

Initiating Coverage NRB Bearings Ltd.

September 09, 2021





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 133	Buy in Rs 132-134 band & add more on dips to Rs 116-118 band	Rs 150	Rs 168	2 quarters

HDFC Scrip Code	NRBBEAEQNR
BSE Code	530367
NSE Code	NRBBEARING
Bloomberg	NRBBR IN
CMP Aug 20, 2021	133.0
Equity Capital (Rs cr)	19.4
Face Value (Rs)	2
Equity Share O/S (cr)	9.7
Market Cap (Rs cr)	1283.3
Book Value (Rs)	53.4
Avg. 52 Wk Volumes	576,000
52 Week High	154.4
52 Week Low	66.5
Share holding Pattern % (Jun, 2021)	
Promoters	49.6
Institutions	34.6
Non Institutions	15.8
Total	100.0

Our Take:

NRB Bearings (NRB) has witnessed strong recovery post the pandemic led slowdown. It remains a key beneficiary of the strong volume growth witnessed in the automobile segment. Going forward, demand across automobile segments is expected to register improvement in FY22 over FY21 resulting in a revival in OEM offtake. It has customers across multiple segments, including two-wheelers, commercial vehicles (CVs), passenger cars, utility vehicles (UVs), farm equipment & tractors, off-highway vehicles, railways and defence. NRB is well placed to capitalise on this given its high share of demand from OEMs. NRB's innovative approach and focus on high-technology products, consistent quality, performance levels and cost competitiveness makes it an engineering differentiated Company, which enhances its geographical and locational advantage. Unlike its MNC counterparts, NRB through its integrated operations produces all its output indigenously. Exports by the company has been a key growth driver for the company registering a growth of 10% v/s 1.5% CAGR growth in domestic market over FY12-21. Increasing R&D spend and foray into Defence, Aerospace and Railway segments coupled with fall in interest cost could aid in topline and margin expansion.

Fears over impact on revenues due to the advent of electric vehicles are partly justified as ICE engines need more number of bearings than Electric engines. However, though the number of bearings required may come down, the complexity and value add of bearings in EVs may be higher.

Valuation & Recommendation:

NRB is gearing up for the 'next normal' as new product lines and industry dynamics get redefined. It focuses on component categories that could contribute more to vehicle costs as these provide higher margins, on components which are not likely to be replaced with the advent of electric vehicle (EV) and new products for EV, and plans to expand its portfolio to serve adjacent industries.

NRB has done capex of ~Rs 200cr during FY18-FY21, but due to slowdown in the Auto industry and the pandemic, the fruits of this capex are yet to be fully realized. Bearings industry has strong entry barriers for new entrants due to the technology and customer approval process. Bearings industry (including NRB) could be the beneficiary of the capex cycle that India could experience over the next few years. NRB quotes at a significant discount to its peers (most of whom are MNC owned) despite the fact that its financial ratios are on par or better and technological expertise is as good as its peers. We expect NRB's revenue/EBITDA/PAT to grow at 17/21/29% CAGR over FY21-FY23, led by the



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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increased demand in the automobile industry, operating leverage and reduction in debt. We believe investors can buy the stock in the band of Rs 132-134 and add on dips to Rs 116-118 band (12.5x FY23E EPS) for a base case fair value of Rs 150 (16x FY23E EPS) and bull case fair value of Rs 168 (18x FY23E EPS) over the next 2 quarters.

Financial Summary

Particulars (Rs cr)	Q1 FY22	Q1 FY21	YoY (%)	Q4 FY21	QoQ (%)	FY20	FY21	FY22E	FY23E
Operating Income	201	63	220.6	257	-21.7	776	762	884	1,044
EBITDA	27	-16	-263.4	LP	-42.8	86	104	125	152
APAT	16	-14	-215.8	LP	-52.9	32	54	67	91
Diluted EPS (Rs)	1.7	-1.5	-215.8	LP	-52.9	3.3	5.6	6.9	9.4
RoE (%)						6.9	11.1	12.3	15.0
P/E (x)						40.2	23.8	19.3	14.2
EV/EBITDA (x)						17.7	13.7	11.3	9.1

(Source: Company, HDFC sec)

Recent Triggers

Q1FY22 financials

NRB reported a subdued quarter with sales decreasing by 21.7% qoq to Rs 201cr on account of slowdown in the auto industry. EBITDA declined by 42.8% to Rs 27cr on account of increase in employee and other expenses. EBITDA margins contracted to 13.3% (-490bps qoq). PAT declined by 53% qoq to Rs 17cr while PAT margins contracted from 13.7% in Q4FY21 to 8.4% in Q1FY22. Q1FY21 was impacted by lockdowns and the financials are not comparable.

