

Weak performance, growth to moderate in FY20E

After several quarters of strong growth, NRB Bearings reported dismal Q4FY19 numbers. Revenues came in at ₹ 212.7 crore, down 9.6% YoY. We estimated revenues of ₹ 262.7 crore. We believe the topline decline was mostly on account of the weak performance of the domestic OEM segment. EBITDA declined 38.1% YoY to ₹ 26.1 crore. EBITDA came in lower due to topline decline, higher employee expenses (up 13.4% YoY), higher other expenses (up 12.1% YoY) and decline in gross margins by 80 bps YoY. Accordingly, EBITDA margins came in at 12.3% vs. 17.9% YoY. Tax rate for the quarter was at 18.5% vs. 31.7% YoY. Other income declined 95.9% YoY. Accordingly, PAT declined 56.2% YoY to ₹ 11.7 crore.

Healthy FY19, sluggish FY20E

For FY19, NRB witnessed growth of 12.8%YoY driven by healthy growth in domestic OEM and exports. Domestic OEMs and exports grew ~15% YoY and 20% YoY, respectively. After markets segment declined YoY as NRB shifted most of its capacities for fulfilling demand of its OEM customers. EBITDA margins also came in strong at 19.2% for the year due to efficient inventory management and pass through of input prices at regular intervals. Going ahead, the domestic OEM segment is likely to witness moderation in growth with corresponding slowdown in auto volume growth and implementation of BS-VI norms ahead of the April 1, 2020 deadline. Accordingly, we expect this segment to report low single digit growth of 7% in FY20E. We expect CAGR of 9.5% over FY19-21E.

Exports and after-markets segment

Exports segment contributed ~21% to the topline in FY19. This was mostly on account of the company's persistent marketing efforts in the US and European regions. In the European region, it caters to global players such as Daimler, Renault, Volvo and Getrag. We expect export growth of 11% CAGR, in FY19-21E. Higher exports are also expected to act as a natural hedge for its import of raw materials. We also expect NRB's after market segment to grow at a CAGR of ~9% over FY19-21E.

Valuation & Outlook

With growth moderation expected in FY20E, we expect revenue, EBITDA and PAT to grow at 9.8%, 8.1% and 4.3% CAGR, respectively, in FY19-21E. NRB has executed a capex of ~₹ 50 crore in FY19. The company currently operates at utilisation levels of ~80%. For FY20-21E, NRB has planned a capex ~₹ 100-150 crore. Debt levels have gone up from ~₹ 173 crore in FY18 to ~₹ 260 crore in FY19. Going ahead, debt levels' working capital management will be the key monitorable. We value NRB at ~15x FY21E earnings to arrive at a target price of ₹ 185 per share. We have a **HOLD** recommendation on the stock.

Particulars	
Particular	Amount
Market Capitalization	1,648
Total Debt (FY19)	260
Cash and Investments (FY19)	31
EV (FY19)	1,876
52 week H/L (₹) (BSE)	223 / 140
Equity capital	19.4
Face value (₹)	2.0

Key Highlights

- Healthy FY19, sluggish FY20E due to weak OEM demand and implementation of BS-VI norms ahead of the 1st April 2020 deadline
- Exports and after-markets to help topline and bottomline growth in FY20E. The company has made strong inroads in overseas geographies like Europe, US and South East Asian countries
- Change recommendation from BUY to HOLD on growth moderation

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Key Financial Summary

(₹ Crore)	FY16	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenue	674.9	725.5	855.1	964.9	1,039.5	1,162.2	9.8%
EBITDA	112.6	116.7	168.3	185.1	186.1	216.2	8.1%
Net Profit	42.0	51.6	90.7	108.2	97.7	117.8	4.3%
EPS (₹)	4.3	5.3	9.4	11.2	10.1	12.2	
P/E (x)	39.2	31.9	18.2	15.2	16.9	14.0	
P/BV	5.9	5.4	4.4	3.5	3.1	2.7	
EV/EBITDA	16.5	16.2	10.7	10.1	9.3	7.9	
RoCE (%)	16.0	16.1	26.7	21.0	20.0	21.3	
RoE (%)	15.0	17.0	24.0	19.5	18.3	19.3	

