Stock Update

NRB Bearings Ltd.

April 24, 2023

RETAILRESEARCH

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NRB Bearings Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 137	Buy in Rs 137-140 band & add on dips in Rs 119-122 band	Rs 152	Rs 163	2-3 quarters

HDFC Scrip Code	NRBBEAEQNR
BSE Code	530367
NSE Code	NRBBEARING
Bloomberg	NRBBR IN
CMP Apr 21, 2023	137.5
Equity Capital (Rs cr)	19.4
Face Value (Rs)	2
Equity Share O/S (cr)	9.7
Market Cap (Rs cr)	1332.2
Book Value (Rs)	67.0
Avg. 52 Wk Volumes	220,700
52 Week High (Rs)	186.0
52 Week Low (Rs)	106.7

Share holding Pattern % (Mar, 2023)	
Promoters	50.1
Institutions	32.8
Non Institutions	17.1
Total	100.0

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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Our Take:

NRB Bearings (NRB) had posted strong growth in FY22 and reported decent numbers so far in 9MFY23 despite the high base of last year. It remains a key beneficiary of the expected revival in volume growth in the automobile segment. The company has a strong product portfolio and is investing to expand its R&D facilities to grow market share as the shift to EVs intensifies. NRB's innovative approach and focus on for high-technology products, consistent quality, performance levels and cost competitiveness makes it an engineering differentiated Company, which enhances its geographical and locational advantage. Exports by the company has been a key growth driver and its share is gradually increasing accounting for 28% in FY22 against 26% in FY21. We believe the revival of demand in Europe and North America could further improve its export market and enhance margins.

The company is focused on developing own technology and has the capacity to expand product range in line with its position in the Friction solutions and precision component space for the world's most advanced E-mobility applications. It plans to have the overseas business largely catering to the EV sector.

On August 16, 2022, we had released a Stock Update note on the company (Link) with a recommendation to 'Buy in Rs 139-142 band & add more on dips to Rs 122-125 band' for base case fair value of Rs 157 and bull case fair value of Rs 168. Both our targets were achieved within the given timeframe.

Valuation & Recommendation:

NRB is gearing up for the 'next normal' as new product lines and industry dynamics get redefined. It is expanding its Thailand facilities on expectations of increased demand from Europe and North American regions. Expansion at Thailand and elsewhere will cost Rs 200cr over the FY23-FY25 period. NRB has been operating in India for over 60 years, and has over time built strong technical expertise covering the full range of bearing design, from conception to software aided simulation, testing, validation, benchmarking and production. The company's product range spans over 3000 designs, which are also made to suit its customer's requirements. NRB has a dedicated engineering & design (E&D) centre Turbhe, which is recognized by the Indian Department of Science & Technology as a world-class R&D facility. We expect NRB's Revenue/EBITDA/PAT to grow at 10/10/11% CAGR over FY22-FY25, led by demand revival, increasing exports, operating leverage and reduction in debt. We believe investors can buy the stock in the band of Rs 137-140 and add on dips to Rs 119-122 band (10.5x FY25E EPS) for a base case fair value of Rs 152 (14.5x FY25E EPS) and bull case fair value of Rs 163 (15.5x FY25E EPS) over the next 2-3 quarters.

Financial Summary

Particulars (Rs cr)	Q3FY23	Q3FY22	YoY (%)	Q2FY23	QoQ (%)	FY22	FY23E	FY24E	FY25E
Revenues	251	231	8.8	258	-2.5	944	1,020	1,122	1,245
EBITDA	34	29	17.5	30	13.2	147	149	171	193
APAT	23	21	9.0	13	82.4	73	81	87	101
Diluted EPS (Rs)	2.4	2.2	9.0	1.3	82.4	7.6	8.4	9.0	10.5
RoE (%)						13.2	13.1	12.7	13.5
P/E (x)						18.2	16.5	15.4	13.2
EV/EBITDA (x)						10.6	10.2	9.2	8.1

(Source: Company, HDFC sec)

Q3FY23 Result Update

NRB reported 8.8% topline growth in Q3FY23 on account of increased levels of business from E-Mobility and commercial vehicles segment. However, on a sequential basis topline de-grew 2.5% to Rs 251cr. EBITDA increased 17.5/13.2% YoY/QoQ to Rs 34cr due to enhanced product mix and high margins for export sales to Europe and North America for high end new platforms including hybrid and E-mobility. Consequently, EBITDA margins expanded 100bps YoY to 13.7%. Adj. PAT grew by 9% YoY to Rs 23cr as tax rate YoY was higher.

