

Sustenance in auto demand key monitorable...

NRB registered a rebound in its Q2 performance led by improved production levels at domestic OEMs on account of festive stocking. The performance was further aided by higher exports and strong traction in tractors. Revenue for Q2 came in at ₹ 197.7 crore, down 4.6% YoY (vs. I-direct estimate of ₹ 195.8 crore). Gross margins expanded sharply by ~610 bps. Consequently, EBIDTA margins improved ~530 bps to 15.4%. NRB registered absolute EBIDTA of ₹ 30.4 crore, up 60% YoY. Even though tax rate for the quarter was at 34.7%, ensuing PAT came in at ₹ 11 crore after adjusting for minority interest. During H1FY21, NRB generated CFO to the tune of ~₹ 63 crore. Further, debt reduced by ~₹ 58 crore during H1.

Buoyant exports aid H1 performance...

While domestic OEMs were reeling under tepid demand, NRB's exports segment did well, thereby sustaining utilisation levels at factories. Export performance was aided by higher wallet share from existing customers (ZF & Getrag) as well as addition of two new customers. The management expects exports to be upwards of 20% in the FY21E topline. On the domestic front, demand for tractors remained buoyant led by a good monsoon and relatively lesser impact of the pandemic in rural areas. Further, 2-W, PV have seen an uptick whereas CV is gaining some momentum. On the other hand, 3-W is yet to pick up. NRB has now become a regular supplier for Hyundai and now supplies to the top three domestic players viz. Maruti, Hyundai & Tata Motors.

Operating margins to test 15-16%...

The impact of the recent increase in steel prices is expected to put pressure on input costs beginning in Q4FY21. However, price hikes from Q1FY22 coupled with higher utilisation levels should aid margins. The management has indicated that margins can be sustained at 15-16%. We pencil in EBIDTA CAGR of 24.1% in FY20-23E.

Valuation & Outlook

NRB's performance is largely correlated with the domestic auto segment as ~70% of the topline comes from domestic OEMs. Hence, demand sustenance in the auto segment in the near term should be a key monitorable. The company has reduced its debt by ₹ 58 crore in H1 led by strong CFO generation to the tune of ₹ 63 crore. Going ahead, we expect positive operating leverage to improve margins from 11% in FY20 to 16% by FY22E. We build in revenue, EBIDTA & PAT CAGR of 8.2%, 24.1% & 39.3%, respectively, in FY20-23E. We estimate an EPS of ₹ 7.4/share for FY23E, implying earnings yield of 8% at the CMP. Reflecting the improved outlook for NRB, we upgrade the stock from HOLD to **BUY** ascribing a 15x multiple to FY22E EPS to arrive at a target price of ₹ 110/share.

Key Financial Summary

(₹ Crore)	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenue	776.0	711.9	879.5	982.9	8.2%
EBITDA	85.8	100.4	142.5	164.1	24.1%
EBITDA margin (%)	11.1	14.1	16.2	16.7	
Net Profit	32.1	39.9	71.3	86.6	39.3%
EPS (₹)	3.3	4.1	7.4	8.9	
P/E (x)	28.1	22.6	12.6	10.4	
EV/EBITDA	13.3	10.6	7.6	6.4	
RoCE (%)	8.7	10.3	15.4	16.8	
RoE (%)	7.0	8.2	13.2	14.1	

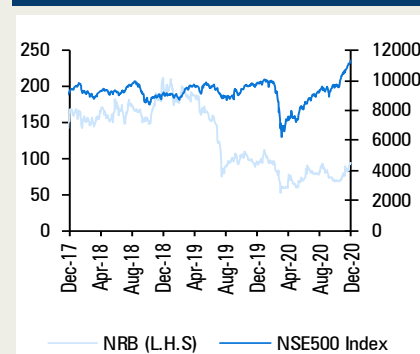
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization	901
Total Debt (FY20)	320
Cash and Investments (FY19)	78
EV (FY20)	1,144
52 week H/L (₹) (BSE)	114 / 48
Equity capital	19.4
Face value (₹)	2.0

