November 5, 2018

Rating matrix

Rating	:	Buy
Target	:	₹ 215
Target Period	:	12 months
Potential Upside	:	24%

What's changed?

Target	Unchanged
EPS FY19E	Changed from ₹ 10.3 to ₹ 10.2
EPS FY20E	Changed from ₹ 12 to ₹ 11.5
Rating	Unchanged

Quarterly performance

	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Revenue	251.0	208.2	20.6	233.9	7.3
EBITDA	46.1	38.3	20.4	44.4	3.7
EBITDA (%)	18.4	18.4	-2 bps	19.0	-63 bps
PAT	29.1	21.1	37.7	34.8	(16.2)

Key financials

₹ Crore	FY17	FY18	FY19E	FY20E
Revenue	725.5	855.1	1,010.1	1,146.2
EBITDA	116.7	168.3	185.2	205.6
Net Profit	51.6	90.7	98.5	111.6
EPS (₹)	5.3	9.4	10.2	11.5

Valuation summary

	FY17	FY18	FY19E	FY20E
P/E (x)	32.5	18.5	17.0	15.0
Target P/E	40.4	23.0	21.2	18.7
EV/EBITDA	16.4	10.8	10.1	9.0
P/BV	5.5	4.4	3.7	3.1
RoE (%)	17.0	24.0	21.7	20.6
RoCE (%)	16.1	26.7	24.5	24.2

Stock data

Particular	Amount
Market Capitalization	1,677
Total Debt (FY18)	174
Cash and Investments (FY18)	29
EV (FY18)	1,822
52 week H/L (₹) (BSE)	193 / 127
Equity capital	19.4
Face value (₹)	2.0

Price performance

	1M	3M	6M	12M
NRB Bearings	4.5	(4.2)	(3.1)	16.1
Schaeffler India	(3.8)	(3.7)	(4.8)	(1.6)
SKF India	5.8	5.3	(3.3)	8.1
Timken India	(9.2)	(30.0)	(23.9)	(31.9)

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NRB Bearings (NRBBEA) ₹ 177

Stellar performance continues…

- NRB Bearings reported stellar Q2FY19 numbers. Revenues came in at ₹ 251 crore up 20.6% YoY. We estimated revenues of ₹ 240 crore (15.5% YoY growth) for the quarter. We believe strong topline growth was on account of robust performance across all segments i.e. domestic OEMs, after-markets and exports
- EBITDA increased 20.4% YoY to ₹ 46.1 crore. The company reported strong EBITDA on account of sharp increase in gross margins, 300 bps YoY during the quarter. However, other expenses also increased 52.8% YoY, offsetting gains in gross margins. Thus, EBITDA margins came in at 18.4% (Q1FY18 margins at 18.4%)
- Other income witnessed a sharp jump of 164.2% YoY (₹ 9.5 crore in Q2FY19 vs. ₹ 3.6 crore in Q2FY18). Accordingly, PAT increased strong 37.7% YoY to ₹ 29.1 crore

Strong operational performance continues

NRB derives 65-70% of its revenue from domestic markets. This segment reported strong operational performance in H1FY19 due to robust volume growth in domestic automotive segment. This segment reported strong volume growth of 12.7% YoY in H1FY19. For Q2FY19, NRB witnessed ~500 bps expansion in gross margins as it was pass on the price hikes in input costs during the quarter. The company has guided for similar margins going forward, mostly due to increasing utilisation levels and gradual pass-through input prices from here-on. With auto industry expected to grow at a healthy pace over FY18-20E, we expect bearings demand from OEM segment to remain healthy over the same period.

Exports, after-market business poised for a healthy growth

Exports segment, which contributes 15-20% to the topline reported stellar growth of ~30% YoY in FY18. This was mostly on account of the company's persistent marketing efforts in European regions where it caters to global players such as Daimler, Renault, Volvo and Getrag. NRB's exports grew at muted pace of ~2% CAGR over FY15-18. However, going forward, exports are expected to grow at an accelerated pace of 20-25% CAGR over FY18-20E. Higher exports are also expected to act as a natural hedge for its import of raw materials. We also expect NRB's exports segment to grow at a CAGR of 18-20% over FY18-20E.

