

NRB Bearings (NRBBEA)

CMP: ₹ 139

Target: ₹ 175 (24%)

Target Period: 12 months

BUY

November 15, 2021

Decent growth in revenues...

About the stock: NRB was incorporated in 1965 as an Indo-French venture and pioneered the production of needle and roller bearings in India.

- NRB is India's largest needle and cylindrical roller bearings producer. Today 90% of vehicles on Indian roads run on NRB parts
- It exports its product to many countries such as France, Italy, US, Mexico, Brazil, Thailand and Bangladesh. It has a revenue breakup of 78% from domestic sales and 22% from export

Q2FY22 Results: NRB reported decent Q2FY22 results.

- Revenue for the quarter came in at ₹ 256.6 crore, up 29.8% YoY and 27.4% QoQ (vs. I-direct estimate of ₹ 239.6 crore)
- EBIDTA came in at ₹ 47.3 crore, up 55.8% YoY and 76.9% QoQ
- Reported a PAT of ₹ 24.4 crore, up 113.8% YoY

What should investors do? NRB has been making strides towards innovation and R&D. Going ahead, a recovery in auto, & boost in e vehicles sales will help it to grow

- We maintain our BUY rating. We build in revenue, EBIDTA, PAT CAGR of 18.6%, 22.2%, 25.2% respectively

Target Price and Valuation: We value NRB at ₹ 175 i.e. 18x P/E on FY23E EPS.

Key triggers for future price performance:

- Recovery in auto sector should improve manufacturing segment. NRB is also focusing on R&D to cope with demands from e-vehicles segment
- Upcoming e-market to expand reach and market share as well as reduce counterfeit products

Alternate Stock Idea: Apart from NRB, in our capital goods coverage we also like Action Construction Equipment.

- It offers a play on construction equipment, material handling and agri equipment
- BUY with a target price of ₹ 320 per share i.e. 15x EV/EBITDA(FY23E)



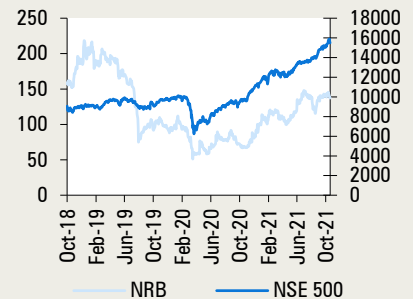
Particulars

Particular	Amount
Market Capitalization	1,347
Total Debt (FY21)	222
Cash and Investments (FY21)	76
EV (FY21)	1,493
52 week H/L (₹) (BSE)	156/ 73
Equity capital	19.4
Face value (₹)	2.0

Shareholding pattern

	Dec-20	Mar-21	Jun-21	Sep-21
Promoter	49.5%	49.6%	49.6%	49.8%
FII	19.1%	20.1%	22.7%	22.6%
DII	14.9%	13.7%	11.9%	11.9%
Others	16.6%	16.5%	15.8%	15.7%

Price Chart



Recent event & key risks

- Upcoming E-market
- Key Risk:** (i) Commodity inflation, (ii) Sluggish supply in auto due to chip shortage

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Key Financial Summary

(₹ Crore)	FY20	FY21	5 Year CAGR(FY16-21)	FY22E	FY23E	2 Year CAGR (FY21-23E)
Revenue	776.0	762.4	1.2%	930.2	1,047.6	17.2%
EBITDA	85.8	103.9	-1.6%	148.8	172.9	29.0%
EBITDA margin (%)	11.1	13.6		16.0	16.5	
Net Profit	32.1	54.1	5.2%	77.5	94.5	32.2%
EPS (₹)	3.3	5.6		8.0	9.8	
P/E (x)	39.3	23.3		16.3	13.3	
EV/EBITDA	17.5	13.5		9.5	8.0	
RoCE (%)	8.7	11.8		15.8	17.2	
RoE (%)	7.0	10.4		13.1	14.1	

Key takeaways of recent quarter

Q2FY22 Results: Decent performance backed by higher EBITDA margins

- Revenue for the quarter came in at ₹ 256.6 crore, up 29.8% YoY and 27.4% QoQ (vs. I-direct estimate of ₹ 239.6 crore). Revival of auto industry, specially two-wheeler segment played a major role
- Gross margins contracted ~600 bps QoQ and expanded 120 bps YoY. NRB registered an EBIDTA margin of 18.4% vs 15.4% YoY and 13.3% QoQ. Increase in EBIDTA is due to lower employee expenses. Absolute EBIDTA came in at ₹ 47.3 crore, up 55.8% YoY and 76.9% QoQ (I-direct estimate of ₹ 30.6 crore)
- Employee cost declined 14.8% YoY to ₹ 35.5 crore. Other expenses increased 33.3% YoY and 11.8% QoQ to ₹ 78.3 crore
- Tracking its operating performance, NRB reported a PAT of ₹ 24.4 crore up 113.8% YoY and 44.7% QoQ
- Ensuing PAT came in at ₹ 79.1 crore (I-direct estimate of ₹ 56 crore). Tax rate for the quarter was at 25.2%

