

Stock Update NRB Bearings Ltd.

Nov 30, 2023





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Auto Ancillaries	Rs 268	Buy in Rs 266-272 band & add on dips in Rs 237-242 band	Rs 293	Rs 314	2-3 quarters

HDFC Scrip Code	NRBBEAEQNR
BSE Code	530367
NSE Code	NRBBEARING
Bloomberg	NRBBR IN
CMP Nov 29, 2023	268.4
Equity Capital (Rs cr)	19.4
Face Value (Rs)	2
Equity Share O/S (cr)	9.7
Market Cap (Rs cr)	2600
Book Value (Rs)	69.2
Avg. 52 Wk Volumes	426593.8
52 Week High (Rs)	293.9
52 Week Low (Rs)	125.1

Share holding Pattern % (Sep, 2023)	
Promoters	50.6
Institutions	33.8
Non Institutions	15.6
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 FY23 coming on top of a high base year and has started FY24 with sturdy growth despite disruption caused by a fire at its plant. 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. Exports by the company has been a key growth driver and its share is 23% of sales in FY23. We believe the revival of demand in Europe and North America could further improve its export revenues 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 April 24, 2023, we had released a Stock Update note on the company ([Link](#)) with a recommendation to 'Buy in Rs 137-140 band & add more on dips to Rs 119-122 band' for base case fair value of Rs 152 and bull case fair value of Rs 163. Both our targets were achieved within the given timeframe.

Valuation & Recommendation:

NRB 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. As the industry dynamics and the new product lines get redefined, NRB is preparing to focus on component categories that could contribute more to vehicle costs as these provide higher margins, components which are not likely not be replaced with the advent of electric vehicle (EV) and new products for EV, and expanding its portfolio to serve adjacent industries. NRB is available at a steep discount to MNC bearings companies listed in India and we feel that the discount has scope to narrow over time. We expect NRB's Revenue/EBITDA/PAT to grow at 12/15/20% CAGR over FY23-FY26, led by demand revival, increasing exports, operating leverage and reduction in debt. We believe investors can buy the stock in the band of Rs 266-272 and add on dips to Rs 237-242 band (17.5x FY25E EPS) for a base case fair value of Rs 293 (21.5x FY25E EPS) and bull case fair value of Rs 314 (23x FY25E EPS) over the next 2-3 quarters.



Financial Summary

Particulars (Rs cr)	Q2FY24	Q2FY24	YoY (%)	Q1FY24	QoQ (%)	FY23	FY24E	FY25E	FY26E
Revenues	279	258	8.3	272	2.6	1,057	1,173	1,314	1,472
EBITDA	46	30	49.5	45	0.3	175	198	230	265
APAT	24	13	91.6	19	29.7	101	106	132	161
Diluted EPS (Rs)	2.5	1.3	91.6	1.9	29.7	10.4	11.0	13.7	16.6
RoE (%)						16.0	15.0	16.6	17.7
P/E (x)						25.9	24.5	19.6	16.2
EV/EBITDA (x)						16.2	14.1	12.0	10.3

(Source: Company, HDFC sec)

Q2FY24 Result Update

NRB reported subdued numbers in Q2FY24 with topline increasing by 8.3% YoY to Rs 279cr. On a sequential basis topline grew 2.6%. EBITDA increased 50% YoY to Rs 46cr and EBITDA margin expanded 450bps to 16.3% on account of moderation in raw material inflation. Raw material expenses declined 5% YoY resulting in 530bps expansion in gross margins. Adj. PAT grew by 92% YoY to Rs 24cr due to lower tax rate. Promoter holdings stood at 50.63% in Sep'23 versus 50.24% in Jun'23. No promoter holdings have been pledged.

Key Triggers

Land sale could result in higher payout for shareholders

Property developer Oberoi Realty has entered into an agreement with NRB Bearings to acquire the latter's around 6.4 acre land parcel in Thane's Pokhran Road 2 along with structures thereon. The company, according to industry sources, has paid over Rs 170 crore for the land parcel. The transaction is expected to be completed by Q3FY24.

Order wins in 2W segment

NRB has secured order wins from prominent 2W electric vehicle (EV) manufacturers. This development serves as a significant trigger for the company's future growth prospects. With the expanding market for EVs and the increasing focus on sustainable transportation, NRB Bearings stands to benefit from its association with leading two-wheeler EV manufacturers. These order wins not only signify the company's strong industry reputation but also pave the way for potential revenue growth and market dominance in the EV sector.