Particulars



Key Highlights

- Buoyant exports, rural demand and festive uptick aid Q2 performance
- Management has guided that EBIDTA margins can be sustained at 15-16% levels
- Revise our rating from HOLD to BUY with target price of ₹ 110 per share

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Adil Khan
adil.khan@icicisecurities.com

Exhibit 1: Variance Analysis

Year	Q2FY21	Q1FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ(%)	Comments
Revenue	197.7	85.4	188.9	4.6	62.8	214.8	Recovery in Auto sector led by Festive uptick coupled with robust demand from tractor aided topline in Q2
Other Income	0.7	2.0	4.8	(85.3)	4.1	(82.8)	
Total Income	198.4	87.4	193.7	2.4	66.9	196.6	
Cost of materials consumed	70.5	34.2	75.1	(6.1)	15.6	353.4	GMs improved ~ 610 bps led by reduced input cost
Change in inventories	5.5	1.0	9.2	(40.2)	8.7	(37.2)	
Employee cost	32.6	21.4	26.8	21.5	29.3	11.1	
Other expenses	58.8	34.2	58.9	(0.3)	25.6	129.5	
EBITDA	30.4	(5.3)	19.0	60.2	(16.4)	NA	
EBITDA Margin (%)	15.4	(6.2)	10.0	533 bps	(26.1)	NA	EBITDA margins expanded led by higher GMs
Depreciation	7.4	7.0	8.8	(16.1)	5.2	42.1	
Interest	6.2	6.0	4.9	26.6	6.8	(7.6)	
PBT	17.4	(16.3)	10.0	74.7	(24.3)	NA	
Taxes	6.1	0.0	2.7	125.7	(10.0)	NA	
PAT	11.4	(16.3)	7.3	56.0	(14.3)	NA	

Source: ICICI Direct Research

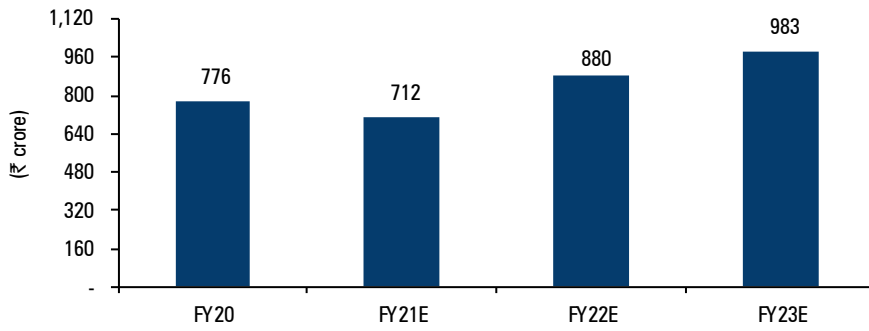
Exhibit 2: Change in Estimates

(₹ Crore)	FY19	FY20	FY21E			FY22E			FY23E
	Actual	Actual	Old	New	% Change	Old	New	% Change	New
Revenue	964.9	776.0	711.9	711.9	0.0	756.7	879.5	16.2	982.9
EBITDA	185.1	85.8	76.5	100.4	31.2	93.8	142.5	51.8	164.1
EBITDA Margin (%)	19.2	11.1	10.8	14.1	335 bps	12.4	16.2	380 bps	16.7
PAT	91.7	32.1	25.8	39.9	54.8	35.8	71.3	99.3	86.6
EPS (₹)	11.2	3.3	2.7	4.1	52.6	3.7	7.4	99.0	8.9

