Research

CRISIL
An S&P Global Company

CRISIL IER

Independent Equity Research

Enhancing investment decisions

NRB Bearings Ltd

Q4FY17 Results Update

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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NRB Bearings Ltd

July 14, 2017

Better growth prospects of the auto industry and entry into new geographies to support growth

Fundamental Grade: 4/5 (Superior fundamentals) **Valuation Grade:** 3/5 (CMP is aligned)

Industry: Auto Components **Fair Value:** ₹135 **CMP:** ₹132

NRB Bearings Ltd's (NRB's) Q4FY17 standalone earnings were above CRISIL Research's expectations. Standalone revenue grew 9.5% y-o-y to ₹1,887 mn, driven by improving auto exports and supported by a diversified revenue stream in the domestic market. EBITDA margin contracted 361 bps y-o-y to 14.3% owing to 69.5% y-o-y rise in other expenses as a result of the company's re-branding exercise and certain one-time expenses. However, PAT increased 8.0% y-o-y to ₹130 mn owing to lower depreciation and finance costs, and higher other income. Going forward, positive outlook on the auto industry, orders from different sectors such as railways and defence, and the company's plans to tap new geographies in the global markets are expected to drive growth. We maintain the fundamental grade of **4/5**.

Recovery in exports volume drove revenue growth

Revenue increased 9.5% y-o-y and 13.9% q-o-q to ₹1,887 mn owing to the uptick in exports along with healthy growth in the domestic market. We expect growth to be supported by: a) upbeat domestic auto markets and gradual revival in the global auto industry, b) NRB's foray into new export markets, and c) growing non-auto customer base, especially in defence, railway and aerospace. Apart from this, as the company has a well-diversified revenue stream – with no client or segment contributing over 12% and 25%, respectively - downturn in a particular client/business segment will not significantly impact NRB's revenue. We estimate revenue CAGR of 11.8% over FY17-19.

EBITDA margin to remain range-bound at 16-16.5% over FY17-19

EBITDA margin expanded 225 bps q-o-q, after the adverse effect of demonetisation in Q3FY17, but contracted 361 bps y-o-y to 14.3% on account of 69.5% y-o-y rise in other expenses as a result of the company's re-branding exercise. In FY18, we expect ~16% margin owing to: a) short-term disruptions caused by the recently implemented GST, b) additional expenses on account of compliance with GST and c) rising commodity (steel and brass) prices. Subsequently, we estimate EBITDA margin to expand 50 bps to 16.5% in FY19 as a result of improved operational efficiency as well as a change in the business mix.

Research and development efforts to strengthen market position

NRB's continuous efforts and investments in R&D to diversify into non-auto sectors have started bearing fruit as the company has received orders from the Indian Railways and is expecting orders in the aerospace and defence segments to pick up too. Further, with the government's impetus on 'Make in India' and many global auto-players setting up facilities in India, we believe NRB is well placed to benefit given its presence across various automobile segments and established relationship with global clients.

Maintain fair value at ₹135 per share

We have raised our estimates for FY18 and FY19 slightly, primarily owing to recovery in the auto industry. However, the impact of revision in estimates on valuation is insignificant. Thus, we retain our DCF-based fair value at ₹135, which implies P/E multiples of 21.7x FY18E and 17.5x FY19E EPS. At the current market price of ₹132, our valuation grade is **3/5**.

