

30 October 2013

NRB Bearings

Decent performance in tough times; Buy

Rating: **Buy**

Target Price: ₹41

Share Price: ₹34

Key takeaways

Revenue exceeds expectations, earnings grow. NRB Bearings' 2QFY14 revenue (7.9% above what we expected) was up 3.3% yoy. EBITDA came 8.9% higher while PAT was 7% lower. Despite sluggish growth in the domestic auto sector, its mainstay, the company widened its yoy margins; revenue growth, though, was aided by more exports. Because of the higher tax rate, PAT declined 7%. PBT was 4% higher yoy.

Subdued automobile mars domestic demand for bearings. In 2QFY14 revenue growth slowed to 3.3%, while in 1H revenue declined 1.6%. The decline in the domestic business was somewhat countered by more exports. NRB's long-term focus is on more export revenue. In FY14 it is expected to increase exports 20-25%. In 2Q it had lost ₹40m-50m revenue on account of NRB Industrial Bearings being hived off.

Margin rise despite subdued revenues and higher raw material costs. In spite of higher raw-material cost, the margin rose 87bps yoy to 17.1%, (16.2% a year ago). Raw-material cost (as percent of sales) jumped 124bps to 40.3%, but the company saved over 200bps on employee cost and other expenditure. In the long run, the export-led strategy would lead to a wider margin.

Near-term outlook weak; exports, the silver lining. While revenue and EBITDA growth were lower in 2Q, more revenue from new export clients should pick up, and its domestic business, which has bottomed out, start to inch up. Economic growth, expected to improve in the next few quarters, augurs well for the company. Besides, its exports business continues to gain size. This could improve margins.

Our take. With prospects for the economy looking up and NRB's prospects too expected to look up, we maintain a Buy. The stock trades at 5.7x one-year-forward EPS. Our target is based on 7x FY15e EPS. **Risks:** Keener competition, higher input costs.

Key data	NRBBR IN / NBEA.BO
52-week high / low	₹42/ ₹26
Sensex / Nifty	20229 / 6221
3-m average volume	US\$0.1m
Market cap	₹3.2bn / US\$51m
Shares outstanding	96.9m

Shareholding pattern (%)	Sep '13	June '13	Mar '13
Promoters	62.8	62.8	72.4
- of which, Pledged	0.0	0.0	6.0
Free Float	37.2	37.2	27.6
- Foreign Institutions	18.7	18.7	7.9
- Domestic Institutions	1.2	1.2	5.0
- Public	17.3	17.3	14.7

Financials (YE Mar)	FY14e	FY15e
Sales (₹m)	6,143	7,102
Net profit (₹m)	395	567
EPS (₹)	4.1	5.8
Growth (%)	-16.2	43.4
PE (x)	8.1	5.7
PBV (x)	1.4	1.2
RoE (%)	18.0	22.6
RoCE (%)	16.2	21.1
Dividend yield (%)	4.6	5.5
Net gearing (%)	88.2	66.1

Source: Anand Rathi Research, Note: consolidated

Quarterly results (YE Mar)	2QFY14	2QFY14	% yoy	1H FY13	1H FY14	% yoy
Sales (₹m)	1,492	1,541	3.3	2,908	2,860	(1.6)
EBITDA (₹m)	242	263	8.9	498	468	(6.0)
EBITDA margin (%)	16.2	17.1	87bps	17.1	16.4	(77)bps
Interest (₹m)	41	44	8.6	74	85	14.2
Depreciation (₹m)	76	84	10.7	150	164	9.8
Other income(₹m)	15	11	(27.3)	22	23	4.5
PBT (₹m)	140	146	4.1	296	242	(18.3)
Tax (₹m)	27	40	51.3	74	69	(7.5)
Tax rate (%)	19.1	27.7	863bps	25.0	28.3	(330)bps
PAT (₹m)	113	106	(7.0)	222	174	(21.9)

Source: Company, Note: Standalone

Girish Solanki
+9122 6626 6712
girishsolanki@rathi.com

Anand Rathi Shares and Stock Brokers Limited (hereinafter "ARSSBL") is a full service brokerage and equities research firm and the views expressed therein are solely of ARSSBL and not of the companies which have been covered in the Research Report. This report is intended for the sole use of the Recipient and is to be circulated only within India and to no countries outside India. Disclosures and analyst certifications are present in Appendix.

Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	4,805	5,611	5,926	6,143	7,102
Revenue growth (%)	34.6	16.8	5.6	3.7	15.6
- Op. expenses	3,704	4,456	4,916	5,138	5,832
EBIDTA	1,101	1,155	1,010	1,005	1,270
EBITDA margins (%)	22.9	20.6	17.0	16.4	17.9
- Interest	71	133	186	206	227
- Depreciation	240	293	321	334	352
+ Other income	26	4	80	90	99
- Tax	268	225	102	147	208
Effective tax rate (%)	33	31	17	26	26
Reported PAT	547	509	480	408	583
Minority Interest	12	10	9	13	16
Adjusted PAT	535	499	472	395	567
PAT growth (%)	146.5	-6.8	-5.4	-16.2	43.4
Adj. FDEPS (₹/sh)	5.5	5.1	4.9	4.1	5.8
Adj. FDEPS growth (%)	146.5	-6.8	-5.4	-16.2	43.4

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	194	194	194	194	194
Reserves & surplus	1,877	2,144	1,785	2,020	2,394
Net worth	2,187	2,457	2,082	2,316	2,691
Total debt	1,140	2,575	2,601	2,351	2,251
Minority Interest	-2	8	17	17	17
Def. tax liab. (net)	116	119	102	102	102
Capital employed	3,325	5,040	4,700	4,685	4,959
Net fixed assets	2,002	2,519	2,380	2,052	1,800
Investments	1	1	1	1	1
- of which, <i>Liquid</i>	1	1	1	1	1
Working capital	1,230	1,964	2,287	2,324	2,686
Cash	91	558	33	308	473
Capital deployed	3,325	5,040	4,700	4,685	4,959
Net debt/equity (%)	47.9	82.1	123.4	88.2	66.1
W C turn (days)	87.6	103.9	130.9	137.0	128.7
Book value (₹/sh)	22.6	25.3	21.5	23.9	27.8

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	535	499	472	395	567
+ Non-cash items	240	293	321	334	352
Cash profit	764	795	775	729	918
- Incr./decr. in WC	155	733	324	37	362
Operating cash-flow	609	61	452	692	557
- Capex	553	809	182	7	100
Free cash-flow	56	(747)	270	686	457
- Dividend	225	224	192	174	208
+ Equity raised	(98)	(6)	(637)	15	18
+ Debt raised	197	1,436	26	(250)	(100)
- Investments	0	0	(0)	0	0
- Misc. items	(95)	2	1	2	2
Net cash-flow	37	466	(525)	275	165
+ Op. cash & bank bal.	55	91	558	33	308
Cl. Cash & bank bal.	91	558	33	308	473

Source: Company, Anand Rathi Research

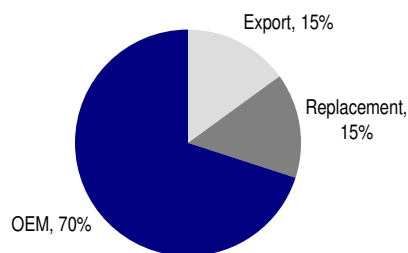
Fig 4 – Ratio analysis @ ₹34

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E	6.0	6.4	6.8	8.1	5.7
Cash P/E	4.1	4.1	4.1	4.4	3.5
EV/EBITDA	3.8	4.5	5.3	4.8	3.6
EV/Sales	0.9	0.9	1.0	0.9	0.7
Price to Book Value	1.5	1.3	1.5	1.4	1.2
Dividend Yield (%)	6.0	6.0	5.1	4.6	5.5
Dividend payout (%)	42.1	45.0	40.6	43.9	36.7
RoE	26.3	21.5	20.8	18.0	22.6
RoCE	28.8	20.7	15.8	16.2	21.1
Debtors (Days)	67.3	74.2	85.3	91.7	87.1
Inventory (Days)	75.6	81.4	87.9	88.8	83.9
Creditors (Days)	51.1	47.4	41.4	42.9	42.5
Working Cap (Days)	87.6	103.9	130.9	137.0	128.7
Asset Turnover (x)	0.8	1.0	1.0	1.0	0.9
Debt/Equity (x)	0.5	1.0	1.2	1.0	0.8