Source: ICICI Direct Research

Exhibit 1: Variance Analysis

Year	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	212.7	262.7	235.3	(9.6)	242.6	(12.3)	Topline declines due to demand deceleration in domestic OEM segment
Other Income	0.3	4.5	7.7	(95.9)	0.9	(65.2)	
Total Income	213.0	267.2	243.1	(12.4)	243.5	-12.5	
Cost of materials consumed	96.6	70.4	103.1	(6.4)	115.4	(16.4)	
Change in inventories	(4.0)	39.1	(2.7)	50.9	(18.9)	(78.7)	
Employee cost	28.5	33.8	34.2	(16.7)	31.0	(7.9)	
Other expenses	65.5	72.6	58.5	12.1	73.1	(10.3)	
EBITDA	26.1	46.8	42.1	(38.1)	42.0	(37.9)	
EBITDA Margin (%)	12.3	17.8	17.9	-564 bps	17.3	-505 bps	
Depreciation	7.8	6.8	7.3	7.0	7.9	(0.1)	
Interest	4.2	5.2	3.4	24.7	3.4		
PBT	14.4	39.3	39.2	(63.3)	31.6	(54.5)	
Taxes	2.7	9.6	12.4	(78.6)	4.9	(45.6)	
PAT	11.7	29.7	26.8	(56.2)	26.8	(56.1)	

Source: ICICI Direct Research

Exhibit 2: Change in Estimates

	FY18	FY19	FY20E			FY21E		
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	855.1	964.9	1,128.0	1,039.5	(7.8)	1,282.4	1,162.2	(9.4)
EBITDA	168.3	185.1	214.2	186.1	(13.1)	244.8	216.2	(11.7)
EBITDA Margin (%)	19.7	19.2	19.0	17.9	-109 bps	19.1	18.6	-49 bps
PAT	90.7	91.7	116.4	97.7	(16.1)	133.7	117.8	(11.9)
EPS (₹)	9.4	11.2	12.0	10.1	(16.0)	13.8	12.2	(11.9)

Source: ICICI Direct Research

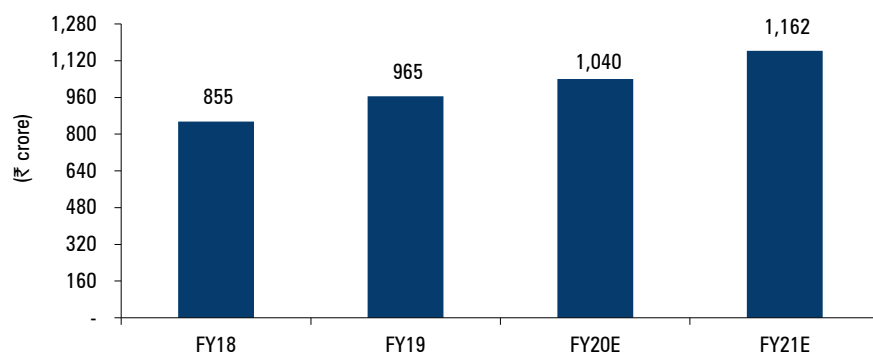
Exhibit 3: Assumptions (segment-wise)

	Actual	Actual	Current		
₹ crore	FY17	FY18	FY19E	FY20E	FY21E
Domestic OEMs	481.5	575.1	664.9	711.4	796.8
After market sales	94.3	105.0	95.0	102.6	112.9
Exports	132.9	169.0	205.0	225.5	252.6

