

Nov 23, 2017

PICK OF THE MONTH

VOL-3, NO-22

**NRB Bearings Limited**

**BUY**

**CMP: Rs. 138**

**TARGET PRICE: Rs. 200**

**TIME : 12 months**

**OVERVIEW: Industry:**

**What are Bearings?**

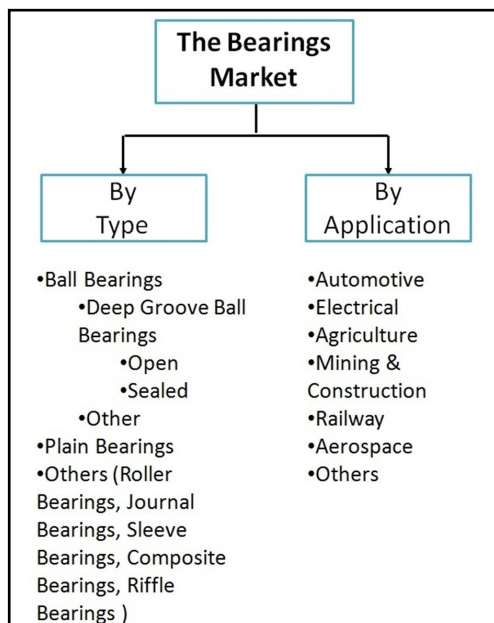
There could be no moving part in a machine which does not require a bearing. Wherever a motion application is used (which implies to nearly all industries using machinery or motor-driven linkages) bearings will be in the picture. Bearings may be defined as components that reduce friction and thus help in enhancing motion between objects. They facilitate efficient operation of the machineries.

Bearings are designed in such a way that they offer certain advantages such as low friction, provide accurate performance under changing load and speed, provide better operating efficiencies, ability to sustain extreme conditions of speed and performance and require simple methods of lubrication.

Many analysts co-relate the growth of the bearings industry to the growth of the automotive and industrial manufacturing business. The growth of the bearing industry is directly proportional to the growth in automotive and industrial sectors. Bearings are necessary and widely used in nearly all automobiles, pumps, gear boxes, heavy earth moving equipment's and many more heavy industries machineries like mining, infrastructure development, construction, agriculture, power generation etc. The unprecedented increase in production of commercial vehicles adds to the demand of the bearings industry.

The requirement arising out of the bearings industry is divided into two segments which either caters to the OEM market or that to the replacement market. The demand for the OEM market arises out of the original vehicle and industrial manufacturers which requires products with high quality and precision, stringent delivery norms and slightly lower margins. The demand for the replacement market arises as a part of after-sale demand which may be due to failures via wear and tear or manufacturing defects.

As per certain research reports, the global market size for bearings which stood at USD78,779mn is estimated to be valued at USD1,40,792mn in 2022 to register a CAGR of 7.5%. Moreover, the increased boost and investments in mining, infrastructure development and construction activities will fuel the growth of the bearings industry. This is the extent to which the demand for bearings can rise. Thus, the same idea renovates the trend that bearing is becoming more than just a bearing.



