

4 May 2018

NRB Bearings—BUY

CMP :169
Target Price :211
Upside : 24.8%+
Stop Loss :149(Closingbasis)

Investment Thesis

Recently, the stock price of NRB Bearings Ltd. (NRB Bearings) corrected by ~5% from 52-week high of Rs.182 despite reporting strong revenue growth and better than expected operating profit in the recent quarters.

Over the period, NRB Bearings has expanded its presence across the auto OEM space through its exposure to the 2-wheelers, 4-wheelers, CVs, passenger vehicles and off-highway segments. It has emerged as a preferred supplier to leading domestic OEMs like, Hero MotoCorp, Bajaj Auto, Maruti Suzuki, Tata Motors, Ashok Leyland, etc. and commands ~70% market share in the needle roller bearings space. NRB Bearings works with OEMs from the conceptualization stage to provide anti-friction solutions for needle roller bearing, which help it to build strong relationship with major OEM players. Apart from the automotive segment, NRB Bearings has also outlined growth opportunities in other mobility segments such as defence in the form of gun carriers, marine, Railways and MRTS wherein rising investment could open up avenues for bearings demands. With FY17 witnessed a slight recovery in auto volumes, we believe the same will gain traction in FY18-20E. We expect bearings demand from the OEM and after-market segment to grow at healthy double digit CAGR over FY17-20E.

With experience of over 40 years, NRB Bearings has established a strong relationship with its marquee clients across domestic as well as overseas market. NRB Bearings' client portfolio is well diversified with the average share of the top customer over FY13-17 was only at ~10% of revenues. Currently, the contribution of its top 10 clients is at ~54% of the topline. Constituents of the top 10 clients of NRB Bearings also keep on changing based on the individual segmental growth, which help it to guard from any sectoral downtrends.

Financials

- During the past 5 years, revenue of NRB Bearings grew at a CAGR of 5.4% while PAT grew at a CAGR of 1.7% in the same period.

Consol. (Rs.Mn.)	FY15	FY16	FY17	FY18E	FY19E
Revenue	6,703	6,749	7,276	8,658	9,957
EBITDA	1,240	1,112	1,198	1,426	1,639
% growth	19.2	-10.3	7.8	19.0	15.0
PAT	537	432	554	659	758
EPS (INR)	5.5	4.5	5.7	6.8	7.8
P/E (x)	31.2	38.8	30.3	25.4	22.1
RoE (%)	21.1%	15.5%	17.5%	19.0%	20.0%

- NRB Bearings has reported 25.4% YoY growth in revenues in Q3FY18 to Rs.2,079mn due to strong demand uptick in all the key segments - auto, after-markets and exports.

Stock Data

Market Cap (INR MN)	16,350
Market Cap (\$ MN)	251.6
Shares O/S (in MN)	96.9
Avg. Volume (3 month)	310,000
52-Week Range (Rs.)	182/ 107

Shareholding Pattern

Promoters	53.63%
FII's	17.39%
Institutions	16.10%
Others (incl. body corporate)	12.88%

Performance (%)	1M	6M	1Yr
Absolute	12.5%	31.7%	43.2%
BSE Auto	7.0%	1.4%	12.9%

Key Ratios

Div Yield	0.8%
TTM PE	24.6x
ROE	19.2%
TTM EPS (INR)	7.0/-

- EBITDA of NRB Bearings increased by 103.4% YoY to Rs.405mn as employee expenses as a percentage of sales reduced by 320bps YoY to 18.9% from 15.7% a year ago. Accordingly, EBITDA margins improved by 747bps to 19.5% in Q3FY18 as against 12.0% in Q3FY17.
- PAT of NRB Bearings increased strongly by 178.5% in Q3FY18 to Rs.213mn due to decline in non-operating expenses like depreciation and interest expenses by 17.0% and 16.7% YoY, respectively.

Key Business Highlights

- NRB Bearings, first company to manufacture needle roller bearings in India, has grown to offer a wide range of high-precision friction solutions not only in the automotive sector, but across all mobility applications. It is a leader in needle roller bearings, conventional cylindrical roller bearings and has developed a new generation of lightweight drawn cup bearings.
- NRB Bearings has a market share of ~70% in the needle roller bearings segment and a strong market position in the cylindrical roller bearings segment. It is a key supplier to prominent automotive OEMs in India.
- To reduce the impact of cyclical demand from domestic automotive OEMs, NRB Bearings has focused on increasing revenue from exports and the replacement market.

