

Cruising into growth trajectory; Recommend Buy

- NRB Bearings reported outstanding results in Q3FY21 led by recovery in Commercial Vehicle sales and export revenue supported by better realizations (Appreciation of Euro). Revenue grew 34% YoY to Rs 2.5bn with EBITDA margin expansion of 680bps to 17.6% on the back of high operating leverage and cost control measures.
- NRB is the largest manufacturer of needle roller bearings in India, with ~70% market share. With an increased emphasis on weight reduction in vehicles and lower space utilization, applications for needle roller bearings will continue to increase. With the revival of OEM demand, we sense that the worst is behind and forecast strong earnings growth over the next 2-3 years.
- NRB's growth story is premised on (1) Strong volume growth in OEMs (account for ~65-70% of revenue), (2) Revival in exports, led by a recovery in the US and European truck /PV markets (~20-24% of revenue), (3) improvement in Operating margin led by increasing presence in high-margin export business and benefit of operating leverage and (4) Reduction in debt along with fall in interest cost. We expect revenue CAGR at 19% and EBITDA CAGR at 40% over FY21-23E. We value the stock Rs 175 (based on 17x for FY23E EPS).

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 70% of its revenue. NRB caters to almost all the segments in the automobile sector viz. 2W (35%), CV (28%), PV (21%) and farm/off-highway (17%). The company's client portfolio is well-diversified, with the average contribution of any customer not exceeding ~10% of revenue.

Improved export outlook

Export contributes 20-24% of revenue, revenue contribution from PV is 60% and rest is from CV. The company exports to Europe and US to global OEMs like Renault Volvo, VW and Daimler Trucks. The company also supplies to Tier-I clients like ZF and Getrag. (Contd.)

Q3FY21 Result (Rs Mn)

Particulars	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Revenue	2,447	1,831	33.7	1,977	23.8
Total Expense	2,016	1,633	23.5	1,673	20.5
EBITDA	431	198	117.7	304	42.0
Depreciation	90	69	29.9	74	21.8
EBIT	341	129	164.9	230	48.5
Other Income	43	62	(29.6)	7	518.6
Interest	53	58	(9.4)	62	(15.2)
EBT	332	132	151.4	174	90.1
Tax	99	27	270.0	61	63.3
RPAT	233	105	121.3	114	104.4
APAT	233	105	121.3	114	104.4
			(bps)		(bps)
Gross Margin (%)	62.2	61.9	24	61.6	63
EBITDA Margin (%)	17.6	10.8	680	15.4	226
NPM (%)	9.5	5.7	377	5.8	375
Tax Rate (%)	29.8	20.2	955	34.7	(490)
EBIT Margin (%)	13.9	7.0	691	11.6	232

CMP	Rs 112
Target / Upside	Rs 175 / 56%
NIFTY	14,924

Scrip Details

Equity / FV	Rs 194mn / Rs 2
Market Cap	Rs 11bn
	USD 149mn
52-week High/Low	Rs 120/ 48
Avg. Volume (no)	791,913
Bloom Code	NRBBR IN

Price Performance	1M	3M	12M
Absolute (%)	2	61	15
Rel to NIFTY (%)	(2)	40	(9)

Shareholding Pattern

	Jun'20	Sep'20	Dec'20
Promoters	48.8	49.1	49.1
MF/Banks/FIs	20.6	18.9	14.8
FIIIs	19.9	19.3	19.1
Public / Others	10.8	12.8	17.1

Valuation (x)

	FY21E	FY22E	FY23E
P/E	29.7	13.9	10.9
EV/EBITDA	13.9	8.6	6.9
ROE (%)	7.8	15.3	17.4
RoACE (%)	7.4	12.1	13.9

Estimates (Rs mn)

	FY21E	FY22E	FY23E
Revenue	7,243	9,054	10,162
EBITDA	917	1,481	1,754
PAT	365	778	995
EPS (Rs.)	3.8	8.0	10.3

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The outlook has improved in the last three months with a revival in PV and CV sales in Europe and the USA and expect export revenue to recover sharply in FY22E (+25% YoY).

Sharp recovery in margin

High-margin customized products (43% of sales are from needle-roller bearings) and absence of low-margin traded goods makes NRB better placed than its peers. We expect the company to see sharp margin expansion (+460bps over FY21-23E) driven by operating leverage, richer product mix, cost cutting initiatives and better export realization.

Strong FCF generation ahead

The company has already incurred a capex of Rs 1.75bn in past two years mainly towards capacity expansion. The company expects a capex requirement of ~Rs 400 to Rs. 500mn every year over FY21-23E. Consequently, we expect NRB to generate an FCF of ~Rs 700 mn each year over FY21- 23E. The strong FCF is also expected to be a key driver for a reduction in debt-equity. The company is focused on reducing its debt and deleveraging its Balance Sheet.