Robust B/S, strong capex plans and upbeat outlook

Aided by strong operational performance, NRB has repaid ₹ 90 crore of debt in FY18. However, due to increase in raw material, borrowings have increased by ~₹ 34 crore as on H1FY19. D:E is now at 0.45x. NRB currently operates at utilisation levels of over 80%. With growth momentum expected to continue, NRB has outlined a capex plans of ₹ 70-100 crore over the next two to three years. It has also planned a capex of ~₹ 20 crore for SNL Bearings. With upbeat growth outlook in its key segments – Domestic OEMs and exports, we expect these segments to grow at a healthy rate of 13.5%, 13.5% and 19% respectively. Accordingly, revenue, EBITDA and PAT are expected to grow at 15.8%, 10.5% and 10.9% CAGR respectively over FY18-20E. Thus, we continue with our positive stance on the company and maintain the target price of ₹ 215 per share (~18x FY20E EPS). We have a **BUY** recommendation on the company.

Variance analysis

Year	Q2FY19	Q2FY19E	Q2FY18	YoY (%)	Q1FY19	QoQ(%)	Comments
Revenue	251.0	240.4	208.2	20.6	233.9	7.3	Strong topline growth due to demand uptick in all key segments - domestic OEMs and exports
Other Income	9.5	2.0	3.6	164.2	2.8	240.3	
Total Income	260.5	242.4	211.8	23.0	236.7	10.1	
Cost of materials consumed	106.1	91.4	79.4	33.7	104.1	1.9	
Change in inventories	(3.0)	3.5	12.3	(124.2)	(7.2)	(58.7)	
Employee cost	31.8	41.1	32.4	(1.9)	30.9	2.8	
Other expenses	70.0	60.1	45.8	52.8	61.7	13.5	
EBITDA	46.1	44.3	38.3	20.4	44.4	3.7	Strong EBITDA growth due to gross margin expansion of 500 bps
EBITDA Margin (%)	18.4	18.4	18.4	-2 bps	19.0	-63 bps	
Depreciation	8.0	6.4	7.6	6.4	8.1	(1.2)	
Interest	3.3	3.4	3.6	(10.5)	3.3		
PBT	44.3	36.6	30.7	44.3	35.8	23.6	
Taxes	15.2	12.1	9.5	58.9	17.6	(13.9)	
PAT	29.1	24.5	21.1	37.7	34.8	(16.2)	

Source: Company, ICICI Direct Research

Change in estimates

	FY17	FY18		FY19E			FY20E	
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	725.5	855.1	1,024.1	1,010.1	(1.4)	1,183.6	1,146.2	(3.2)
EBITDA	116.7	168.3	187.8	185.2	(1.4)	212.3	205.6	(3.2)
EBITDA Margin (%)	16.1	19.7	18.3	18.3	4 bps	17.9	17.9	4 bps
PAT	51.6	90.7	100.2	98.5	(1.7)	116.2	111.6	(4.0)
EPS (₹)	5.3	9.4	10.3	10.2	(1.3)	12.0	11.5	(4.1)

Source: Company, ICICI Direct Research

A needle roller bearing is a customised product. Hence, the company works with OEMs from the conceptualisation stage to provide anti-friction solutions

Company Analysis

Strong client relations to drive growth

Presence across major OEM players, new segments to open up opportunities

NRB is present across the auto OEM space through its exposure to the two-wheelers, four-wheelers, commercial vehicles (CV), passenger vehicles (PV) and off-highway segments. With a proven track record over 50 years, it is a preferred supplier to leading domestic OEMs such as Hero MotoCorp, Bajaj Auto, Maruti Suzuki, Tata Motors, Ashok Leyland, etc. which is clearly depicted in the staggering 70% market share commanded by the company in the needle roller bearings space. A needle roller bearing is a customised product. Hence, the company works with OEMs from the conceptualisation stage to provide anti-friction solutions. This enables NRB to build a sticky clientele relationship with major OEM players.

Apart from the automotive segment, the company also enjoys a presence in the race boats segment wherein Ingersoll Rand is one of the key customers. Furthermore, NRB has also outlined growth opportunities in other mobility segments such as defence in the form of gun carriers, marine, Railways and MRTS wherein rising investment could open up avenues for bearings demands.

NRB, whose domestic automotive segment, forms ~62% of the topline, caters to almost all segment viz. two-wheelers (33% of revenues), CV (19% of revenues), PV (20% of revenues) and farm/off highway (forming 10% of revenues).

