

NRB Bearings Ltd

Industry	CMP	Recommendation	Add on Dips to band	Sequential Targets	Time Horizon
Bearings	Rs. 130	Buy at CMP and add on declines	Rs. 115-119	Rs. 147 & Rs. 161	2-3 quarters

HDFC Scrip Code	NRBBEAEQNR
BSE Code	530367
NSE Code	NRBBEARING
Bloomberg	NRBBR IN
CMP as on 08 Jun 17	130.00
Eq. Capital (Rs crs)	19.38
Face Value (Rs)	2
Equity Sh. Outs (Cr)	9.69
Market Cap (Rs crs)	1260
Book Value (Rs)	32.7
Avg. 52 Week Vol	68000
52 Week High	141.00
52 Week Low	103.00

Shareholding Pattern-% (Mar-2017)	
Promoters	54.67
Institutions	33.80
Non Institutions	11.54
Total	100.0

Research Analyst: Atul Karwa
atul.karwa@hdfcsec.com

Founded in 1965, NRB Bearings (NRB) 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 is a recognised leader in needle roller bearings. It is the largest manufacturer of needle roller bearings in India, with ~70% segmental market share. With 65% revenue coming in from domestic OEMs, NRB is expected to be a key beneficiary of robust growth in the automobile sector. With an increased emphasis on weight reduction in vehicles and lower space utilisation, applications for needle roller bearings are increasing. NRB has globally competent technology, and ~20% of its revenue comes from exports.

Investment Rationale:

- Well-diversified revenue stream
- Leadership in needle roller bearings
- Improved export outlook
- Turn around in subsidiaries
- Railways, Aerospace and Defence: Poised for the Next Big Leap
- Strong financial parameters

Concerns:

- NRB Bearings' revenue dominated by automotive OEMs
- Corporate guarantee to group company (NIBL)
- Threat from cheap bearing imports and competition from global players
- Bearings manufacturing is capital-intensive business
- Forex risk may impact financial performance

Financial Summary (Standalone)

(Rs Cr)	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)	FY16	FY17	FY18E	FY19E
Operating Income	1,887	1,657	13.9	1,724	9.5	6,749	7,276	7,961	8,904
EBITDA	270	199	35.2	309	(12.6)	1,112	1,193	1,337	1,533
PAT	130	76	69.5	120	8.0	420	540	578	710
EPS (Rs)	1.3	0.8	69.5	1.2	8.0	4.3	5.6	6.0	7.3
P/E (x)						27.2	21.1	19.7	16.1
EV/EBITDA (x)						12.4	11.6	10.2	8.7
RoNW (%)						15.7	18.1	17.1	18.6

(Source: Company, HDFC sec)

View and Valuation

NRB, being an important player in the automotive bearings space with a leadership position in needle roller bearings, is expected to be a key beneficiary of robust automobile growth, incremental revenue from the Defence, Marine and Railway segments, and a revival in exports. We expect revenue CAGR of 12% and PAT CAGR of 23% over FY17-FY19E. At CMP of Rs. 130 the stock quotes at 17.7x FY19E EPS. We feel investors could buy the stock at the CMP and add on dips to Rs. 115-119 band (~16x FY19E EPS) for sequential targets of Rs. 147 (20x FY19E EPS) and Rs. 161 (22x FY19E EPS) in 2-3 quarters.

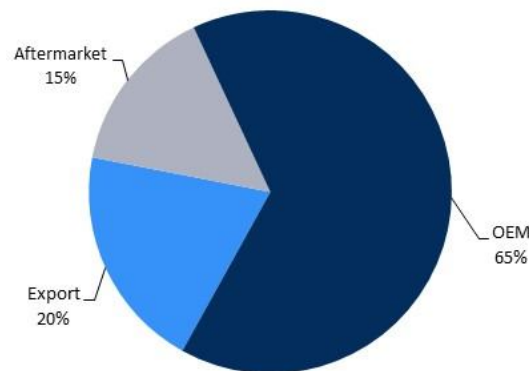
Company Description

Founded in 1965, NRB 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 most of the 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.

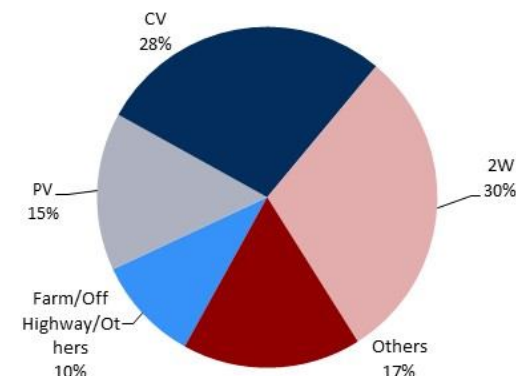
NRB is known for quality and innovative design in high-precision friction solutions. NRB Bearings is a recognised leader in needle roller bearings, conventional cylindrical roller bearings and has developed a new generation of lightweight drawn cup bearings.

The NRB group has a market share of ~70% in the needle roller bearings segment and a strong market position in the cylindrical roller bearings segment. The group is a key supplier to prominent automotive OEMs in India. To reduce the impact of cyclical demand from end users (domestic automotive OEMs), the NRB group has focused on increasing revenue from exports and the replacement market. Revenue from OEMs reduced to 60-65% of the group's total revenue in FY17 from 74% in FY11. Despite the large proportion of revenue from OEMs, no single customer accounts for more than 10% of the group's revenue.