Source: Company, Anand Rathi Research

Fig 5 – PE band


Source: Bloomberg, Anand Rathi Research

Fig 6 – Segment-wise mix


Source: Company

Result highlights

Fig 7 – Quarterly results

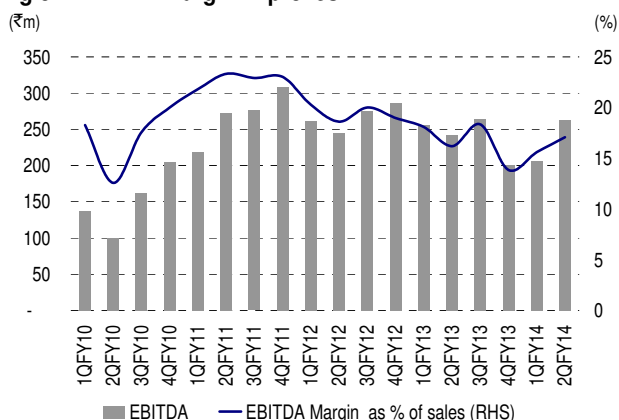
Quarterly results	2QFY13	2QFY14	% var	1QFY14	% var	2QFY14e	% var
Sales	1,492	1,541	3.3	1,319	16.9	1,427	8.0
EBIDTA	242	263	8.9	206	27.8	217	21.2
PBT	140	146	4.1	96	51.5	104	40.3
PAT	113	106	(7.0)	70	50.3	74	42.6

Source: Company, Anand Rathi Research

Operating performance holding up

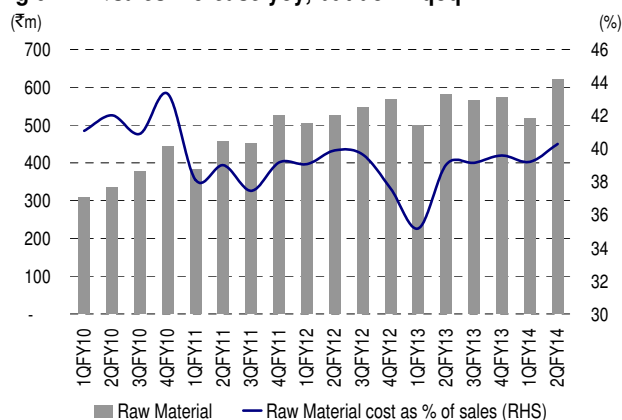
A constrained automobile sector leads to less domestic demand for bearings. NRB's 2QFY14 revenue growth slowed to 3.3%, though for 1H revenue slid 1.6%. The decline in its domestic business was somewhat countered by more exports. NRB's long-term focus is on increasing export revenue. In FY14 its exports are expected to swell 20-25%. Despite higher raw-material costs, the margin improved 87bps yoy to 17.1%, vs 16.2% a year ago. Raw-material cost (as percent to sales) jumped 124bps to 40.3%, but the company saved more than 200bps on employee cost and other expenditure. PBT came 4% higher yoy. A higher tax rate led to PAT declining 7%.

Fig 8 – EBITDA margin improves



Source: Company, Anand Rathi Research

Fig 9 – RM/sales increase yoy, but down qoq



Source: Company, Anand Rathi Research

Valuation

Though the short-term outlook does not appear very promising, the stock is available at attractive valuations. At this price all negatives have been priced in already. We maintain a Buy rating, with a price target of ₹41. We value the stock at a target PE of 7x FY15e earnings (a steep discount to the front-line larger bearings companies such as SKF and FAG).