Valuation

- To expand business and foray into newer platforms, NRB Bearings has focused on exports wherein it caters to global players such as Daimler Trucks, Renault, Volvo and Getrag. With a focus on exports, NRB Bearings has demonstrated a strong exports performance and contribution from export business, which constitutes ~15% in FY09, has grown to ~25% of revenues in FY17, thus enabling NRB Bearings to hedge from any domestic slowdown. Its focus on exports by the way of working from the conceptualization stage and its customized product offerings has enabled it to strengthen its foothold in the export market. With NRB Bearings is one of the few global players (INA, Koyo and NSK) producing needle roller bearings coupled with the technology at par with MNCs, export earnings is expected to remain robust and grow at healthy double digit CAGR over FY17-20E.
- NRB Bearings' operating margin was ~18% average in the last five years, is higher than its peers, owing to its superior product mix comprising higher-margin customized products, absence of revenue from low-margin traded goods and integrated manufacturing like, right from designing to production, in-house R&D which helps save money on royalty payments and trademark fees and a higher share of exports in revenue. Although margins in the last two years declined by 150-200 bps to 16.5% owing to a fall in exports, we expect margin to improve going ahead, led by an improvement in operating leverage and revival in exports.
- With emerged as a preferred supplier to leading domestic OEMs, outlined growth opportunities in other mobility segments, well diversified marquee clients, strong exports performance and margin improvement going ahead, we value NRB Bearings at 27.00x FY19E EPS of Rs.7.80 to arrive at target price of Rs.211.00, an upside of ~22%.

Risk & Concern

- Contracts with OEMs do not have mechanism of raw material price hike pass-through. Any significant hike in raw material prices may have negative impact on margin of NRB Bearings.
- Any cheap bearing import from China and competition from global players may put pressure on the business growth of NRB Bearings.
- Any cyclical downturn in automotive sector may have a negative impact on NRB Bearings.

Graphs & Charts

Figure 1: Net Sales Trend

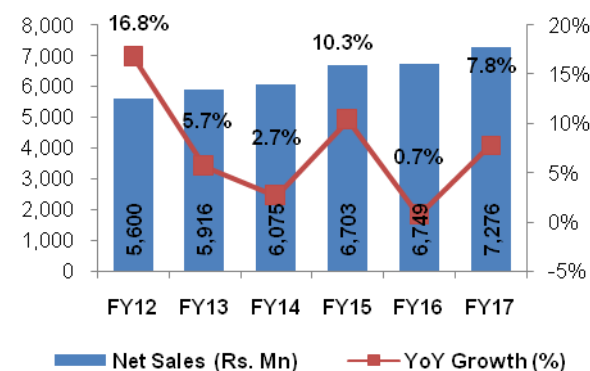


Figure 2: EBITDA & EBITDA Margin Trend

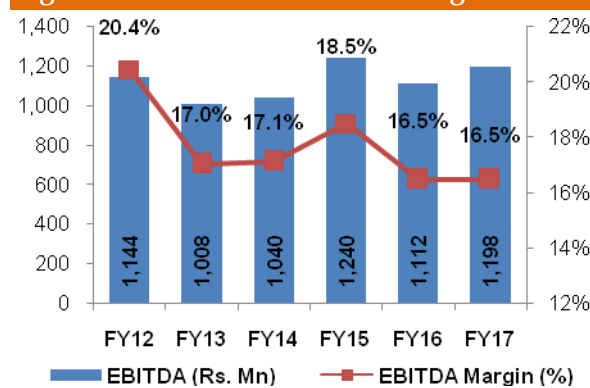


Figure 3: PAT Trend

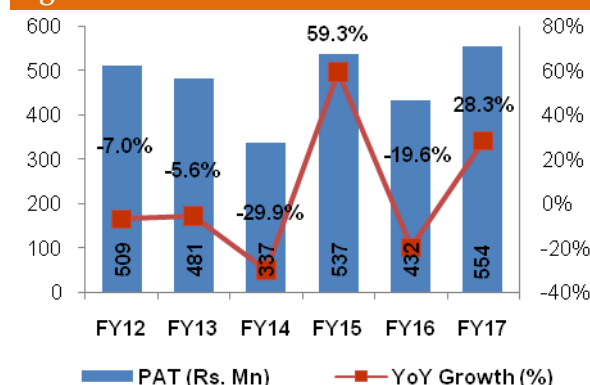
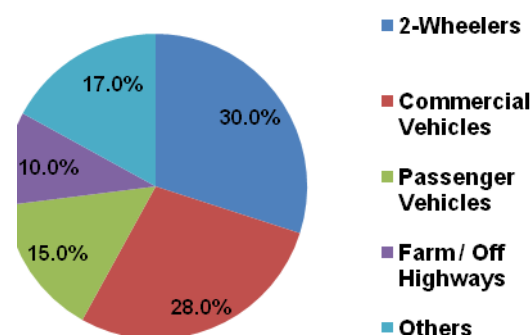


Figure 4: Sales mix of Domestic Revenues



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