Exhibit 1: Key customers of NRB

Category	Key customers
Two-wheeler OEMs	Hero MotoCorp, HMSI, Yamaha
PV	Maruti Suzuki, Honda Cars
CV/Utility vehicle	Mahindra & Mahindra, Ashok Leyland, Eicher, Tata Motors

Source: Company, ICICI Direct Research

Diversified client base helps diversify risk

NRB's client portfolio is well diversified with the average share of the top customer over FY15-18 at ~10% of revenues.

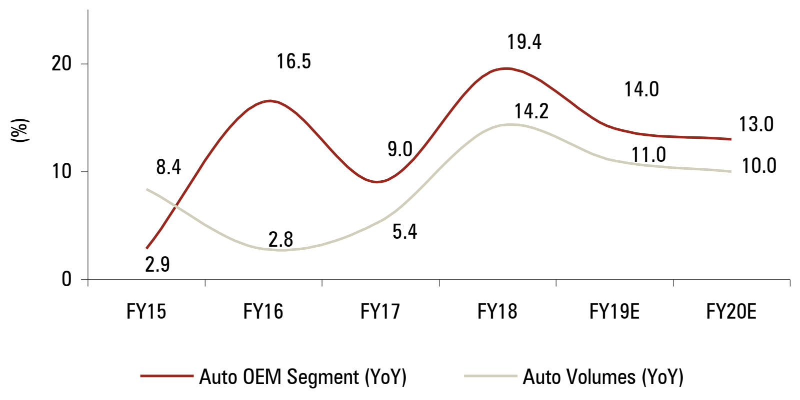
The contribution of NRB's top 10 clients is at ~54% of the topline. The company also indicated that the constituents of the top 10 keep on changing based on the individual segmental growth.

Automotive segment recovery to boost demand…

NRB OEM segment moves in tandem with industry sales volumes…

Revenue growth of NRB's auto segment has mimicked overall auto sales volumes. With the auto industry again showing signs of traction in FY18, this segment is expected to do well in FY18-20E.

Exhibit 2: Auto sales growth, NRB auto OEM segment revenue growth trend



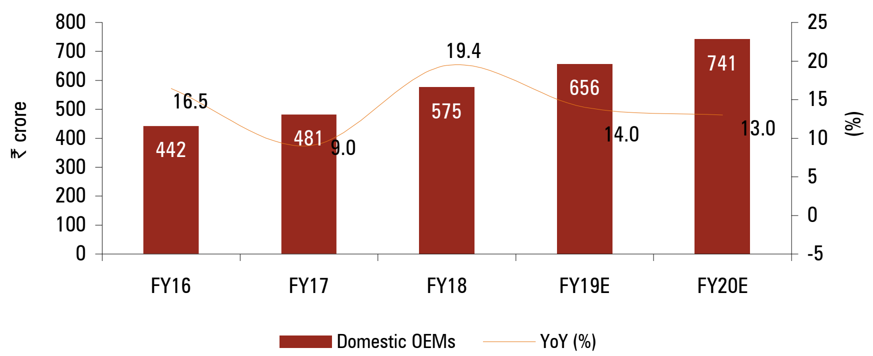
Source: Company, ICICI Direct Research

NRB's domestic OEMs set to grow at 13-15% CAGR over FY18-20E

We expect revenues from the OEM segment to grow at a moderate rate of 13-15% during FY18-20E, factoring healthy growth in the auto space over FY18-20E.

We highlight that our revenue assumption for NRB's domestic OEM segment is largely based on the overall domestic auto growth assumptions of 8-12% CAGR during FY18-20E. Furthermore, we also derive comfort from the strong launch pipeline in four-wheelers and two-wheelers space in the next two years.

Exhibit 3: NRB OEM segment revenues trend



Source: Company, ICICI Direct Research

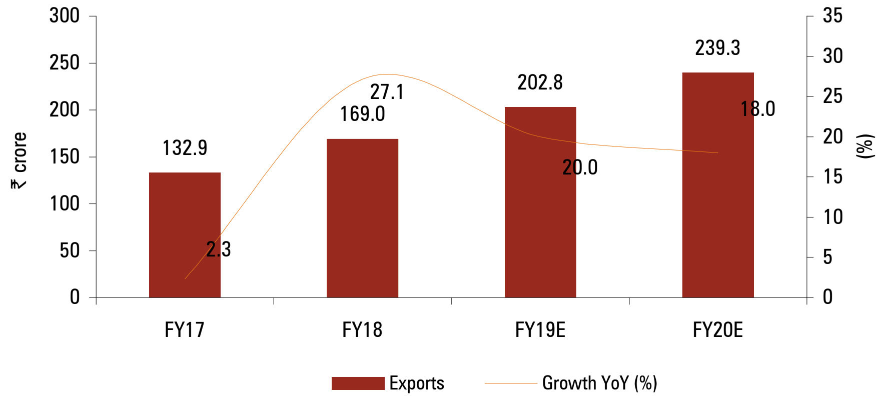
De-risked geographical presence through exports…