OEM accounts for 65% of Revenues

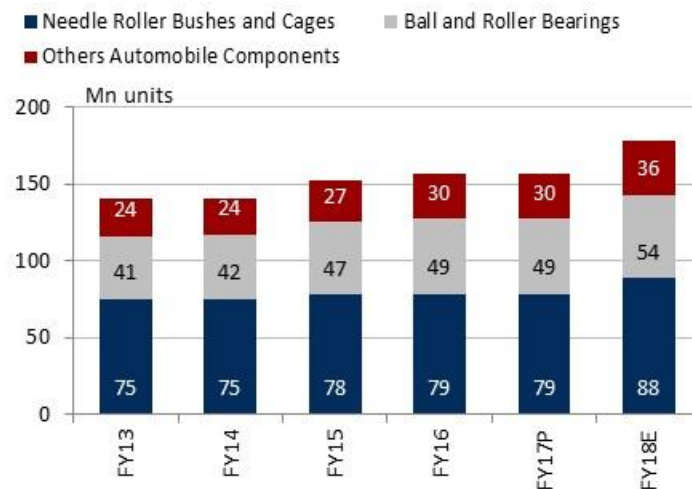


Sales mix of domestic revenues

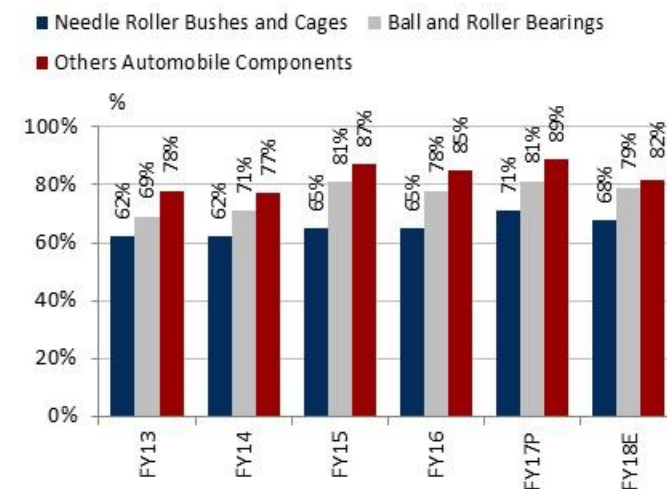


(Source: Company, HDFC Sec)

Installed capacity



Capacity utilization



(Source: Company, HDFC Sec)

Investment Rationale

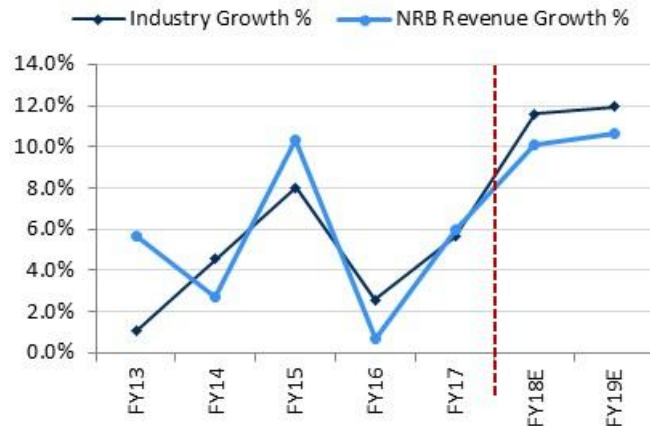
Well-diversified revenue stream

NRB is expected to be a key beneficiary of robust growth in the automobile sector, with the domestic OEM segment accounting for 65% of its revenue. Despite demonetisation, this sector posted 6% YoY growth in FY17 at ~26mn units, led by 2Ws, PVS (cars and UV) and tractors. This trend is likely to accelerate with the expected rise in per capita income and rural spending. NRB’s domestic revenue (80% in FY17) could broadly be broken up into 2W 30%, CV 28%, PV 15%, farm and off Highway 10% and Aftermarket 16%. Exports account for 20% of revenue.

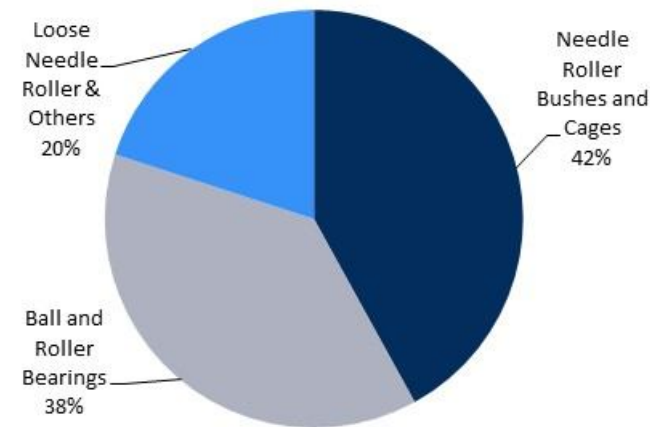
The company has identified needle roller bearings (42% of revenue in FY16) as its focus area. These can bear sizeable radial loads, and operate at a high speed with moderate vibrations and sound. The company also manufactures cylindrical bearings, special tapered roller bearings and special ball bearings. With a proven track record of over 50 years, it is the preferred supplier to leading domestic OEMs such as Hero MotoCorp, Bajaj Auto, Maruti Suzuki, Tata Motors and Ashok Leyland, among others.

NRB’s client portfolio is well-diversified, and any customer’s average contribution to revenue is not more than ~10%. The top 10 clients’ contribution stands at ~50% of the top-line. The company also indicated that the constituents of the top-10 slot keep changing based on the segmental growth. Revenue growth in NRB’s auto segment has mimicked that of overall auto sales volumes historically. For example, in FY10-12, when overall auto volumes grew ~28/25/14% YoY, respectively, NRB’s revenue grew ~22%/34%/17% YoY, respectively. Similarly, when the automotive segment was facing challenging times (muted 3% growth in FY16), NRB’s revenue increased 1% YoY in FY16, exhibiting a strong correlation.

Revenue mirrors Auto industry's volume growth



Needle roller bearings account for 42% of revenues



(Source: Company, HDFC Sec)

Key clients in Export and Domestic Markets

Domestic Market	Exports market
Ashok Leyland Ltd	Daimler Trucks
Bajaj Auto Ltd	Getrag Transmissions Corporation
Hero MotoCorp Ltd	GKN Driveline (European automotive and aerospace player)
Honda Motorcycle & Scooters	Renault Volvo
Mahindra and Mahindra Ltd	ZF Friedrichshafen AG (global leader providing driveline technology to auto OEMs)
Tata Motors Ltd	Audi
Maruti-Suzuki	

(Source: Company, HDFC Sec)

Leadership in needle roller bearings

NRB commands ~70% share in the organised needle roller bearing market. Another key player is INA Bearings, part of the Schaeffler group, Germany. Needle roller bearings constituted ~42% of NRB's topline in FY16. Being light, this translates into lower material costs, making them high-margin products. Another key product in NRB's stable is the cylindrical bearing. Needle and cylindrical bearings form ~68% of NRB's top-line. Needle roller bearing is a niche product and is used where the axial or thrust load is high. Owing to its compact size, the needle roller bearing is the preferred choice for applications like steering systems, gear boxes, front axles, engines etc. With the increased use of electronics and of automation in 4Ws, and the requirement to make engines, transmission and steering lighter and more compact, we expect the use of needle roller bearings to increase over time.

