

Robust numbers, maintain BUY...

NRB Bearings posted robust numbers that were largely above our estimates on all parameters. Margins expanded on the back positive operating leverage. Revenue for the quarter came in at ₹ 244.7 crore, up 33.7% YoY (vs. I-direct estimate of ₹ 220 crore). We expect the robust growth to be attributable to festive uptick and pent up demand. Gross margins expanded 20 bps but EBIDTA margins improved ~680 bps to 17.6%. NRB registered an absolute EBIDTA of ₹ 43.1 crore, up 117.7% YoY. Other expenses increased 18.7% YoY to ₹ 70.6 crore whereas employee cost grew 12.7% YoY to ₹ 38.5 crore. Ensuing PAT came in at ₹ 23.3 crore, up 121.3% YoY. Tax rate for the quarter was at 29.8%.

Buoyant margins in quarter but unsustainable...

NRB exited the quarter with an EBIDTA margin of 17.6%, which grew ~ 680 bps YoY. This was largely on account of positive operating leverage and low cost steel inventory. We are sceptical that these margins will be sustained in the coming quarters, given the sharp rise in input (steel) prices in recent months. We build in 14% EBIDTA margins for FY21E and 15.7% for FY22E & FY23E, respectively.

Cyclical upswing can lead to re-rating...

FY20 was marred by a slowdown in the auto sector, which impacted NRB that has ~70% of the topline coming from domestic OEMs. This was followed by the lockdown wherein demand literally came to a halt. However, post Q1, Q2 & Q3 numbers showed signs of a recovery. Hence, on a 9M basis, the company is down only 13%. We believe a strong Q4 can help reduce the gap further, thus reaching arm's length at last year's revenue. We build in FY21E revenue at ₹ 728 crore.

Valuation & Outlook

NRB's performance is largely correlated to the domestic auto segment as ~70% of the topline comes from domestic OEMs. The past two quarters showed signs of a strong recovery. Further auto volumes in January also came in strong. Also, even with a rise in steel prices, we expect NRB to emerge with EBIDTA margins of 15.7% for FY22E & FY23E led by positive operating leverage. We introduce FY23E and build in revenue, EBIDTA and PAT CAGR of 8.9%, 22.3% and 36.5%, respectively, in FY20-23E. We estimate an EPS of ₹ 8.4/share for FY23E that implies earnings yield of 7% at CMP. Reflecting the improved outlook for NRB, we upgrade the target price to ₹ 150/share (earlier ₹ 110) and maintain our **BUY** rating on the stock.



Particulars

Particular	Amount
Market Capitalization	1,163
Total Debt (FY20)	320
Cash and Investments (FY19)	78
EV (FY20)	1,405
52 week H/L (₹) (BSE)	114 / 48
Equity capital	19.4
Face value (₹)	2.0

Particulars



Key risk to our call

- Fade off in auto demand leading to earnings drop
- Inability to sustain margins

Research Analyst

Chirag Shah
shah.chirag@icicisecurities.com

Adil Khan
adil.khan@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Revenue	776.0	728.3	895.7	1,001.1	8.9%
EBITDA	85.8	102.7	140.6	157.2	22.3%
EBITDA margin (%)	11.1	14.1	15.7	15.7	
Net Profit	32.1	41.6	70.0	81.6	36.5%
EPS (₹)	3.3	4.3	7.2	8.4	
P/E (x)	36.3	28.0	16.6	14.3	
EV/EBITDA	16.4	13.0	9.6	8.5	
RoCE (%)	8.7	10.6	15.2	16.0	
RoE (%)	7.0	8.6	12.9	13.4	

Exhibit 1: Variance Analysis

Year	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ(%)	Comments
Revenue	244.7	220.0	183.1	33.7	197.7	23.8	Festive uptick and pent up demand augured well for the company given increased production levels at domestic OEMs
Other Income	4.3	2.0	6.2	(29.6)	0.7	518.6	
Total Income	249.0	222.0	189.2	31.6	198.4	25.5	
Cost of materials consumed	96.7	85.8	69.2	39.8	70.5	37.1	We believe GMs have reached their peak
Change in inventories	(4.1)	4.4	0.5	(911.8)	5.5	(175.5)	
Employee cost	38.5	33.0	34.1	12.7	32.6	18.2	
Other expenses	70.6	63.8	59.5	18.7	58.8	20.1	
EBITDA	43.1	33.0	19.8	117.7	30.4	42.0	
EBITDA Margin (%)	17.6	15.0	10.8	680 bps	15.4	226 bps	EBITDA margins expanded 680 bps led by positive operating leverage
Depreciation	9.0	7.0	6.9	29.9	7.4	21.8	
Interest	5.3	6.5	5.8	(9.4)	6.2	(15.2)	
PBT	33.2	21.5	13.2	151.4	17.4	90.1	
Taxes	9.9	6.0	2.7	270.0	6.1	63.3	
PAT	23.3	15.5	10.5	121.3	11.4	104.4	

