

Recovery to sustain!!!

About the stock: NRB was incorporated in 1965 as an Indo-French venture and pioneered the production of needle and roller bearings in India.

- NRB is India's largest needle and cylindrical roller bearings producer. Today 90% of vehicles on Indian roads run on NRB parts
- Domestic markets contribute ~75% of total revenues while exports contribute the balance ~25%. In domestic markets, company cater to auto industry including 2W, PV, CV
- Company exports its products to approx. 45 countries worldwide including France, Italy, the US, Mexico, Brazil, Thailand, Bangladesh etc

Key Investment Thesis:

- **Domestic and Exports to drive growth:** We believe with strong traction with export clients, we expect markets to deliver 15% YoY growth in FY24 whereas domestic markets are expected to grow by 10% YoY led by recovery in 2-Wheeler and CV segment. Hence, we expect revenues to grow at a CAGR of 11% over FY23-FY25E to ₹1308 crore.
- **Margins improvement to boost PAT CAGR at 24% over FY23-FY25E:** FY23 was a tale of two half wherein H1FY23 saw margins falling to 10% given sharp rise in prices of key input i.e., steel and the lag at which the same was passed on to OEM's. However, in Q4FY23, the price hikes got fully implemented the same reflected in significant improvement in margins which rose to 20.5% in the same period. Going ahead, with no major volatility expected in steel prices, double digit growth in export markets we expect margins to improve to 16.7% and 17.6% in FY24E and FY25E respectively. Double digit topline growth coupled with margin expansion and controlled finance costs will lead to PAT CAGR of 24% over FY23-FY25E

Rating and Target Price

- We believe with a visibility of 24% PAT CAGR over FY23-25E and a controlled leverage, NRB is highly undervalued across the bearings space (other players quoting at 40x-50x on 2 year forward EPS). Even discounting the fact that it has one segment exposure unlike other bearings companies still the stock remains undervalued and we expect a rerating to set in.
- We value NRB at ₹ 270 per share (based on 18x FY25 P/E)



Particulars

Particular	Amount
Market Capitalization	1,980
Total Debt (FY23)	322
Cash and Investments (FY23)	83
EV	2,302
52 week H/L (₹) (BSE)	212/ 115
Equity capital	19.4
Face value (₹)	2.0

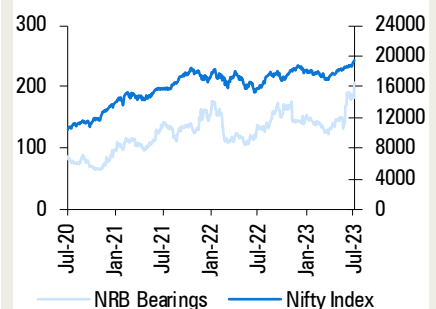
Shareholding Pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	49.9	49.9	49.9	50.1
FII	21.5	21.5	21.3	21.3
DII	11.6	11.6	11.5	11.5
Others	17.0	17.0	17.3	17.1

Risks to our call

- 1) Higher/lower than expected growth in auto sector
- 2) Volatility in Raw material prices could impact margins

Price Performance



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Key Financial Summary

Financials	FY21	FY22	FY23	5 Year CAGR (FY18-23)	FY24E	FY25E	2 Year CAGR (FY23-25E)
Net Sales	762.4	944.2	1,057.2	3.9%	1,175.6	1,307.9	11.2%
EBITDA	85.8	103.9	146.5	-2.7%	196.6	230.8	25.5%
EBITDA Margin (%)							
Net Profit	55.7	75.6	94.9	0.4%	120.5	146.2	24.1%
EPS (₹)	5.6	7.6	9.8		12.4	15.1	
P/E (x)	36.9	27.2	21.0		16.6	13.7	
EV/EBITDA (x)	20.6	15.2	13.0		11.2	9.4	
RoCE (%)	11.8	13.7	15.4		17.3	19.3	

Source: Company, ICICI Direct Research

Company Background

NRB Bearings, founded in 1965, was the first company to manufacture needle roller bearings in India. For over 40 years NRB has pioneered the leading edge of bearing technology, and today over 90% of 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

Domestic markets contribute ~75% of total revenues while exports contribute the balance ~25%. In domestic markets, company cater to auto industry including 2W, PV, CV. Regarding exports, company exports its products to approx. 45 countries worldwide including France, Italy, the US, Mexico, Brazil, Thailand, Bangladesh etc

The Company has four subsidiaries viz. SNL Bearings, NRB Bearings (Thailand), NRB Holdings and NRB Bearings Europe GmbH. NRB Bearings hold 73.45% equity in SNL Bearings while the other three are wholly owned subsidiaries. NRB Bearings, USA Inc. is a wholly owned subsidiary of NRB Holdings and a wholly owned step-down subsidiary of the company

Consolidated revenue of the company has grown by ~11% CAGR over FY20-23 while EBITDA and PAT have grown by ~26% and ~42% CAGR over the same period. During FY23, company reported revenues of ₹ 1057.2 crore which increased by 12% YoY. EBITDA grew by 17.3% YoY to ₹ 171.8 crore while PAT increased by 30% YoY to ₹ 95.2 crore in FY23.

