

Weak Q1; headwinds impact performance

NRB Bearings reported a weak performance across all operational parameters. Standalone revenues came in at ₹ 208 crore, down 11.1% YoY. The decline was driven by a weak performance in domestic OEM segment. EBITDA margin declined ~680 bps to 12.2% (vs. 19% in Q1FY19) mainly impacted by 365 bps increase in input costs and negative operating leverage amid declining topline. Accordingly, absolute EBITDA declined 42.7% YoY to ₹ 25.5 crore. Finance costs rose 33.1% YoY while other income declined 56.1% YoY. Accordingly, PAT declined 75% YoY to ₹ 8.7 crore.

Headwinds in domestic OEMs to result in sluggish FY20E

Domestic OEMs contributed ~69% of NRB's topline in FY19. The segment grew 15.6% YoY. Going ahead, there are expectations of some recovery in domestic OEM segment in H2 due to likely growth in auto volume growth amid festivities and implementation of BS-VI norms ahead of April 1, 2020. On the whole, for FY20E, negative operating leverage amid declining revenues is expected to adversely impact margins. Accordingly, we expect this segment to report a decline of 10% in FY20E. We expect CAGR of -3.7% over FY19-21E.

Exports, after-markets segment to hold fort

After markets segment declined 9.5% YoY in FY19, as NRB diverted most capacities for fulfilling demand of its OEM customers. Exports grew 21.3% YoY and contributed ~21% to the topline in FY19. This was mostly on account of the company's persistent marketing efforts in the US and the European regions. In the European region, it caters to global players like Daimler, Renault, Volvo and Getrag. Amid domestic challenges, we expect some slowdown in export and aftermarket segment. Exports are likely to grow at 2.5% CAGR, in FY19-21E. Higher proportion of exports is expected to act as a natural hedge for its import of raw materials. NRB's after market segment is expected to grow at a modest CAGR of 1.5% in FY19-21E.

Valuation & Outlook

With a dip in growth expected in FY20E and sluggish environment overall, we expect revenue, EBITDA and PAT to de-grow 1.7%, 13.2% and 20.3% CAGR, respectively, in FY19-21E. NRB executed a capex of ~₹ 50 crore in FY19 with capacity utilisation levels at 80%. Amid uncertainty, the company has planned to curtail their capex over the next two years and is expected to incur ~₹ 50 crore capex in FY20E. Increased debt intensity and working capital requirements are key monitorables for the company. On the whole, RoCEs are expected to decline to 15% in FY21E. We value NRB at ~12x FY21E earnings to arrive at a target price of ₹ 85 per share. We have a **HOLD** recommendation on the company.

Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Revenue	725.5	855.1	964.9	898.4	929.5	-1.9%
EBITDA	116.7	168.3	185.1	126.7	139.4	-13.2%
EBITDA margin (%)	16.1	19.7	19.2	14.1	15.0	
Net Profit	51.6	90.7	108.2	58.8	68.8	-20.3%
EPS (₹)	5.3	9.4	11.2	6.1	7.1	
P/E (x)	15.6	8.9	7.4	13.7	11.7	
EV/EBITDA	9.0	5.6	5.6	8.3	7.4	
RoCE (%)	16.1	26.7	21.0	13.8	15.2	
RoE (%)	17.0	24.0	19.5	11.9	13.2	

Source: ICICI Direct Research, Company

Particulars	Amount
Market Capitalization	804
Total Debt (FY19)	260
Cash and Investments (FY19)	31
EV (FY19)	1,033
52 week H/L (₹) (BSE)	224 / 75
Equity capital	19.4
Face value (₹)	2.0

Key Highlights

- Sluggish domestic OEM demand in Q1FY20 expected to continue during H1. FY20E expected to remain sluggish
- Exports, after-markets to support growth, profitability in FY20E. The company continues to make inroads in overseas geographies like Europe, US, Southeast Asian countries
- Amid sluggish environment, we maintain HOLD recommendation

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Rohan Pinto
rohan.pinto@icicisecurities.com