Source: ICICI Direct Research

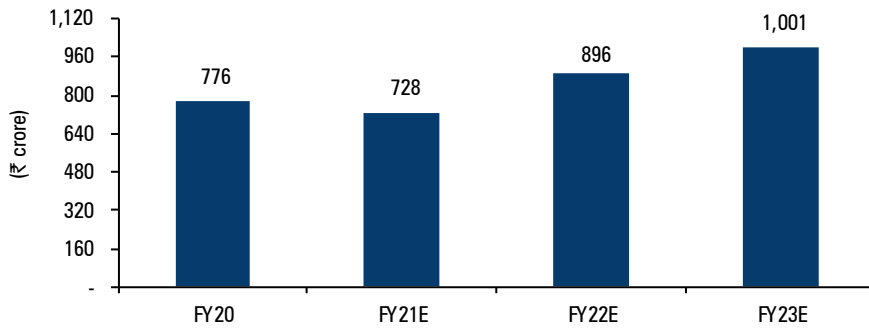
Exhibit 2: Change in Estimates

(₹ Crore)	FY19	FY20	FY21E			FY22E			FY23E		
	Actual	Actual	Old	New	% Change	Old	New	% Change	Old	New	% Change
Revenue	964.9	776.0	711.9	728.3	2.3	879.5	895.7	1.8	982.9	1,001.1	1.8
EBITDA	185.1	85.8	100.4	102.7	2.3	142.5	140.6	(1.3)	164.1	157.2	(4.2)
EBITDA Margin (%)	19.2	11.1	14.1	14.1	0 bps	16.2	15.7	-50 bps	16.7	15.7	-100 bps
PAT	91.7	32.1	39.9	41.6	4.3	71.3	70.0	(1.8)	86.6	81.6	(5.8)
EPS (₹)	11.2	3.3	4.1	4.3	4.7	7.4	7.2	(2.4)	8.9	8.4	(5.4)

Source: ICICI Direct Research

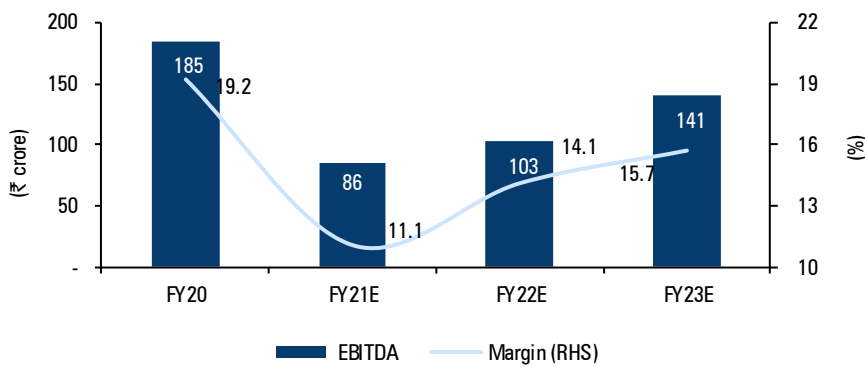
Financial in charts

Exhibit 3: Revenue trend



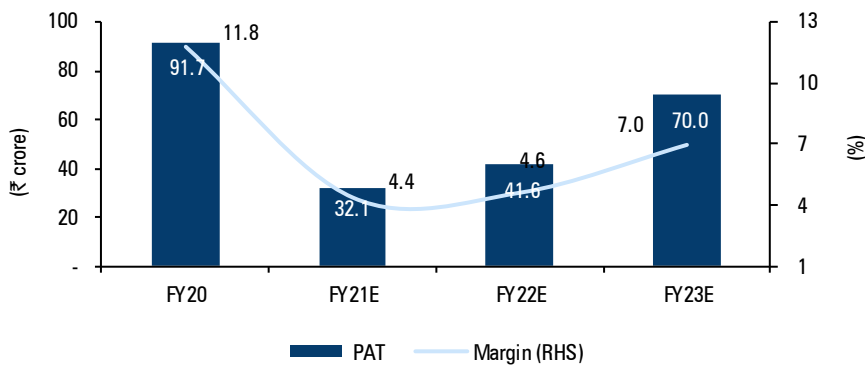
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA and EBITDA margin trend