Source: ICICI Direct Research

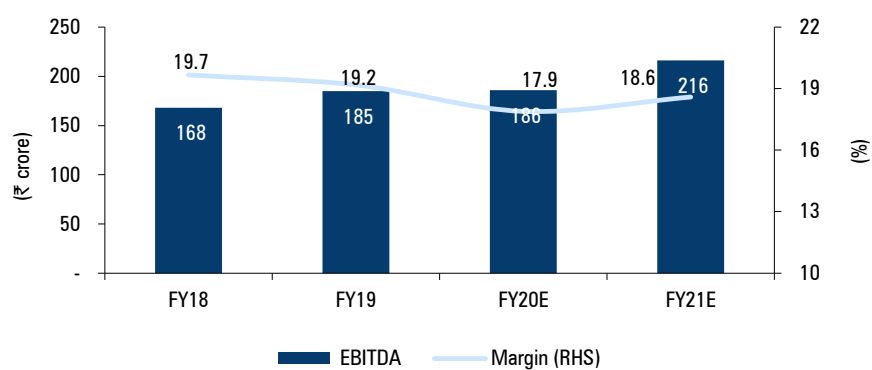
Financial in charts

Exhibit 4: Revenue trend



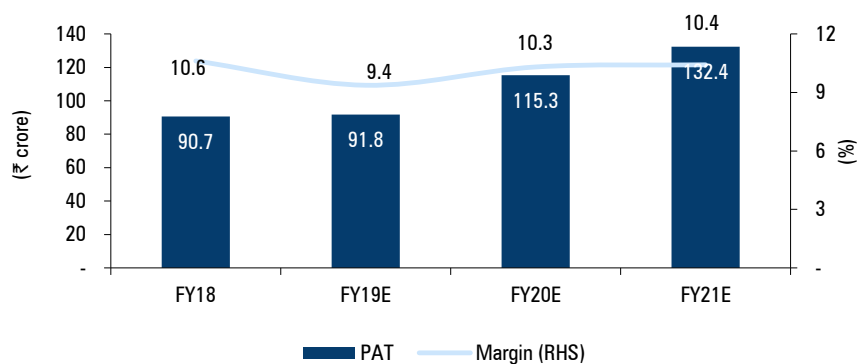
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and EBITDA margin trend



