

16 July 2018

Initiating Coverage (BUY)

# NRB BEARINGS LTD

CMP

INR 164

Target Price

INR 200

## Stock Details

Industry	Industrial Machinery
Bloomberg Code	NRBBR:IN
BSE Code	530367
Face Value (Rs.)	2.00
Market Cap. (Rs. mn)	16,185.6
52wk. Low/High (Adjusted) (Rs.)	110.00/193.40

## Shareholding Pattern Mar '18

Promoter (%)	53.63
FII (%)	0.00
DII (%)	0.00
Public - Other (%)	46.37
No. of Share Outstanding (mn)	96.92

## Valuation Summary

	FY 16A	FY 17A	FY 18P	FY 19P
P/E (x)*	29.41	29.98	28.00	27.00
EV/EBITDA (x)	11.21	13.41	12.57	12.27
P/BV (x)	4.42	5.10	5.40	5.28

\*TTM for Current Year

 Based on Market Price as on 1<sup>st</sup> Apr is taken for Each FY

## Key Financial

Rs. Mn	FY 16A	FY 17A	FY 18P	FY 19P
Net Sales	6,749	7,276	8,440	9,284
EBITDA	1,128	1,271	1,437	1,583
Net Profit	420	540	628	719
EPS (Rs.)*	04.3	05.6	06.5	07.4

\*Un adjusted

## Key Ratios

	FY 16A	FY 17A	FY 18P	FY 19P
EBITDA Margin (%)	16.7	17.3	16.9	16.9
EBIT Margin (%)	11.9	12.9	13.1	13.4
Net Pro. Margin (%)	6.2	7.3	7.4	7.4
Debt/Equity (x)	0.22	0.34	0.33	0.29
RoNW (%)	15.7	18.1	19.5	20.8
RoCE (%)	11.2	13.1	13.7	14.8

One Year Price / Volume

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We recommend 'BUY' on NRB BEARINGS LTD for a target of INR 200 - valuing the company at P/E 27x of FY19E Earning.

## INVESTMENT RATIONALE:

- India's premier bearing manufacturer.
- Manufacture some of the highest precision products in the world.
- Strong operational performance in domestic markets.
- Product range spans over 3000 different designs, providing high-quality, custom designed parts for all mobility applications.
- Exports, after-market business poised for healthy growth.
- Strong client relations to drive growth.
- Presence across major OEM players, new segments to open up opportunities.
- Automotive segment recovery to boost demand.
- Exports Along with Domestic Demand to Aid Revenue.
- Built on world-class engineering and manufacturing infrastructure in India.
- NRB is recognized globally as the most trusted name in the design and production of customized friction solutions.

## VALUATIONS AND VIEW:

NRB is the global benchmark for quality and innovative design in high-precision friction solutions. NRB Bearings is a recognized leader in needle roller bearings, conventional cylindrical roller bearings and has developed a new generation of lightweight drawn cup bearings. **We value the business at 27x FY19E EPS and recommend a BUY rating on the stock with a target price of INR 200 per share.**

## RISK & CONCERNS:

- **Industry:** Relates to the inherent characteristics of industry including competitive structure, nature of market and regulatory environment.
- **Counterparty:** Risks arising from its association with entities for conducting business. These include customers, vendors and their respective industries.
- **Resources:** Risks arising from sub-optimal utilization of key organization resources such as capital and infrastructure. eg. risks further broken up into equipment risk and people risk.
- **Operations:** Risks inherent to business operations includes service & delivery to customers, business support activities like NPD, TPM, Quality management, IT, Legal, Taxation eg. plants having detailed plant maintenance and tool manufacturing programs, dedicated teams for managing risks.
- **Regulations and compliance:** Risks due to inadequate compliance to regulations and contractual obligations violations leading to litigation and loss of reputation.

## COMPANY BACKGROUND:

NRB Bearings Ltd Founded in 1965, was the first company to manufacture needle roller bearings in India. For over 40 years NRB has pioneered the leading edge of bearing technology, and today over 90% of vehicles on Indian roads run on NRB parts. Since its inception, NRB has grown beyond its signature product to offer a wide range of high-precision friction solutions not only in the automotive sector, but across all mobility applications.

NRB is the global benchmark for quality and innovative design in high-precision friction solutions. NRB Bearings is a recognised leader in needle roller bearings, conventional cylindrical roller bearings and has developed a new generation of lightweight drawn cup bearings.

NRB has been a key player in the domestic bearings industry considering its leadership position in needle roller bearings. NRB enjoys ~70% market share in this segment. A needle roller bearing, as a customised product, requires NRB to work with OEMs from the conceptualisation stage. Apart from needle bearings, the other key product that the company manufactures is ball & roller bearings, together contributing ~78% to the topline of the company. Being an automotive centric supplier with customised product offerings, the company also enjoys a sticky client relationship like its MNC peers such as SKF, FAG and Timken. It has a presence across all leading OEM players in India.

## INDUSTRY OVERVIEW:

The Indian engineering sector is divided into two major segments - heavy engineering and light engineering. The capital turnover in India is estimated at US\$ 70 billion in 2017 and is expected to grow to US\$ 115.17 billion by 2025. Likewise, electrical equipment market size is expected to reach US\$ 100 billion by FY 2021-22. Comparative advantage vis-à-vis peers in terms of manufacturing costs, market knowledge, technology and creativity has been a driving force for engineering exports from India. Engineering exports from India grew 16.81 per cent to US\$ 76,204.38 million in FY18 from US\$ 65,239.19 million in FY17. Engineering exports during Apr-May 2018 stood at US\$ 13.92 billion.