Key Triggers

Market leadership in the needle and cylindrical roller bearing segments

The NRB group has a market share of ~70% in the needle roller bearings segment. It also has a strong market position in the cylindrical roller bearings segment. The group is a key supplier to prominent automotive OEMs in India. It is a preferred supplier to leading domestic OEMs such as Hero MotoCorp, Bajaj Auto, Maruti Suzuki, Tata Motors, Ashok Leyland, etc. 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. Despite the large proportion of revenue from OEMs, no single customer accounts for more than 12% of the group's revenue.



NRB is the first Indian component supplier to Audi for engines and its customers include Daimler for Trucks and Mercedes cars, ZF and Getrag (two of Europe's largest Gearbox manufacturers), Meritor, Borgwarner, Honda and Mazda for cars, and every single Japanese two-wheeler manufacturer. In Europe, the company's pricing is cheaper by 15-20% in comparison to local peers. NRB enjoys a high operating leverage and hence return to normal scenario could see its revenue and profitability jump appreciably.

India's Automotive Bearings Market is projected to grow at a CAGR of 13%

According to a report by Business Wire, the Indian automotive bearings market is projected to grow at a CAGR of over 13% over FY18-FY25. Some of the major factors contributing to the growth are i) growing automobile industry and increasing vehicle production and sales, ii) expanding fleet size of two-wheelers, passenger cars and three-wheelers and iii) with expanding middle class population and increasing disposable income, automobile sales across all the major automobile segments are expected to grow in the coming years. All these factors will positively impact the automotive bearings market.

As per the AMP 2026 (Automotive Mission Plan II), the Indian auto industry will be among the top three in the world by 2026 in terms of engineering, manufacturing and export of vehicles as well as auto components, targeting a growth of 3.5 to 4 times its current output.

Government initiatives to propel demand

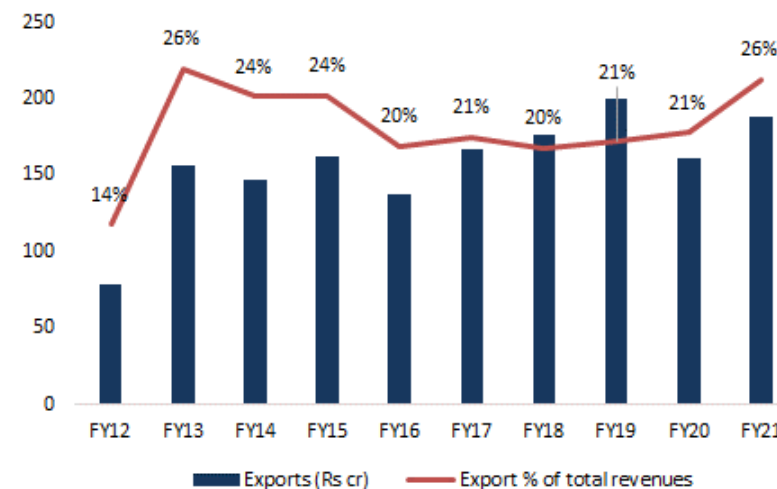
The Government's focus on important economic and policy reforms is likely to boost manufacturing and key initiatives like "Make in India" is paving way for investments in key sectors like Railways, Defense, Aerospace, Electronics, Energy and Capital Goods. Owing to a strong growth momentum and investments in infrastructure, the sector is likely to continue its growth trajectory. The recently announced scrappage policy is likely to boost demand for new vehicles after removing old unfit vehicles currently plying on the Indian roads.

Growing share of exports could enhance margins

NRB is looking to increase its contribution from exports as it fetches a higher margin. The share of exports in total revenues has been gradually increasing and accounted for 26% of revenues in FY21, up from 20% in FY18. NRB has also incorporated a subsidiary in UAE for the growth, consolidation of the global business and for setting up of an Innovation Centre.