Exhibit 1: Variance Analysis

Year	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ(%)	Comments
Revenue	208.0	215.2	233.9	(11.1)	212.7	(2.2)	Topline declines due to weakened demand in domestic OEM segment
Other Income	1.2	4.0	2.8	(56.1)	0.3	281.3	
Total Income	209.2	219.2	236.7	(11.6)	213.0	-1.8	
Cost of materials consumed	90.3	94.7	104.1	(13.3)	96.6	(6.5)	
Change in inventories	3.4	(8.6)	(7.2)	(147.4)	(4.0)	(185.1)	
Employee cost	31.3	30.1	30.9	1.2	28.5	9.6	
Other expenses	57.5	62.4	61.7	(6.8)	65.5	(12.3)	
EBITDA	25.5	36.6	44.4	(42.7)	26.1	(2.5)	
EBITDA Margin (%)	12.2	17.0	19.0	-676 bps	12.3	-3 bps	
Depreciation	8.6	9.1	8.1	5.4	7.8	9.3	
Interest	4.3	4.1	3.3	33.1	4.2		
PBT	13.8	27.5	35.8	(61.6)	14.4	(4.3)	
Taxes	5.1	8.2	17.6	(71.1)	2.7	91.4	
PAT	8.7	19.2	34.8	(75.0)	11.7	(26.0)	

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	1,039.5	898.4	(13.6)	1,162.2	929.5	(20.0)
EBITDA	168.3	185.1	186.1	126.7	(31.9)	216.2	139.4	(35.5)
EBITDA Margin (%)	19.7	19.2	17.9	14.1	-380 bps	18.6	15.0	-360 bps
PAT	90.7	91.7	97.7	58.8	(39.8)	117.8	68.8	(41.6)
EPS (₹)	9.4	11.2	10.1	6.1	(39.9)	12.2	7.1	(41.8)

Source: ICICI Direct Research

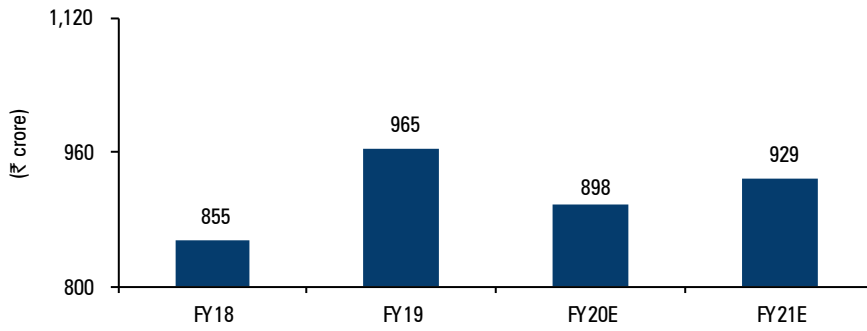
Exhibit 3: Assumptions (segment-wise)

	Actual	Actual	Actual	Estimate	
₹ crore	FY17	FY18	FY19	FY20E	FY21E
Domestic OEMs	481.5	575.1	664.9	598.4	616.4
After market sales	94.3	105.0	95.0	95.0	97.9
Exports	132.9	169.0	205.0	205.0	215.3

Source: ICICI Direct Research

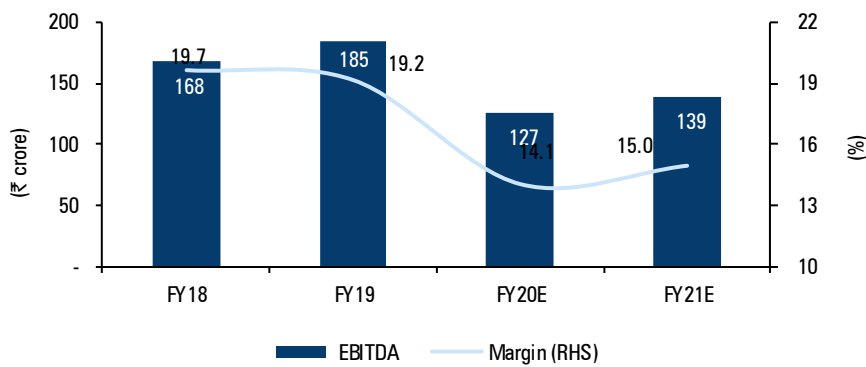
Financial in charts

Exhibit 4: Revenue trend



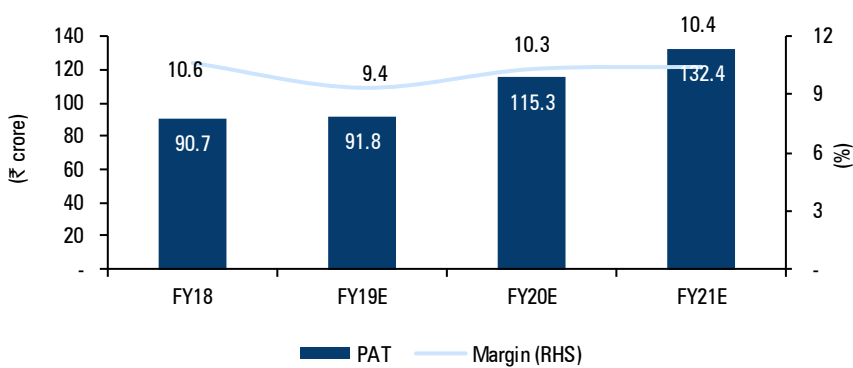
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA and EBITDA margin trend



