

Buy

Countdown to growth begins

NRB Bearings (NRB) is the largest manufacturer of needle roller bearings in India, with ~70% market share. With an increased emphasis on weight reduction in vehicles and lower space utilisation, applications for needle roller bearings will continue to increase. In the past two years, slowdown in OEMs demand, both in India and global markets, impacted NRB bearing earnings. However, we sense that the worst is behind and forecast strong earnings growth over the next 2-3 years. **NRB's growth story is premised on (1) Strong volume growth in OEMs (account for ~65-70% of revenue), (2) Revival in exports, led by a recovery in the US and European truck /PV markets (~20-24% of revenue), (3) improvement in Operating margin led by increasing presence in high-margin export business and benefit of operating leverage and (4) Reduction in debt along with fall in interest cost. We expect revenue CAGR at 19% and EBITDA CAGR at 41% over FY21-23E. We value the stock Rs 157 (based on 17x for FY23E EPS).**

Well-diversified revenue stream

NRB is expected to be a key beneficiary of robust growth in the automobile sector, with the domestic OEM segment accounting for 70% of its revenue. NRB caters to almost all the segments in the automobile sector viz. 2W (35%), CV (28%), PV (21%) and farm/off-highway (17%). The company's client portfolio is well-diversified, with the average contribution of any customer not exceeding ~10% of revenue.

Leadership in needle roller bearings

NRB commands ~70% share in the organised needle roller bearing market. Owing to its compact size, these bearings are the preferred choice for applications like steering systems, gear boxes, front axles, engines etc. With the increasing use of automation in 4Ws and the need to make engines, transmissions and steering lighter and more compact, we expect demand to increase in the medium term.

Improved export outlook

Export contributes 20-24% of revenue, revenue contribution from PV is 60% and rest is from CV. The company exports to Europe and US to global OEMs like Renault Volvo, VW and Daimler Trucks. The company also supplies to Tier-I clients like ZF and Getrag. After a period of strong growth (~14% CAGR over FY17-19), exports fell 21% in FY20. However, the outlook has improved in the last three months with a revival in PV and CV sales in Europe and the USA.

FINANCIALS (Rs Mn)

Particulars	FY19A	FY20A	FY21E	FY22E	FY23E
Revenue	9,650	7,760	6,551	8,358	9,266
Growth(%)	12.9	(19.6)	(15.6)	27.6	10.9
EBITDA	1,853	858	827	1,364	1,595
OPM(%)	19.2	11.1	12.6	16.3	17.2
PAT	1,080	322	291	708	893
Growth(%)	19.1	(70.2)	(9.7)	143.4	26.3
EPS(Rs.)	11.1	3.3	3.0	7.3	9.2
Growth(%)	19.1	(70.2)	(9.7)	143.4	26.3
PER(x)	8.0	26.8	29.7	12.2	9.7
ROANW(%)	25.4	6.9	6.2	14.1	16.0
ROACE(%)	18.6	7.1	6.2	11.3	12.9

CMP	Rs 89
Target / Upside	Rs 157 / 76%
NIFTY	13,514

Scrip Details

Equity / FV	Rs 194mn / Rs 2
Market Cap	Rs 9bn
	USD 117mn
52-week High/Low	Rs 115/ 48
Avg. Volume (no)	3,24,461
Bloom Code	NRBBR IN

Price Performance	1M	3M	12M
Absolute (%)	19	11	(3)
Rel to NIFTY (%)	13	(7)	(15)

Shareholding Pattern

	Mar'20	Jun'20	Sep'20
Promoters	49.0	48.8	49.1
MF/Banks/FIs	18.9	20.6	18.9
FIIIs	19.3	19.9	19.3
Public / Others	12.8	10.8	12.8

NRB Bearing Relative to SENSEX



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Expect Export revenue to down 20% YoY in FY21, however expected to recovery sharply in FY22E (+40%) led by recovery in global PVs and CVs sales.

Sharp recovery in margin

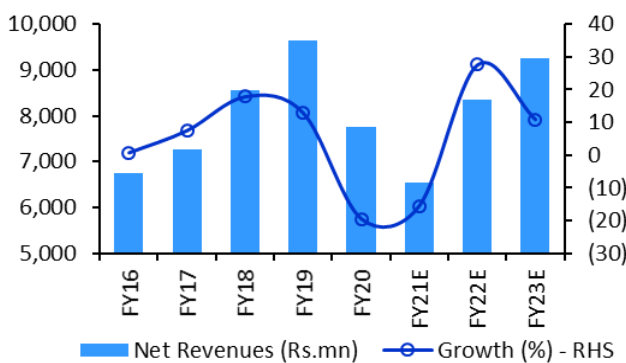
High-margin customised products (43% of sales are from needle-roller bearings) and absence of low-margin traded goods makes NRB better placed than its peers. We expect the company to see sharp margin expansion (+450bps over FY21-23E) driven by operating leverage, richer product mix, cost cutting initiatives and better export realization.