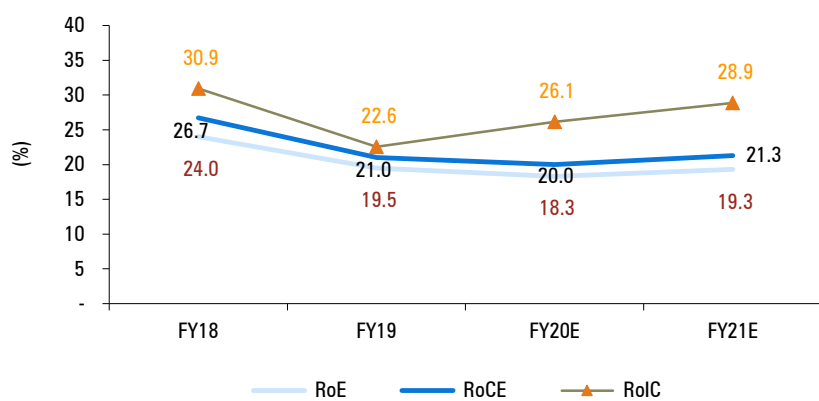
Source: Company, ICICI Direct Research

Exhibit 6: PAT trend

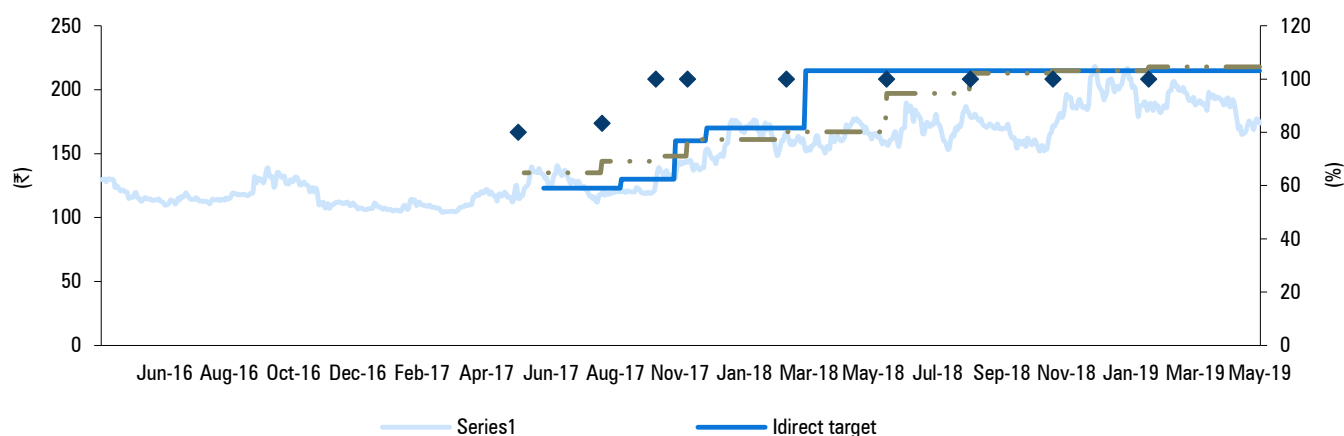


Source: Company, ICICI Direct Research

Exhibit 7: RoCE and RoE trend



Source: Company, ICICI Direct Research

Exhibit 8: Recommendation history vs. Consensus


Source: ICICI Direct Research; Reuters

Exhibit 9: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Trilochan S Sahney Trust	31-03-2019	34.88%	33.81M	0
2	Nalanda Capital Pte Ltd	31-03-2019	9.99%	9.68M	0
3	HDFC Asset Management Co., Ltd.	30-04-2019	9.01%	8.74M	+0.12M
4	Zaveri (Harshbeena Sahney)	31-03-2019	8.84%	8.57M	0
5	Sundaram Asset Management Company Limited	30-04-2019	5.71%	5.54M	-0.00M
6	ICICI Prudential Life Insurance Company Ltd.	31-03-2019	3.93%	3.81M	0
7	Sahney (Devesh Singh)	31-03-2019	3.75%	3.63M	0
8	Sahney (Hanwantbir Kaur)	31-03-2019	2.96%	2.87M	0
9	Reliance Nippon Life Asset Management Limited	31-03-2019	2.41%	2.34M	0
10	SBI Funds Management Pvt. Ltd.	31-03-2019	1.32%	1.28M	0

Source: ICICI Direct Research, Reuters

Exhibit 10: Recent Activity

Investor name			Investor name		
Investor name	Value	Shares	Investor name	Value	Shares
HDFC Asset Management Co., Ltd.	+0.32M	+0.12M	Franklin Templeton Asset Management (India) Pvt. Ltd.	-1.94M	-0.65M
BOI AXA Investment Managers Private Limited	+0.01M	+0.00M	DHFL Pramerica Asset Managers Private Limited	-0.72M	-0.27M
Zaveri (Aziz Y)	+0.01M	+0.00M	Taurus Asset Management Co. Ltd.	-0.12M	-0.04M
			Dimensional Fund Advisors, L.P.	-0.05M	-0.02M
			Sophus Capital	-0.03M	-0.01M

Source: ICICI Direct Research, Reuters

Exhibit 11: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	53.6	52.6	52.6	52.6	52.6
FII	17.4	14.8	14.7	14.6	15.3
DII	16.1	18.7	17.5	18.6	19.2
Others	12.9	13.9	15.2	14.2	12.9

Source: ICICI Direct Research, Company

Financial Summary

Exhibit 12: Profit & Loss (₹ crore)