Key managerial personnel of the company include Ms. Harshbeena Zaveri (Vice Chairman & Managing Director), Mr. Satish Rangani (Executive Director), Mr. Ravi Teltia (Chief Financial Officer)

Investment Rationale

Strong leadership position upheld in auto bearings with focus on expanding product portfolio

NRB Bearings has been able to retain its leadership position in auto bearings & components segment led by continued focus on expanding its product portfolio. Company claims that 90% of vehicles on Indian roads are run on NBR parts. Company has been focused on enhancing its range of products and allied parts to meet the present & future needs of the evolving mobility market.

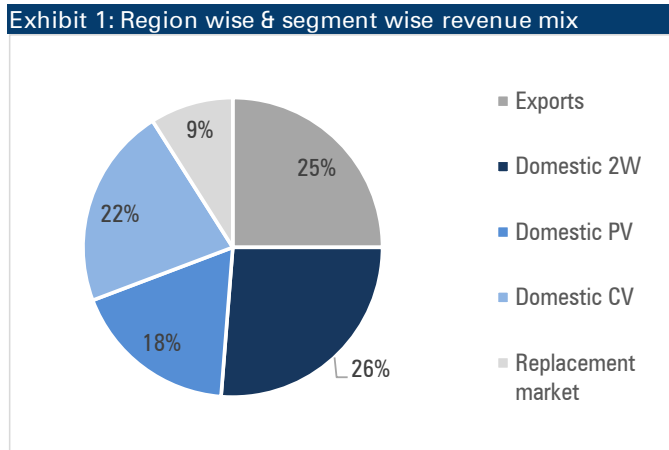
In terms of NRB's revenue mix, ~56% of the revenue is contributed by needle roller bushes & cages where the company is a market leader. Balance ~29% of the revenue is contributed by ball & roller bearings and ~15% from automobile components. There has been sustained focus on maintaining its leadership position in Indian auto space with venturing into more efficient bearing products for Electric Vehicles (EVs) and internal combustion engine vehicles

Diverse market presence continues to drive growth

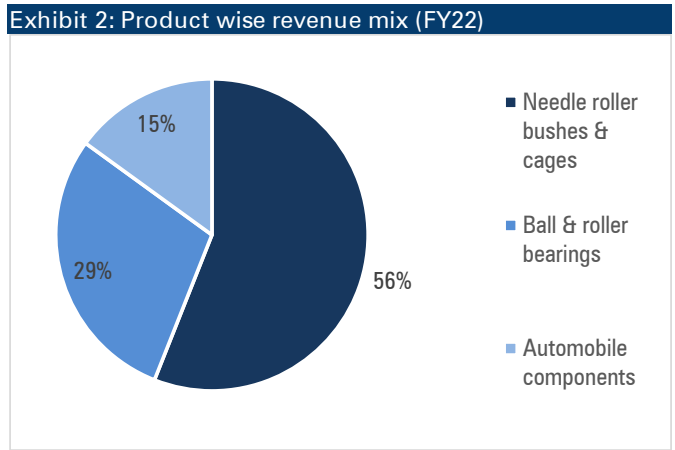
NRB Bearings, which sells 75% in domestic markets and ~25% in foreign markets, has benefited from its diverse market presence. Company exports its products to approx. 45 countries worldwide like United States (US) including Mexico, Brazil etc, European countries like France, Italy etc and Asian countries like Japan, Thailand, Bangladesh etc.

The company has stated that the demand for Indian auto components continues to remain robust in US and European countries despite the economic challenges faced by these nations as the original equipment manufacturers (OEMs) in these regions have been actively adopting strategies to diversify their sourcing away from China and seeking alternate sources of components. North America and Europe has been the key markets for Indian auto component exporters as these two regions comprises over 60% of the total share.

