9	69.8	91.0	100.2
Other current assets	0.1	1.1	1.1	1.1
CL& Prov.	199.8	142.8	180.8	198.3
Net Current Assets	267.8	344.2	361.2	423.3
Total Assets	532.2	600.0	604.3	657.1

Source: Company, ICICIdirect.com Research

Key ratios

(Year-end March)	FY16	FY17	FY18E	FY19E
Per share data (₹)				
EPS	4.3	5.6	6.1	7.3
Cash EPS	7.6	8.9	9.6	10.8
BV	28.8	32.7	36.4	41.3
DPS	1.8	1.7	2.4	2.4
Cash Per Share	35.5	38.5	42.0	45.6
Operating Ratios (%)				
EBITDA Margin	16.7	16.4	16.4	16.7
PBT / Net Sales	11.9	12.0	12.1	12.8
PAT Margin	6.2	7.4	7.4	8.0
Inventory days	78	86	83	83
Debtor days	122	111	114	114
Creditor days	103	79	79	79
Return Ratios (%)				
RoE	15.0	17.0	16.8	17.6
RoCE	16.0	16.1	17.8	18.9
RoIC	16.8	16.0	16.8	18.8
Valuation Ratios (x)				
P/E	28.2	21.9	20.0	16.8
EV / EBITDA	12.3	11.9	10.7	9.4
EV / Net Sales	2.1	2.0	1.8	1.6
Market Cap / Sales	1.8	1.6	1.5	1.3
Price to Book Value	4.2	3.7	3.4	3.0
Solvency Ratios				
Debt/EBITDA	2.1	2.2	1.8	1.6
Net Debt / Equity	0.7	0.8	0.6	0.5
Current Ratio	2.2	2.8	2.9	2.9
Quick Ratio	1.5	1.8	1.9	1.9

Source: Company, ICICIdirect.com Research

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