Exhibit 1: Variance Analysis

Year	Q2FY22	Q2FY22E	Q2FY21	YoY (%)	Q1FY22	QoQ(%)	Comments
Revenue	256.6	239.6	197.7	29.8	201.3	27.4	Strong momentum continued in the auto sector in Q2FY22, which led to better volumes
Other Income	(1.1)	4.0	0.7	(257.1)	7.9	(114.0)	
Total Income	255.5	243.6	198.4	28.8	209.2	22.1	
Cost of materials consumed	90.9	106.8	70.5	29.0	86.0	5.7	
Change in inventories	4.5	(11.0)	5.5	(18.4)	(23.2)	(119.2)	
Employee cost	35.5	43.1	32.6	9.1	41.7	(14.8)	
Other expenses	78.3	70.0	58.8	33.3	70.1	11.8	
EBITDA	47.3	30.6	30.4	55.8	26.8	76.9	Higher revenue, better margins and lower employee cost led to EBITDA growth
EBITDA Margin (%)	18.4	12.8	15.4	308 bps	13.3	516 bps	EBITDA margins improved led by positive operating leverage
Depreciation	9.3	8.5	7.4	26.4	8.9	4.9	
Interest	3.7	3.4	6.2	(40.7)	3.7	(0.3)	
PBT	33.2	22.8	17.4	90.3	22.0	50.9	
Taxes	8.8	5.9	6.1	46.1	5.2	71.0	
PAT	24.4	16.8	11.4	113.8	16.8	44.7	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY20	FY21	FY22E			FY23E		
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	776.0	762.4	930.2	930.2	0.0	1,047.6	1,047.6	0.0
EBITDA	85.8	103.9	148.8	148.8	0.0	172.9	172.9	0.0
EBITDA Margin (%)	11.1	13.6	16.0	16.0	0 bps	16.5	16.5	0 bps
PAT	32.1	54.1	77.5	77.5	0.0	94.5	94.5	0.0
EPS (₹)	3.3	5.6	8.0	8.0	0.0	9.8	9.8	0.0

Source: ICICI Direct Research

Financial Summary

(₹ Crore)	FY20	FY21	FY22E	FY23E
Revenue	776.0	762.4	930.2	1,047.6
% YoY Growth	(19.6)	(1.7)	22.0	12.6
Other Income	16.1	15.1	12.0	12.0
Total Revenue	792.0	777.5	942.2	1,059.6
Cost of materials consumed	294.2	276.9	364.7	403.3
Change in inventories	11.0	11.0	2.8	2.1
Employee cost	136.7	137.7	151.6	170.8
Other Expenses	248.3	232.9	262.3	298.6
Total expenditure	690.1	658.5	781.4	874.7
EBITDA	85.8	103.9	148.8	172.9
% YoY Growth	(53.6)	21.0	43.3	16.1
Interest	21.8	21.8	15.4	13.8
Depreciation	33.3	30.7	35.0	37.0
PBT	46.8	66.4	110.5	134.1
Tax	13.6	10.7	30.9	37.5
PAT	32.1	54.1	77.5	94.5
% YoY Growth	(65.0)	68.7	43.3	21.9
EPS	3.3	5.6	8.0	9.8

Source: Company, ICICI Direct Research

(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	32.1	54.1	77.5	94.5
Depreciation	33.3	30.7	35.0	37.0
Interest	21.8	21.8	15.4	13.8
Other income	(16.1)	(15.1)	(12.0)	(12.0)
Prov for Taxation	13.6	10.7	30.9	37.5
Change in Working Capital	40.0	28.0	(63.1)	(43.0)
Taxes Paid	(10.8)	(9.6)	(30.9)	(37.5)
Cashflow from Operations	114	121	53	90
(Purchase)/Sale of Fixed Assets	(76.2)	(19.8)	(49.7)	(50.0)
(Purchase)/Sale of Investments	(0.2)	(6.0)	-	-
Other Income	16.1	15.1	12.0	12.0
Cashflow from Investing	(60)	(11)	(38)	(38)
Issue/(Repayment of Debt)	60.3	(98.2)	(30.0)	(20.0)
Changes in Minority Interest	0.1	1.7	2.0	2.0
Changes in Networth	(45.7)	6.7	(4.8)	(14.5)
Interest	(21.8)	(21.8)	(15.4)	(13.8)
Others	-	-	-	-
Cashflow from Financing	(7)	(112)	(48)	(46)
Changes in Cash	46.5	(1.6)	(33.1)	6.0
Opening Cash/Cash Equivalent	31.3	77.8	76.2	43.2
Closing Cash/ Cash Equivalent	78	76	43	49