Key Triggers

Auto sales to improve going forward

According to Crisil Research, growth across the automobile sector segments could level off in FY24 as the base effect of last fiscal wanes. Commercial vehicle sales are expected to drive past pre-pandemic levels in FY24 along with passenger vehicles, which did so in FY23, and tractors, which recorded an all-time high in pandemic-impacted fiscal 2021. Two-wheelers will continue to lag as the hike in their total cost of ownership (TCO) has been much sharper than for passenger vehicles.

The passenger vehicle sector was the hardest hit in fiscal 2022 due to semiconductor shortages on account of rising semiconductor intensity per vehicle. CRISIL Research expects domestic volumes in FY24 to rise 27-29% on-year to ~3.9 million vehicles, surpassing the pre-pandemic high of 3.4 million vehicles. The volumes would be supported by strong pent-up demand, a healthy order book across original equipment manufacturers (OEMs), improving model availability, new model launches and the loan-to-value (LTV) inching towards near 100% of on-road financing.

CV domestic sales volumes are expected to rise 31-33% on a low base of fiscal 2022 and grow 9-11% on a strong base of fiscal 2023 driven by improving fleet utilisation and transporter profitability levels, higher replacement demand and expectations of robust economic growth.

Implementation of scrappage policy could also help. In 2W space, reopening of educational institutions and offices, increased minimum support prices (MSPs) across crops, coupled with improved model availability and demand for electric vehicles (EVs), are expected to drive two-wheeler sales in FY24.

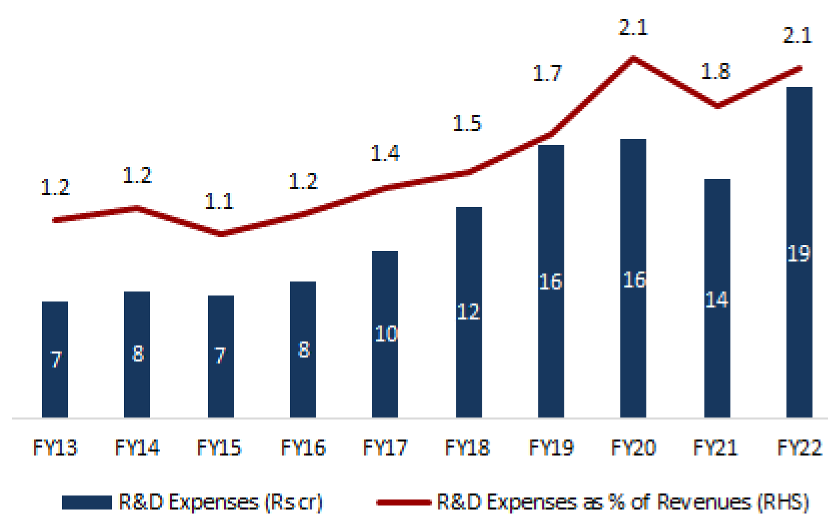
Growing demand and the resultant rise in operating leverage is likely to boost profitability of auto ancillary companies like NRB.

OEMs contributed the most to its revenue (about 60-65%) in fiscal 2022, while aftermarket and export sales contributed the rest. Despite the large proportion of revenue from OEMs, no single customer with its tier-1 supplier accounts for more than 6-7% of the total revenue, thereby limiting customer concentration risk.

Cost saving measures to enhance margins

NRB has undertaken various measures to reduce its manufacturing costs and enhance operational efficiencies. Its spend on R&D has been increasing with focus to make products 'First Time Right', use of 3D printing for faster deployment and process optimization to get precise parts at economical cost.