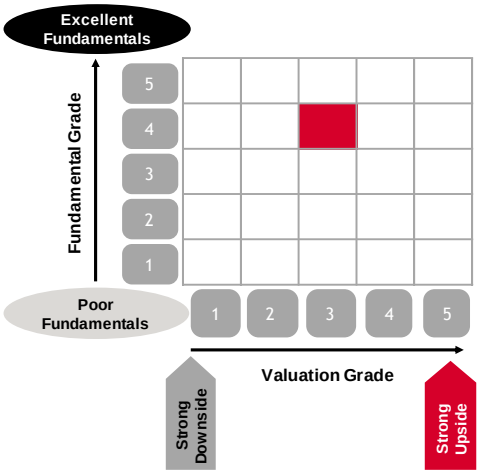
KEY FORECAST (CONSOLIDATED)

(₹ mn)	FY15	FY16	FY17#	FY18E	FY19E
Operating income	6,685	6,726	7,276	8,022	9,087
EBITDA	1,261	1,133	1,193	1,280	1,500
Adj Net income	527	440	541	602	746
Adj EPS-₹	5.4	4.5	5.6	6.2	7.7
EPS growth (%)	58.6	(16.5)	23.0	11.2	23.9
Dividend yield (%)	1.1	1.1	1.1	1.2	1.5
RoCE (%)	16.9	13.8	14.6	15.7	18.4
RoE (%)	22.0	16.3	17.9	17.5	19.0
PE (x)	24.3	29.1	23.6	21.3	17.2
P/BV (x)	5.0	4.5	4.0	3.5	3.1
EV/EBITDA (x)	12.5	13.8	12.9	11.8	10.0

#: Abridged Financials CMP: Current market price;

Source: Company, CRISIL Research estimates

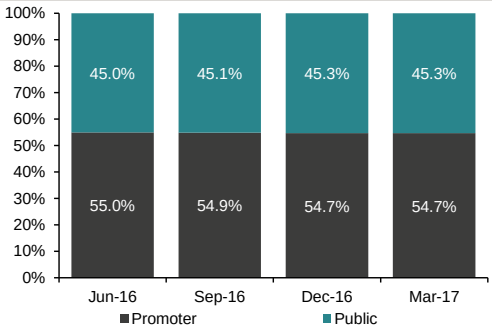
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	9886/32020
NSE/BSE ticker	NRBBEARING
Face value (₹ per share)	2
Shares outstanding (mn)	96.9
Market cap (₹ mn)/(US$ mn)	12,794/199
Enterprise value (₹ mn)/(US$ mn)	15,588/242
52-week range (₹)/(H/L)	142/100
Beta	0.5
Free float (%)	45.3%
Avg daily volumes (30-days)	199,138
Avg daily value (30-days) (₹ mn)	27.9

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
NRB	0%	17%	27%	19%
NIFTY 500	3%	7%	20%	20%

For detailed initiating coverage report please visit: www.crisil.com

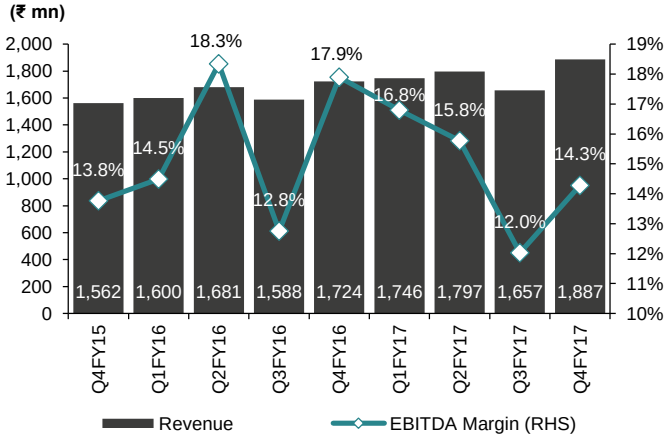
CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

Q4FY17 Results Summary (Standalone)