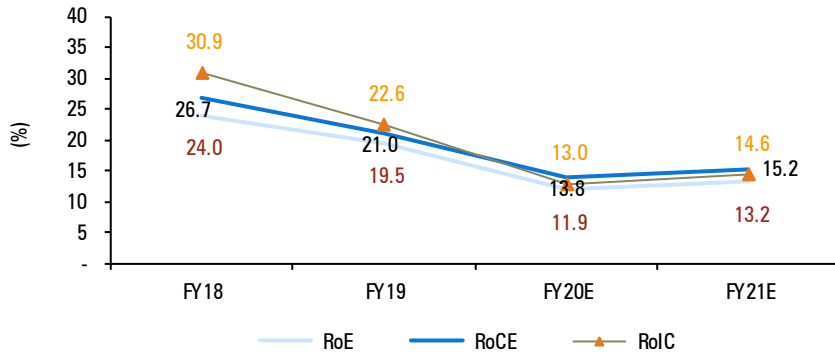
Source: Company, ICICI Direct Research

Exhibit 6: PAT and PAT margin trend



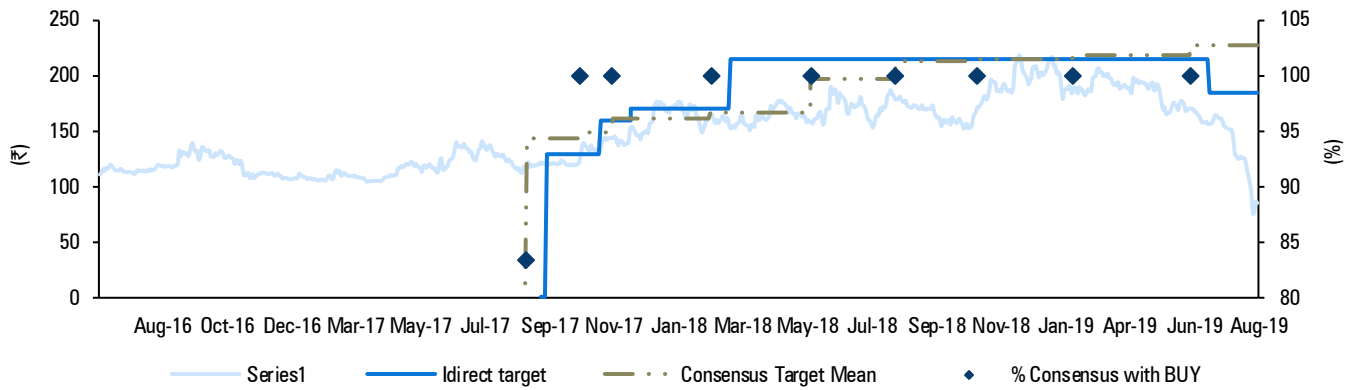
Source: Company, ICICI Direct Research

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	Filing Date	% O/S	Position (m)	Change (m)
1	Trilochan S Sahney Trust	30-06-2019	34.88%	33.81M	0
2	Nalanda Capital Pte Ltd	30-06-2019	9.99%	9.68M	0
3	Zaveri (Harshbeena Sahney)	30-06-2019	9.15%	8.87M	+0.30M
4	HDFC Asset Management Co., Ltd.	30-06-2019	8.94%	8.67M	-0.22M
5	ICICI Prudential Life Insurance Company L	30-06-2019	3.93%	3.81M	0
6	Sahney (Devesh Singh)	30-06-2019	3.75%	3.63M	0
7	Sahney (Hanwantbir Kaur)	30-06-2019	2.96%	2.87M	0
8	Sundaram Asset Management Company	30-06-2019	2.52%	2.44M	-3.14M
9	Reliance Nippon Life Asset Management	30-06-2019	2.41%	2.34M	0
10	SBI Funds Management Pvt. Ltd.	30-06-2019	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
Zaveri (Harshbeena Sahney)	+0.72M	+0.30M	Sundaram Asset Management Company Limited	-7.48M	-3.14M
Zaveri (Aziz Y)	+0.04M	+0.02M	Franklin Templeton Asset Management (India) Pvt. Ltd.	-1.94M	-0.65M
Taurus Asset Management Co. Ltd.	+0.02M	+0.01M	DHFL Pramerica Asset Managers Private Limited	-0.72M	-0.27M
			HDFC Asset Management Co., Ltd.	-0.51M	-0.22M
			Sophus Capital	-0.03M	-0.01M