To expand its footprint and foray into newer platforms, NRB has focused on exports wherein it caters to global players such as Daimler Trucks, Renault, Volvo and Getrag. With a focus on exports, the company has demonstrated a strong exports performance. The company's export, which formed ~15% of topline in FY09, constituted ~20% of revenues in FY18.

According to the company, its focus on exports by the way of working from the conceptualisation stage given its customised product offerings has enabled it to strengthen its foothold in the export market. Given the fact that NRB is one of the few global players (INA, Koyo and NSK) producing needle roller bearings coupled with the technology at par with MNCs, export earnings are expected to remain robust.

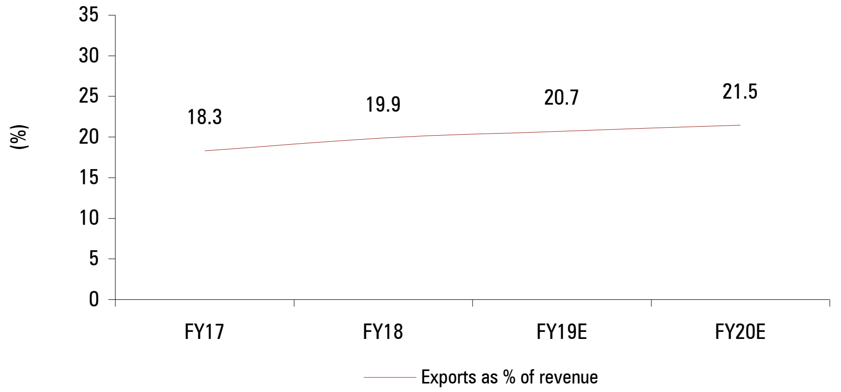
Going ahead, we expect NRB's export revenues to grow at 18-20% CAGR over FY18-20E. Consequently, the share of export revenues is expected to contribute ~22% of revenues in FY20E.

Exhibit 4: NRB export revenue trend



Source: Company, ICICI Direct Research

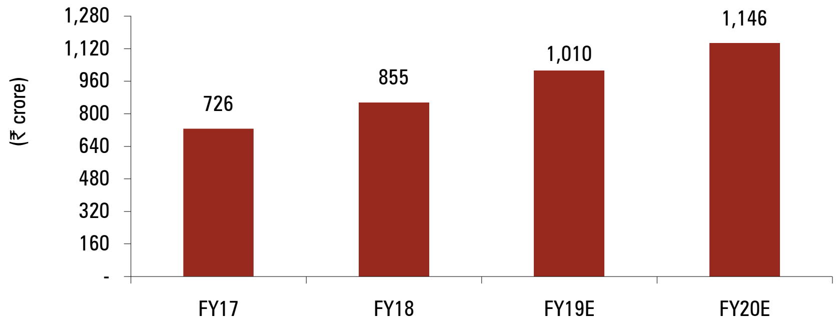
Exhibit 5: Exports as percentage of topline



Source: Company, ICICI Direct Research

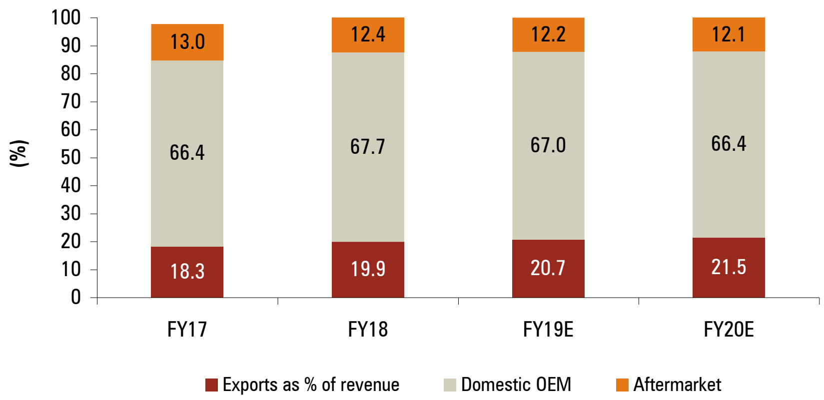
Consolidated revenues to grow at 15.8% CAGR during FY18-20E