Higher spending on R&D

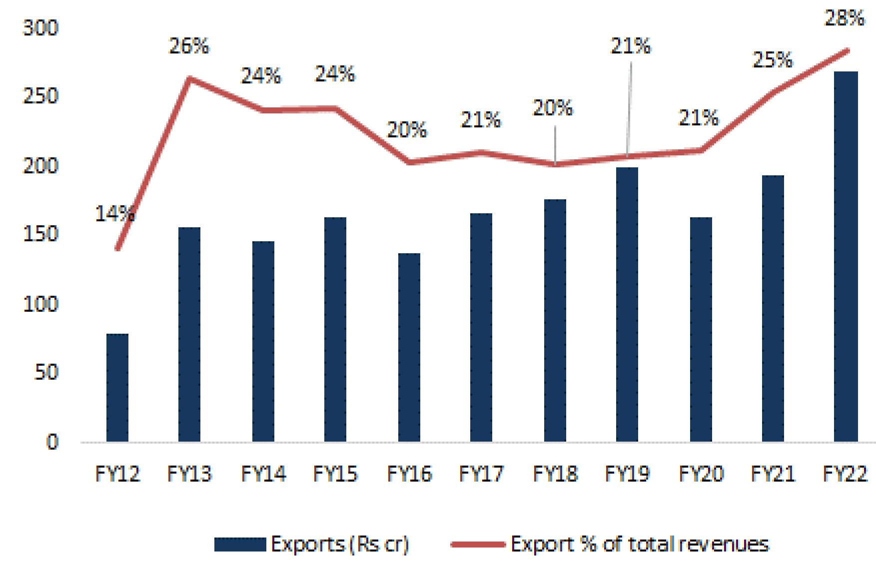


(Source: Company, HDFC sec)

Growing share of export revenue

NRB is present in virtually every light to heavy vehicle - for hybrid and E-Drive in Europe, America and Japan (through NRB Thailand) and Korea (through the Hyundai Group). It has been nominated by the leading players globally in their new electric power trains. As a result, its contribution from exports has been increasing gradually. It could result in margin expansion as exports fetches a higher margin. The share of exports in total revenues stood at 28% in FY22 as compared to 26% in FY21. As per Automobile Component Manufacturers Association (ACMA), automobile component export from India is expected to reach US$ 80 billion by 2026.

Increasing share of exports



(Source: Company, HDFC sec)

Demand across automobile segments is expected to register material improvement in fiscal 2023 over fiscal 2022 resulting in improvement in OEM offtake. NRB is well placed to capitalise on this given its high share of demand from OEMs. NRB's diverse customer profile and geographical base along with technological expertise will support sustenance its business performance over the medium term. Going forward, revenue growth is expected to be supported by increasing focus on E-mobility applications for EV segment, increasing export volumes, healthy order book especially in CV segment and demand recovery in the industry.

Sale of smaller plants could help fund capex and bring debt levels down

Preparing for a leaner and more cost effective manufacturing structure, consequent upon entry of e-vehicles and a gradual shift to manufacturing e-mobility agnostic products, NRB has decided to close or transfer operations at the smaller plants of the Company situated at (I) 2nd Polcluan Road, Majiwade, Thane-400 610, Maharashtra and (2) E-40, MJ,D.C. Industrial Area, Chikalthana, Aurangabad-431 006, Maharashtra. The Board of directors at its meeting held on 22 January 2022 had approved sale/transfer/disposal of land and building of Thane (freehold) and Chikalthana (leasehold}, upon closure of these plants. Therefore, freehold land and building along with the other immovable property, plant and equipment situated at thane plant are classified as "Held for sale" as they meet the criteria laid under Ind AS 105, Company is in process of finalising the plan for closure of operations/transfer/disposal of Chikalthana plant and till such time, all these assets in use, have continued to be disclosed as part of property, plant and equipment.