In domestic markets, company is optimistic about improvement in demand led by government measures aimed at the auto component industry including production linked incentive (PLI) schemes and localisation norms



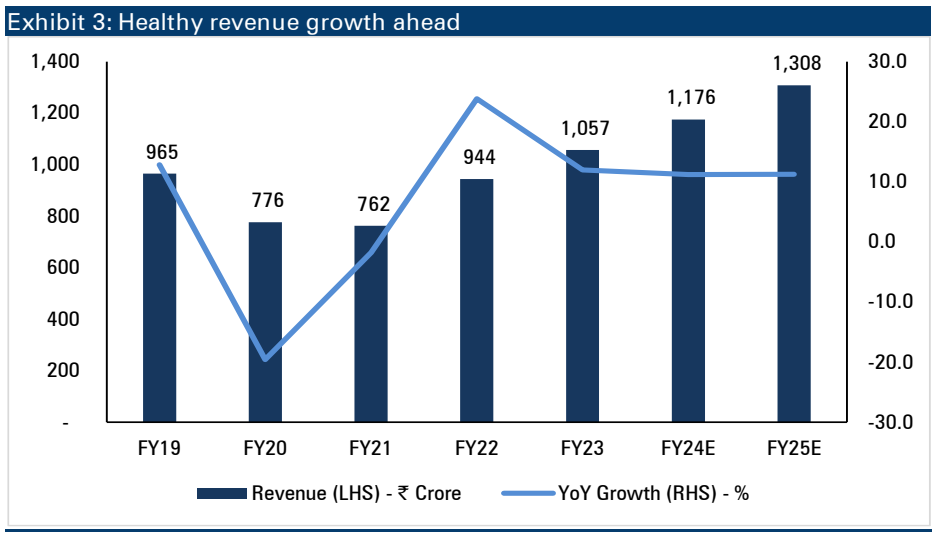
Source: Company, ICICI Direct Research *As of FY23



Source: Company, ICICI Direct Research *As of FY23

Revenue growth expected at ~11% CAGR over FY23-25E

NRB's consolidated topline grew at 10.9% CAGR over FY20-23 the last 5 years seem modest largely due to covid impacted years. FY23 saw NRB's export business declining by 5% YoY to ₹255 crore given volatility in global markets whereas domestic markets were solid given the same grew by 18% YoY on the back of strong performance in segments like CV (27% of domestic sales) and PV (23% of domestic sales). Going ahead, we believe with strong traction with export clients, we expect markets to deliver 15% YoY growth in FY24 whereas domestic markets are expected to grow by 10% YoY led by recovery in 2-Wheeler and CV segment. Hence, we expect revenues to grow at a CAGR of 11% over FY23-FY25E to ₹1308 crore.