Exhibit 6: Revenue trend



Source: Company, ICICI Direct Research

Exhibit 7: Share of exports to rise with robust export growth

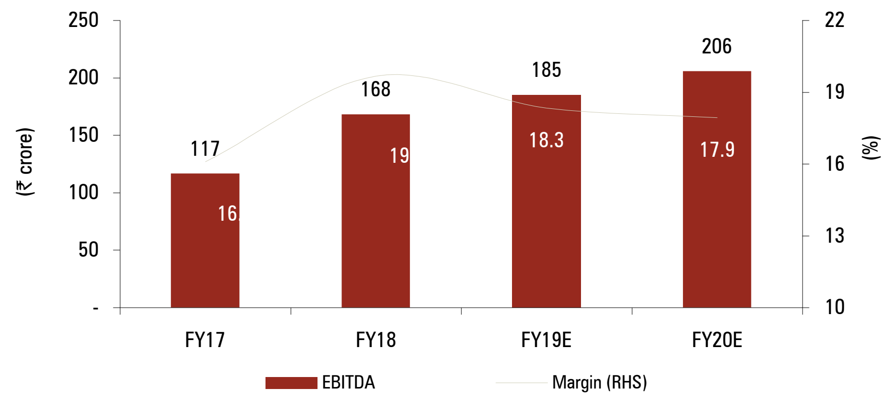


Source: Company, ICICI Direct Research

EBITDA to grow at 10.5% CAGR in FY18-20E

We expect operating profit to grow at 10.5% CAGR over FY18-20E. We also expect margins to inch lower over FY18-20E due to higher commodity prices over the same period. Accordingly, we expect NRB to clock margins of 17.9% in FY20E.

Exhibit 8: EBITDA growth trend

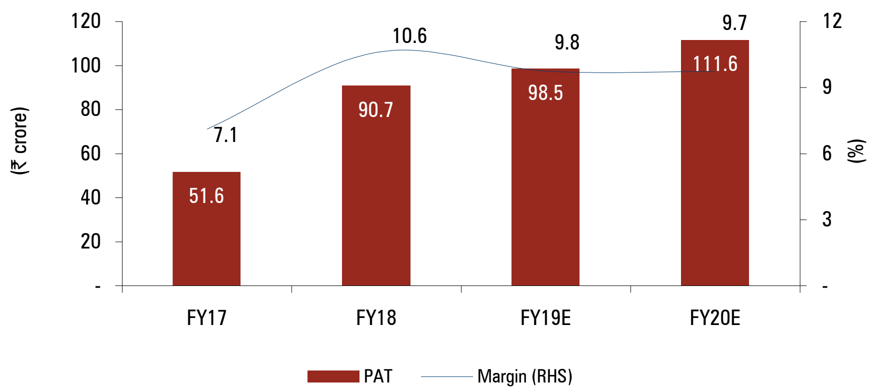


Source: Company, ICICI Direct Research

PAT expected to grow at 10.9% CAGR in FY18-20E

We estimate PAT of ₹ 111.6 crore for FY20E.

Exhibit 9: Consolidated earnings trend

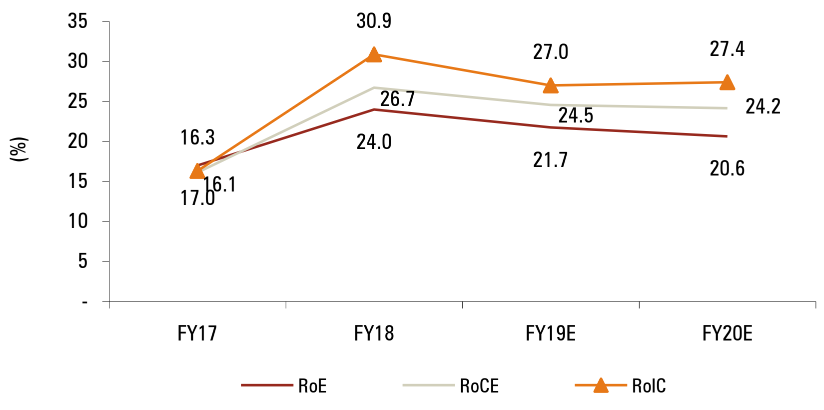


Source: Company, ICICI Direct Research

RoE and RoCE expected to remain stable in FY18-20E

We expect RoE and RoCE to remain stable over FY18-20E. We expect RoE and RoCE of ~21% and ~24% in FY20E respectively. We also expect healthy RoICs of ~27% in FY20E.