Construction equipment industry recorded sales of 78,109 and 66,613 units of construction equipment in 2017 and 2016 respectively. This is further expected to grow to around 100,000 units by 2022. Construction equipment market is projected to reach US\$ 5 billion by FY20 from around US\$ 4.3 billion in FY18. Capacity creation in sectors like infrastructure, power, mining, oil & gas, refinery, steel, automotive, and consumer durables has been driving demand in the engineering sector.

## PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Schaeffler India	5,468	36.9	9,087.6	0.22	66.0	14.87	521.2	13.00	5.35
Lak. Mach. Works	166	20.3	8,978.8	0.49	61.2	(6.89)	747.3	10.15	5.24
Greaves Cotton	144	20.8	3,527.6	3.81	56.7	13.97	486.2	24.42	3.14
ISGEC Heavy	5,556	34.3	4,085.6	0.54	26.6	(54.32)	818.9	(12.39)	3.28
Elgi Equipment	283	46.2	4,477.9	0.35	27.1	30.13	462.2	24.09	6.37
LEEL Electricals	109	4.6	440.8	19.68	(244.8)	150.18	401.9	(61.33)	0.31
<b>NRB Bearings</b>	<b>167.0</b>	<b>28.0</b>	<b>1,618.6</b>	<b>0.81</b>	<b>26.8</b>	<b>129.76</b>	<b>235.3</b>	<b>25.18</b>	<b>5.10</b>

\*TTM

## FINANCIAL OVERVIEW

### Q1 FY18 Performance Highlight

(in Million)	4Q FY16	1Q FY17	2Q FY17	3Q FY17	4Q FY17	YoY (%)	QoQ (%)
Revenue	1,886.90	1,969.60	2,082.10	2,078.70	2,353.20	24.71%	13.21%
Other Income	13.3	15.9	35.8	8.2	77.4		
Total Income	1,900.20	1,985.50	2,117.90	2,086.90	2,430.60	27.91%	16.47%
Expenditure	-1,653.60	-1,729.60	-1,735.60	-1,707.70	-1,965.20		
As a % of Sales	87.64%	87.81%	83.36%	82.15%	83.51%		
Interest	-36.2	-34.2	-36.3	-34.3	-33.6	-7.18%	-2.04%
PBDT	246.6	255.9	382.3	379.2	465.4		
As a % of Sales	13.07%	12.99%	18.36%	18.24%	19.78%		
Depreciation	-73.7	-72.1	-75.5	-58.9	-73.3		
PBT	172.9	183.8	306.8	320.3	392.1	126.78%	22.42%
As a % of Sales	9.16%	9.33%	14.74%	15.41%	16.66%		
Tax	-43.4	-56.9	-95.4	-107.5	-124.2	186.18%	15.53%
Net Profit	129.5	126.9	211.4	212.8	267.9	106.87%	25.89%
As a % of Sales	6.86%	6.44%	10.15%	10.24%	11.38%		
Equity	193.8	--	193.8	193.8	193.8	0.00%	0.00%
EPS (Rs)	1.34	1.31	2.18	2.2	2.76	105.97%	25.45%
CEPS (Rs)	2.1	--	2.96	2.8	3.52		
OPM %	13.07	12.99	18.36	18.24	19.78		
NPM %	6.86	6.44	10.15	10.24	11.38		

## Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Net Sales	6,075	6,703	6,749	7,276	8,440	9,284	10,213
Other Operating Income	29	33	24	78	50	58	68
Expenditure	5,043	5,473	5,645	6,083	7,054	7,759	8,594
EBITDA	1,060	1,263	1,128	1,271	1,437	1,583	1,686
Depreciation	356	310	319	323	328	330	332
EBIT	704	953	809	948	1,108	1,254	1,354
Interest Expenses	186	172	170	169	204	219	244
PBT	518	780	639	779	905	1,034	1,110
Tax	181	243	207	225	261	297	319
Other Income	-	-	-	-	-	-	-
Net Income Before Adjustment	337	537	432	554	644	737	791
Minority Int./Income from Assoc.	7	5	12	14	16	18	20
Adjusted PAT	330	532	420	540	628	719	772

## Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 14A	FY 15A	FY 16A	FY 17A	FY 18E	FY 19P	FY 20P
Equity share capita	194	194	194	194	194	194	194
Reserves & surplus	1,997	2,348	2,598	2,977	3,058	3,482	3,938
Misc Expenditure	-	-	-	-	-	-	-
Net worth	2,190	2,542	2,792	3,171	3,251	3,676	4,131
Minority Interest	24	29	41	55	39	42	45
Share Application Money	-	-	-	-	-	-	-
Loan Funds	968	1,008	618	1,075	1,077	1,075	1,073
Net deferred tax liability	123	120	117	127	127	127	127
Other Long-term Liabilities	32	75	71	62	72	80	88
Long-term Provisions	49	58	58	62	72	79	87
Total Liabilities	3,387	3,833	3,698	4,554	4,640	5,081	5,553
Net block	2,716	2,618	2,643	2,558	2,268	1,972	1,676
Investment, Loan & Adv.	302	320	224	435	505	555	611
Total Current Assets	3,752	4,408	4,452	4,435	5,465	6,427	7,448
Current Liabilities & Provisions	3,383	3,513	3,623	2,876	3,598	3,875	4,183
Net Current Assets	369	895	830	1,559	1,867	2,552	3,265
Total Assets	3,387	3,833	3,698	4,554	4,640	5,081	5,553

## Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 17A	FY 18E	FY 19P	FY 20P
Operating Cash Flow	854	661	890	937
Cash Flow from Investments	(261)	(114)	(91)	(97)
Cash Flow from Financing	(690)	(180)	(325)	(357)
Net Changes in Cash	(97)	367	474	483
Opening Cash	313	216	583	1,056
Closing Cash Balance	216	583	1,056	1,540

## Research Analyst Details

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