Exhibit 1: Actual vs DART Estimates

Particulars (Rs mn)	Actual	DART Est	Variance (%)	Comments
Revenue	2,447	2,180	12	Strong revival in CV demand
EBIDTA	431	392	10	Cost saving measures
EBIDTA Margin (%)	17.6	18.0	(38)	
APAT	233	179	30	Higher other income and lower interest cost

Source: DART, Company

Exhibit 2: Change in Estimates

Particulars (Rs Mn)	FY22E			FY23E		
	New	Previous	% Cng	New	Previous	% Cng
Net sales	9,054	8,358	8.3	10,162	9,266	9.7
EBITDA	1,481	1,364	8.6	1,754	1,595	9.9
EBITDA margin(%)	16.4	16.3	4bps	17.3	17.2	4bps
APAT	778	708	9.9	995	893	11.4
EPS	8.0	7.3	9.9	10.3	9.2	11.4

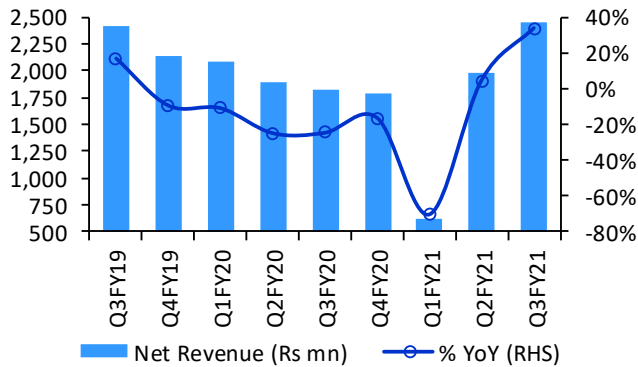
Source: DART, Company

Exhibit 3: Assumption table

Segment	FY18	FY19	FY20	FY21E	FY22E	FY23E
Domestic Revenue	6,695	7,625	6,179	5,826	7,283	8,126
Growth (%)	15.8	13.9	(19.0)	(5.7)	25.0	11.6
Export	1,896	1,984	1,574	1,416	1,771	2,036
Growth (%)	25.0	4.6	(20.7)	(10.0)	25.0	15.0
Total Revenue	8,591	9,609	7,753	7,243	9,054	10,162
Growth (%)	17.7	11.8	(19.3)	(6.6)	25.0	12.2

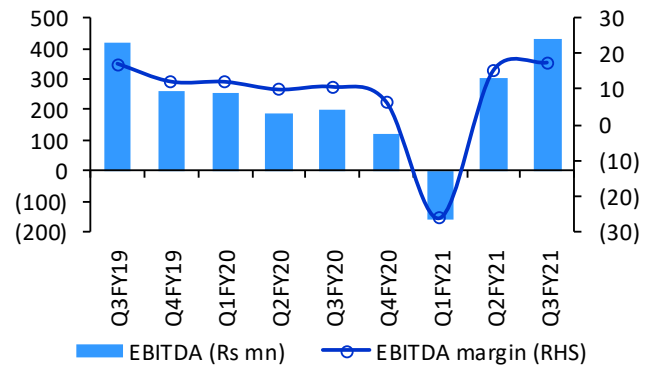
Source: DART, Company

Exhibit 4: Revenue grew 34% YoY



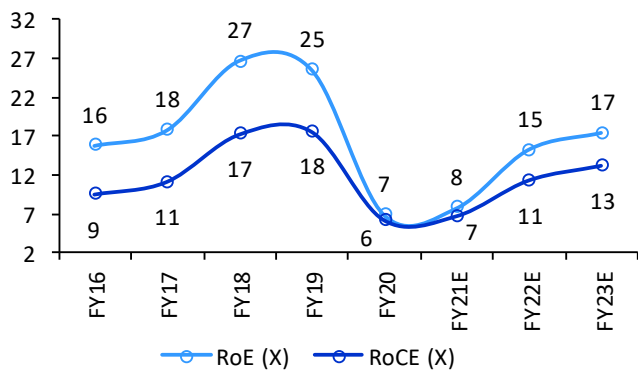
Source: DART, Company

Exhibit 5: EBITDA margin improved YoY/QoQ



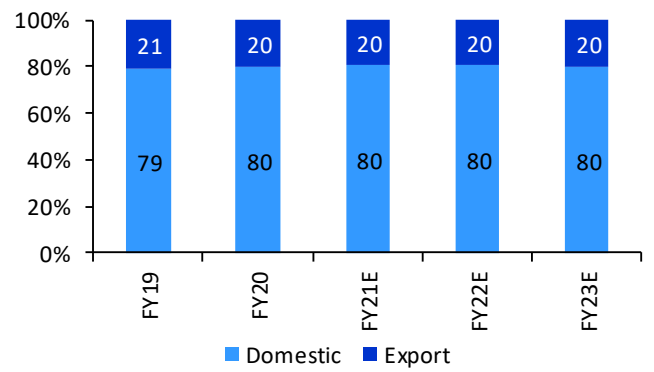
Source: DART, Company

Exhibit 6: RoE & RoCE trend (%)