Exhibit 10: ROE, RoCE and RoIC



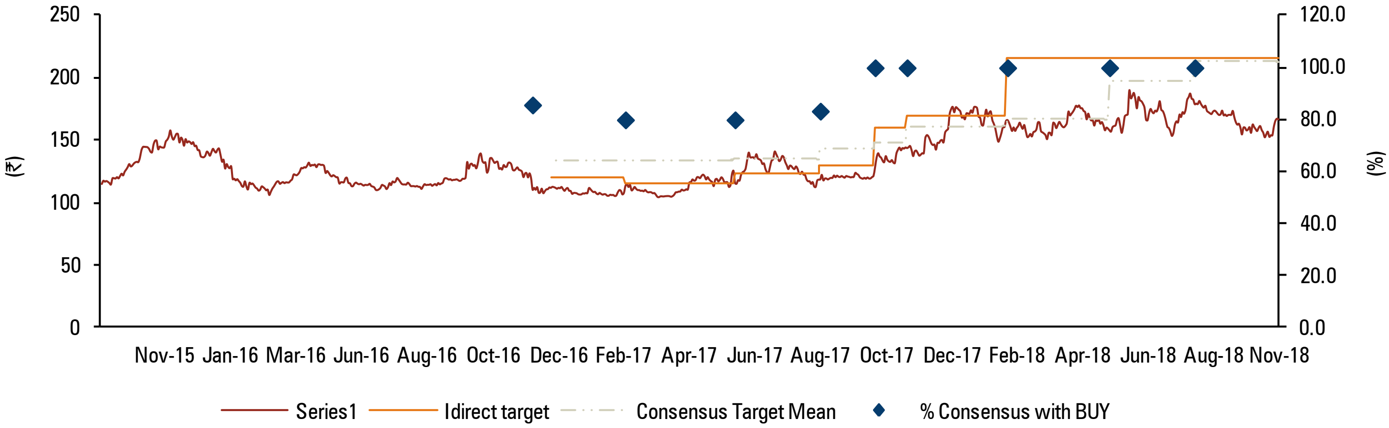
Source: Company, ICICIdirect.com Research

Outlook and valuation

NRB has been a key player in the domestic bearings industry considering its leadership position in needle roller bearings. NRB enjoys ~70% market share in this segment. Needle roller bearings comprised ~41% of NRB's topline in FY17. A needle roller bearing, as a customised product, requires NRB to work with OEMs from the conceptualisation stage. Apart from needle bearings, the other key product that the company manufactures is ball & roller bearings, together contributing ~78% to the topline of the company. Being an automotive centric supplier with customised product offerings, the company also enjoys a sticky client relationship like its MNC peers such as SKF, FAG and Timken and has a presence across all leading OEM players in India.

Aided by strong operational performance, NRB has repaid ₹ 90 crore of debt in FY18. However, due to increase in raw material, borrowings have increased by ~34 crore as on H1FY19. D:E now stands at 0.45x. NRB currently operates at utilisation levels of over 80%. With growth momentum expected to continue, NRB has outlined a capex plans of ₹ 70-100 crore over the next 2-3 years. It has also planned a capex of ~₹20 crore for SNL bearings. With upbeat growth outlook in its key segments – Domestic OEMs and exports, we expect these segments to grow at a healthy rate of 13.5%, 13.5% and 19% respectively. Accordingly, revenue, EBITDA and PAT are expected to grow at 15.8%, 10.5% and 10.9% CAGR respectively over FY18-20E. Thus, we continue with our positive stance on the company and maintain the target price of ₹ 215 per share (~18x FY20E EPS). We have a **BUY** recommendation on the company.