(₹ Crore)	FY18	FY19	FY20E	FY21E
Revenue	855.1	964.9	1,039.5	1,162.2
% YoY Growth		12.8	7.7	11.8
Other Income	12.2	5.6	16.0	20.0
Total Revenue	867.2	970.5	1,055.5	1,182.2
Cost of materials consumed	320.1	388.0	426.2	476.5
Change in inventories	8.6	(36.4)	(39.5)	(44.2)
Employee cost	144.9	143.3	155.9	170.8
Other Expenses	213.2	284.9	310.8	342.9
Total expenditure	686.8	779.7	853.5	946.1
EBITDA	168.3	185.1	186.1	216.2
% YoY Growth		10.0	0.5	16.2
Interest	14.2	14.9	16.2	17.4
Depreciation	31.0	35.3	36.2	38.6
PBT	135.3	140.6	149.6	180.2
Tax	42.4	47.2	50.1	60.4
PAT	90.7	91.7	97.7	117.8
% YoY Growth		1.1	6.6	20.6
EPS	9.4	11.2	10.1	12.2

Source: ICICI Direct Research; Company

Exhibit 13: Cash Flow Statement (₹ crore)

(₹ Crore)	FY18	FY19	FY20E	FY21E
Profit after Tax	90.7	91.7	97.7	117.8
Depreciation	31.0	35.3	36.2	38.6
Interest	14.2	14.9	16.2	17.4
Other income	(12.2)	(5.6)	(16.0)	(20.0)
Prov for Taxation	42.4	47.2	50.1	60.4
Change in Working Capital	27.8	(106.6)	91.3	(35.6)
Taxes Paid	(40.9)	(40.7)	(50.1)	(60.4)
Cashflow from Operating Activities	153.0	36.2	225.4	118.2
(Purchase)/Sale of Fixed Assets	(49.6)	(97.9)	(55.2)	(60.0)
(Purchase)/Sale of Investments	10.5	(15.4)	-	-
Other Income	12.2	5.6	16.0	20.0
Cashflow from Investing Activities	(27.0)	(107.8)	(39.2)	(40.0)
Issue/(Repayment of Debt)	(91.1)	86.4	25.0	20.0
Changes in Minority Interest	2.2	1.7	1.8	2.0
Changes in Networth	(16.7)	0.9	(35.0)	(40.8)
Interest	(14.2)	(14.9)	(16.2)	(17.4)
Others	-	-	-	-
Cashflow from Financing Activities	(119.8)	74.0	(24.4)	(36.2)
Changes in Cash	6.3	2.5	161.8	42.0
Opening Cash/Cash Equivalent	22.5	28.8	31.3	193.1
Closing Cash/ Cash Equivalent	28.8	31.3	193.1	235.1

Source: ICICI Direct Research; Company

Exhibit 14: Balance Sheet (₹ crore)

(₹ Crore)	FY18	FY19	FY20E	FY21E
Share Capital	19.4	19.4	19.4	19.4
Reserves & Surplus	359	451	514	591
Total Shareholders fund	378	471	533	610
Minority Interest	7.7	9.4	11.2	13.2
Total debt	174	260	285	305
Deferred tax liability (net)	5.8	12.3	12.3	12.3
Total Liabilities	565	752	842	941
Gross Block	656	714	754	804
Acc: Depreciation	397	393	429	467
Net Block	259	322	326	337
Capital WIP	14.8	14.8	30.0	40.0
Investments	34	49	49	49
Inventory	158	268	199	229
Sundry debtors	233	215	275	308
Cash	29	31	193	235
Loans & Advances	5.2	5.4	7.3	8.1
Other current assets	77	42	45	50
CL& Prov.	245	196	284	317
Net Current Assets	257	366	436	514
Total Assets	565	752	842	941

Source: ICICI Direct Research; Company

Exhibit 15: Key Ratios (₹ crore)