Source: Company, ICICI Direct Research

(₹ Crore)	FY20	FY21	FY22E	FY23E
Share Capital	19.4	19.4	19.4	19.4
Reserves & Surplus	438	498	571	651
Total Shareholders fund	457	518	590	670
Minority Interest	9.5	11.2	13.2	15
Total debt	320	222	192	172
Deferred tax liability (net)	15.2	16.3	16.3	16
Total Liabilities	802	767	812	874
Gross Block	764	814	864	914
Acc: Depreciation	426	457	492	529
Net Block	363	358	373	386
Capital WIP	16.1	8.2	8.2	8
Investments	50	56	56	56
Inventory	227	203	250	281
Sundry debtors	200	209	242	272
Cash	78	76	43	49
Loans & Advances	5.7	1.5	6.5	7
Other current assets	43	42	42	47
CL& Prov.	181	189	210	236
Net Current Assets	372	343	373	422
Total Assets	802	767	812	874

Source: Company, ICICI Direct Research

(Year-end March)	FY20	FY21	FY22E	FY23E
EPS	3.3	5.6	8.0	9.8
Cash EPS	6.7	8.7	11.6	13.6
BV	47.1	53.4	60.9	69.2
DPS	0.8	-	0.5	1.5
Operating Ratios (%)				
EBITDA Margin	11.1	13.6	16.0	16.5
PBT / Net Sales	6.8	9.6	12.2	13.0
PAT Margin	4.1	7.1	8.3	9.0
Inventory days	107	97	98	98.0
Debtor days	94	100	95	94.9
Creditor days	78	85	78	78.0
Return Ratios (%)				
RoE	7.0	10.5	13.1	14.1
RoCE	8.7	11.8	15.8	17.2
RoIC	8.2	11.5	15.9	17.7
Valuation Ratios (x)				
P/E	42.0	24.9	17.4	14.3
EV / EBITDA	18.5	14.4	10.1	8.5
EV / Net Sales	2.0	2.0	1.6	1.4
Market Cap / Sales	1.7	1.8	1.4	1.3
Price to Book Value	2.9	2.6	2.3	2.0
Solvency Ratios				
Debt/EBITDA	3.7	2.1	1.3	1.0
Net Debt / Equity	0.5	0.3	0.3	0.2
Current Ratio	2.4	2.2	2.4	2.4
Quick Ratio	1.1	1.1	1.2	1.2

Source: Company, ICICI Direct Research

Exhibit:7 ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
L&T (LARTOU)	1950	2,150	Buy	273624	81.9	51.9	52.9	23.8	37.5	36.8	7.4	8.0	9.0	18.8	11.4	11.2
Siemens Ltd	2386	2,550	Buy	84970	28.3	37.9	45.1	84.4	62.9	53.0	13.5	16.3	17.4	9.9	12.1	13.0
AIA Engineering (AIAENG)	1888	2,230	Buy	17808	59.7	60.4	69.7	31.6	31.2	27.1	16.4	15.3	16.1	13.3	12.4	12.9
Thermax (THERMA)	1617	1,800	Buy	19268	17.3	26.7	40.0	93.3	60.6	40.4	9.8	11.8	16.4	7.6	9.2	12.7
Kalpataru Power(KALPOW)	416	455	Hold	6436	41.3	25.8	37.8	10.1	16.1	11.0	15.9	15.2	16.7	12.7	9.7	11.8
KEC International (KECIN)	461	550	Buy	11852	21.5	19.9	32.3	21.4	23.1	14.3	19.4	17.3	21.3	16.5	14.7	18.7
Greaves Cotton (GREAVE)	134	150	Hold	3098	0.4	2.4	5.4	299.0	54.8	24.9	6.5	7.2	18.6	3.3	5.1	13.6
Elgi Equipment (ELGEQU)	222	260	Buy	7035	3.2	3.9	6.2	68.6	57.1	36.1	11.7	12.7	18.1	11.8	13.8	18.7
Bharat Electronics (BHAELE)	223	250	Buy	54336	8.5	9.6	11.3	26.3	23.1	19.8	27.2	27.0	28.7	19.1	19.9	21.4
Cochin Shipyard (COCSHI)	372	500	Buy	5059	46.4	44.0	55.6	8.0	8.5	6.7	14.4	15.2	16.0	15.3	13.0	14.7
SKF (SKFIND)	3843	3,960	Buy	20368	67.6	78.1	98.9	56.8	49.2	38.9	27.0	26.5	27.9	21.4	20.6	21.6
Timken India (TIMIND)	2006	2,240	Hold	12838	19.0	30.8	40.0	105.4	65.1	50.2	13.7	19.4	25.1	10.7	15.1	19.6
NRB Bearing (NRBBEA)	139	175	Buy	1348	5.6	8.0	9.8	24.8	17.4	14.2	11.8	15.8	17.2	10.4	13.1	14.1
Action Construction (ACTCON)	251	320	Buy	2836	7.1	9.7	13.9	35.4	25.9	18.1	26.9	22.3	26.2	15.3	14.9	17.9

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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