(₹ mn)	Q4FY17	Q3FY17	Q4FY16	q-o-q (%)	y-o-y (%)	FY17	FY16	y-o-y (%)
Net sales	**1,887**	**1,657**	**1,724**	**13.9**	**9.5**	**7,087**	**6,592**	**7.5**
Raw material cost	944	788	883	19.7	6.9	3,517	3,314	6.1
Raw material as % of sales	*50.0%*	*47.6%*	*51.2%*	*243 bps*	*-120 bps*	*49.6%*	*50.3%*	*-64 bps*
Other expenses	391	356	230	9.6	69.6	1,367	1,096	24.7
Employees Cost	283	313	302	(9.6)	(6.3)	1,158	1,131	2.4
EBITDA	**270**	**199**	**309**	**35.2**	**(12.6)**	**1,046**	**1,051**	**(0.5)**
EBITDA margin	**14.3%**	**12.0%**	**17.9%**	**225 bps**	**-361 bps**	**14.8%**	**15.9%**	**-119 bps**
Depreciation	74	71	103	3.8	(28.2)	293	291	0.4
EBIT	**196**	**128**	**206**	**52.6**	**(4.9)**	**753**	**760**	**(0.9)**
Interest and finance charges	36	41	45	(12.1)	(18.7)	147	145	1.5
Operating PBT	**160**	**87**	**161**	**83.2**	**(1.1)**	**606**	**615**	**(1.4)**
Other Income	13	11	4	16.7	241.0	96	45	115.5
Extraordinary Income/(expense)	-	-	-	NM	NM	-	(21)	NM
PBT	**173**	**99**	**165**	**75.5**	**4.7**	**702**	**638**	**10.0**
Tax	43	22	45	96.4	(4.2)	192	178	7.3
PAT	**130**	**76**	**120**	**69.5**	**8.0**	**511**	**460**	**11.0**
Adj PAT	**130**	**76**	**120**	**69.5**	**8.0**	**511**	**481**	**6.1**
Adj PAT margin	**6.9%**	**4.6%**	**7.0%**	**225 bps**	**-9 bps**	**7.2%**	**7.3%**	**-9 bps**
No of equity shares (mn)	96.9	96.9	96.9	NM	NM	96.9	96.9	NM
Adj EPS (₹)	**1.3**	**0.8**	**1.2**	**69.5**	**8.0**	**5.3**	**5.0**	**6.1**