As NRB prefers working with automotive OEMs from the product development stage, it has a strong affiliation with them. The principle advantage of this is that if selected, NRB is the sole or main supplier for the first few years (normally five). This helps it in keeping margins and market share high, and also the competition at bay.








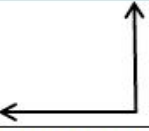
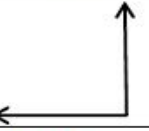
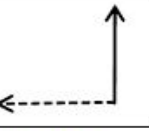

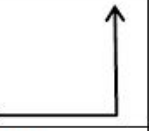
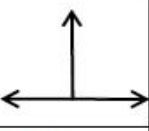

Advantages of needle roller bearings

Most rolling-element bearings are either ball or roller bearings. These can be cylindrical, tapered, spherical or needle bearings. Needle roller bearings are the smallest and lightest component of the roller bearing family. A key advantage of these bearings is that despite these attributes, they are extremely rigid, can bear high radial loads and operate at elevated speeds, with moderate vibrations and sound. With an increased focus on weight reduction and lower space utilisation, applications for needle roller bearings are increasing. Key features include:

- The surface area of the rollers and the high number of rolling, load-bearing elements provide needle roller bearings with exceptional load capacity and stiffness.
- Being thinner, they require less clearance between the axle and the surrounding structure.
- Accurate guidance of these rollers by the cage bars allows them to operate at high speeds.
- The ability to handle a larger, more rigid shaft in a given application.
- Excellent rolling characteristics within a small cross-section.

Needle roller bearings are used in a variety of applications, such as radial piston pumps, automotive steering and braking systems, transmissions, engines, valve trains, copiers, fax machines, outboard engines and lawn trimmers. These bearings were invaluable in the development of small, efficient and reasonably priced cars. The increasing requirement for needle roller bearings has led to a considerable expansion of the product range in just a few years.

Key Characteristics of Different Types of Bearings

Bearing Type	DEEP GROOVE BALL BEARING	ANGULAR CONTACT BALL BEARING	CYLINDRICAL ROLLER BEARING	NEEDLE ROLLER BEARING	TAPERED ROLLER BEARING	SELF ALIGNING ROLLER BEARING	THRUST BALL BEARING
Characteristics							
							
HIGH ROTATION SPEED	EXCELLENT	EXCELLENT	EXCELLENT	GOOD	GOOD	AVERAGE	BELOW AVERAGE
LOW NOISE/VIBRATION	EXCELLENT	GOOD	AVERAGE	AVERAGE	WEAK	WEAK	BELOW AVERAGE
LOW FRICTION TORQUE	EXCELLENT	GOOD	BELOW AVERAGE	WEAK	WEAK	WEAK	WEAK
HIGH RIGIDITY	WEAK	WEAK	AVERAGE	AVERAGE	AVERAGE	GOOD	WEAK

(Source: Company, HDFC Sec)

Revival in key export markets

NRB is among the few manufacturers of needle roller bearings globally (INA, Koyo, Nadella and NSK, among others). The key reason for NRB's success in the overseas market are (1) Working with the customers from the design stage helps build a rapport and bag orders, (2) Most OEMs and Tier 1 suppliers are looking at adding vendors, and there are very few for needle roller bearings, (3) Cost advantage, (4) Technology at par with MNCs, (5) High customisation and willingness to supply smaller batch sizes and (6) Low turnaround time.

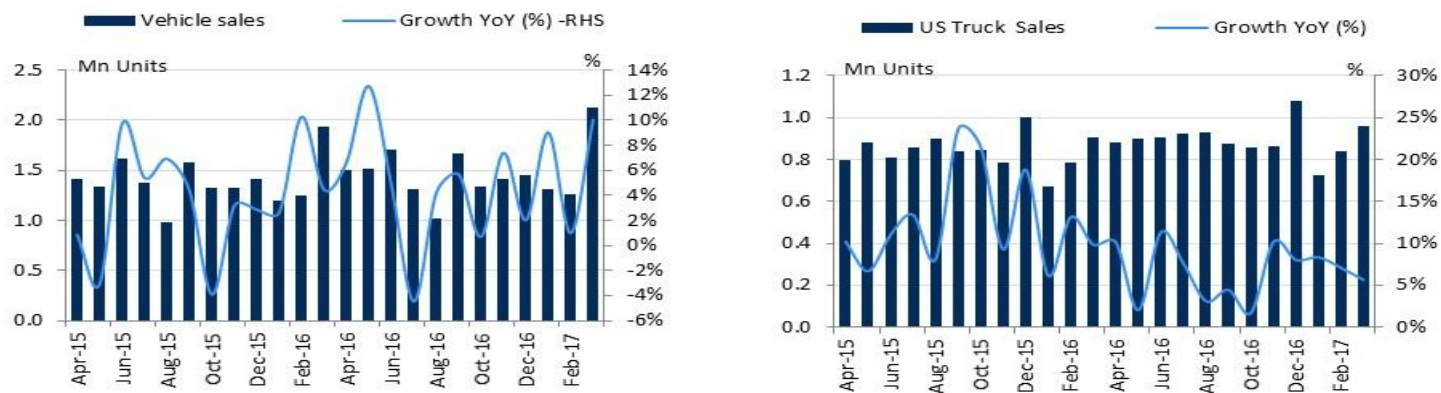
NRB exports to global OEMs like Renault Volvo, VW and Daimler Trucks. The company also supplies to Tier-I clients like ZF and Getrag. The association with global OEMs has helped the company enhance its engineering capabilities and benchmark its quality to global standards. The company exports to Europe, US and Latin America. Europe and US together contribute ~65% to the total export revenue.

After a period of strong growth (~27% CAGR over FY12-15), exports fell 16% in FY16, owing to a slowdown in Europe and fall in the Euro-INR exchange rate. The company has major clients in the European region including Renault, Volvo, Daimler Trucks and Audi. Large global OEMs were circumspect about on-boarding new suppliers.

Global OEMs were also reviewing their procurement policies in the wake of emission-related violations by Volkswagen. Consequently, the company was unable to expand its customer base in FY16. However, the situation has improved in the last six months, with a revival in key markets and the addition of new clients like Meritor and Detroit.