Increasing share of exports



(Source: Company, HDFC sec)

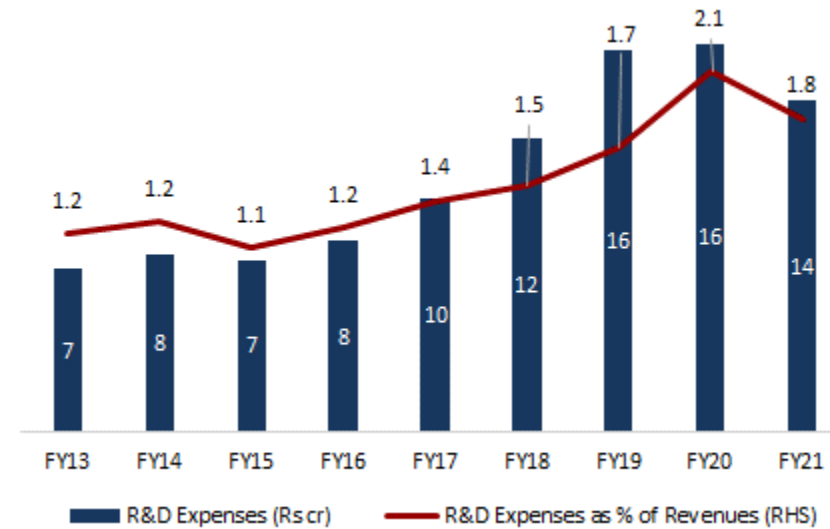
R&D focus to expand market

NRB is focusing more on technology development of light weight, fuel efficient, reduced noise bearings with enhanced product life and identification and testing of 'wear resistant' tool materials. There is a continuous programme to enhance its range of products and allied parts to meet the future needs of the ever evolving market. NRB aims to be a global player in mobility business by providing multiple solutions for customer requirements. It is looking to foray into railway, defence and aerospace related mobility solutions. The company has been increasing its R&D spend, the benefit of which is likely to be seen in the coming years.

NRB has been operating in India for over 6 decades. It has over time built strong technical expertise and knowhow covering the full range of bearing design, from conception to software aided simulation, testing, validation, benchmarking and production. NRB's product range spans over 3000+ designs, which are also made to suit its customer's requirements. In FY2000, NRB established a dedicated engineering & design (E&D) centre, which is recognized by the Indian Department of Science & Technology as a world-class research and development facility. This is a standalone facility in Turbhe; while there is another centre at its plant at Waluj MIDC that focusses on process engineering. Besides, its plants use automated production and assembly machinery designed in-house, reflecting the strong technical capabilities of its team.



R&D expenses have been on a rising trend



(Source: Company, HDFC sec)

What could go wrong?

Vulnerable to cyclicity in demand from automobile OEMs

High dependence of bearing manufacturers on the automobile sector, exposes NRB to cyclicity in demand. In addition, given the capital and technology intensive nature of operations, bearing manufacturers enjoy adequate pricing flexibility with their OEM customers. However, price negotiations happen with a lag, leading to price adjustment delays and consequent impact on profitability in the interim.

Export sales are to a large extent dependent on Truck sales trend in America and PV sales trend in the Europe.

Working capital-intensive operations

Large number of SKUs and just in time delivery to OEMs has kept the inventory days higher for the company. Also payment terms from the debtors vary from two to three months, resulting in receivable levels of ~100-110 days.



Rapid adoption of EVs could reduce bearings requirement

EVs tend to have lesser moving parts thereby reducing the need for bearings. Rapid adoption of EVs could significantly dent the demand for company's products. However, it could take a long time before necessary ecosystem and infrastructure are available for commercial success of electric vehicles. Also, in EVs, fewer bearings may be required but they are of higher complexity and hence of high value.

All rotating components of automobile systems require bearings to do its functions appropriately. Bearings improve the performance of the automobiles by supporting heavy loads and reducing friction. Major automobile sub-systems where bearings are implemented are internal combustion engines, transmissions, wheels, steering, pumps, and other electrical systems. Modern vehicle bearings are far refined and technologically superior compared to traditional automobiles bearings. Bearing technology research focusses on areas like reliability improvement, power-dense solutions, integrated functions, friction optimization, sealing/lubrication solutions, adoption of sensors, and also special application-specific eMotors bearings.

Full battery-electric vehicle powertrains are simpler in construction and having lesser rotating components. Battery electric vehicle powertrains are also having multiple configurations like traction motor + transmission, independent in-wheel motors for each wheel, etc. All these modern powertrain configurations uses multiple types of bearings in the powertrain including deep groove ball bearings, needle roller bearings, special ceramic rolling element bearings with many other features to provide intended functions in the vehicles. Bearings are used with multiple other integrated functions like signal transmitting device on the motor, rotor positioning sensing bearings, etc. Maintenance-free silent operation is one of the critical technical requirements for the bearing, technical specifications and performance requirements of bearings are demanding.