Source: ICICI Direct Research, Reuters

Exhibit 11: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Jun-19
Promoter	53.6	52.6	52.6	52.6	53.0
FII	17.4	14.8	14.7	14.6	19.0
DII	16.1	18.7	17.5	18.6	15.5
Others	12.9	13.9	15.2	14.2	12.6

Source: ICICI Direct Research, Company

Financial Summary

Exhibit 12: Profit & Loss (₹ crore)				
(₹ Crore)	FY18	FY19	FY20E	FY21E
Revenue	855.1	964.9	898.4	929.5
% YoY Growth		12.8	(6.9)	3.5
Other Income	12.2	5.6	16.0	20.0
Total Revenue	867.2	970.5	914.4	949.5
Cost of materials consumed	320.1	388.0	386.3	397.8
Change in inventories	8.6	(36.4)	(18.0)	(18.6)
Employee cost	144.9	143.3	134.8	136.6
Other Expenses	213.2	284.9	268.6	274.2
Total expenditure	686.8	779.7	771.7	790.0
EBITDA	168.3	185.1	126.7	139.4
% YoY Growth		10.0	(31.6)	10.1
Interest	14.2	14.9	14.8	14.8
Depreciation	31.0	35.3	36.7	38.1
PBT	135.3	140.6	91.2	106.5
Tax	42.4	47.2	30.5	35.7
PAT	90.7	91.7	58.8	68.8
% YoY Growth		1.1	(35.8)	17.0
EPS	9.4	11.2	6.1	7.1

Source: ICICI Direct Research; Company

Exhibit 13: Cash Flow Statement (₹ crore)				
(₹ Crore)	FY18	FY19	FY20E	FY21E
Profit after Tax	90.7	91.7	58.8	68.8
Depreciation	31.0	35.3	36.7	38.1
Interest	14.2	14.9	14.8	14.8
Other income	(12.2)	(5.6)	(16.0)	(20.0)
Prov for Taxation	42.4	47.2	30.5	35.7
Change in Working Capital	27.8	(106.6)	(14.1)	(12.2)
Taxes Paid	(40.9)	(40.7)	(30.5)	(35.7)
Cashflow from Operations	153.0	36.2	80.3	89.5
(Purchase)/Sale of Fixed Assets	(49.6)	(97.9)	(65.2)	(40.0)
(Purchase)/Sale of Investments	10.5	(15.4)	-	-
Other Income	12.2	5.6	16.0	20.0
Cashflow from Investing	(27.0)	(107.8)	(49.2)	(20.0)
Issue/(Repayment of Debt)	(91.1)	86.4	-	-
Changes in Minority Interest	2.2	1.7	1.8	2.0
Changes in Network	(16.7)	0.9	(35.0)	(40.8)
Interest	(14.2)	(14.9)	(14.8)	(14.8)
Others	-	-	-	-
Cashflow from Financing	(119.8)	74.0	(48.0)	(53.7)
Changes in Cash	6.3	2.5	(17.0)	15.9
Opening Cash/Cash Equivalent	22.5	28.8	31.3	14.3
Closing Cash/ Cash Equivalent	28.8	31.3	14.3	30.2

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	475	503
Total Shareholders fund	378	471	494	522
Minority Interest	7.7	9.4	11.2	13.2
Total debt	174	260	260	260
Deferred tax liability (net)	5.8	12.3	12.3	12.3
Total Liabilities	565	752	778	808
Gross Block	656	714	764	794
Acc: Depreciation	397	393	429	467
Net Block	259	322	335	327
Capital WIP	14.8	14.8	30.0	40.0
Investments	34	49	49	49
Inventory	158	268	246	255
Sundry debtors	233	215	238	246
Cash	29	31	14	30
Loans & Advances	5.2	5.4	6.3	6.5
Other current assets	77	42	40	42
CL& Prov.	245	196	182	189
Net Current Assets	257	366	363	391
Total Assets	565	752	778	808