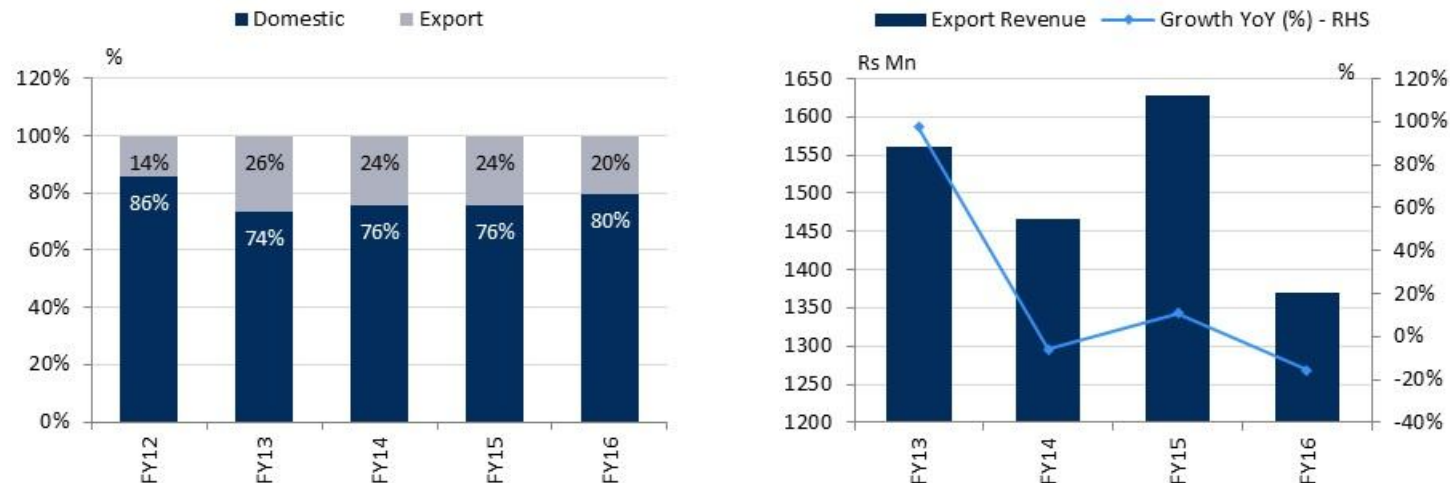
Management indicated that it plans to expand its geographical presence as well as client base to mitigate its dependence on Europe and US. NRB also exports to the ASEAN region, with a special focus on Sri Lanka and Nepal. The company is making inroads into Iran, given the growing demand in the region. We believe these initiatives would help NRB diversify its client base and market for exports.

European and US markets showing signs of revival



(Source: Company, HDFC Sec)

Export contribution and growth



(Source: Company, HDFC Sec)

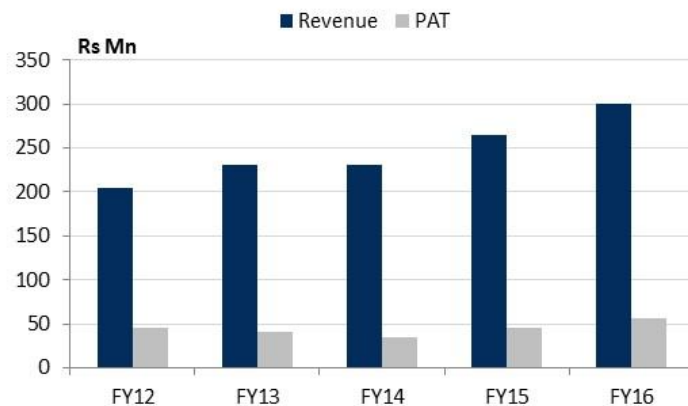
Turn around in subsidiaries

NRB has three subsidiaries, two of which are overseas in Thailand and Europe. The company has acquired a majority stake in SNL Bearings to access INA’s technology. The company has set up a wholly-owned subsidiary in Thailand to provide bearings to Japanese and Korean automotive OEMs. In FY15, NRB set up another wholly-owned subsidiary in Germany, with a view to increase exports to Europe. This subsidiary provides marketing and customer support services to clients.

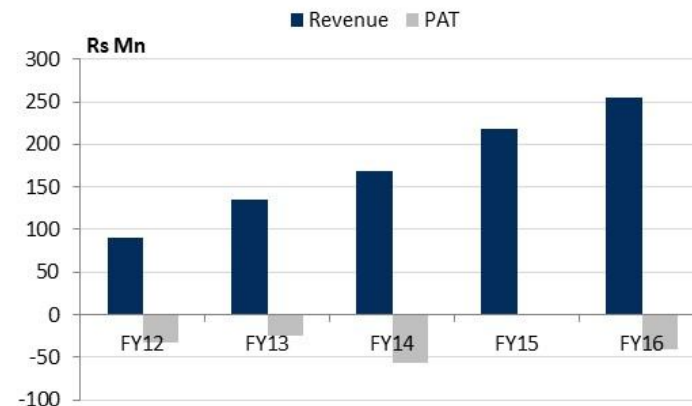
SNL Bearings (SNL): SNL (earlier known as Shriram Needle Bearings), was a JV between INA and the Shriram group. In 2000, NRB acquired a 45% stake in the company, which it gradually increased to 73.5%. SNL also manufactures needle roller bearings at Ranchi. This company was acquired mainly to consolidate its technical and mechanical expertise, given that the products of both companies are similar. NRB has turned SNL around in five years, and now it enjoys a strong EBITDA margin of 25% to 30%.

NRB Bearings Thailand (NBT): In the initial years, this subsidiary was only involved in the trading of goods, and was making losses until FY16. Today, however, manufacturing activity is increasing, and contributes 40% to revenue. New business deals are being finalised with European and Japanese customers. The introduction of new products in the market, as well as enhanced production of needle roller bearings helped the company to turn profitable in FY17.

Sales and PAT of SNL Bearing



Sales and PAT of NRB Bearing Thailand



(Source: Company, HDFC Sec)

Railways, Aerospace and Defence: Poised for the Next Big Leap

After Automotive, the Railways stands as the second largest sector in the country. With the focus on increasing safety in trains, the modernisation and expansion of the railway’s rolling stock/locomotives, an increasing number of fast trains and track kilometres, introduction of high-speed trains, and the DFC (Dedicated Freight Corridor) project, along with the expansion of the metro train network to a number of cities are all expected to drive demand for bearings by a double-digit CAGR in the next few years.