Auto sales maintain growth momentum

The Indian automobile industry continues to accelerate at a rapid pace. The strong momentum witnessed in FY23 (highest-ever passenger vehicles sales) has seamlessly transitioned into FY24. The Federation of Automobile Dealers Associations of India (FADA) has released retail



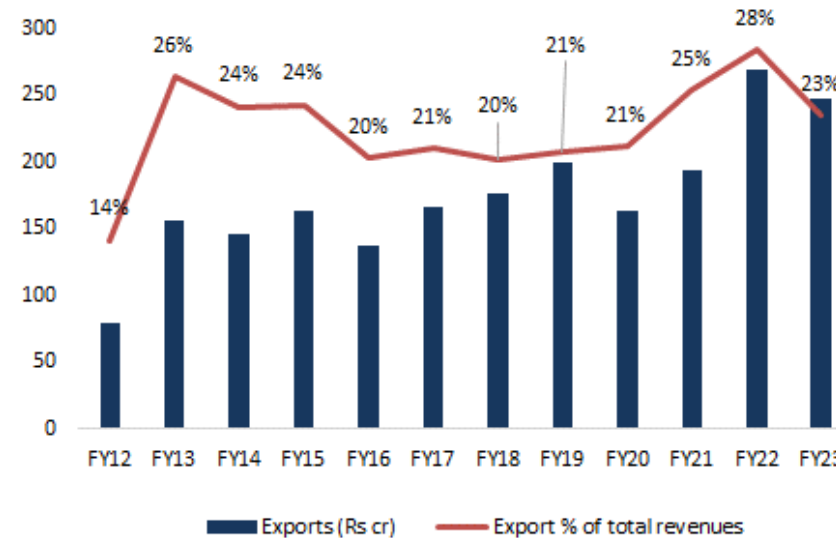
sales data for October 2023. At a combined five sub-segment (two- and three-wheelers, passenger and commercial vehicles, and tractors) total of 21,17,596 units, October numbers are down 7.73% (October 2022: 22,95,099) but are 12.51% up on September 2023's 18,82,071 units and also the best monthly retail sales in the first seven months of the ongoing fiscal year.

Rating agency ICRA expects the automotive sector to register moderate growth over the near to medium term. While the passenger vehicle, commercial vehicle, and tractor segment volumes would continue to trend upwards, aided by favourable demand drivers, the two-wheeler industry is also expected to record moderate growth in volumes aided by a low base.

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 for 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 increased to 28% in FY22 from 20% in FY18. However, it declined to 23% in FY23 mainly due to was slowdown situation in Europe. 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



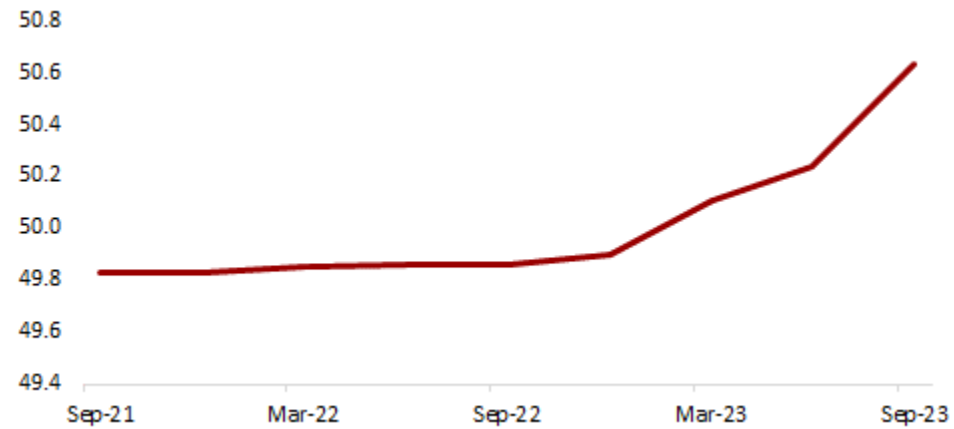
(Source: Company, HDFC sec)



Creeping acquisition by promoters

The promoters have been increasing their stake in the company through creeping acquisition in the last few quarters. Their holding has increased from 49.9% in Dec'22 to 50.6% in Sep'23.

Increasing share of exports



(Source: Company, HDFC sec)

Risks & Concerns

- Vulnerable to cyclical demand from automobile OEMs
- Export sales to a large extent dependent on Truck sales trend in America and PV sales trend in the Europe.
- Working capital-intensive operations
- Rapid adoption of EVs could reduce overall bearings requirements
- Threat from spurious / counterfeit products
- Continuous investment in R&D
- Raw material price volatility
- Forex risk may impact financial performance



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 FY23, 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.

