

NRB Bearings

3 March 2016

Reuters: NBEA.BO; Bloomberg: NRBBR IN

Near-term Headwinds Likely to Wane Soon

We had a meeting with the management of NRB Bearings (NRB) recently to understand its views on the latest financial performance of the company, strategies to overcome near-term headwinds and business outlook for the next couple of years. The management was candid enough in recognising near-term headwinds and is actively working on a roadmap to come back on the growth path.

Key takeaways are as follows:

Financial performance: NRB reported a weak set of numbers for 3QFY16 and 9MFY16 owing to subdued revenue growth and lower margins. The revenue decline was attributed to postponement of a couple of export orders from Audi and Daimler coupled with lack of forex tailwinds, given the fact that the euro remained flatish in 3QFY16. In domestic market, revenues from farm equipment segment declined YoY by 7% versus a double-digit percentage fall reported by farm equipment industry for 9MFY16. However, revenues from two-wheeler space grew YoY by 1.2% in 9MFY16 for NRB. EBITDA margin compression in 3QFY16 and 9MFY16 was on account of revenue decline along with extra provisioning required to be made towards retirement benefits of employees. This is likely to continue in 4QFY16 as well. Stores and spares consumption increased without a proportionate increase in sales, as the orders got delayed for which production already commenced. Therefore, the company had to account for spares consumption in Profit & Loss account. On the Balance Sheet front, NRB will continue its efforts to replace short-term debt by long-term debt owing to improvement in working capital cycle and thereby reduce interest costs.

Focus on growth in overseas and domestic markets: NRB views the deferment of orders as a routine business phenomenon and is confident of executing these export orders in FY17. However, the company is finding it challenging to mine existing customers, mainly from Germany, given the tough business environment post Volkswagen problem of emission norms in USA. However, the company has received orders from new clients like Mazda, a commercial vehicle (CV) subsidiary of Daimler, Hyundai etc. In domestic market, the company is feeling the heat on account of slowdown in farm equipment segment. However, the company could report less-than-industry decline, mainly on account of business from International Tractors. NRB has started supplying cylindrical bearings to a US assembler which in turn supplies to Indian Railways. NRB, thereby, has opened a new window of opportunity in domestic market. NRB is determined to improve its footprint in after-market segment and has put in place a strategy for it. The company has clarified that it does not want to enter into a price war in after-market segment to grab business.

Outlook and our view: NRB is the largest needle roller bearings player in India and the fifth-largest bearings company with ~7% revenue share in the country's bearings market. NRB is facing near-term headwinds owing to slowdown in the user automotive industry in domestic market and slowdown in exports. We have taken note of the same and cut our revenue and PAT estimates for FY16/FY17/FY18 by 5%/7%/7% and 27%/20%/11%, respectively. We are convinced that the company has taken steps to address demand-related problems which will boost revenue growth and is likely to achieve normal margin level after one-time additional provisioning gets over. We have retained Buy rating on NRB, but revised our target price downwards to Rs133 (Rs167 earlier), valuing the stock at 18x FY18E EPS of Rs7.4.

BUY

Sector: Industrial Goods

CMP: Rs112

Target Price: Rs133

Upside: 19%

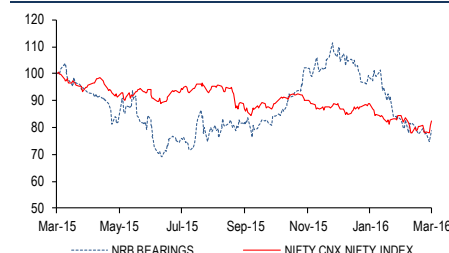
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Key Data

Current Shares O/S (mn)	96.9
Market Cap (Rsbn/US\$m)	10.8/159.9
52 Wk High /Low (Rs)	162/96
Daily Volume (3M NSE Avg.)	53,993

One-Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
NRB Bearings	(3.5)	(3.2)	(21.1)
Nifty Index	(1.2)	(4.5)	(17.7)