Defence and Aerospace are also gaining strong traction, owing to the government’s Make In India initiatives. The company is looking at the Defence, Aerospace and Railway segments as sources of incremental revenue (aggregate ~Rs. 600mn by FY19E).

Strong Financial parameters

Revenue to record 12% CAGR over FY17-19E

We estimate revenue to grow at 12% CAGR over FY17-19E. This is likely to be driven by a domestic and export revenue CAGR of 12%. Growth in the domestic automobile industry will be the key determinant of the company’s performance.

EBITDA margin to remain at ~16.5-17%

NRB’s operating margin (18% average in the last five years) is higher than its peers, owing to its superior product mix comprising higher-margin customized products (42% of sales are from needle-roller bearings), absence of revenue from low-margin traded goods and integrated manufacturing (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 them to move up hereon, led by an improvement in operating leverage and revival in exports.

Revenues to grow at 10.6% CAGR over FY17-FY19E

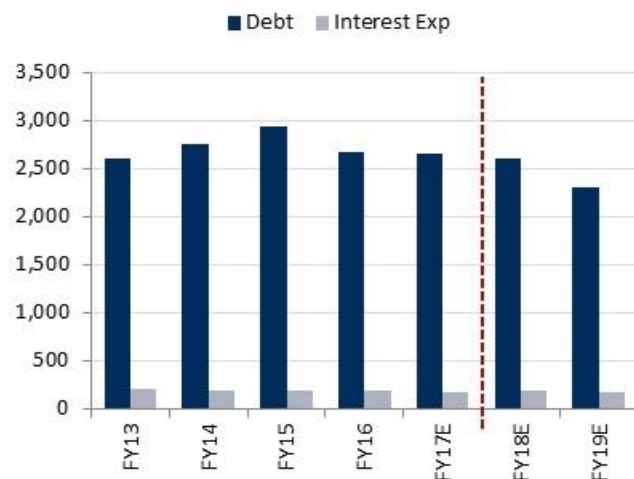


EBITDA margin to remain steady between 16.5-17%

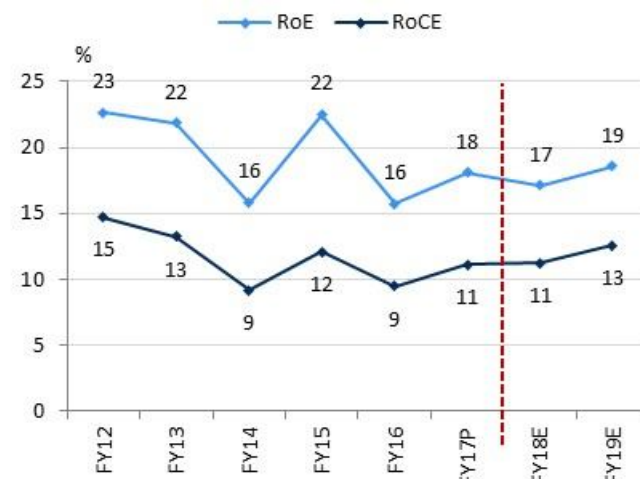


(Source: Company, HDFC Sec)

Debt and Interest Expenses To Go Down



ROE And ROCE To Improve In Next Two Years



(Source: Company, HDFC Sec)

PAT to grow at 23% CAGR over FY17-19E

We estimate PAT to grow at 23% CAGR over FY17-19E to Rs 709mn, against a decline over FY13-FY16. This will be led by revenue CAGR of 12% and stable average EBITDA margin at 17%, given the improvement in operating leverage. Debt repayment and no large borrowings in the absence of major capex, coupled with the fall in interest rates, are likely to augur well for PAT growth. As a result, ROE and ROCE are expected to increase to 19%/ 13% by FY19E from 16%/ 9% in FY16, respectively.

NRB's ROCE is lower than peers, despite better operating margins, as the company has lower asset turnover (absence of traded revenues) and higher working capital requirements.

The reason for high working capital requirements are: 1) Lower sales from the aftermarket business 2) Company maintains a large number of SKUs (as high as 2.5x the nearest competitor) 3) NRB has more customised bearings, and the exports business requires maintaining inventory at warehouses in different geographies 4) Working capital higher owing to revenue mix, absence of trading revenue and higher SKUs

FCF generation to improve, going ahead

Strong topline growth, coupled with an improvement in margins, is expected to boost the operating cash flow for NRB, going ahead. The company expects capex requirement of ~Rs 400 to 500mn every year over FY17-19E. Consequently, we expect NRB to generate an FCF of ~Rs 400 mn each year over FY17-19E. The strong FCF is also expected to be a key driver for a reduction in debt-equity. Going ahead, given the strong cash flow generation on the back of impressive topline growth and margin improvement, we expect NRB's net debt-to-equity to come down to 0.4x by FY19E.

Concerns

Corporate guarantee to group company (NIBL)

NRB Industrial Bearings Ltd (NIBL) was demerged from NRB Bearings in October 2012. NRB Bearings is being managed by Harshbeena Zaveri, and NIBL by her brother, Devesh Sahney. The demerger agreement mandates NRB Bearings to cater to the Automobile segment, and NIBL to the Industry segment. However, on the expiry of the demerger agreement (was valid till 2016), there will be no such restrictions for either company. Related party transactions suggest that NRB Bearings has provided guarantees to NIBL of Rs 263mn and an inter-corporate deposit of Rs 90.7mn. NIBL has been continually making losses.

NRB Bearings' revenue dominated by automotive OEMs

Although a sizable presence in OEM category gives immunity from competition at large to NRB Bearings, it has its own problems like stringent quality norms, lower pricing power, tighter deliver schedule etc. As the company has more of customised products, it has to maintain a higher level of inventory for domestic as well as overseas clients. Moreover, cyclical downturn in automotive sector will have a higher impact on companies which draw a major portion of their revenue from OEMs.

Threat from cheap bearing imports and competition from global players

The import of needle roller bearings is not as rampant as ball bearings because manufacturing needle roller bearings requires a higher level of technological competence. However, global leaders in this category like INA (Schaeffler group company, Germany) and Nadella (France) are looking at India as an upcoming market. In fact, INA is a very active competitor to NRB Bearings.