Source: ICICI Direct Research

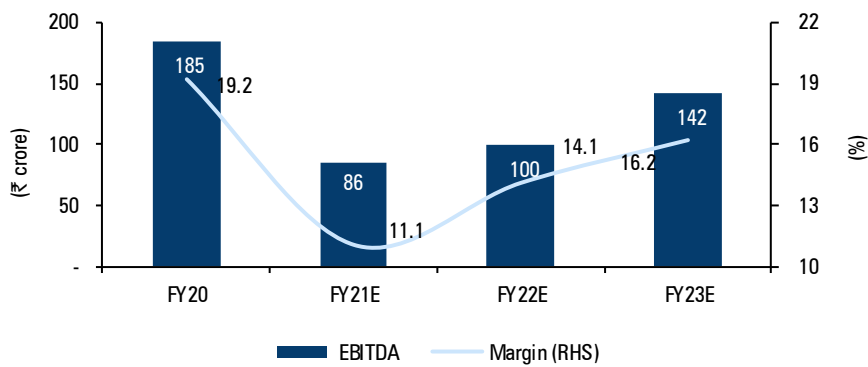
Financial in charts

Exhibit 3: Revenue trend



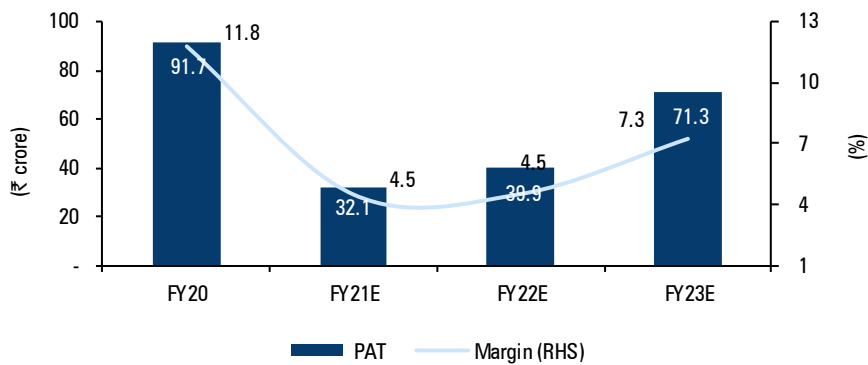
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



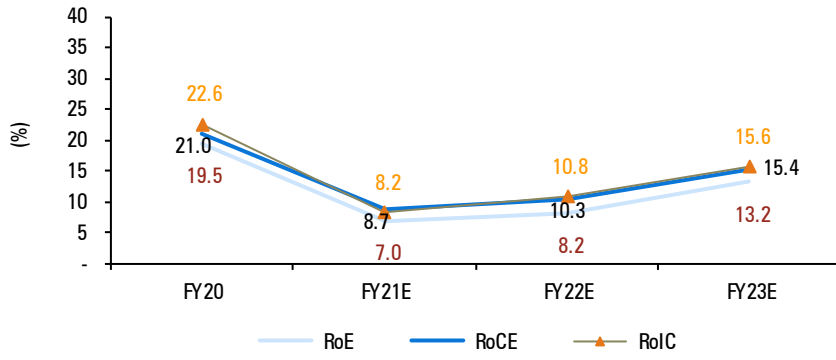
Source: Company, ICICI Direct Research

Exhibit 5: PAT and PAT margin trend



Source: Company, ICICI Direct Research

Exhibit 6: RoCE and RoE trend



Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit & Loss				
(₹ crore)				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Revenue	776.0	711.9	879.5	982.9
% YoY Growth	(19.6)	(8.3)	23.5	11.8
Other Income	16.1	10.0	12.0	12.0
Total Revenue	792.0	721.9	891.5	994.9
Cost of materials consumed	294.2	281.2	343.0	373.5
Change in inventories	11.0	3.6	2.6	4.9
Employee cost	136.7	123.9	143.4	160.2
Other Expenses	248.3	202.9	248.0	280.1
Total expenditure	690.1	611.5	737.0	818.7
EBITDA	85.8	100.4	142.5	164.1
% YoY Growth	(53.6)	17.0	41.9	15.2
Interest	21.8	18.8	17.6	16.0
Depreciation	33.3	33.4	35.0	37.0
PBT	46.8	58.2	101.9	123.1
Tax	13.6	16.3	28.5	34.5
PAT	32.1	39.9	71.3	86.6
% YoY Growth	(65.0)	24.5	78.7	21.4
EPS	3.3	4.1	7.4	8.9