As of FY23, 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 8.2cr (previous year Rs 8.8cr), a decrease of 7.3%. Net sales increased by 10.1% to Rs 47.9cr. SNL is working on projects to improve its financial results in the coming years by enhancing operational efficiencies and scaling up manufacturing capacities.

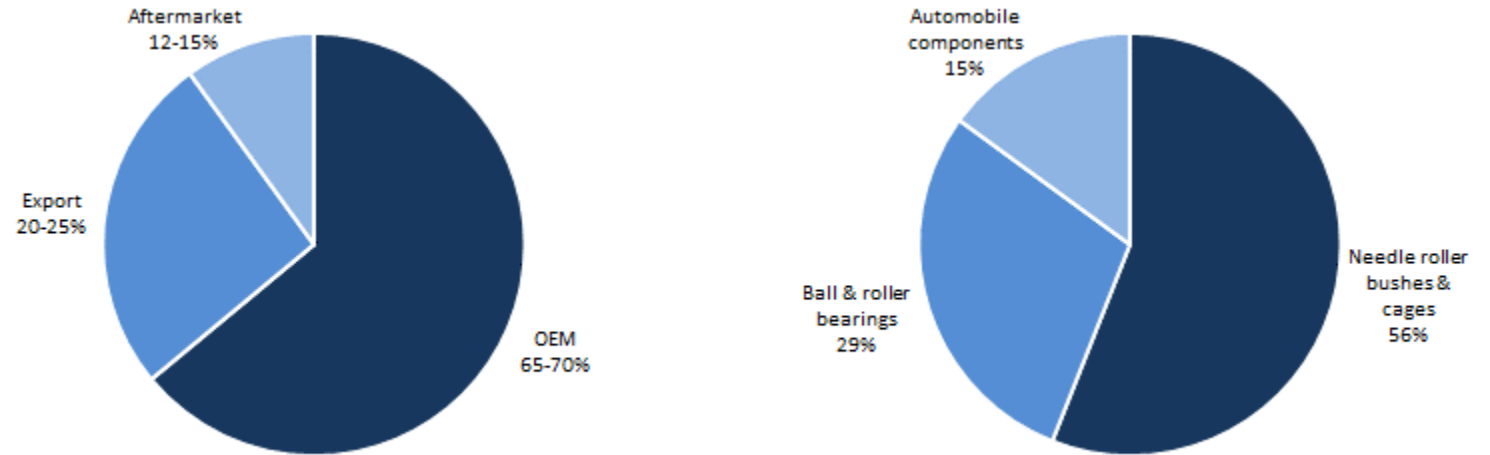
NRB Bearings (Thailand) Ltd (NRBT), a wholly owned subsidiary, has increased its sales by 33% to THB 44.4cr (~Rs 101cr) in FY23 (previous year THB 334cr – ~Rs 76cr). The Company's EBITDA has grown ~52% to THB 73cr (Rs 16.6cr). PAT jumped 58% YoY to THB 4.1cr (~Rs 9.3cr).



NRB Bearings Ltd.

NRB Holdings Ltd. (NHL), a wholly owned subsidiary, was incorporated in Oct'21, in Dubai, UAE for the growth of the global business. NRB Bearings Europe GmbH and NRB Bearings USA Inc. were acquired by NHL. The income during the year is € 4.5mn (Rs 38cr) and \$ 1.8mn (Rs 14cr) respectively and the resultant profit after tax is € 56,353 (Rs 0.4cr) and \$ 50,200 (Rs 0.4cr).

Sales breakup



(Source: Company, HDFC sec)

Peer Comparison

(Rs cr)	Mcap	Sales			EBITDA Margin (%)			PAT			RoE (%)			P/E (x)			P/B (x)		
		FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
NRB Bearings	2601	1057	1173	1314	16.5	16.9	17.5	101	106	132	16.0	15.0	16.6	25.9	24.5	19.6	3.9	3.5	3.1
Schaeffler India	44136	6867	7446	8420	18.8	18.8	19.1	879	950	1082	22.1	21.0	21.1	50.2	45.8	40.4	10.3	9.1	8.1
SKF India	22439	4305	4767	5413	17.4	17.2	17.7	525	604	708	24.8	23.7	23.6	42.7	37.2	31.4	9.6	8.2	6.9
Timken India	22050	2807	3006	3482	20.0	20.2	21.2	391	420	504	21.2	18.8	18.9	56.4	52.5	43.7	10.8	9.1	7.6

(Source: HDFC sec, Bloomberg)