Raw material price volatility

Contracts with OEMs do not have mechanism of raw material price hike pass-through. The companies have to negotiate with OEMs for the same. Raw material costs generally range between 35%-45% of revenue. The major raw material is steel.

Bearings manufacturing is capital-intensive business

Bearing is an important component and assumes more importance in wake of the drive undertaken by automotive OEMs to reduce the weight of the vehicle, reduce emission, improve mileage and reduce vibration. Hence, bearings companies need to invest on a regular basis to upgrade technology and install a capacity to cater to large demand pool.

Forex risk may impact financial performance

Exports constitute a significant portion of NRB's business (~20% of revenue in FY16). The company also imports certain raw materials and spares (~23% of total requirement). Apart from this the company has Rs ~600 mn debt in foreign currency

Q4FY17 results review

NRB' 4Q net revenue came in at Rs 1.88bn (+10% YoY, 14% QoQ), owing to growth in the domestic automotive sector and revival in export revenue. EBITDA at Rs 270mn, with margin at 14.3%(-361 bps YoY, 225bps QoQ) was in-line with estimates. Higher other expenses (+743 bps YOY, owing to product development expenses) was partially offset by a fall in RM cost (-129bps YoY) and employee expenses (-253bps YoY). APAT at Rs. 130mn (+8% YoY, 70% QoQ) was led by 18% YoY fall in interest cost and lower effective tax rate.

Key highlights

- Growth levers in place: High-margin customised products (42% of sales are from needle-roller bearings) and absence of low-margin traded goods makes NRB better placed than its peers. The company is looking to procure incremental revenue from the Defence (Rs 350mn), Marine and Railway (Rs 200mn) segments (aggregate ~Rs 600mn by FY19E). With the auto industry showing signs of recovery, we estimate revenue to grow at 12% CAGR over FY17-19E.
- Improving exports: We believe growth in revenue in 4Q is attributable to a revival in exports to a large extent. Management reiterated that it plans to expand its geographical presence (ASEAN region and Iran), as well as client base to mitigate its dependence on Europe and US. Going ahead, we expect NRB's export revenue to grow at 12% CAGR over FY17-19E.
- Near-term outlook: Q1FY18 is expected to be decent, led by growth in 2W and PV sales and revival in export.

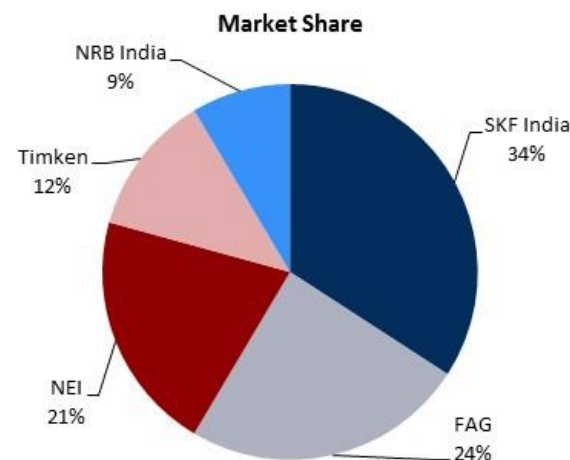
Particulars (Rs Mn)	Q4FY17	Q4FY16	YoY (%)	Q3FY17	QoQ (%)
Net Sales (incl OOI)	1,887	1,724	9.5	1,657	13.9
Material Expenses	804	756	6.3	648	24.1
Employee Expenses	283	302	(6.3)	313	(9.6)
Other Operating Expenses	531	357	48.8	497	6.8
EBITDA	270	309	(12.6)	199	35.2
Depreciation	74	103	(28.2)	71	3.8
EBIT	196	206	(4.9)	128	52.6
Other Income	13	4	241.0	11	16.7
Interest Cost	36	45	(18.7)	41	(12.1)
FX gain/loss	173	165	4.7	99	75.5
PBT	43	45	(4.2)	22	96.4
Tax	130	120	8.0	76	69.5
PAT	130	120	8.0	76	69.5
EPS	1.3	1.2	8.0	0.8	69.5

(Source: Company, HDFC sec)

Industry Overview

The Indian bearing industry is expected to grow in double-digits for the next five years. It will continue to be dominated by leading global players. With the organised market size at Rs ~90bn, the industry in the country is skewed towards the local listed franchise of leading global players like SKF AB, Timken Co, FAGSchaeffler AG, and also players of Indian origin like NRB Bearings and NEI (National Engineering Industry).

Market share of top 5 bearing companies



(Source: Company, HDFC Sec)

Global players are present in India either as listed entities and/or wholly-owned subsidiaries or joint ventures. The top five players (SKF India, FAG, NEI, Timken India, and NRB Bearings) enjoy ~82% market share. The organised sector primarily caters to OEMs, which are predominantly in the Automotive, Railways and other industrial sectors. The unorganised sector primarily caters to the replacement market and the extremely low-end segment, as it manufactures counterfeit products.

Players specialise in different categories

A technological edge on account of parentage, innovation and capacity to invest allows the large players to identify their respective niche areas, and lead in that product category. **SKF India** is the biggest and most diversified player in the bearing industry, with the largest share in OEMs as well as after-market segments. It is the largest player in the deep groove ball bearings market. The company manufactures almost all varieties of bearings required for the automotive segment.

FAG enjoys the status of being the second-largest player in the overall bearings market in India. The company has a strong presence in automotive OEMs. In addition to manufacturing various types of bearings, it has a high share in the wheel-bearing segment. FAG is the leader in the manufacture of roller bearings: cylindrical and spherical.

Timken India is the leader in tapered roller bearings, and has a dominant market share in the MHCV segment. The company is not present in the ball bearing segment.

NRB Bearings is a pure play in the automotive segment. It is the market leader in needle roller bearings, with ~70% market share in this product category. Needle roller bearings find applications when space is a constraint and a large load-bearing capability is needed. The company is the largest supplier of this product to automotive OEMs.