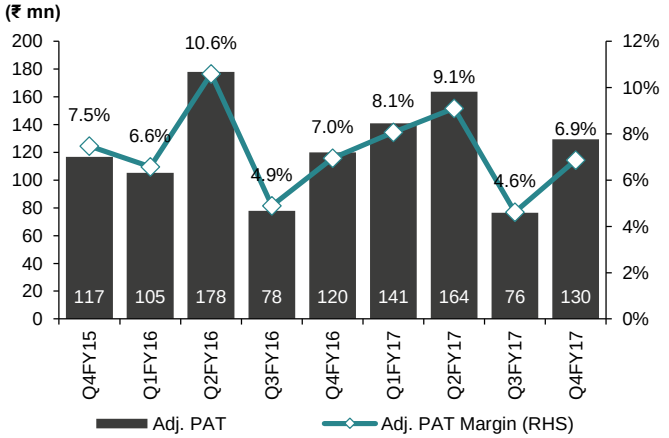
Source: Company, CRISIL Research

Healthy revenue growth and margin expansion…



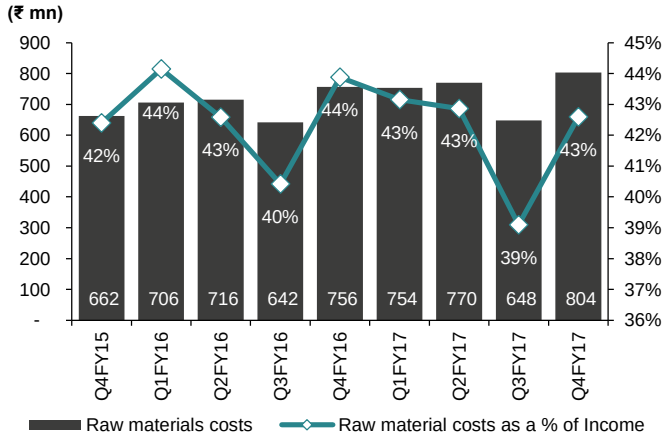
Source: Company, CRISIL Research

… resulted in higher profit



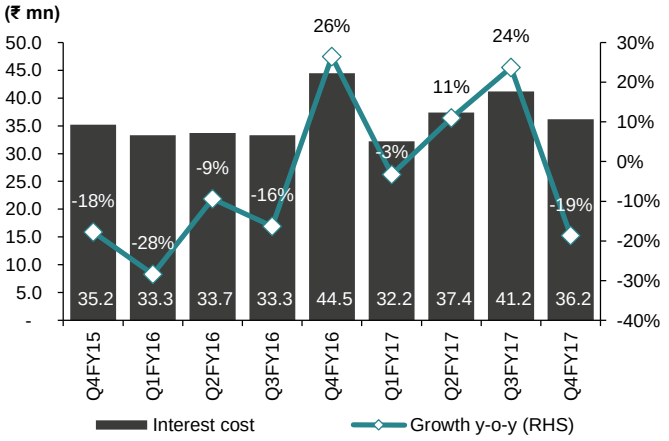
Source: Company, CRISIL Research

Steady raw materials cost as % of income



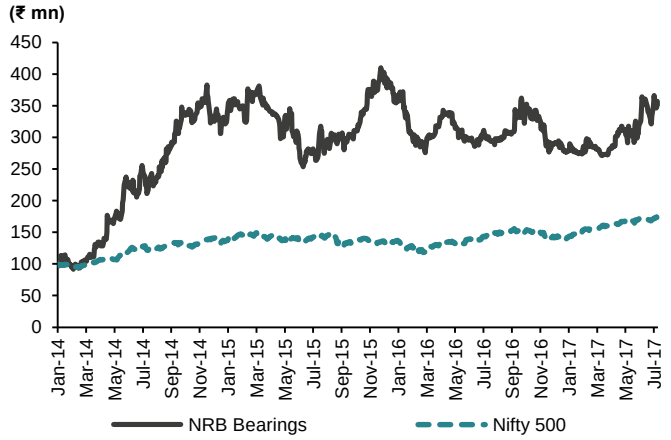
Source: Company, CRISIL Research

Lower interest cost led by reduction in debt



Source: Company, CRISIL Research

Share price movement



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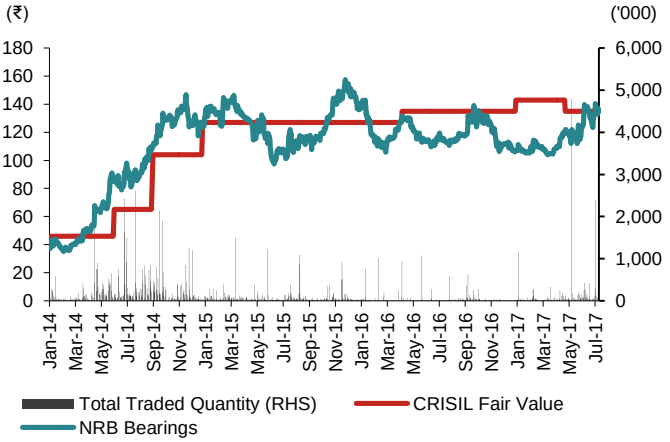
Source: NSE, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