Source: Bloomberg

Exhibit 1: Quarterly performance

Y/E March (Rsmn)	3QFY15	2QFY16	3QFY16	Chg. (YoY)%	Chg. (QoQ)%	9MFY15	9MFY16	Chg. (YoY)%
Net sales	1,664	1,681	1,588	(4.6)	(5.5)	4,994	4,868	(2.5)
Raw materials consumed	791	843	775	(2.0)	(8.1)	2,358	2,431	3.1
% of sales	47.5	50.1	48.8	-	-	47.2	49.9	-
Employee costs	248	273	289	16.3	5.9	744	829	11.4
% of sales	14.9	16.2	18.2	-	-	14.9	17.0	-
Other expenditure	321	257	322	0.2	25.3	960	866	(9.8)
% of sales	19.3	15.3	20.3	-	-	19.2	17.8	-
EBITDA	304	308	203	(33.4)	(34.3)	932	743	(20.4)
EBITDA (%)	18.3	18.3	12.8	-	-	18.7	15.3	-
Other income	2	26	4	59.1	(86.4)	28	41	45.5
Exceptional items	-	21	-	-	-	-	21	-
Interest costs	40	34	33	(16.3)	(1.2)	124	100	(18.8)
Depreciation	91	64	65	(29.0)	1.3	264	189	(28.5)
PBT	176	215	108	(38.4)	(49.8)	573	473	(17.4)
Total tax	52	59	30	(42.0)	(48.1)	169	133	(21.1)
Effective tax rate (%)	29.8	27.2	28.1	-	-	29.5	28.1	-
Net profit (+) / loss (-)	123	157	78	(36.9)	(50.4)	404	340	(15.9)
NPM (%)	7.4	9.3	4.9	-	-	8.1	7.0	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 2: Key financials

Y/E March (Rsmn)	FY14	FY15	FY16E	FY17E	FY18E
Revenue	5,945	6,556	6,574	7,242	8,192
YoY (%)	2.6	10.3	0.3	10.2	13.1
EBITDA	1,006	1,148	956	1,147	1,393
EBITDA (%)	16.9	17.5	14.5	15.8	17.0
Adj. PAT	382	521	413	547	718
YoY (%)	(18.8)	36.4	(20.6)	32.5	31.3
FDEPS (Rs)	3.9	5.4	4.3	5.6	7.4
RoE (%)	17.1	20.5	14.6	17.4	20.0
RoIC (%)	10.9	12.7	9.9	12.0	14.3
P/E (x)	28.4	20.8	26.3	19.8	15.1
EV/EBITDA (X)	13.3	11.6	13.6	11.2	9.3

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Actual performance versus our estimates

Y/E March (Rsmn)	3QFY15	2QFY16	3QFY16	Chg. (YoY)%	Chg. (QoQ)%	3QFY16E	Devi (%)	3QFY16BBE	Devi (%)
Revenue	1,664	1,681	1,588	(4.6)	(5.5)	1,839	(13.7)	1,760	(9.8)
EBITDA	304	308	203	(33.4)	(34.3)	333	(39.1)	326	(37.9)
EBITDA (%)	18.3	18.3	12.8	(552bps)	(558bps)	18.1	(533bps)	18.5	(579bps)
Reported PAT	123	157	78	(36.9)	(50.4)	150	(48.2)	160	(51.4)

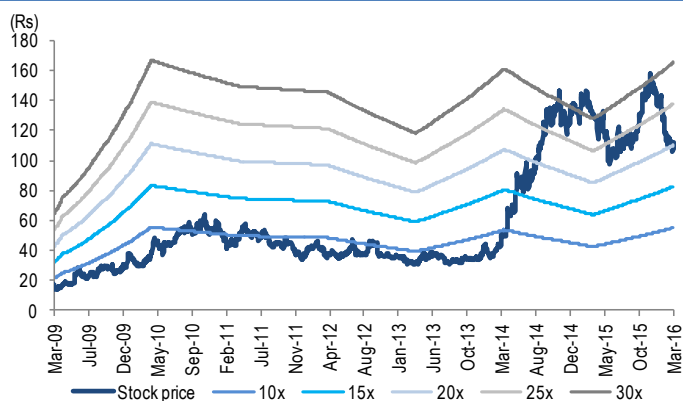
Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 4: Change in our earnings estimates