Company	Specialised and Leadership in	Market share in specialized product (%)	Nearest competitor
SKF India	Deep groove ball bearing	45	FAG
FAG	Spherical and Cylindrical ball bearing	40	SKF, Timken
NEI	Spherical and Cylindrical ball bearing	20	Timken
Timken India	Tapered roller bearing	45	NEI, FAG
NRB Bearings	Needle roller bearing	70	INA

(Source: HDFC Sec)

Segment-Wise Revenue Contribution (%)

Segment	SKF	Timken	NRB Bearing	FAG
Industrial	50	55-60	NA	30-35
Automotive	50	40-45	100	65-70
OEM	55	85	60-65	80-85
Aftermarket	45	15	12-18	15-20
Exports	8	30-35	20-23	15-18
Domestic	92	65-70	77-80	82-85

(Source: HDFC Sec)

35% to 40% of demand met through official imports

Out of total estimated market size of Rs 90bn, official imports of bearings by leading multinational players from their respective overseas parent stand at 30%- 35% of total imports. Imports by other non-listed and smaller players contribute 5% to 10% to total imports. For leading multinational players, these imports form a part of traded goods for revenue classification. They enjoy lower margins, but high RoCE. Over the last few years, an equivalent amount of imports of low-end and small-sized bearings, mainly for automotive applications from Asian countries, especially China, have increased significantly.

Ball bearing is the largest category of imported bearings and occupies over 50% share in total imports of bearings. Following slowing demand in the developed markets of US and Europe, cheap imports from China and other South-East Asian countries exerted pressure on Indian suppliers, leading them to price their products lower. They are proving to be a big threat for the domestic bearing industry, as many customers opt for cheaper imported bearings. A ready supply chain and strong focus on reducing costs, minimising waste and increasing efficiency of operations are effective ways to counter the same.

View and Valuation

NRB, being an important player in the automotive bearings space with a leadership position in needle roller bearings, is expected to be a key beneficiary of robust automobile growth, incremental revenue from the Defence, Marine and Railway segments, and a revival in exports. We expect revenue CAGR of 12% and PAT CAGR of 23% over FY17-FY19E. At CMP of Rs. 130 the stock quotes at 17.7x FY19E EPS. We feel investors could buy the stock at the CMP and add on dips to Rs. 115-119 band (~16x FY19E EPS) for sequential targets of Rs. 147 (20x FY19E EPS) and Rs. 161 (22x FY19E EPS) in 2-3 quarters.

Peer Comparison (FY17)

(Rs mn)	CMP*	Mcap	Revenues	% growth	OPM	PATM	EPS	BV	P/E	P/BV	RoNW
NRB	126.9	12292	7276	7.8%	16.4%	7.4%	5.6	32.7	22.8	3.9	17.0%
Timken	695.3	47277	10562	0.5%	15.0%	9.2%	14.3	90.9	48.6	7.7	15.7%
FAG	4520.7	75133	17963	5.2%	16.5%	10.9%	117.4	874.1	38.5	5.2	13.4%

* CMP as on 7-Jun-17

Financial Statements
Income Statement

(Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net Revenues	6,703	6,749	7,276	7,961	8,904
Growth (%)	10.3%	0.7%	7.8%	9.4%	11.8%
Material Expenses	2,535	2,621	2,720	3,092	3,458
Power & Fuel expenses	278	294	320	347	388
Employee Expenses	1,121	1,284	1,302	1,514	1,674
Other Operating Expenses	1,530	1,438	1,741	1,671	1,851
EBITDA	1,239	1,112	1,193	1,337	1,533
EBITDA Margin (%)	18.5%	16.5%	16.4%	16.8%	17.2%
EBITDA Growth (%)	19.2%	-10.3%	7.3%	12.0%	14.7%
Depreciation	310	319	323	369	396
EBIT	929	792	870	968	1,137
Other Income (Incl. EO Items)	45	32	78	79	81
Interest	194	185	169	188	164
PBT	780	639	779	860	1,054
Tax (Incl Deferred)	243	207	225	267	327
Minority Interest	5	12	14	15	17
APAT	532	420	540	578	710
APAT Growth (%)	59.4%	-19.6%	28.6%	7.0%	22.9%
Adj EPS	5.5	4.3	5.6	6.0	7.3
EPS Growth (%)	59.4%	-19.6%	28.6%	7.0%	22.9%

Balance Sheet

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital - Equity	194	194	194	194	194
Reserves	2,348	2,598	2,977	3,381	3,878
Total Shareholders' Funds	2,542	2,792	3,171	3,575	4,072
Minority Interest	29	41	55	70	88
Long Term Debt	1,008	618	1,075	925	775
Short Term Debt	1,932	2,058	1,573	1,673	1,523
Total Debt	2,940	2,676	2,647	2,597	2,297
Net Deferred Taxes	120	117	127	127	127
Long Term Provisions & Others	133	129	125	57	57
TOTAL SOURCES OF FUNDS	5,765	5,755	6,125	6,427	6,641
APPLICATION OF FUNDS					
Net Block	2,580	2,595	2,470	2,689	2,793
CWIP	35	48	88	93	98
Investments	-	-	11	-	-
LT Loans & Advances	805	640	698	795	803
Total Non-current Assets	3,421	3,283	3,266	3,577	3,695
Inventories	1,642	1,447	1,723	1,701	1,903
Debtors	1,998	2,259	2,212	2,530	2,732
Other Current Assets	35	37	0	2	4
Cash & Equivalents	280	320	226	420	339
Total Current Assets	3,955	4,064	4,161	4,654	4,978
Creditors	891	899	1,046	944	1,050
Other Current Liabilities & Provns	719	693	258	861	982
Total Current Liabilities	1,610	1,592	1,303	1,804	2,032
Net Current Assets	2,344	2,472	2,858	2,850	2,947
TOTAL APPLICATION OF FUNDS	5,765	5,754	6,125	6,427	6,641