Valuation Grade: 3/5

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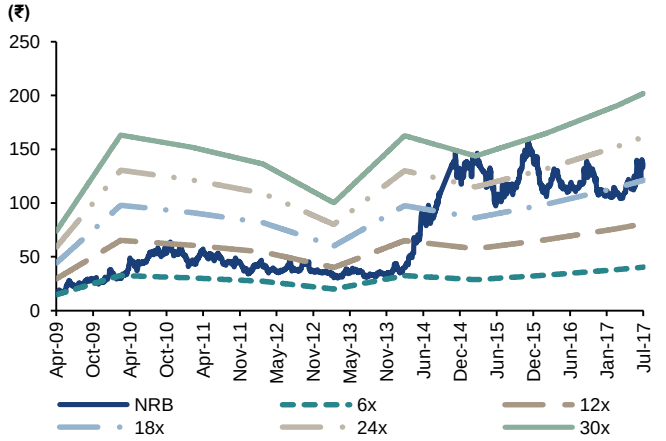
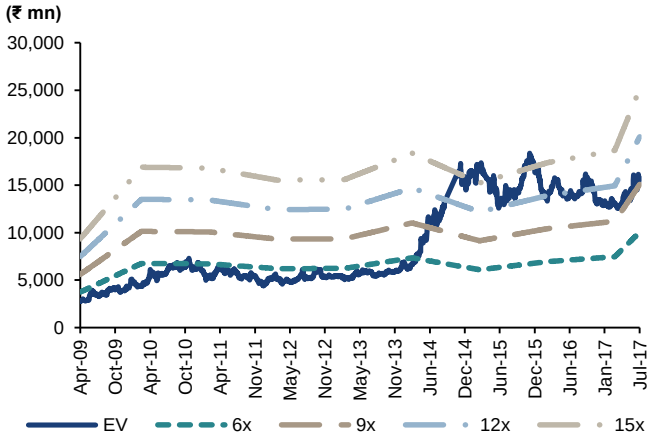
One-year forward P/E band



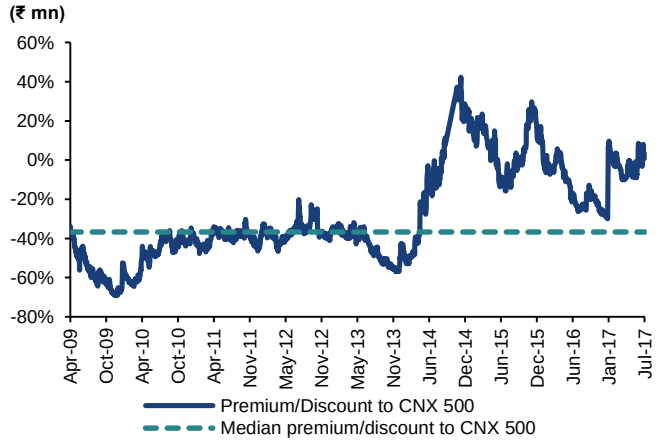
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



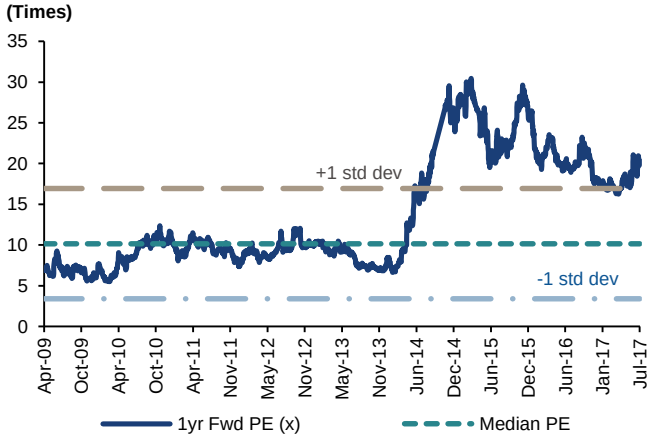
Source: NSE, CRISIL Research

P/E – premium / discount to CNX 500



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

CRISIL IER reports released on NRB Bearings Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
02-Jan-2014	Detailed report	4/5	₹46	5/5	₹36
07-Feb-2014	Q3FY14 result update	4/5	₹46	4/5	₹38
02-Jun-2014	Q4FY14 result update	4/5	₹65	2/5	₹85
01-Sep-2014	Q1FY15 result update	4/5	₹104	3/5	₹110
26-Dec-2014	Q2FY15 result update	4/5	₹127	3/5	₹123
30-Dec-2015	Detailed report	4/5	₹127	3/5	₹138
07-Apr-2016	Q3FY16 result update	4/5	₹135	3/5	₹130
28-Jun-2016	Q4FY16 result update	4/5	₹135	4/5	₹114
21-Sep-2016	Q1FY17 result update	4/5	₹135	3/5	₹131
30-Dec-2016	Detailed report	4/5	₹143	5/5	₹107
25-April-2017	Q3FY17 result update	4/5	₹135	4/5	₹119
14-July-2017	Q4FY17 result update	4/5	₹135	3/5	₹132