Source: Company

SNAPSHOT				
52 week H / L	Mcap (INR mn)			
157 / 103	13,375			
Face value: 2				
BSE Code	NSE CODE			
530367	NRBBEARING			
Annual Performance				
(Rs mn)	FY15	FY16	FY17	FY18E
Sales (Net)	6,556	6,592	7,087	7,387
EBITDA	1,148	999	1046	1,082
EBITDA (%)	17.5	15.2	14.8	14.7
Other Income	36	76	96	98
Interest	159	145	147	145
Depreciation	283	291	293	293
PBT	742	638	702	742
PAT	521	460	510	534
Equity	194	194	194	194
EPS (INR)	5	5	5	6
Quarterly Performance				
Parameters (Rs mn)	Dec-16	Mar-17	June-17	Sept-17
Sales (Net)	1,657	1,887	1,792	2,082
EBITDA	199	270	274	383
EBITDA (%)	12	14	15	18
Other Income	11	13	16	36
Interest	41	36	34	36
Depreciation	71	74	72	76
PAT	76	130	127	211
Equity (Rs mn)	194	194	194	194
Ratio Analysis				
Parameters (Rs mn)	FY15	FY16	FY17	FY18E
EV/EBITDA (x)	14.0	15.6	15.3	14.6
EV/Net Sales (x)	2.5	2.4	2.3	2.1
M Cap/Sales (x)	2.1	2.1	1.9	1.8
M Cap/EBITDA (x)	11.9	13.7	13.1	12.6
Debt/Equity (x)	1.0	0.8	0.8	0.7
ROCE (%)	24	20	20	19
Price/Book Value (x)	5.0	4.5	4.1	3.8
P/E (x)	26.2	29.9	27.0	25.6
Share Holding Pattern as on 30th Sept 2017				
Parameters	No of Shares	%		
Promoters	5,25,58,425	54.23		
Institutions	3,34,91,950	34.56		
Public	1,08,72,225	11.22		
TOTAL	9,69,22,600	100		

**OVERVIEW: Industry: (contd.)**

**Bearings worldwide:**

Industrialization in the developing nations and across the globe will further open the horizon for demand in the bearings domain. So we are clearing looking at some of the fastest growing and developing nations of Asia, Latin America and Afro-Mideast markets. Certain changes in reforms and traction of external investments will lead to expansion of the industrial sectors here. While accounting for more than half of total global demand, the demand from the industrial machinery and other applications tend to rule the world bearings markets. If this kind of industrial growth is anticipated; one may see an increase in the requirement for industrial bearings and at the same time an increase in the demand in the bearing after-market business.

Some of the other factors which will significantly contribute towards the growth of the global bearings market may include rise in demand for application-specific bearings, increase in use of bearings in heavy machinery, increase in prices of steel, increase in production of motor vehicles in the emerging nations etc.

While we look at the growth in demand we may also look at some of the factors which can hinder the growth path and reduce the replacement rate including longer life of bearings due to better technology, better maintenance of the vehicles and improved fuel quality. All these factors can lead to slower growth in the demand for aftermarket sales.



Source: Company

**OEM and Replacement Market:**

The demand for OEM arises out from companies which are genuine product manufacturers in automobile, machine and plant manufacturers. It is estimated, OEM market accounts for nearly 40% of the total demand of bearing industry. This demand is directly proportional to the growth in user industry. Optimism in the OEM bearing market arises due to anticipated upswing in automobile industry and manufacturing sector. Replacement demand comes into play when bearings fail due to wear and tear or premature failures. The prices of bearings in the replacement market are slightly higher as compared to OEM market. This market is generally covered by the unorganized players and cheaper bearings importer.

**Bearings in India:**

Automobile production in India is on a constant uptrend and is expected to grow at a robust pace. We are constantly witnessing growth in the segment of passenger cars, two-wheelers and a three wheelers vehicle which is bound provide a boost to the demand for automotive bearings. OEMs and replacement market will further propel growth. To further boost the demand for auto segment, the expanding middle class population, increasing national disposable income with favourable inflationary scenario in India, will also add to automobile sales; thereby indirectly and positively influencing India automotive bearings market. To add to this, the Make in India campaign will act a catalyst. The increased focus on reforms and ramp up in infrastructure via the current government will also boost the bearings market. So the current economic outlook predicts increasing use of bearings. In India, a significant portion of bearings market is unorganized, who cater to the low end replacement market. This will benefit the GST compliant or organised players, if the unorganised players fail to register and comply with GST norms. The automotive bearings market in India is anticipated to grow to USD2.3bn by 2021. This growth will be contributed on account of expanding size of the auto segment and growing demand in the replacement market.