In the case of ICE, the engine noise suppresses some of the bearing noise, however, in modern automobiles bearings, noise is one of the major concerns. It is expected bearings with lower noise are implemented in the transmission system in EVs. In modern automobiles, the wheel bearings are equipped with sensors that send rotational speed signals to driver assistance systems like ABS, ESP, etc.

Hence EVs may not reduce the demand for bearings in a big way. Value wise the supply of bearings may be equivalent to those in ICE engines (though numbers may be lower). Research driven companies like NRB may be quick to adapt and manufacture bearings required by EVs. NRB already has a prototype ready and has patent for a product that will significantly reduce weight of bearings.



Threat from spurious / counterfeit products

Spurious / Counterfeit products continue to attract price sensitive Replacement Market which accounts for 25-30% of total demand of bearing industry. These supplies, being of inferior quality, are unsafe in use and pose a risk to people, industry and to the economy by way of unexpected downtime and safety hazards.

Continuous investment in R&D

Regulatory demands on emission levels and improved safety norms would require regular investments in R & D, new technology and even new production facilities to meet these requirements.

Raw material price volatility

Contracts with OEMs do not have mechanism of automatic 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.

Forex risk may impact financial performance

Exports constitute a significant portion of NRB's business (~26% of revenue in FY21). The company also imports certain raw materials and spares (~7% of total requirement). Apart from this, the Company has Rs ~417mn debt in foreign currency.

About the company

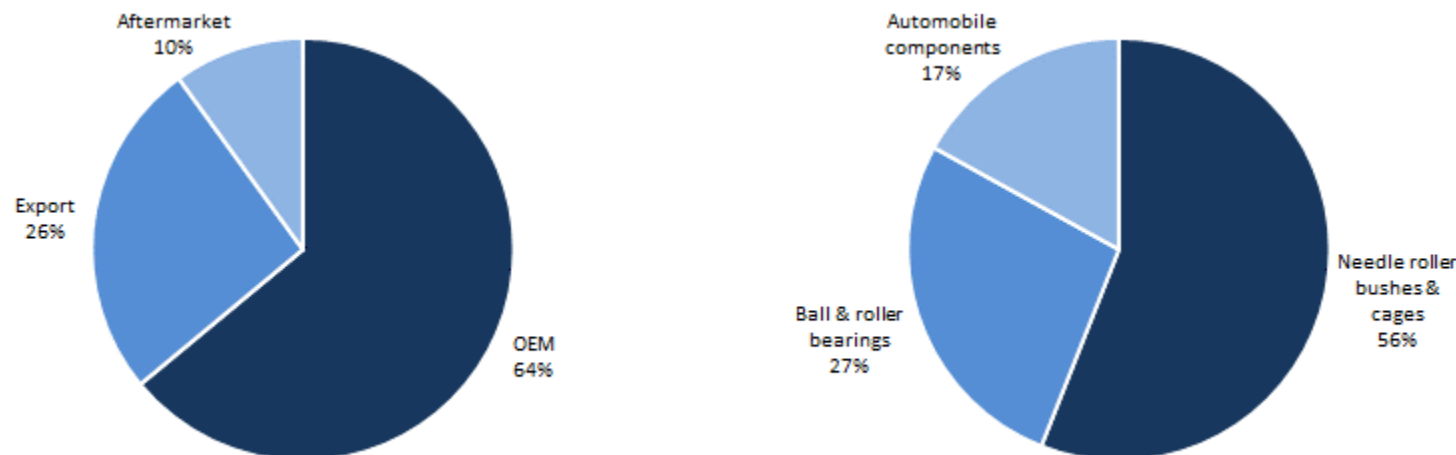
Founded in 1965, NRB was the first company to manufacture needle roller bearings in India. For over 40 years, NRB has pioneered the leading edge of bearing technology. Today most of the vehicles on Indian roads run on NRB parts. Since its inception, NRB has grown beyond its signature product to offer a wide range of high-precision friction solutions not only in the automotive sector, but across all mobility applications. NRB has plants in Thane, Aurangabad (2 plants), Jalna, Waluj, Hyderabad and Pantnagar.

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. It has two Government accredited R&D centers that focus on quality engineering and disruptive technologies which will drive future growth.

In FY21, 56% of its sales were of Needle roller Bushes and Cages, 27% were from Ball and Roller bearings and 17% were from Automobile components.