Risk & Concern

Vulnerable to cyclicality in demand from automobile OEMs

High dependence of NRB on the automobile sector exposes it to cyclicality in demand. 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 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 ~90-100 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. 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

Raw material prices have increased significantly in recent times. 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 (~28% of revenue in FY22). The company also imports certain raw materials and spares (~25-30% of total requirement).

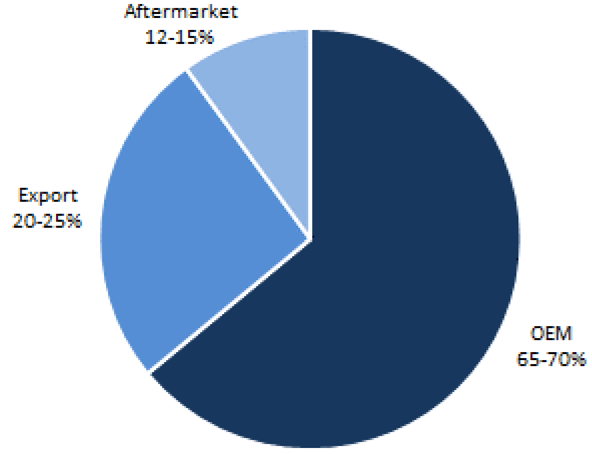
Company Background:

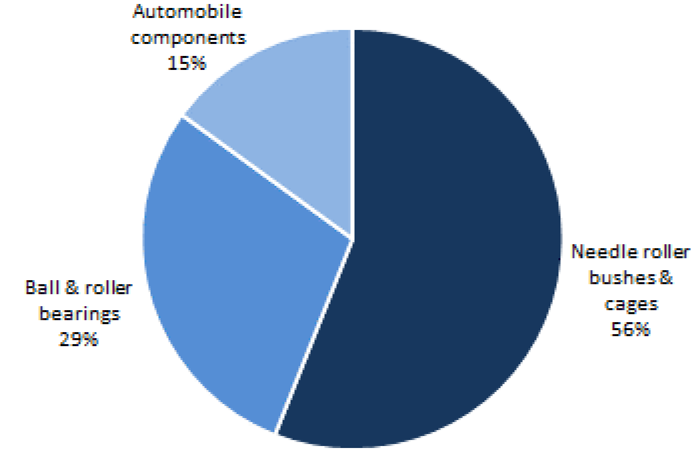
Founded in 1965, NRB was the first company to manufacture needle roller bearings in India. For over 40 years, NRB has pioneered the leading edge of bearing technology. Today most of the vehicles on Indian roads run on NRB parts. Since its inception, NRB has grown beyond its signature product to offer 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 FY22, 56% of its sales were of Needle Roller Bushes and Cages, 29% were from Ball and Roller bearings and 15% were from Automobile components. NRB derives nearly 65-70% of its revenues from domestic automobile original equipment manufacturers (OEMs), while about 12-15% and 20-25% are derived from domestic aftermarket and exports respectively. The Company has an estimated market share of 60% in the needle bearing industry in India, with a strong presence in the cylindrical roller, special tapered roller, and special ball bearings segments. Despite the large proportion of revenue from OEMs, no single customer with its tier-1 supplier accounts for more than 12% of the total revenue, thereby limiting customer concentration risk. The company's product range spans over 3000 designs, which are also made to suit its customer's requirements.

Sales breakup





(Source: Company, HDFC sec)

As of FY22, NRB had five subsidiaries viz. SNL Bearings Ltd, NRB Bearings (Thailand) Ltd, NRB Bearings Europe GmbH, NRB Bearings Inc., USA and NRB Holdings Ltd.

SNL Bearings Ltd (SNL), in which NRB holds 73.45% equity, reported PAT of Rs 8.8cr (previous year Rs 6.2cr), an increase of 42.6%. Net sales increased by 19.3% to Rs 43.5cr. SNL is working on projects to improve its financial results in the coming years by enhancing operational efficiencies and scaling up manufacturing capacities.