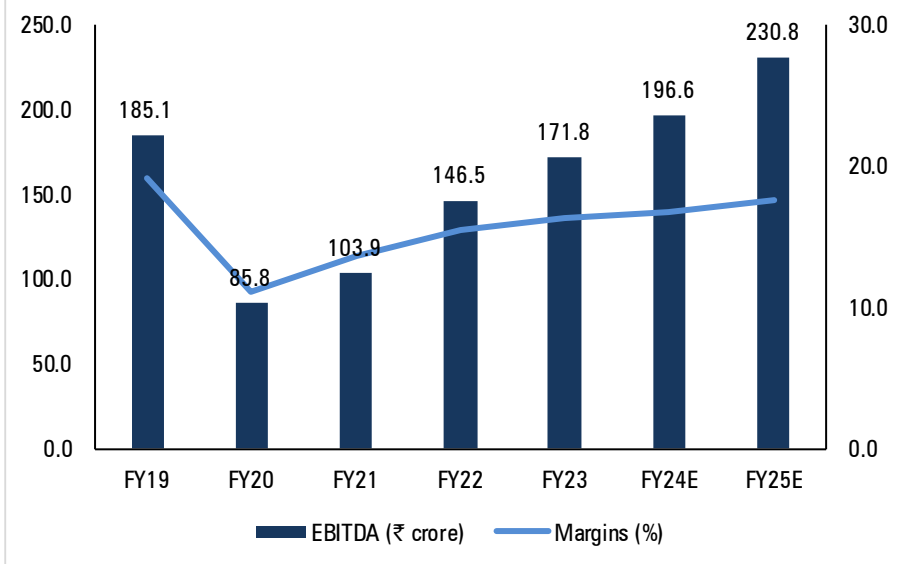


Source: Company, ICICI Direct Research

Margins to improve ahead

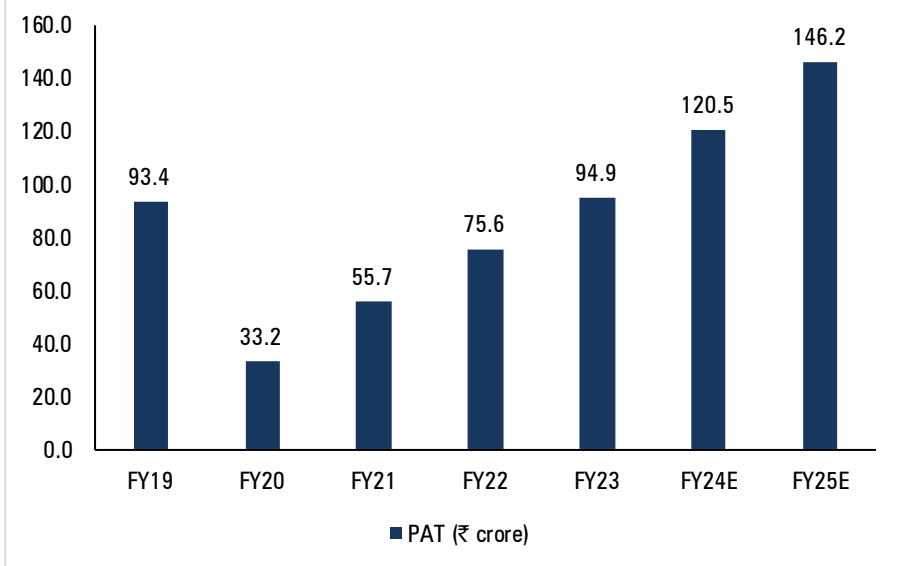
FY23 was a tale of two half wherein H1FY23 saw margins falling to 10% given sharp rise in prices of key input i.e., steel and the lag at which the same was passed on to OEM's. However, in Q4FY23, the price hikes got fully implemented the same reflected in significant improvement in margins which rose to 20.5% in the same period. Going ahead, with no major volatility expected in steel prices, double digit growth in export markets we expect margins to improve to 16.7% and 17.6% in FY24E and FY25E respectively. Double digit topline growth coupled with margin expansion and controlled finance costs will lead to PAT CAGR of 24% over FY23-FY25E.

Exhibit 4: EBITDA & EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 5: PAT trend



Source: Company, ICICI Direct Research

ROCE to improve to 19.3% by FY25E

Strong turnaround in business performance coupled with minor capex in FY24 and FY25E, we expect the ROCE will improve from 15.4% in FY23 to 19.3% FY25E. The company however had chalked a big capex of ₹200 plus for catering to the Hybrid and the EV segment, we believe the management will do it in a more calibrated manner till the time EV penetration picks up steam. On the other hand, the land sale proceeds will also help to cushion for the capex planned or redistribution of the same among shareholders.

Key risk and concerns

Slower growth in automobile sector especially 2-wheeler segment

NRB derives 100% of its revenues from the auto sector and more specially from the 2-wheeler segment (commands 33% of the domestic sales). Given the cyclical nature of the industry any slowdown or lower volume growth can dent the prospects of the company.

Global slowdown can hurt export opportunities

Exports form 25% of the overall top line for NRB, so any durable global slowdown in automobile sales can have an adverse impact on the financial performance of the company.

High volatility in steel prices

Margins of NRB are highly sensitive to movement in the prices of steel, as it is the main raw material. If we see the FY22-HFY23 scenario when steel prices moved up vertically, the company's margin got severely impacted as margins fell to as low as 10% in Q2FY23 given price pass on from OEM's come with a 3-6-month lag.

Financial summary

Exhibit 6: Profit and loss statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Revenue	944.2	1,057.2	1,175.6	1,307.9
% YoY Growth	23.8	12.0	11.2	11.2
Other Income	12.8	23.9	25.0	25.0
Total Revenue	957.0	1,081.0	1,200.6	1,332.9
Cost of materials consumed	376.4	473.7	456.1	503.5
Change in inventories	(30.8)	(65.2)	-	-
Employee cost	155.8	160.0	171.2	183.2
Other Expenses	296.3	316.8	351.7	390.4
Total expenditure	797.7	885.4	979.0	1,077.1
EBITDA	146.5	171.8	196.6	230.8
% YoY Growth	41.1	17.3	14.4	17.4
Interest	16.6	19.6	17.2	14.5
Depreciation	37.2	40.8	42.4	44.7
PBT	101.6	127.6	162.0	196.5
Tax	25.9	32.7	41.5	50.3
PAT	73.3	95.2	120.5	146.2
% YoY Growth	35.5	30.0	26.6	21.3
EPS	7.6	9.8	12.4	15.1