Source: ICICI Direct Research; Company

Exhibit 15: Key Ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
EPS	9.4	11.2	6.1	7.1
Cash EPS	12.6	14.8	9.9	11.0
BV	39.0	48.5	51.0	53.9
DPS	2.6	2.6	3.0	3.5
EBITDA Margin	19.7	19.2	14.1	15.0
PBT / Net Sales	16.1	15.5	10.0	10.9
PAT Margin	10.6	9.5	6.5	7.4
Inventory days	67	101	100	100
Debtor days	100	81	97	97
Creditor days	101	72	72	72
RoE	24.0	19.5	11.9	13.2
RoCE	26.7	21.0	13.8	15.2
RoIC	30.9	22.6	13.0	14.6
P/E	8.9	7.4	13.7	11.7
EV / EBITDA	5.6	5.6	8.3	7.4
EV / Net Sales	1.1	1.1	1.2	1.1
Market Cap / Sales	0.9	0.8	0.9	0.9
Price to Book Value	2.1	1.7	1.6	1.5
Debt/EBITDA	1.0	1.4	2.1	1.9
Net Debt / Equity	0.4	0.5	0.5	0.4
Current Ratio	1.6	2.5	2.7	2.7
Quick Ratio	1.0	1.1	1.3	1.3

Source: ICICI Direct Research; Company

Exhibit 16: ICICI Direct Coverage Universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
L&T (LARTOU)	1331	1,675	Buy	184656	48.1	56.0	61.1	28.9	24.8	22.8	11.8	11.5	12.2	12.7	13.5	13.6
Bhel (BHEL)	51	60	Hold	17759	3.5	3.2	3.8	17.2	19.0	15.7	6.9	6.0	7.0	3.9	3.5	4.2
AIA Engineering (AIAENG)	1640	2,050	Buy	15469	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)	1067	1,170	Hold	12714	23.1	28.3	34.1	47.3	38.6	32.0	18.0	17.0	18.7	11.2	11.3	12.3
KEC International (KECIN)	284	330	Hold	7302	19.2	22.8	27.3	15.1	12.7	10.6	24.8	25.2	25.6	20.1	20.2	20.2
Kalpataru Power(KALPOW)	473	570	Buy	7259	26.1	30.7	36.4	17.8	15.2	12.8	19.6	19.3	20.1	12.7	12.7	13.2
Greaves Cotton (GREAVE)	116	145	Buy	2833	6.9	8.0	8.8	17.0	14.8	13.5	27.4	27.7	29.5	18.7	19.1	20.4
Elgi Equipment (ELGEQU)	246	300	Buy	3898	6.1	6.5	7.2	38.1	36.0	32.4	14.3	13.8	15.1	14.1	13.4	13.6
Bharat Electronics (BHAELE)	93	135	Buy	22660	7.9	7.4	8.2	12.6	13.5	12.2	30.0	26.2	27.0	21.4	18.1	18.3
Engineers India (ENGIND)	101	105	Hold	6509	5.9	6.7	7.7	17.6	15.4	13.4	21.3	23.4	23.9	16.3	18.1	19.8
VaTech Wabag (VATWAB)	270	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)	348	440	Buy	4,578	36.3	37.0	40.1	9.6	9.4	8.7	18.8	17.0	16.4	14.4	13.7	13.7
SKF (SKFIND)	1840	1,565	Reduce	9446	65.4	62.6	65.3	29.0	30.3	29.0	29.4	24.9	23.4	19.8	16.6	15.4
Timken India (TIMIND)	694	830	Buy	5220	19.8	24.1	27.7	34.9	28.6	24.9	15.7	17.0	17.3	11.1	12.0	12.3
NRB Bearing (NRBBEA)	83	85	Hold	804	11.2	6.1	7.1	7.4	13.7	11.7	21.0	13.8	15.2	19.5	11.9	13.2
Grindwell Norton (GRINOR)	541	635	Buy	5990	15.1	16.7	19.3	35.0	31.7	27.5	23.3	23.4	24.7	15.2	15.6	16.5

Source: ICICI Direct Research, Bloomberg

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%;

Hold: -5% to 15%;

Reduce: -5% to -15%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, AkruTI Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Chirag Shah PGDBM; Rohan Pinto MBA (Finance), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.