Annexure: Financials (Consolidated)

Income statement

(₹ mn)	FY15	FY16	FY17#	FY18E	FY19E
Operating income	**6,685**	**6,726**	**7,276**	**8,022**	**9,087**
EBITDA	**1,261**	**1,133**	**1,193**	**1,280**	**1,500**
EBITDA margin	**18.9%**	**16.8%**	**16.4%**	**16.0%**	**16.5%**
Depreciation	310	319	323	327	344
EBIT	**951**	**813**	**871**	**953**	**1,156**
Interest	194	185	169	141	127
Operating PBT	**757**	**629**	**701**	**812**	**1,029**
Other income	45	26	78	46	35
Exceptional inc/(exp)	(2)	(13)	-	-	-
PBT	**800**	**641**	**780**	**859**	**1,064**
Tax provision	263	210	225	245	303
Minority interest	12	5	14	12	15
PAT (Reported)	**525**	**427**	**541**	**602**	**746**
Less: Exceptionals	(2)	(13)	-	-	-
Adjusted PAT	**527**	**440**	**541**	**602**	**746**

Ratios

	FY15	FY16	FY17#	FY18E	FY19E
Growth					
Operating income (%)	9.7	0.6	8.2	10.3	13.3
EBITDA (%)	17.3	(10.2)	5.3	7.3	17.2
Adj PAT (%)	58.6	(16.5)	23.0	11.2	23.9
Adj EPS (%)	58.6	(16.5)	23.0	11.2	23.9
Profitability					
EBITDA margin (%)	18.9	16.8	16.4	16.0	16.5
Adj PAT Margin (%)	7.9	6.5	7.4	7.5	8.2
RoE (%)	22.0	16.3	17.9	17.5	19.0
RoCE (%)	16.9	13.8	14.6	15.7	18.4
RoIC (%)	14.3	11.7	14.1	13.6	15.1
Valuations					
Price-earnings (x)	24.3	29.1	23.6	21.3	17.2
Price-book (x)	5.0	4.5	4.0	3.5	3.1
EV/EBITDA (x)	12.5	13.8	12.9	11.8	10.0
EV/Sales (x)	2.4	2.3	2.1	1.9	1.7
Dividend payout ratio (%)	27.7	33.5	24.9	25.7	25.7
Dividend yield (%)	1.1	1.1	1.1	1.2	1.5
B/S ratios					
Inventory days	128	107	122	118	115
Creditors days	74	72	74	74	75
Debtor days	109	114	111	108	106
Working capital days	149	151	149	143	137
Gross asset turnover (x)	1.2	1.2	1.2	1.2	1.3
Net asset turnover (x)	2.7	2.6	2.8	3.1	3.5
Sales/operating assets (x)	2.4	2.5	2.7	3.0	3.3
Current ratio (x)	3.3	3.6	3.3	3.1	3.0
Debt-equity (x)	1.3	1.1	0.9	0.7	0.5
Net debt/equity (x)	1.2	1.0	0.8	0.6	0.5
Interest coverage					
EBIT/Interest (x)	4.9	4.4	5.1	6.8	9.1
EBITDA/Interest (x)	6.5	6.1	7.0	9.1	11.8

Per share

	FY15	FY16	FY17#	FY18E	FY19E
Adj EPS (₹)	5.4	4.5	5.6	6.2	7.7
CEPS (₹)	8.6	7.8	8.9	9.6	11.2
Book value (₹)	26.5	29.2	33.3	37.7	43.2
Dividend (₹)	1.5	1.5	1.4	1.6	2.0
Actual o/s shares (mn)	96.9	96.9	96.9	96.9	96.9