Source: Company, ICICI Direct Research

Exhibit 7: Cash flow statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	73.3	95.2	120.5	146.2
Depreciation	37.2	40.8	42.4	44.7
Interest	16.6	19.6	17.2	14.5
Other income	(12.8)	(23.9)	(25.0)	(25.0)
Prov for Taxation	25.9	32.7	41.5	50.3
Change in Working Capital	(148.7)	(72.7)	(68.7)	(63.8)
Taxes Paid	(24.5)	(37.5)	(41.5)	(50.3)
Cashflow from Operations	(33)	54	86	117
(Purchase)/Sale of Fixed Assets	(37.2)	(51.3)	(31.7)	(35.0)
(Purchase)/Sale of Investments	(3.4)	(7.9)	13.9	(1.0)
Other Income	12.8	23.9	25.0	25.0
Cashflow from Investing	(28)	(35)	7	(11)
Issue/(Repayment of Debt)	69.3	30.7	(40.0)	(40.0)
Changes in Minority Interest	1.9	1.3	-	-
Changes in Networth	(2.4)	(15.8)	(49.4)	(49.4)
Interest	(16.6)	(19.6)	(17.2)	(14.5)
Others	-	-	-	-
Cashflow from Financing	52	(3)	(107)	(104)
Changes in Cash	(8.6)	15.4	(13.0)	1.7
Opening Cash/Cash Equivalent	76.2	67.7	83.1	70.1
Closing Cash/ Cash Equivalent	68	83	70	72

Source: Company, ICICI Direct Research

Exhibit 8: Balance sheet ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Share Capital	19.4	19.4	19.4	19.4
Reserves & Surplus	569.2	648.6	719.7	816.5
Total Shareholders fund	588.6	668.0	739.1	835.9
Minority Interest	13.1	14.4	14.4	14.4
Total debt	291.3	322.1	282.1	242.1
Deferred tax liability (net)	17.8	13.0	13.0	13.0
Total Liabilities	910.8	1,017.4	1,048.5	1,105.3
Gross Block	851.1	881.5	911.5	951.5
Acc: Depreciation	493.8	534.6	577.0	621.7
Net Block	357.3	346.9	334.5	329.7
Capital WIP	7.4	28.3	30.0	25.0
Investments	59.0	66.9	53.0	54.0
Inventory	288.9	369.0	412.3	458.6
Sundry debtors	215.3	222.6	258.6	287.7
Cash	67.7	83.1	70.1	71.8
Loans & Advances	3.7	1.2	1.2	1.3
Other current assets	58.7	83.4	92.7	103.2
CL& Prov.	151.3	188.3	208.2	230.4
Net Current Assets	482.8	571.0	626.7	692.2
Total Assets	910.8	1,017.4	1,048.5	1,105.3

Source: Company, ICICI Direct Research

Exhibit 9: Key ratios

(Year-end March)	FY22	FY23	FY24E	FY25E
Per Share Value				
EPS	7.6	9.8	12.4	15.1
Cash EPS	11.4	14.0	16.8	19.7
BV	60.7	68.9	76.3	86.2
DPS	2.0	5.1	5.1	5.1
Operating Ratios				
EBITDA Margin	15.5	16.3	16.7	17.6
PBT / Net Sales	11.6	12.4	13.1	14.2
PAT Margin	7.8	9.0	10.3	11.2
Inventory days	112	127.4	128.0	128.0
Debtor days	83	76.8	80.3	80.3
Creditor days	54	61.4	55.2	49.6
Return Ratio				
RoE	12.4	14.3	16.3	17.5
RoCE	13.7	15.4	17.3	19.3
RoIC	15.3	17.4	18.8	20.9
Valuation Ratio				
P/E	27.5	21.2	16.7	13.8
EV / EBITDA	15.3	13.1	11.3	9.5
EV / Net Sales	2.4	2.1	1.9	1.7
Market Cap / Sales	2.1	1.9	1.7	1.5
Price to Book Value	3.4	3.0	2.7	2.4
Solvency Ratio				
Debt/EBITDA	2.0	1.9	1.4	1.0
Net Debt / Equity	0.4	0.4	0.3	0.2
Current Ratio	3.4	3.1	3.6	4.0
Quick Ratio	1.4	1.2	1.4	1.5

Source: Company, ICICI Direct Research

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