Strong FCF generation ahead

The company has already incurred a capex of Rs 1.75bn in past two years mainly towards capacity expansion. The company expects a capex requirement of ~Rs 400 to Rs. 500mn every year over FY21-23E. Consequently, we expect NRB to generate an FCF of ~Rs 700 mn each year over FY21- 23E. The strong FCF is also expected to be a key driver for a reduction in debt-equity.

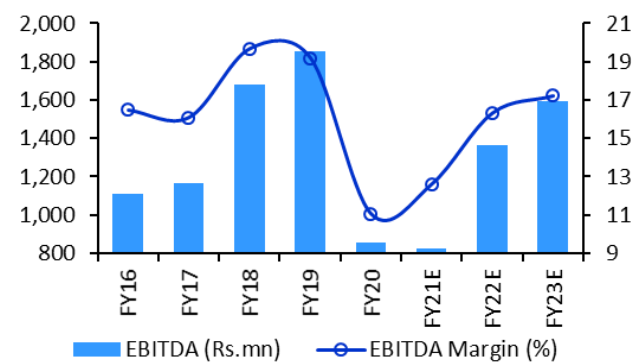
The company is focused on reducing its debt and deleveraging its Balance Sheet. In H1FY21, NRB generated FCF of Rs 432.5mn and repaid debt to the tune of Rs 636mn. The current gross and net debt stands Rs.2.68/2.3bn respectively.

Exhibit 1: Revenue to recover from FY22



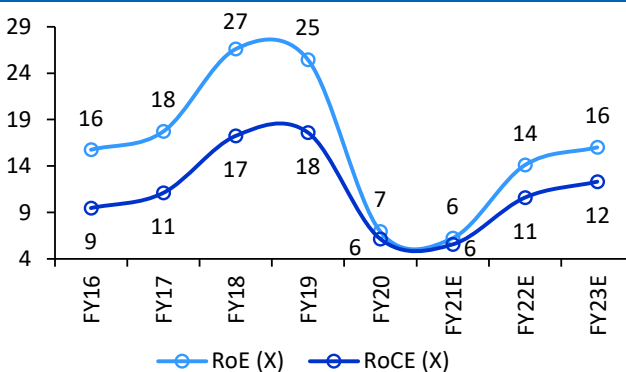
Source: DART, Company

Exhibit 2: Margin to improve on better utilization



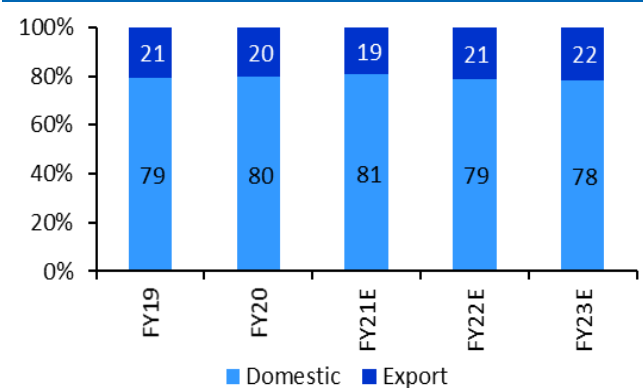
Source: DART, Company

Exhibit 3: RoE & RoCE trend



Source: DART, Company

Exhibit 4: Domestic vs Export revenue trend



Source: DART, Company

Exhibit 5: Assumption table

Segment (Rs Mn)	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Domestic Revenue	5,779	6,695	7,625	6,179	5,292	6,596	7,239
Growth(%)	7.4	15.8	13.9	(19.0)	(14.4)	24.6	9.8
Export	1,517	1,896	1,984	1,574	1,259	1,763	2,027
Growth(%)	10.7	25.0	4.6	(20.7)	(20.0)	40.0	15.0
Total Revenue	7,296	8,591	9,609	7,753	6,551	8,358	9,266
Growth(%)	8.1	17.7	11.8	(19.3)	(15.5)	27.6	10.9

Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	7,760	6,551	8,358	9,266
Total Expense	6,901	5,724	6,994	7,671
COGS	3,052	2,514	3,174	3,520
Employees Cost	1,367	1,179	1,354	1,464
Other expenses	2,483	2,031	2,466	2,687
EBIDTA	858	827	1,364	1,595
Depreciation	333	352	368	384
EBIT	525	474	996	1,211
Interest	218	198	183	161
Other Income	161	120	150	165
Exc. / E.O. items	0	0	0	0
EBT	468	396	964	1,215
Tax	136	99	246	310
RPAT	322	291	708	893
Minority Interest	10	6	10	12
Profit/Loss share of associates	0	0	0	0
APAT	322	291	708	893

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	194	194	194	194
Minority Interest	95	101	112	124
Reserves & Surplus	4,375	4,579	5,074	5,699
Net Worth	4,569	4,772	5,268	5,893
Total Debt	3,185	2,835	2,535	2,235
Net Deferred Tax Liability	152	152	152	152
Total Capital Employed	8,002	7,861	8,067	8,404

Applications of Funds

Net Block	3,639	3,687	3,719	3,735
CWIP	161	261	361	461
Investments	99	110	110	110
Current Assets, Loans & Advances	5,934	5,519	5,969	6,381
Inventories	2,270	1,974	2,290	2,539
Receivables	2,003	1,615	2,061	2,031
Cash and Bank Balances	778	1,169	828	1,030
Loans and Advances	826	702	730	718
Other Current Assets	57	59	61	63
Less: Current Liabilities & Provisions	1,831	1,715	2,092	2,282
Payables	838	863	1,054	1,156
Other Current Liabilities	993	853	1,038	1,126
		<i>sub total</i>		
Net Current Assets	4,104	3,804	3,878	4,099
Total Assets	8,002	7,861	8,067	8,404

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	60.7	61.6	62.0	62.0
EBIDTA Margin	11.1	12.6	16.3	17.2
EBIT Margin	6.8	7.2	11.9	13.1
Tax rate	29.1	25.0	25.5	25.5
Net Profit Margin	4.1	4.4	8.5	9.6
(B) As Percentage of Net Sales (%)				
COGS	39.3	38.4	38.0	38.0
Employee	17.6	18.0	16.2	15.8
Other	32.0	31.0	29.5	29.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.7	0.6	0.5	0.4
Interest Coverage	2.4	2.4	5.5	7.5
Inventory days	107	110	100	100
Debtors days	94	90	90	80
Average Cost of Debt	7.5	6.6	6.8	6.7
Payable days	39	48	46	46
Working Capital days	193	212	169	161
FA T/O	2.1	1.8	2.2	2.5
(D) Measures of Investment				
AEPS (Rs)	3.3	3.0	7.3	9.2
CEPS (Rs)	6.8	6.6	11.1	13.2
DPS (Rs)	1.0	0.9	2.2	2.8
Dividend Payout (%)	29.9	30.0	30.0	30.0
BVPS (Rs)	47.2	49.3	54.4	60.8
RoANW (%)	6.9	6.2	14.1	16.0
RoACE (%)	7.1	6.2	11.3	12.9
RoAIC (%)	7.3	6.8	14.3	16.6
(E) Valuation Ratios				
CMP (Rs)	89	89	89	89
P/E	26.8	29.7	12.2	9.7
Mcap (Rs Mn)	8,639	8,639	8,639	8,639
MCap/ Sales	1.1	1.3	1.0	0.9
EV	11,046	10,306	10,346	9,844
EV/Sales	1.4	1.6	1.2	1.1
EV/EBITDA	12.9	12.5	7.6	6.2
P/BV	1.9	1.8	1.6	1.5
Dividend Yield (%)	1.1	1.0	2.5	3.1
(F) Growth Rate (%)				
Revenue	(19.6)	(15.6)	27.6	10.9
EBITDA	(53.7)	(3.7)	65.0	16.9
EBIT	(65.0)	(9.7)	109.9	21.6
PBT	(70.2)	(15.4)	143.3	26.1
APAT	(70.2)	(9.7)	143.4	26.3
EPS	(70.2)	(9.7)	143.4	26.3
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	1,021	1,505	844	1,421
CFI	(651)	(489)	(500)	(500)
CFF	95	(626)	(685)	(719)
FCFF	258	1,005	344	921
Opening Cash	313	778	1,169	828
Closing Cash	778	1,169	828	1,030

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

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