**Bearing the future in mind:**

The future lies in renewable sources of energy. Though this is slightly futuristic, however, the bearings required in wind turbines is one area of growth. The renewable energy market is bound to grow in the next 5-15 years. This demand will be converted into greater requirement for high capacity bearings. In addition to this, growth in aerospace and defence will be complimented via increased uses in instrumented bearings. There is immense R&D carried on for the use of newer materials used for manufacturing bearings such as plastics and ceramics with special applications.

## NRB Bearings Limited

BUY

CMP: Rs. 138

TARGET PRICE: Rs. 200

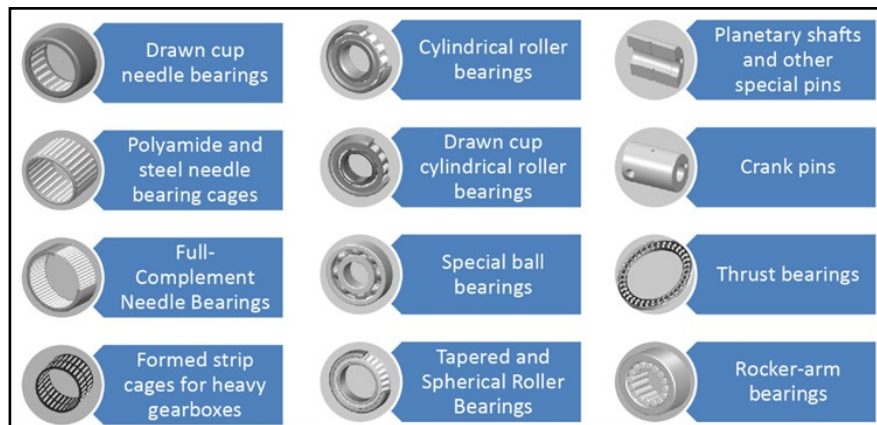
TIME : 12 months

### About the Company:

NRB Bearings Limited (NRB) is a 5 decade old company in the sector of bearings and a provider of friction solutions. The company is the largest manufacturer of needle roller bearings in India, with segmental market share of approximately 70%. Many also estimate nearly 90% of Indian vehicles run on NRB parts. Nearly 65% revenues earned by the company come from the domestic OEMs. The company has a single reportable segment of ball and roller bearings as the primary business segment. The products offered under this umbrella include loose needle rollers, needle roller bushes & cages, ball & roller bearings, automobile components and other manufactured components. The company has three subsidiaries i.e. SNL Bearings Ltd, NRB Bearings Thailand Ltd, and NRB Bearings Europe GMBH.

NRB has all the expertise and technical know-how which covers the full range of bearings right from the designs required to all the other steps like conception to simulation, validation to production. The company is well versed with the most advanced professional modelling software and in addition to this they also have their own customised software and machinery. The company uses automated production and assembly machinery designed by their own engineers.

NRB offers a wide range of high-precision friction solutions for all mobility applications. It also manufactures ball bearings, taper roller bearings and all types of thrust bearings. Some of the offerings by the company include- drawn cup needle bearings, cylindrical roller bearings, polyamide and steel needle bearing cages, drawn cup cylindrical roller bearings, full complement needle bearings, special ball bearings, thrust bearings, formed strip cages for heavy gearboxes, tapered and spherical roller bearings, rocker arm bearings, crank pins, planetary shafts and other special pins etc. Needle roller bushes & cages accounts for nearly 40.94% of the turnover, ball & roller bearings accounts for 37.48% of the turnover while, automobile components accounted for nearly 17.46% of the total revenue generated.



Source: Company

### INVESTMENT RATIONALE

#### (A) Precision Driven- Strong Foundation:

NRB is a renowned leader in manufacturing high-precision friction solutions like needle roller bearings, conventional cylindrical roller bearings etc. and the company has also developed a new generation of lightweight drawn cup bearings. These high precision friction solutions have applications for the automotive sector as well as those with other mobility applications.