(Year-end March)	FY18	FY19	FY20E	FY21E
EPS	9.4	11.2	10.1	12.2
Cash EPS	12.6	14.8	13.8	16.1
BV	39.0	48.5	55.0	63.0
DPS	2.6	2.6	3.0	3.5
EBITDA Margin	19.7	19.2	17.9	18.6
PBT / Net Sales	16.1	15.5	14.4	15.3
PAT Margin	10.6	9.5	9.4	10.1
Inventory days	67	101	70	72
Debtor days	100	81	97	97
Creditor days	101	72	98	98
RoE	24.0	19.5	18.3	19.3
RoCE	26.7	21.0	20.0	21.3
RoIC	30.9	22.6	26.1	28.9
P/E	18.2	15.2	16.9	14.0
EV / EBITDA	10.7	10.1	9.3	7.9
EV / Net Sales	2.1	1.9	1.7	1.5
Market Cap / Sales	1.9	1.7	1.6	1.4
Price to Book Value	4.4	3.5	3.1	2.7
Debt/EBITDA	1.0	1.4	1.5	1.4
Net Debt / Equity	0.4	0.5	0.2	0.1
Current Ratio	1.6	2.5	1.7	1.7
Quick Ratio	1.0	1.1	1.0	1.0

Source: ICICI Direct Research; Company

Exhibit 16: ICICI Direct Coverage Universe (Capital Goods)

Company	CMP			M Cap	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
L&T (LARTOU)	1574	1,680	Buy	218369	48.1	53.4	61.2	27.5	24.8	21.7	11.7	12.6	13.2	12.6	12.9	13.6
Bhel (BHEL)	72	75	Hold	25071	3.5	4.1	4.5	21.5	18.2	16.5	6.9	7.5	7.9	3.9	4.5	4.9
AIA Engineering (AIAENG)	1715	2,050	Buy	16176	54.4	59.6	68.2	32.2	29.4	25.7	18.9	19.9	20.3	14.6	14.7	15.1
Thermax (THERMA)	1029	1,170	Buy	12261	23.1	29.3	34.2	42.8	33.8	28.9	17.3	17.1	18.0	11.1	11.5	12.2
KEC International (KECIN)	334	315	Hold	8587	19.2	23.4	27.3	14.9	12.2	10.5	25.7	25.6	25.6	20.6	20.7	20.2
Kalpataru Power(KALPOW)	529	550	Buy	8118	26.1	31.5	37.0	17.8	14.8	12.6	18.3	19.0	19.9	12.6	13.0	13.4
Greaves Cotton (GREAVE)	145	150	Hold	3541	6.9	8.4	9.3	21.2	17.5	15.8	26.2	28.2	30.1	18.2	19.7	21.1
Bharat Electronics (BHAELE)	112	135	Buy	27290	7.9	7.8	8.4	14.2	14.3	13.4	30.0	27.6	27.4	21.4	19.1	18.6
Engineers India (ENGIND)	125	120	Hold	7141	5.9	6.6	7.8	19.3	17.0	14.5	21.3	23.3	24.2	16.3	18.0	20.1
VaTech Wabag (VATWAB)	320	270	Reduce	1629	19.2	18.8	24.3	15.6	15.9	12.4	14.6	17.7	20.3	9.5	9.2	11.0
Cochin Shipyard (COCSHI)	375	455	Buy	4,933	36.3	38.2	41.5	10.3	9.8	9.0	18.8	17.6	17.0	14.4	14.0	14.1
SKF (SKFIND)	1930	1,845	Hold	9729	65.4	69.4	76.8	27.6	26.0	23.5	29.4	27.1	26.3	19.8	18.1	17.3
Timken India (TIMIND)	717	640	Buy	4351	15.7	17.9	21.7	32.6	28.5	23.5	12.8	14.2	15.5	9.4	9.8	10.7
NRB Bearing (NRBBEA)	170	185	Hold	1648	11.2	10.1	12.2	15.2	16.9	14.0	21.0	20.0	21.3	19.5	18.3	19.3
Grindwell Norton (GRINOR)	585	680	Buy	6477	15.1	16.8	19.5	38.7	34.8	30.0	23.3	23.5	25.0	15.2	15.6	16.6

Source: ICICI Direct Research, Bloomberg

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Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



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