Recommendation history vs. consensus



Source: Bloomberg, Company, ICICI Direct Research, Initiated coverage on January 7, 2015

Key events

Date	Event
FY12	Industrial bearing undertaking demerged and listed as separate company called NRB Industrial Bearings
FY10-13	Export led growth (67.8% CAGR) boosts the topline (18.7% CAGR)
FY14	Muted automotive growth reflected in muted topline (growth of 2.5% YoY)
FY15	Improvement in automotive sales boosts topline growth (~10% YoY) of NRB. Margins also expand led by operating leverage
FY16	Margin improvement due to continues growth in exports

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Trilochan S Sahney Trust	30-06-2018	34.88%	33.81M	-1.00M
2	Nalanda Capital Pte Ltd	30-06-2018	9.99%	9.68M	0
3	Zaveri (Harshbeena Sahney)	25-10-2018	8.84%	8.57M	+0.04M
4	Sundaram Asset Management Company Limited	30-09-2018	5.79%	5.61M	-0.00M
5	SBI Funds Management Pvt. Ltd.	30-06-2018	4.39%	4.26M	-0.43M
6	ICICI Prudential Life Insurance Company Ltd.	30-06-2018	3.93%	3.81M	0
7	Sahney (Devesh Singh)	30-06-2018	3.75%	3.63M	0
8	HDFC Asset Management Co., Ltd.	30-06-2018	2.98%	2.89M	0
9	Sahney (Hanwantbir Kaur)	30-06-2018	2.96%	2.87M	0
10	Reliance Nippon Life Asset Management Limited	30-06-2018	2.41%	2.34M	0

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoter	54.3	54.1	53.6	52.6	52.6
FII	18.1	17.5	17.4	14.8	14.7
DII	16.5	16.6	16.1	18.7	17.5
Others	11.1	11.8	12.9	13.9	15.2

Recent Activity

Investor name			Investor name		
Investor name	Value	Shares	Investor name	Value	Shares
Zaveri (Harshbeena Sahney)	+0.10M	+0.04M	Trilochan S Sahney Trust	-2.50M	-1.00M
Zaveri (Aziz Y)	+0.01M	+0.01M	Bessemer Trust Company, N.A. (US)	-1.17M	-0.46M
Victory Capital Management Inc.	+0.00M	+0.00M	SBI Funds Management Pvt. Ltd.	-1.07M	-0.43M
			DHFL Pramerica Asset Managers Private Limited	-0.12M	-0.06M
			Acadian Asset Management LLC	-0.05M	-0.02M

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				₹ Crore
(₹ Crore)	FY17	FY18	FY19E	FY20E
Revenue	725.5	855.1	1,010.1	1,146.2
% YoY Growth	*7.5*	*17.9*	*18.1*	*13.5*
Other Income	8.0	12.2	13.0	13.5
Total Revenue	733.5	867.2	1,023.1	1,159.7
Cost of materials consumed	279.8	320.1	393.9	452.7
Change in inventories	(7.8)	8.6	10.2	11.6
Employee cost	131.6	144.9	171.2	194.3
Other Expenses	205.2	213.2	249.5	282.0
Total expenditure	608.8	686.8	824.9	940.6
EBITDA	116.7	168.3	185.2	205.6
% YoY Growth	*3.7*	*44.1*	*10.1*	*11.0*
Interest	17.0	14.2	17.7	17.7
PBDT	(5.9)	47.9	10.5	6.7
Depreciation	32.3	31.0	32.1	33.7
PBT	75.3	135.3	148.4	167.6
Tax	22.3	42.4	47.5	53.6
PAT	51.6	90.7	98.5	111.6
% YoY Growth	*23.0*	*75.7*	*8.6*	*13.3*
EPS	5.3	9.4	10.2	11.5

Source: Company, ICICI Direct Research

Cash flow statement				₹ Crore
(₹ Crore)	FY17	FY18	FY19E	FY20E
Profit after Tax	51.6	90.7	98.5	111.6
Depreciation	32.3	31.0	32.1	33.7
Interest	17.0	14.2	17.7	17.7
Other income	(8.0)	(12.2)	(13.0)	(13.5)
Prov for Taxation	22.3	42.4	47.5	53.6
Change in Working Capital	(19.9)	27.8	(119.9)	(58.7)
Taxes Paid	(29.7)	(40.9)	(47.5)	(53.6)
Cashflow from Operating Activities	65.7	153.0	15.5	90.9
(Purchase)/Sale of Fixed Assets	(23.8)	(49.6)	(40.2)	(35.0)
(Purchase)/Sale of Investments	(44.4)	10.5	-	-
Other Income	8.0	12.2	13.0	13.5
Cashflow from Investing Activities	(60.2)	(27.0)	(27.2)	(21.5)
Issue/(Repayment of Debt)	27.4	(91.1)	40.0	-
Changes in Minority Interest	1.4	2.2	2.4	2.4
Changes in Networth	(26.8)	(16.7)	(23.4)	(23.4)
Interest	(17.0)	(14.2)	(17.7)	(17.7)
Others	-	-	-	-
Cashflow from Financing Activities	(15.0)	(119.8)	1.3	(38.7)
Changes in Cash	(9.5)	6.3	(10.4)	30.7
Opening Cash/Cash Equivalent	32.0	22.5	28.8	18.3
Closing Cash/ Cash Equivalent	22.5	28.8	18.3	49.0