Balance Sheet

(₹ mn)	FY15	FY16	FY17#	FY18E	FY19E
Liabilities					
Equity share capital	194	194	194	194	194
Reserves	2,353	2,614	2,993	3,408	3,923
Minorities	24	24	38	50	66
Net worth	**2,571**	**2,832**	**3,225**	**3,653**	**4,182**
Convertible debt	-	-	-	-	-
Other debt	3,273	3,107	2,757	2,482	2,282
Total debt	**3,273**	**3,107**	**2,757**	**2,482**	**2,282**
Deferred tax liability (net)	120	117	117	117	117
Total liabilities	**5,964**	**6,056**	**6,099**	**6,252**	**6,581**
Assets					
Net fixed assets	2,569	2,581	2,562	2,595	2,667
Capital WIP	203	121	106	96	76
Total fixed assets	**2,772**	**2,701**	**2,667**	**2,691**	**2,743**
Investments	**2**	**8**	**8**	8	8
Current assets					
Inventory	1,642	1,447	1,774	1,912	2,116
Sundry debtors	2,120	2,284	2,398	2,537	2,820
Loans and advances	547	579	538	562	582
Cash & bank balance	278	313	186	176	175
Marketable securities	1	1	1	1	1
Total current assets	**4,588**	**4,624**	**4,897**	**5,187**	**5,693**
Total current liabilities	**1,411**	**1,290**	**1,486**	**1,648**	**1,876**
Net current assets	**3,177**	**3,334**	**3,410**	**3,539**	**3,817**
Intangibles/Misc. expenditure	**14**	**14**	**14**	**14**	**14**
Total assets	**5,964**	**6,056**	**6,099**	**6,252**	**6,581**

Cash flow

(₹ mn)	FY15	FY16	FY17#	FY18E	FY19E
Pre-tax profit	802	654	780	859	1,064
Total tax paid	(266)	(212)	(225)	(245)	(303)
Depreciation	310	319	323	327	344
Working capital changes	(334)	(122)	(203)	(139)	(279)
Net cash from operations	**513**	**639**	**674**	**803**	**825**
Cash from investments					
Capital expenditure	(218)	(249)	(289)	(351)	(395)
Investments and others	(0)	(6)	-	-	-
Net cash from investments	**(219)**	**(255)**	**(289)**	**(351)**	**(395)**
Cash from financing					
Equity raised/(repaid)	-	-	-	-	-
Debt raised/(repaid)	111	(166)	(350)	(275)	(200)
Dividend (incl. tax)	(175)	(174)	(162)	(187)	(231)
Others (incl extraordinaries)	(7)	(10)	0	-	-
Net cash from financing	**(72)**	**(350)**	**(512)**	**(462)**	**(431)**
Change in cash position	222	34	(127)	(10)	(1)
Closing cash	278	313	186	176	175

Quarterly financials (Standalone)

(₹ mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
Net Sales	**1,724**	**1,746**	**1,797**	**1,657**	**1,887**
Change (q-o-q)	8.6	1.3	2.9	(7.8)	13.9
EBITDA	**309**	**293**	**283**	**199**	**270**
Change (q-o-q)	52.3	(4.9)	(3.4)	(29.7)	35.2
EBITDA margin	17.9	16.8	15.8	12.0	14.3
PAT	120	141	164	76	130
Adj PAT	**120**	**141**	**164**	**76**	**130**
Change (q-o-q)	54.1	17.6	16.0	(53.3)	69.5
Adj PAT margin	7.0	8.1	9.1	4.6	6.9
Adj EPS	**1.2**	**1.5**	**1.7**	**0.8**	**1.3**

#: Abridged Financials Source: Company, CRISIL Research

CRISIL
An S&P Global Company

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Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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