Sales breakup (FY21)



(Source: Company, HDFC sec)

As of FY21, NRB had four subsidiaries viz. SNL Bearings Ltd, NRB Bearings (Thailand) Ltd, NRB Bearings Europe GmbH and NRB Bearings, USA Inc.

SNL Bearings Ltd (SNL), in which NRB holds 73.45% equity, reported PAT of Rs 6.2cr (previous year Rs 4.2cr), an increase of 49%. Net sales increased by ~7% to Rs 36cr. SNL is working on projects to improve its financial results in FY22 by enhancing operational efficiencies and scaling up manufacturing capacities.

NRB Bearings (Thailand) Ltd (NRBT), a wholly owned subsidiary, has increased its sales by 4% to THB 21cr (~Rs 50cr) in FY21 (previous year THB Rs 20cr – ~Rs 46cr). The Company's EBITDA has grown ~30% to THB 3.8cr (Rs 9cr). PAT jumped 248% yoy to THB 1.6cr (~Rs 4cr).

NRB Bearings Europe GmbH, a wholly owned subsidiary was set up to support increasing exports to Europe. The Company provides marketing and customer support services. The income during FY21 is € 500,581 (~Rs 4cr) and PAT is € 18,460 (~Rs 0.2cr).

NRB Bearings USA Inc., a wholly owned subsidiary was set up to support increasing exports to North America. The Company provides marketing and customer support services. The income during the year is USD 497,332 (Rs 4cr) and the resultant profit after tax is USD 29,635 (~Rs 0.2cr).



Peer Comparison

(Rs cr)	Mcap	Sales			EBITDA Margin (%)			PAT			RoE (%)			P/E (x)			P/B (x)		
		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
NRB Bearings	1283	762	839	964	13.6	14.7	15.7	54	66	90	11.1	12.2	14.9	23.8	19.3	14.2	2.5	2.3	2.0
Schaeffler India	23533	3762	5253	5957	14.3	16.5	17.0	291	541	632	9.5	16.2	16.7	80.9	43.5	37.2	7.5	6.6	5.9
SKF India	15644	2671	3233	3739	15.7	16.5	17.0	298	385	465	17.2	22.1	22.5	52.6	40.6	33.7	10.0	8.5	7.1
Timken India	12724	1411	1864	2267	18.0	19.9	21.7	143	231	321	9.8	15.8	19.3	88.9	55.0	39.7	9.5	8.2	7.3

(Source: HDFC sec, Bloomberg)

Financials – Consolidated

Income Statement

(Rs cr)	FY19	FY20	FY21	FY22E	FY23E
Net Revenues	965	776	762	839	964
Growth (%)	12.8	-19.6	-1.7	10.0	15.0
Operating Expenses	780	690	659	715	813
EBITDA	185	86	104	123	151
Growth (%)	10.0	-53.7	21.1	18.7	22.8
EBITDA Margin (%)	19.2	11.1	13.6	14.7	15.7
Depreciation	35	33	31	31	32
Other Income	6	16	15	13	14
EBIT	155	69	88	105	134
Interest expenses	15	22	22	15	12
PBT	157	47	66	90	122
Tax	47	14	11	23	31
PAT	110	33	56	67	91
Share of Asso./Minority Int.	-2	-1	-2	-1	-1
Adj. PAT	108	32	54	66	90
Growth (%)	19.3	-70.4	68.6	22.3	36.4
EPS	11.2	3.3	5.6	6.8	9.3