Financials

Income Statement

(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	944	1057	1173	1314	1472
Growth (%)	23.8	12.0	11.0	12.0	12.0
Operating Expenses	798	882	975	1084	1207
EBITDA	147	175	198	230	265
Growth (%)	41.1	19.3	13.5	16.0	15.2
EBITDA Margin (%)	15.5	16.5	16.9	17.5	18.0
Depreciation	37	41	43	46	49
Other Income	13	24	19	21	24
EBIT	122	158	174	205	239
Interest expenses	17	20	26	22	19
PBT	102	128	142	183	220
Tax	26	33	38	48	57
PAT	76	95	105	135	163
Share of Asso./Minority Int.	2	2	2	2	2
Adj. PAT	76	101	106	132	161
Growth (%)	40.9	32.0	5.6	24.7	21.4
EPS	7.9	10.4	11.0	13.7	16.6

Balance Sheet

As at March (Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	19	19	19	19	19
Reserves & Surplus	569	649	728	828	948
Shareholders' Funds	589	668	748	847	967
Minority Interest	13	14	17	19	22
Borrowings	294	322	282	257	232
Net Deferred Taxes	18	13	13	13	13
Total Source of Funds	914	1017	1059	1136	1234
APPLICATION OF FUNDS					
Net Block & Goodwill	358	351	344	413	422
CWIP	11	28	57	17	8
Investments	34	36	36	36	36
Other Non-Curr. Assets	51	52	63	72	81
Total Non-Current Assets	454	468	501	538	548
Inventories	289	369	386	396	444
Trade Receivables	215	223	257	281	315
Cash & Equivalent	68	83	62	74	99
Other Current Assets	48	69	65	72	81
Total Current Assets	620	744	769	824	938
Trade Payables	106	129	141	151	169
Other Current Liab & Provisions	55	66	73	79	86
Total Current Liabilities	161	194	215	230	256
Net Current Assets	459	550	555	594	683
Total Application of Funds	914	1017	1059	1136	1234



Cash Flow Statement

(Rs cr)	FY22	FY23	FY24E	FY25E	FY26E
PBT	102	128	142	183	220
Non-operating & EO items	6	0	-11	-7	-9
Interest Expenses	17	20	26	22	19
Depreciation	37	41	43	46	49
Working Capital Change	-120	-90	-27	-29	-64
Tax Paid	-26	-37	-38	-48	-57
OPERATING CASH FLOW (a)	16	62	136	168	159
Capex	-30	-40	-65	-75	-50
Free Cash Flow	-14	21	71	93	109
Investments	-21	-2	0	0	0
Non-operating income	0	-2	0	0	0
INVESTING CASH FLOW (b)	-50	-44	-65	-75	-50
Debt Issuance / (Repaid)	43	28	-40	-25	-25
Interest Expenses	-14	-20	-26	-22	-19
FCFE	-6	26	5	46	65
Share Capital Issuance	0	0	0	0	0
Dividend	-3	-14	-27	-33	-40
Others	-4	-9	0	0	0
FINANCING CASH FLOW (c)	22	-14	-93	-80	-84
NET CASH FLOW (a+b+c)	-13	3	-21	13	25

Key Ratios

	FY22	FY23	FY24E	FY25E	FY26E
Profitability Ratios (%)					
EBITDA Margin	15.5	16.5	16.9	17.5	18.0
EBIT Margin	12.9	14.9	14.8	15.6	16.2
APAT Margin	8.1	9.5	9.0	10.1	10.9
RoE	13.8	16.0	15.0	16.6	17.7
RoCE	15.1	16.9	17.2	19.2	20.8
Solvency Ratio (x)					
Net Debt/EBITDA	1.5	1.4	1.1	0.8	0.5
Net D/E	0.4	0.4	0.3	0.2	0.1
PER SHARE DATA (Rs)					
EPS	7.9	10.4	11.0	13.7	16.6
CEPS	11.7	14.6	15.4	18.4	21.7
BV	60.7	68.9	77.2	87.4	99.8
Dividend	2.0	5.1	2.7	3.4	4.1
Turnover Ratios (days)					
Inventory days	82	76	75	75	74
Debtor days	95	114	117	109	104
Creditors days	42	41	42	41	40
VALUATION (x)					
P/E	34.1	25.9	24.5	19.6	16.2
P/BV	4.4	3.9	3.5	3.1	2.7
EV/EBITDA	19.2	16.2	14.1	12.0	10.3
EV/Revenues	3.0	2.7	2.4	2.1	1.8
Dividend Yield (%)	0.7	1.9	1.0	1.3	1.5
Dividend Payout (%)	25.4	49.1	25.0	25.0	25.0



Price chart



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. These 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 cyclicity 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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