Needless to mention again, the company is a pioneer in ball and roller bearing business which are required by the automobile industry. The supplies to the original equipment manufacturers (OEMs) account for nearly 65% -70% of the demand; nearly 20-25% of the company's products are exported while 12-15% is supplied to the Aftermarkets. When we talk about OEMs, we are looking at local as well as global vehicle manufacturers. These are spread in the following broad segments:

- 2W- 3W comprising of motor cycles, scooters, mopeds, auto rickshaws (passenger as well as goods) and industrial 4 stroke engines
- passenger vehicles of all varieties
- Commercial vehicles from LCVs, MCV/HCV, buses etc.
- farm equipment vehicles
- off highway vehicles including forklift trucks and construction equipment
- railway locomotives
- defence vehicles for e.g. gun carriers and tanks
- aircraft and aerospace applications

NRB has an ambitious vision and wants the bearings manufactured by them to be present in every vehicle in the world. In addition to the domestic market where NRB claims to have about 90% of Indian vehicles running on NRB bearings and parts, the company also supplies its products to German, French, Swedish and many other companies in the US. The overseas market contributes around 20-25% of the revenues. The company exports to more than 25 countries across five continents. Some of its clients include Mercedes, Bosch, Honda, ZF Group, Volvo-Renault, Daimler, Audi, Mazda etc. The company employs the best-in-class machines to manufacture high quality- high precision products. The greed to grow does not end here; the company wants to become the world leader in design and production of customised friction engineering. If there is a revival in the US and European economies, revenues generated from the exports market of NRB will also be benefited.

## NRB Bearings Limited

**BUY**

**CMP: Rs. 138**

**TARGET PRICE: Rs. 200**

**TIME : 12 months**

### INVESTMENT RATIONALE (contd.)

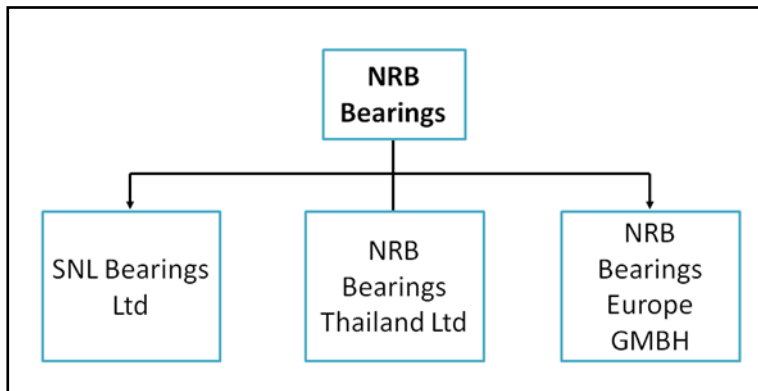
#### (B) Subsidiaries:

The company has three subsidiaries namely SNL Bearings Ltd, NRB Bearings (Thailand) Ltd and NRB Bearings Europe GmbH.

**SNL Bearings Ltd (SNL):** NRB holds 73.45% equity. In 2000, NRB Bearings Limited took over the management of the unit. SNL is one of India's leading needle roller bearings manufacturers. The company manufactures wide range of needle roller bearings for automotive applications which serves the market for OEMs and aftermarket in India as well as overseas. Besides this, the company also manufactures some industrial bearings used in textile machineries, household appliances etc. SNL has the capability to design and develop low cost automation and make it one of the most cost-effective manufacturers of the products. The company has reported PAT of Rs65.89mn (in FY17-18) as compared to Rs56.7mn in FY16-17. SNL will continue to focus on growth opportunities and at the same time enhance profitability via improved quality and productivity.