Y/E March (Rsmn)	Old			New			Variation (%)		
	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E	FY16E	FY17E	FY18E
Revenue	6,904	7,816	8,846	6,574	7,242	8,192	(4.8)	(7.3)	(7.4)
EBITDA	1,208	1,371	1,565	956	1,147	1,393	(20.9)	(16.3)	(11.0)
EBITDA (%)	17.5	17.5	17.7	14.5	15.8	17.0	(300bps)	(180bps)	(70bps)
Reported PAT	565	686	807	413	547	718	(26.9)	(20.2)	(11.0)

Source: Company, Bloomberg, Nirmal Bang Institutional Equities Research

Exhibit 5: P/E trend



Source: NSE, Nirmal Bang Institutional Equities Research

Financials

Exhibit 6: Income statement

Y/E March (Rsmn)	FY14	FY15	FY16E	FY17E	FY18E
Net revenue from	5,822	6,426	6,477	7,125	8,065
Other operating income	123	130	97	117	126
Revenue from operations	5,945	6,556	6,574	7,242	8,192
Other income	46	36	46	37	45
Total revenue	5,991	6,592	6,620	7,278	8,237
Cost of RM consumed	2,351	2,680	2,808	2,987	3,367
Purchase of stock-in-trade	-	-	-	-	-
Change in inventory	72	(6)	(30)	(12)	(10)
Employee benefit expenses	924	1,011	1,123	1,235	1,346
Other expenses	1,592	1,723	1,718	1,885	2,095
Total expenses	4,939	5,408	5,618	6,095	6,799
EBITDA	1,006	1,148	956	1,147	1,393
Depreciation	333	283	255	286	296
EBIT	673	864	701	862	1,097
Financial charges and interest	172	159	135	117	116
PBT (before exceptional items)	547	742	611	782	1,026
Exceptional items	-	-	21	-	-
PBT	547	742	590	782	1,026
Total tax	165	221	177	235	308
Profit after tax	382	521	413	547	718

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Balance sheet

Y/E March (Rsmn)	FY14	FY15	FY16E	FY17E	FY18E
Share capital	194	194	194	194	194
Reserves and surplus	2,173	2,523	2,761	3,133	3,676
Net worth	2,367	2,717	2,955	3,327	3,870
Non-current liabilities	1,115	1,235	1,260	852	883
Deferred tax liabilities (net)	115	111	111	111	111
Long-term borrowings	922	994	1,019	611	642
Other long-term liabilities	32	75	75	75	75
Long-term provisions	47	55	55	55	55
Current liabilities	3,134	3,342	2,899	3,184	3,395
Short-term borrowings	1,645	1,719	1,193	1,414	1,564
Trade payables	767	899	938	982	1,098
Other current liabilities	564	543	583	593	543
Short-term provisions	158	181	185	195	190
Total	6,616	7,293	7,115	7,363	8,148
Total gross block	4,902	5,110	5,433	5,791	6,150
Accumulated depreciation	2,876	2,900	3,155	3,441	3,736
Net fixed assets	2,026	2,210	2,278	2,350	2,413
Capital work in progress	330	16	100	50	50
Non-current Investments	194	193	146	126	180
Long-term loans and advances	293	312	328	335	342
Current assets	3,773	4,562	4,263	4,502	5,163
Current investments	15	3	3	3	3
Inventories	1,315	1,495	1,538	1,619	1,797
Trade receivables	1,911	2,161	2,053	2,321	2,693
Cash and carry equivalents	51	272	36	47	78
Short-term loans and advances	481	631	631	511	591
Other current assets	0	1	1	1	1
Total	6,616	7,293	7,115	7,363	8,148