Source: Company, ICICI Direct Research

Balance sheet				₹ Crore
(₹ Crore)	FY17	FY18	FY19E	FY20E
Share Capital	19.4	19.4	19.4	19.4
Reserves & Surplus	285	359	434	522
Total Shareholders fund	304	378	453	541
Minority Interest	5.5	7.7	10.1	12.5
Total debt	265	174	214	214
Deferred tax liability (net)	4.3	5.8	5.8	5.8
Total Liabilities	578	565	683	773
Gross Block	620	664	699	734
Acc: Depreciation	373	404	437	470
Net Block	246	259	262	263
Capital WIP	8.8	14.8	20.0	20.0
Investments	44	34	34	34
Inventory	172	158	185	210
Sundry debtors	194	233	258	304
Cash	22	29	18	49
Loans & Advances	5.4	5.2	117.2	133.0
Other current assets	29	77	77	77
CL& Prov.	145	245	289	317
Net Current Assets	278	257	366	455
Total Assets	578	565	683	773

Source: Company, ICICI Direct Research

Key ratios				
(Year-end March)	FY17	FY18	FY19E	FY20E
Per share data (₹)				
EPS	5.3	9.4	10.2	11.5
Cash EPS	8.7	12.6	13.5	15.0
BV	31.4	39.0	46.7	55.8
DPS	1.7	2.4	2.4	2.4
Cash Per Share	38.5	41.7	45.0	48.5
Operating Ratios (%)				
EBITDA Margin	16.1	19.7	18.3	17.9
PBT / Net Sales	11.6	16.1	15.2	15.0
PAT Margin	7.1	10.6	9.8	9.7
Inventory days	87	67	67	67
Debtor days	97	100	93	97
Creditor days	69	101	101	98
Return Ratios (%)				
RoE	17.0	24.0	21.7	20.6
RoCE	16.1	26.7	24.5	24.2
RoIC	16.3	30.9	27.0	27.4
Valuation Ratios (x)				
P/E	32.5	18.5	17.0	15.0
EV / EBITDA	16.4	10.8	10.1	9.0
EV / Net Sales	2.6	2.1	1.9	1.6
Market Cap / Sales	2.3	2.0	1.7	1.5
Price to Book Value	5.5	4.4	3.7	3.1
Solvency Ratios				
Debt/EBITDA	2.3	1.0	1.2	1.0
Net Debt / Equity	0.8	0.4	0.4	0.3
Current Ratio	2.6	1.6	1.9	2.0
Quick Ratio	1.4	1.0	1.3	1.4

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Capital goods)

	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹) FY18	FY19E	FY20E	P/E (x) FY18	FY19E	FY20E	RoCE (%) FY18	FY19E	FY20E	RoE (%) FY18	FY19E	FY20E
SKF (SKFIND)	1790	2,050	Buy	10810	57.6	62.9	68.3	31.1	28.5	26.2	23.7	23.1	22.5	16.1	15.5	14.9
Timken India (TIMIND)	530	835	Hold	5677	13.5	16.1	18.8	42.1	35.4	30.4	18.9	19.8	20.4	13.1	13.7	14.0
NRB Bearing (NRBBEA)	155	215	Buy	2084	9.4	10.2	11.5	16.2	15.0	13.2	26.7	24.5	24.2	24.0	21.7	20.6
Grindwell Norton (GRINOR)	495	580	Buy	5481	13.5	15.4	17.5	36.6	32.1	28.3	22.2	23.0	23.4	15.1	15.6	15.9

Source: Company, ICICI Direct Research

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Buy: >10%/15% for large caps/midcaps, respectively;
Hold: Up to +/-10%;
Sell: -10% or more;

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