**NRB Bearings (Thailand) Ltd (NRBT)** is a wholly owned subsidiary. The revenues generated by this has unit been slowly increasing. In FY17-18, the net sales increased by nearly 18% i.e. Rs298.7mn as compared to Rs253.9mn in FY16-17. The share of manufacturing revenues out of total revenues has increased by 72% at Rs214.4mn while the trading revenues stood at Rs84mn. Considering all these factors, the Ebitda too has grown from THB13.39mn to THB27.82 (which is approximately Rs51.7mn). In FY17-18, the company has made a maiden profit for the year at Rs8.5mn. This was mainly contributed due to higher manufacturing volumes and lower exchange losses. As per the recent annual report, the management is eyeing new business opportunities with global Japanese customers. At the same time manufacture of new products as well as enhanced production of needle rollers will help propel the financial results going forward.

**NRB Bearings Europe GmbH** is also a wholly owned subsidiary. This subsidiary was set up in order to support the increasing exports to Europe. The company is more or less a marketing company also providing customer support services to clients in Europe. There appears to be slow down in the European operations due to the fluctuations in the European market. The income during the year (FY17-18) was around Rs15.8mn as compared to Rs32.5mn in FY16-17. Profit after tax earned by the company in FY17-18 was around Rs0.408mn as compared to Rs0.9mn in FY16-17. The company will benefit with any turnaround or stability in the European environment.



Source: Company

#### (C) Bearing- The Growth Triggers:

The growth of the bearings industry syncs well with the growth of the automotive and industrial segments. The growth of the bearing industry may be compared in direct proportion to the growth in automotive and industrial sectors. Bearings which are widely used in nearly all automobiles, pumps, gear boxes, heavy earth moving equipment and many more heavy industries machineries like mining, infrastructure development, construction, agriculture, power generation etc. will trigger the growth in a developing nation like India. Moreover, the increased boost and investments in mining, infrastructure development, and construction activities will fuel the growth of the bearings industry.

The expanding middle class population, increasing national disposable income with favourable inflationary scenario in India, will also add to automobile sales across all the automobile segments, thereby indirectly and positively influencing Indian automotive bearings market. To add to this, the Make in India campaign will act a catalyst for inclining manufacturing activities which is bound to increase the bearings consumption in forthcoming years. The increased focus on reforms and ramp up in infrastructure via the current government will also boost the bearings market. All these current economic factors predict increasing use of bearings.

In India, a considerable portion of bearings market is unorganized. These unorganized players who cater to the low end replacement market are generally non-compliant with the GST norms which will directly benefit the GST compliant players. Unlike many other listed entities in the Indian market, GST will be a game changer for NRB as well and the company is likely to tap additional market share.

Nov 23, 2017

PICK OF THE MONTH

VOL-3, NO-22

**NRB Bearings Limited**

**BUY**

**CMP: Rs. 138**

**TARGET PRICE: Rs. 200**

**TIME : 12 months**

**Financials:**

The company has the highest gross margin which is in the range of 60-62%. When compared with the other peers, the company has the lowest PE and EV/Ebitda in the industry at 24 and 13 respectively with a consistent ROE of nearly 17% since last 10 years. The company has been maintaining a healthy un-interrupted dividend payout. With the improving economic scenario in India, lower commodity prices, more or less constant global fuel prices etc., can be some of the factors which can help the company achieve higher revenues. The company has been investing and trying to build its R&D to develop new product lines, improve its performance and margins while they stream line the production processes.

**Risks and concerns:**

The company is functioning in a highly capital intensive environment. The company is exposed to fluctuations in currencies, since it exports finished goods to many countries across the globe. Major component of the revenues of the company is driven by the automotive sector and hence bears the risk which is in tandem to auto sales. In the long run, the switch to electrification and self-driven electric vehicles (EVs) may pose a major threat to the entire bearings market. There is a probability of switch of some customers towards imports of cheaper bearing manufacturers. In order to keep pace with the changing auto environment, the company will have to make constant investments in R&D and upgrade to match newer technological requirements.

**Outlook and valuations:**

The shares of NRB are very closely held by the promoters (54.23%) and by institutions & other mutual funds (34.56%), thus leaving a scope of barely 11.22% for the general public. This contributes towards the illiquidity in nature in terms of volume of shares traded as well as available as free float.