Source: ICICI Direct Research; Company

Exhibit 9: Balance Sheet				
(₹ crore)				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Share Capital	19.4	19.4	19.4	19.4
Reserves & Surplus	438	465	522	593.8
Total Shareholders fund	457	484	541	613.1
Minority Interest	9.5	11.5	13.5	15.5
Total debt	320	250	220	200
Deferred tax liability (net)	15.2	15.2	15.2	15.2
Total Liabilities	802	761	790	844
				-
Gross Block	764	814	864	914.4
Acc: Depreciation	426	459	494	531.4
Net Block	363	355	370	383.0
Capital WIP	16.1	20.0	20.0	20.0
Investments	50	50	50	49.6
Inventory	227	195	236	263.9
Sundry debtors	200	185	229	255.5
Cash	78	86	43	45.9
Loans & Advances	5.7	5.0	6.2	6.9
Other current assets	43	32	40	44.2
CL& Prov.	181	168	204	225.6
Net Current Assets	372	336	350	390.8
Total Assets	802	761	790	844

Source: ICICI Direct Research; Company

Exhibit 8: Cash Flow Statement				
(₹ crore)				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Profit after Tax	32.1	39.9	71.3	86.6
Depreciation	33.3	33.4	35.0	37.0
Interest	21.8	18.8	17.6	16.0
Other income	(16.1)	(10.0)	(12.0)	(12.0)
Prov for Taxation	13.6	16.3	28.5	34.5
Change in Working Capital	40.0	45.0	(57.6)	(37.9)
Taxes Paid	(10.8)	(16.3)	(28.5)	(34.5)
Cashflow from Operations	114	127	54	90
(Purchase)/Sale of Fixed Assets	(76.2)	(29.0)	(50.0)	(50.0)
(Purchase)/Sale of Investments	(0.2)	-	-	-
Other Income	16.1	10.0	12.0	12.0
Cashflow from Investing	(60)	(19)	(38)	(38)
Issue/(Repayment of Debt)	60.3	(70.2)	(30.0)	(20.0)
Changes in Minority Interest	0.1	2.0	2.0	2.0
Changes in Networth	(45.7)	(12.6)	(14.5)	(14.5)
Interest	(21.8)	(18.8)	(17.6)	(16.0)
Others	-	-	-	-
Cashflow from Financing	(7)	(100)	(60)	(49)
Changes in Cash	46.5	8.6	(43.8)	3.2
Opening Cash/Cash Equivalent	31.3	77.8	86.4	42.6
Closing Cash/ Cash Equivalent	78	86	43	46

Source: ICICI Direct Research; Company

Exhibit 10: Key Ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
EPS	3.3	4.1	7.4	8.9
Cash EPS	6.7	7.6	11.0	12.8
BV	47.1	50.0	55.8	63.3
DPS	0.8	1.3	1.5	1.5
EBITDA Margin	11.1	14.1	16.2	16.7
PBT / Net Sales	6.8	9.4	12.2	12.9
PAT Margin	4.1	5.6	8.1	8.8
Inventory days	107	100	98	98.0
Debtor days	94	95	95	94.9
Creditor days	78	78	78	78.0
RoE	7.0	8.2	13.2	14.1
RoCE	8.7	10.3	15.4	16.8
RoIC	8.2	10.8	15.6	17.3
P/E	28.1	22.6	12.6	10.4
EV / EBITDA	13.3	10.6	7.6	6.4
EV / Net Sales	1.5	1.5	1.2	1.1
Market Cap / Sales	1.2	1.3	1.0	0.9
Price to Book Value	2.0	1.9	1.7	1.5
Debt/EBITDA	3.7	2.5	1.5	1.2
Net Debt / Equity	0.5	0.3	0.3	0.3
Current Ratio	2.4	2.3	2.3	2.3
Quick Ratio	1.1	1.1	1.2	1.2

Source: ICICI Direct Research; Company

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, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Chirag Shah PGDBM, Adil Khan PGDM (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.