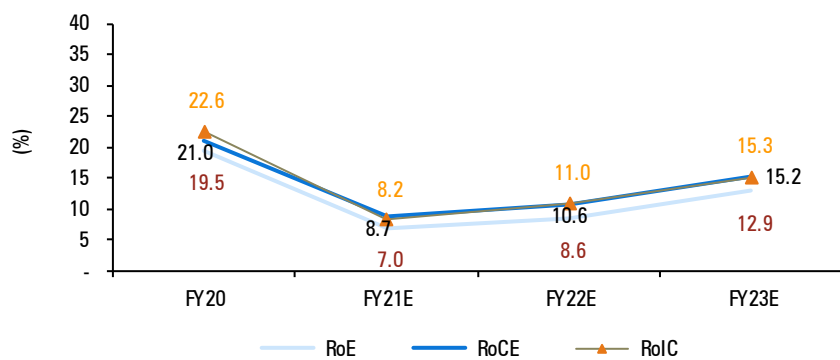
Source: Company, ICICI Direct Research

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	728.3	895.7	1,001.1
% YoY Growth	(19.6)	(6.1)	23.0	11.8
Other Income	16.1	10.0	12.0	12.0
Total Revenue	792.0	738.3	907.7	1,013.1
Cost of materials consumed	294.2	287.7	353.8	390.4
Change in inventories	11.0	3.6	2.7	5.0
Employee cost	136.7	126.7	146.0	163.2
Other Expenses	248.3	207.6	252.6	285.3
Total expenditure	690.1	625.6	755.1	843.9
EBITDA	85.8	102.7	140.6	157.2
% YoY Growth	(53.6)	19.7	36.9	11.8
Interest	21.8	18.8	17.6	16.0
Depreciation	33.3	33.4	35.0	37.0
PBT	46.8	60.6	100.0	116.1
Tax	13.6	17.0	28.0	32.5
PAT	32.1	41.6	70.0	81.6
% YoY Growth	(65.0)	29.7	68.3	16.6
EPS	3.3	4.3	7.2	8.4

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	467	522	589.1
Total Shareholders fund	457	486	541	608.5
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	763	790	839
				-
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	200	241	268.8
Sundry debtors	200	189	233	260.3
Cash	78	82	37	34.5
Loans & Advances	5.7	5.1	6.3	7.0
Other current assets	43	33	40	45.0
CL& Prov.	181	171	207	229.5
Net Current Assets	372	338	350	386.1
Total Assets	802	763	790	839

Source: ICICI Direct Research; Company

Exhibit 8: Cash Flow Statement				
(₹ crore)				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Profit after Tax	32.1	41.6	70.0	81.6
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	17.0	28.0	32.5
Change in Working Capital	40.0	38.9	(57.4)	(38.6)
Taxes Paid	(10.8)	(17.0)	(28.0)	(32.5)
Cashflow from Operations	114	123	53	84
(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	4.1	(44.9)	(2.5)
Opening Cash/Cash Equivalent	31.3	77.8	81.9	37.0
Closing Cash/ Cash Equivalent	78	82	37	34

Source: ICICI Direct Research; Company

Exhibit 10: Key Ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
EPS	3.3	4.3	7.2	8.4
Cash EPS	6.7	7.7	10.8	12.2
BV	47.1	50.1	55.9	62.8
DPS	0.8	1.3	1.5	1.5
EBITDA Margin	11.1	14.1	15.7	15.7
PBT / Net Sales	6.8	9.5	11.8	12.0
PAT Margin	4.1	5.7	7.8	8.2
Inventory days	107	100	98	98.0
Debtor days	94	95	95	94.9
Creditor days	78	78	78	78.0
RoE	7.0	8.6	12.9	13.4
RoCE	8.7	10.6	15.2	16.0
RoIC	8.2	11.0	15.3	16.3
P/E	45.9	35.4	21.0	18.1
EV / EBITDA	20.0	16.0	11.8	10.4
EV / Net Sales	2.2	2.3	1.8	1.6
Market Cap / Sales	1.9	2.0	1.6	1.5
Price to Book Value	3.2	3.0	2.7	2.4
Debt/EBITDA	3.7	2.4	1.6	1.3
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

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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**

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