In the current scenario in India, the GOI is trying its best to boost exports and at the same time the interest rates have fallen down. The auto industry has already started showing signs of recovery, which is also supported by the healthy auto sales over the last quarter. In addition to the auto sector, incremental revenue can also be anticipated from the defence, aerospace and railway segments. AMP 2026 states that the GOI promises to help the Indian automotive industry to focus on its strengths and help increase the contribution to national GDP. All these factors will directly be seen on the bottom-line of NRB, thus we initiate a BUY on the stock with a target of Rs200 over a horizon of 12 months.

#### DISCLAIMERS AND DISCLOSURES-

Progressive Share Brokers Pvt. Ltd. and its affiliates are a full-service, brokerage and financing group. Progressive Share Brokers Pvt. Ltd. (PSBPL) along with its affiliates are participants in virtually all securities trading markets in India. PSBPL started its operation on the National Stock Exchange (NSE) in 1996. PSBPL is a corporate trading member of Bombay Stock Exchange Limited (BSE), National Stock Exchange of India Limited (NSE). PSBPL along with its subsidiaries offers the most comprehensive avenues for investments and is engaged in the businesses including stock broking (Retail), commodity broking, depository participant, and financial products like mutual funds.

PSBPL is SEBI registered under SEBI (Research Analysts) Regulations, 2014 (SEBI Registration no- INH000000859). PSBPL hereby declares that it has not defaulted with any stock exchange nor its activities were suspended by any stock exchange with whom it is registered in last five years. PSBPL has not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has its certificate of registration been cancelled by SEBI at any point of time.

PSBPL offers research services to clients as well as prospects. The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report.

Other disclosures by Progressive Share Brokers Pvt. Ltd. (Research Entity) and its Research Analyst under SEBI (Research Analyst) Regulations, 2014 with reference to the subject company(s) covered in this report:-

PSBPL or its associates may have financial interest in the subject company.

Research Analyst or his/her relative's financial interest in the subject company. (YES/NO)-YES

PSBPL or its associates and Research Analyst or his/her relative's does not have any material conflict of interest in the subject company. The research Analyst or research entity (PSBPL) has not been engaged in market making activity for the subject company.

PSBPL or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report.

Research Analyst or his/her relatives have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report: (YES/NO)- NO

PSBPL or its associates may have received any compensation including for brokerage services from the subject company in the past 12 months. PSBPL or its associates may have received compensation for products or services other than brokerage services from the subject company in the past 12 months. PSBPL or its associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Subject Company may have been client of PSBPL or its associates during twelve months preceding the date of distribution of the research report and PSBPL may have co-managed public offering of securities for the subject company in the past twelve months.

The research Analyst has served as officer, director or employee of the subject company : (YES/NO)-NO

PSBPL and/or its affiliates may seek investment banking or other business from the company or companies that are the subject of this material. Our sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that may be inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest including but not limited to those stated herein. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein. This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject PSBPL or its group companies to any registration or licensing requirement within such jurisdiction. If this document is sent or has reached any individual in such country, especially, USA, the same may be ignored. Unless otherwise stated, this message should not be construed as official confirmation of any transaction. None of the material, nor its content, nor any copy of it, may be altered in any way, transmitted to, copied or distributed to any other party, without the prior express written permission of PSBPL. All trademarks, service marks and logos used in this report are trademarks or registered trademarks of PSBPL or its Group Companies. The information contained herein is not intended for publication or distribution or circulation in any manner whatsoever and any unauthorized reading, dissemination, distribution or copying of this communication is prohibited unless otherwise expressly authorized. Please ensure that you have read "Risk Disclosure Document for Capital Market and Derivatives Segments" as prescribed by Securities and Exchange Board of India before investing in Indian Securities Market. In so far as this report includes current or historic information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.