NRB Bearings (Thailand) Ltd (NRBT), a wholly owned subsidiary, has increased its sales by 59.44% to THB 33.4cr (~Rs 76cr) in FY22 (previous year THB Rs 21cr – ~Rs 50cr). The Company's EBITDA has grown ~26% to THB 4.8cr (Rs 11cr). PAT jumped 64% yoy to THB 2.6cr (~Rs 6cr).

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 € 0.63mn (~Rs 5.4cr) and PAT is € 19,686 (~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 FY22 is USD 467,333 (Rs 3.5cr) and the resultant profit after tax is USD 16,245 (~Rs 0.1cr).

NRB Holdings Ltd. (NHL), a wholly owned subsidiary, was incorporated in Oct'21, in Dubai, UAE for the growth of the global business.

Peer Comparison

(Rs cr)	Mcap	Sales			EBITDA Margin (%)			PAT			RoE (%)			P/E (x)			P/B (x)		
		FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
NRB Bearings	1332	1020	1122	1245	14.6	15.2	15.5	81	87	101	13.1	12.7	13.5	16.5	15.3	13.1	2.1	1.9	1.7
Schaeffler India	42669	7776	8873	10290	19.4	19.6	19.1	1013	1162	1320	22.0	22.1	22.0	42.2	37.3	32.3	8.7	7.7	6.5
SKF India	20467	4366	5051	5684	18.4	18.9	19.0	559	677	769	26.9	27.3	25.9	36.6	30.2	26.6	8.9	7.3	6.0
Timken India	22398	2716	3183	3670	20.5	23.2	24.0	392	507	617	21.4	22.6	22.6	57.1	44.2	36.3	11.1	9.1	7.4

(Source: HDFC sec, Bloomberg)

Financials

Income Statement

(Rs cr)	FY21	FY22	FY23E	FY24E	FY25E
Net Revenues	**762**	**944**	**1020**	**1122**	**1245**
Growth (%)	***-1.7***	***23.8***	***8.0***	***10.0***	***11.0***
Operating Expenses	659	798	871	951	1052
EBITDA	**104**	**147**	**149**	**171**	**193**
Growth (%)	***21.1***	***41.1***	***1.6***	***14.5***	***13.2***
EBITDA Margin (%)	***13.6***	***15.5***	***14.6***	***15.2***	***15.5***
Depreciation	31	37	41	45	50
Other Income	15	13	25	17	19
EBIT	**88**	**122**	**133**	**142**	**162**
Interest expenses	22	17	17	19	20
PBT	**66**	**102**	**116**	**123**	**142**
Tax	11	26	33	34	38
PAT	**56**	**76**	**83**	**89**	**104**
Share of Asso./Minority Int.	2	2	2	2	2
Adj. PAT	**54**	**73**	**81**	**87**	**101**
Growth (%)	***68.6***	***35.5***	***10.5***	***7.3***	***16.8***
EPS	5.6	7.6	8.4	9.0	10.5