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Cash flow

Y/E March (Rsmn)	FY14	FY15	FY16E	FY17E	FY18E
EBIT	673	864	701	862	1,097
Exceptional item (-)	-	-	(21)	-	-
(Inc./dec. in working capital	(200)	(448)	148	(165)	(569)
Other income	46	36	46	37	45
Depreciation	333	283	255	286	296
Tax paid (-)	(165)	(221)	(177)	(235)	(308)
Inc/(dec.) in other long-term liability	32	44	-	-	-
(Inc)/dec. In long-term assets (-)	(12)	(19)	(16)	(7)	(7)
Net cash flow from operations	706	539	936	778	555
Capital expenditure (-)	(574)	106	(407)	(308)	(359)
Net cash flow after capex	132	645	529	470	196
(Inc./dec. in investments & non current assets	15	-	48	20	(54)
(Inc)/dec in current investment	5	13	-	-	-
Cash flow from investing activities	(554)	119	(359)	(288)	(413)
Interest paid (-)	(172)	(159)	(135)	(117)	(116)
Dividends paid (-)	(124)	(170)	(175)	(175)	(175)
Inc./dec.) in short-term borrowing	147	74	(526)	221	150
Inc./dec.) in long-term borrowing	18	72	26	(408)	31
Cash flow from financial activities	(130)	(183)	(811)	(479)	(111)
Others	(6)	(255)	-	-	-
Opening cash balance	35	51	272	36	47
Closing cash balance	51	272	36	47	78
Change in cash balance	16	221	(235)	11	31

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Key ratios

Y/E March	FY14	FY15	FY16E	FY17E	FY18E
Per share (Rs)					
EPS	3.9	5.4	4.3	5.6	7.4
CEPS	7.4	8.3	6.9	8.6	10.5
BVPS	24.4	28.0	30.5	34.3	39.9
DPS	1.1	1.5	1.5	1.5	1.5
Dividend payout (%)	27.9	27.9	35.2	26.6	20.2
Valuation (x)					
P/E	28.4	20.8	26.3	19.8	15.1
P/BV	4.6	4.0	3.7	3.3	2.8
EV/EBITDA	13.3	11.6	13.6	11.2	9.3
M-cap/ sales	1.8	1.7	1.7	1.5	1.3
EV/sales	2.2	2.0	2.0	1.8	1.6
Return ratios (%)					
RoANW	17.1	20.5	14.6	17.4	20.0
RoACE	10.8	12.4	9.7	11.9	14.2
RoAIC	10.9	12.7	9.9	12.0	14.3
Margins (%)					
EBITDA margin	16.9	17.5	14.5	15.8	17.0
EBIT margin	11.3	13.2	10.7	11.9	13.4
Tax/PBT	30.2	29.8	30.0	30.0	30.0
Net profit margin	6.4	7.9	6.3	7.6	8.8
Expense ratios (% of revenue)					
Cost of raw materials consumed	40.8	40.8	42.3	41.1	41.0
Traded goods	-	-	-	-	-
Employee benefit expenses	15.5	15.4	17.1	17.1	16.4
Total expenses	83.1	82.5	85.5	84.2	83.0
Turnover and working capital ratios					
Debtor period (days)	117	120	114	117	120
Inventory period (days)	135	145	143	140	138
Creditor period (days)	116	123	123	120	119
Cash conversion cycle (days)	137	142	134	137	139
Fixed asset turnover (x)	1.3	1.3	1.2	1.3	1.4
Non cash net working capital(Rsmn)	588	949	1,327	1,271	1,690
Solvency ratios (x)					
Debt / equity	1.1	1.0	0.7	0.6	0.6
Interest coverage	3.9	5.4	5.2	7.4	9.4

Source: Company, Nirmal Bang Institutional Equities Research

Rating track

Date	Rating	Market price (Rs)	Target price (Rs)
4 January 2016	Buy	140	167
3 March 2016	Buy	112	133

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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