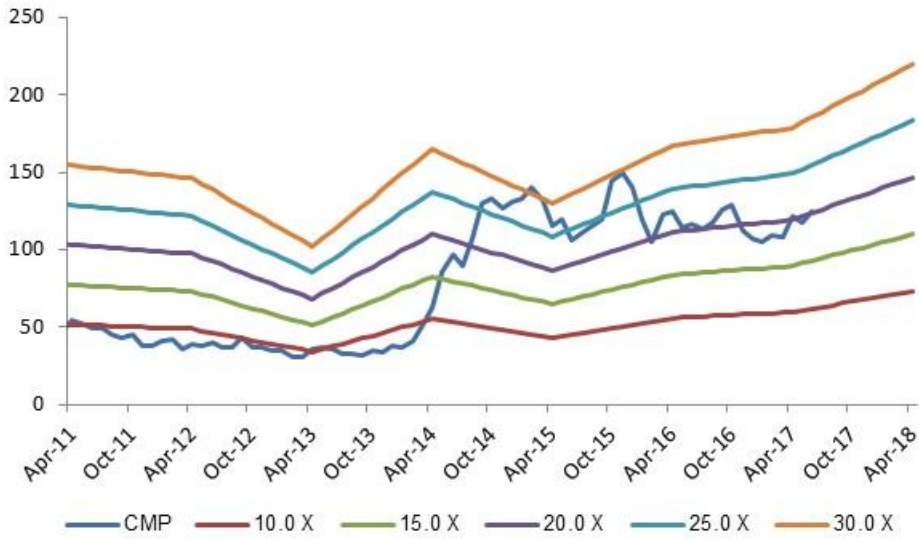
Cash Flow

(Rs mn)	FY15	FY16	FY17P	FY18E	FY19E
Reported PBT	780	639	779	860	1,054
Interest expenses	194	185	169	188	164
Depreciation	310	319	323	369	396
Working Capital Change	(384)	141	(759)	211	(186)
Tax Paid	(243)	(207)	(225)	(267)	(327)
OPERATING CASH FLOW (a)	657	1,077	287	1,361	1,101
Capex	(235)	(192)	(326)	(505)	(505)
<i>Free cash flow (FCF)</i>	422	885	(39)	856	596
Investments	-	-	11	(11)	-
INVESTING CASH FLOW (b)	(235)	(192)	(316)	(516)	(505)
Debt Issuance/(Repaid)	100	(488)	275	(300)	(300)
Interest Expenses	(194)	(185)	(169)	(188)	(164)
<i>FCFE</i>	329	212	67	368	132
Share Capital Issuance	-	-	-	-	-
Others	-	109	-	-	-
Dividend	(107)	(281)	(172)	(163)	(213)
FINANCING CASH FLOW (c)	(200)	(845)	(65)	(651)	(677)
NET CASH FLOW (a+b+c)	222	40	(94)	194	(81)
Closing Cash & Equivalents	280	320	226	420	339

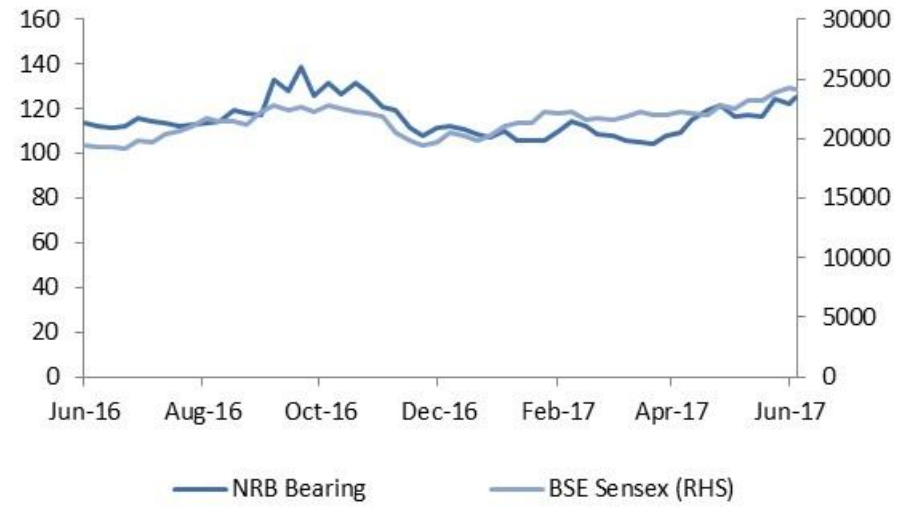
Key Ratios

	FY15	FY16	FY17P	FY18E	FY19E
PROFITABILITY (%)					
GPM	62.2	61.2	62.6	61.2	61.2
EBITDA Margin	18.5	16.5	16.4	16.8	17.2
APAT Margin	7.9	6.2	7.4	7.3	8.0
RoE	22.5	15.7	18.1	17.1	18.6
RolC (or Core RoCE)	13.8	10.7	11.2	12.1	13.5
RoCE	12.1	9.5	11.1	11.3	12.6
EFFICIENCY					
Tax Rate (%)	31.2	32.4	28.9	31.0	31.0
Fixed Asset Turnover (x)	1.36	1.30	1.44	1.54	1.62
<i>Inventory (days)</i>	89.4	78.3	86.4	78.0	78.0
<i>Debtors (days)</i>	108.8	122.2	111.0	116.0	112.0
<i>Other Current Assets (days)</i>	1.9	2.0	0.0	0.1	0.2
<i>Payables (days)</i>	48.5	48.6	52.5	43.3	43.0
<i>Other Current Liab & Provns (days)</i>	39.1	37.5	12.9	39.5	40.2
Cash Conversion Cycle (days)	112.4	116.4	132.0	111.4	106.9
Debt/EBITDA (x)	2.4	2.4	2.2	1.9	1.5
Net D/E (x)	1.0	0.8	0.8	0.6	0.5
Interest Coverage (x)	4.8	4.3	5.2	5.2	6.9
PER SHARE DATA (Rs)					
EPS	5.5	4.3	5.6	6.0	7.3
CEPS	8.7	7.6	8.9	9.8	11.4
Dividend	1.2	1.6	1.8	3.0	4.2
Book Value	26.2	28.8	32.7	36.9	42.0
VALUATION					
P/E (x)	21.4	27.2	21.1	19.7	16.1
P/BV (x)	4.5	4.1	3.6	3.2	2.8
EV/EBITDA (x)	11.3	12.4	11.6	10.2	8.7
EV/Revenues (x)	2.1	2.0	1.9	1.7	1.5
OCF/EV (%)	4.7	7.8	2.1	10.0	8.2
FCF/EV (%)	3.0	6.4	(0.3)	6.3	4.5
FCFE/Mkt Cap (%)	2.9	1.9	0.6	3.2	1.2
Dividend Yield (%)	1.0	1.4	1.5	2.6	3.5

One year Forward PE



Price chart



Fundamental Research Analyst: Atul Karwa, atul.karwa@hdfcsec.com

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066
Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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