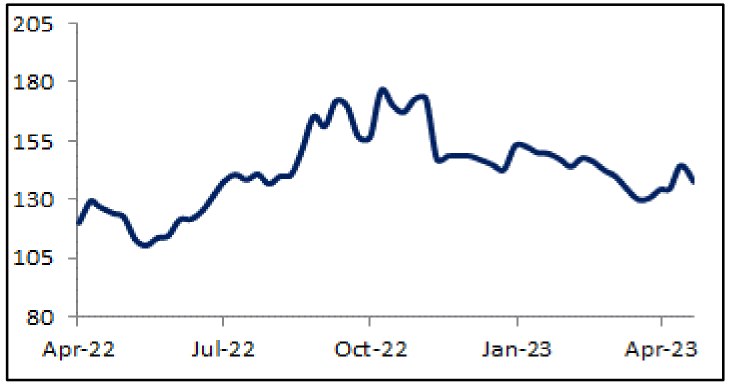
Balance Sheet

As at March (Rs cr)	FY21	FY22	FY23E	FY24E	FY25E
SOURCE OF FUNDS					
Share Capital	19	19	19	19	19
Reserves	498	569	630	695	771
Shareholders' Funds	**518**	**589**	**649**	**714**	**791**
Minority Interest	11	13	15	18	20
Borrowings	220	294	234	274	274
Net Deferred Taxes	16	18	18	18	18
Total Source of Funds	**765**	**914**	**916**	**1024**	**1103**
APPLICATION OF FUNDS					
Net Block & Goodwill	359	358	367	425	481
CWIP	10	11	22	45	13
Investments	12	34	34	34	34
Other Non-Curr. Assets	51	51	61	66	72
Total Non-Current Assets	**433**	**454**	**485**	**570**	**601**
Inventories	203	289	293	313	341
Trade Receivables	209	215	246	278	297
Cash & Equivalents	76	68	37	21	36
Other Current Assets	36	48	45	49	55
Total Current Assets	**524**	**620**	**621**	**661**	**729**
Trade Payables	113	106	126	135	150
Other Current Liab & Provisions	79	55	63	72	77
Total Current Liabilities	**191**	**161**	**189**	**207**	**227**
Net Current Assets	333	459	432	454	502
Total Application of Funds	**765**	**914**	**916**	**1024**	**1103**

Cash Flow Statement

(Rs cr)	FY21	FY22	FY23E	FY24E	FY25E
PBT	66	102	116	123	142
Non-operating & EO items	21	6	-13	-4	-4
Interest Expenses	21	17	17	19	20
Depreciation	31	37	41	45	50
Working Capital Change	32	-120	0	-39	-34
Tax Paid	-14	-26	-33	-34	-38
OPERATING CASH FLOW (a)	**158**	**16**	**128**	**110**	**135**
Capex	-35	-30	-62	-125	-75
Free Cash Flow	122	-14	66	-15	60
Investments	2	-21	0	0	0
Non-operating income	2	0	0	0	0
INVESTING CASH FLOW (b)	**-31**	**-50**	**-62**	**-125**	**-75**
Debt Issuance / (Repaid)	-104	43	-60	40	0
Interest Expenses	-23	-14	-17	-19	-20
FCFE	0	-6	-11	6	40
Share Capital Issuance	0	0	0	0	0
Dividend	0	-3	-20	-22	-25
Others	-2	-4	0	0	0
FINANCING CASH FLOW (c)	**-129**	**22**	**-97**	**-1**	**-45**
NET CASH FLOW (a+b+c)	**-2**	**-13**	**-31**	**-16**	**15**

Price chart



Key Ratios

	FY21	FY22	FY23E	FY24E	FY25E
Profitability Ratios (%)					
EBITDA Margin	13.6	15.5	14.6	15.2	15.5
EBIT Margin	11.6	12.9	13.0	12.7	13.0
APAT Margin	7.1	7.8	7.9	7.7	8.2
RoE	11.1	13.2	13.1	12.7	13.5
RoCE	11.7	15.1	15.1	15.2	15.8
Solvency Ratio (x)					
Net Debt/EBITDA	1.4	1.5	1.3	1.5	1.2
Net D/E	0.3	0.4	0.3	0.4	0.3
PER SHARE DATA (Rs)					
EPS	5.6	7.6	8.4	9.0	10.5
CEPS	8.7	11.4	12.6	13.6	15.6
BV	53.4	60.7	67.0	73.7	81.6
Dividend	0.8	2.0	2.1	2.2	2.6
Turnover Ratios (days)					
Inventory days	98	82	83	85	84
Debtor days	103	95	104	99	96
Creditors days	47	42	41	42	42
VALUATION (x)					
P/E	24.6	18.2	16.5	15.3	13.1
P/BV	2.6	2.3	2.1	1.9	1.7
EV/EBITDA	14.1	10.5	10.2	9.2	8.1
EV/Revenues	1.9	1.6	1.5	1.4	1.2
Dividend Yield (%)	0.6	1.5	1.5	1.6	1.9
Dividend Payout (%)	14.3	26.5	25.0	25.0	25.0

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HDFC Sec Retail Research Rating description

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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 cyclicality 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.

Disclosure:

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