Source: DART, Company

Exhibit 7: Domestic vs Export revenue trend



Source: DART, Company

Profit and Loss Account

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Revenue	7,760	7,243	9,054	10,162
Total Expense	6,901	6,326	7,573	8,408
COGS	3,052	2,741	3,435	3,856
Employees Cost	1,367	1,340	1,467	1,606
Other expenses	2,483	2,245	2,671	2,947
EBIDTA	858	917	1,481	1,754
Depreciation	333	314	368	384
EBIT	525	602	1,113	1,370
Interest	218	228	205	183
Other Income	161	120	150	165
Exc. / E.O. items	0	0	0	0
EBT	468	495	1,058	1,352
Tax	136	124	270	345
RPAT	322	365	778	995
Minority Interest	10	6	10	12
Profit/Loss share of associates	0	0	0	0
APAT	322	365	778	995

Balance Sheet

(Rs Mn)	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	194	194	194	194
Minority Interest	95	101	112	124
Reserves & Surplus	4,375	4,630	5,175	5,871
Net Worth	4,569	4,824	5,369	6,065
Total Debt	3,185	3,035	2,735	2,435
Net Deferred Tax Liability	152	152	152	152
Total Capital Employed	8,002	8,113	8,368	8,776

Applications of Funds

Net Block	3,639	3,725	3,756	3,772
CWIP	161	261	361	461
Investments	99	110	110	110
Current Assets, Loans & Advances	5,934	5,898	6,395	6,923
Inventories	2,270	2,183	2,480	2,784
Receivables	2,003	1,786	2,232	2,227
Cash and Bank Balances	778	1,139	862	1,092
Loans and Advances	826	732	759	756
Other Current Assets	57	59	61	63
Less: Current Liabilities & Provisions	1,831	1,881	2,254	2,489
Payables	838	953	1,141	1,267
Other Current Liabilities	993	927	1,113	1,222
	<i>sub total</i>			
Net Current Assets	4,104	4,018	4,141	4,433
Total Assets	8,002	8,113	8,368	8,776

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Gross Profit Margin	60.7	62.2	62.1	62.1
EBIDTA Margin	11.1	12.7	16.4	17.3
EBIT Margin	6.8	8.3	12.3	13.5
Tax rate	29.1	25.0	25.5	25.5
Net Profit Margin	4.1	5.0	8.6	9.8
(B) As Percentage of Net Sales (%)				
COGS	39.3	37.8	37.9	37.9
Employee	17.6	18.5	16.2	15.8
Other	32.0	31.0	29.5	29.0
(C) Measure of Financial Status				
Gross Debt / Equity	0.7	0.6	0.5	0.4
Interest Coverage	2.4	2.6	5.4	7.5
Inventory days	107	110	100	100
Debtors days	94	90	90	80
Average Cost of Debt	7.5	7.3	7.1	7.1
Payable days	39	48	46	46
Working Capital days	193	202	167	159
FA T/O	2.1	1.9	2.4	2.7
(D) Measures of Investment				
AEPS (Rs)	3.3	3.8	8.0	10.3
CEPS (Rs)	6.8	7.0	11.8	14.2
DPS (Rs)	1.0	1.1	2.4	3.1
Dividend Payout (%)	29.9	30.0	30.0	30.0
BVPS (Rs)	47.2	49.8	55.4	62.6
RoANW (%)	6.9	7.8	15.3	17.4
RoACE (%)	7.1	7.4	12.1	13.9
RoAIC (%)	7.3	8.5	15.4	18.0
(E) Valuation Ratios				
CMP (Rs)	112	112	112	112
P/E	33.7	29.7	13.9	10.9
Mcap (Rs Mn)	10,838	10,838	10,838	10,838
MCap/ Sales	1.4	1.5	1.2	1.1
EV	13,245	12,735	12,712	12,182
EV/Sales	1.7	1.8	1.4	1.2
EV/EBITDA	15.4	13.9	8.6	6.9
P/BV	2.4	2.2	2.0	1.8
Dividend Yield (%)	0.9	1.0	2.2	2.8
(F) Growth Rate (%)				
Revenue	(19.6)	(6.7)	25.0	12.2
EBITDA	(53.7)	6.8	61.6	18.4
EBIT	(65.0)	14.7	84.8	23.1
PBT	(70.2)	5.6	113.9	27.8
APAT	(70.2)	13.3	113.3	28.0
EPS	(70.2)	13.3	113.3	28.0
Cash Flow				
(Rs Mn)	FY20A	FY21E	FY22E	FY23E
CFO	1,021	1,327	951	1,502
CFI	(651)	(489)	(500)	(500)
CFF	95	(477)	(728)	(771)
FCFF	258	827	451	1,002
Opening Cash	313	778	1,139	862
Closing Cash	778	1,139	862	1,092

E – Estimates

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