Balance Sheet

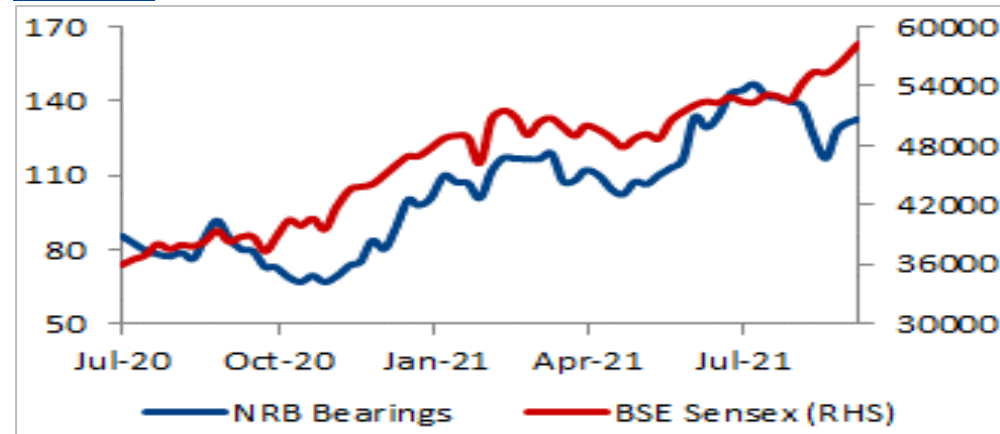
As at March (Rs cr)	FY19	FY20	FY21	FY22E	FY23E
SOURCE OF FUNDS					
Share Capital	19	19	19	19	19
Reserves	451	438	498	550	619
Shareholders' Funds	471	457	518	569	638
Minority Interest	9	10	11	12	13
Borrowings	260	318	220	165	135
Net Deferred Taxes	12	15	16	16	16
Total Source of Funds	752	800	765	763	803
APPLICATION OF FUNDS					
Net Block & Goodwill	322	364	359	367	369
CWIP	15	16	10	12	13
Investments	13	12	12	12	12
Other Non-Curr. Assets	45	47	51	56	65
Total Non-Current Assets	395	439	433	447	458
Inventories	268	227	203	216	238
Trade Receivables	215	200	209	211	252
Cash & Equivalents	31	78	76	44	43
Other Current Assets	39	39	36	38	43
Total Current Assets	553	544	524	509	575
Trade Payables	119	84	113	106	123
Other Current Liab & Provisions	77	100	79	87	108
Total Current Liabilities	196	184	191	193	231
Net Current Assets	358	360	333	316	344
Total Application of Funds	752	800	765	763	803



Cash Flow Statement

(Rs cr)	FY19	FY20	FY21	FY22E	FY23E
PBT	157	47	66	90	122
Non-operating & EO items	-2	-1	21	-5	-8
Interest Expenses	15	22	21	15	12
Depreciation	35	33	31	31	32
Working Capital Change	-82	14	32	-15	-30
Tax Paid	-52	-13	-14	-23	-31
OPERATING CASH FLOW (a)	71	102	158	93	97
Capex	-92	-66	-35	-40	-35
Free Cash Flow	-21	37	122	53	62
Investments	1	-1	2	0	0
Non-operating income	2	2	2	0	0
INVESTING CASH FLOW (b)	-89	-65	-31	-40	-35
Debt Issuance / (Repaid)	64	73	-104	-55	-30
Interest Expenses	-15	-22	-23	-15	-12
FCFE	31	89	0	-18	20
Share Capital Issuance	0	0	0	0	0
Dividend	-12	-41	0	-15	-21
FINANCING CASH FLOW (c)	-2	-2	-2	0	0
NET CASH FLOW (a+b+c)	36	9	-129	-85	-63

Price chart



Key Ratios

	FY19	FY20	FY21	FY22E	FY23E
Profitability Ratios (%)					
EBITDA Margin	19.2	11.1	13.6	14.7	15.7
EBIT Margin	16.1	8.8	11.6	12.5	13.9
APAT Margin	11.2	4.1	7.1	7.9	9.3
RoE (excl. Goodwill)	25.5	6.9	11.1	12.2	14.9
RoCE (excl. Goodwill)	24.3	9.1	11.7	14.3	17.8
Solvency Ratio (x)					
Net Debt/EBITDA	1.2	2.8	1.4	1.0	0.6
Net D/E	0.5	0.5	0.3	0.2	0.1
PER SHARE DATA (Rs)					
EPS	11.2	3.3	5.6	6.8	9.3
CEPS	14.8	6.7	8.7	10.0	12.6
BV	48.6	47.2	53.4	58.8	65.9
Dividend	2.6	0.8	0.8	1.5	2.2
Turnover Ratios (days)					
Inventory days	84.8	97.7	97.9	91.3	87.6
Debtor days	80.6	116.4	103.0	91.3	85.9
Creditors days	43.4	47.6	47.0	47.5	43.2
VALUATION (x)					
P/E	12.1	40.8	24.2	19.8	14.5
P/BV	2.8	2.9	2.5	2.3	2.0
EV/EBITDA	8.3	17.9	13.9	11.5	9.2
EV/Revenues	1.6	2.0	1.9	1.7	1.4
Dividend Yield (%)	1.9	0.6	0.6	1.1	1.6

(Source: Company, HDFC sec Research)



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclical of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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Mutual Funds Investments are subject to market risk. Please read the offer and scheme related documents carefully before investing.