Risks

Increase in prices of raw materials. The price of steel, constituting almost 35% of sales, has a significant impact on margins. Any increase would result in pricing and margin pressures if costs are not passed on.

Spurious products. Spurious products are a significant blot on the Indian bearings market, chiefly in the price-sensitive replacement market. This market uses inferior materials, unsafe and unreliable.

Threats from imports. There is an incremental threat of imported bearings, catering mainly to the replacement market. Major imports of ball bearings are from China and have been rising.

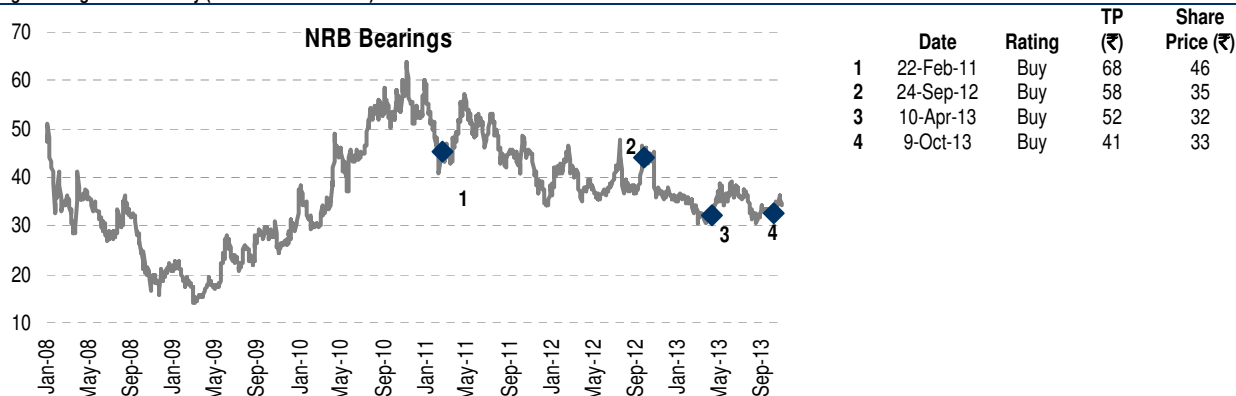
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 30 October 2013)



The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below:

Ratings Guide

	Buy	Hold	Sell
Large Caps (>US\$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US\$1bn)	>25%	5-25%	<5%

Anand Rathi Research Ratings Distribution (as of 28 Feb 2013)

	Buy	Hold	Sell
Anand Rathi Research stock coverage (184)	65%	27%	8%
% who are investment banking clients	4%	2%	0%

Other Disclosures

This report has been issued by ARSSBL which is a SEBI regulated entity, and which is in full compliance with all rules and regulations as are applicable to its functioning and governance. The investors should note that ARSSBL is one of the companies comprising within ANAND RATHI group, and ANAND RATHI as a group consists of various companies which may include (but is not limited to) its subsidiaries, its affiliates, its group companies who may hold positions, views, stakes and may service the companies covered in this report independent of ARSSBL. Investors are cautioned to be aware that there could arise a potential conflict of interest in the views held by ARSSBL and other companies of Anand Rathi who maybe affiliated, connected or catering to the companies mentioned in the Research Report; even though, ARSSBL and Anand Rathi are fully compliant with all procedural and operational regulatory requirements. Thus, investors should not use this as a sole basis for making their investment decision and should consider the recommendations mentioned in the Research Report bearing in mind the aforementioned.

Further, the information herein has been obtained from various sources which we believe is reliable, and we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed herein constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities (hereinafter referred to as "Related Investments"). ARSSBL and/or Anand Rathi may trade for their own accounts as market maker / jobber and/or arbitrageur in any securities of the companies mentioned in the Research Report or in related investments, and may be on taking a different position from the ones which have been taken by the public orders. ARSSBL and/or Anand Rathi and its affiliates, directors, officers, and employees may have a long or short position in any securities of the companies mentioned in the Research Report or in Related Investments. ARSSBL and/or Anand Rathi, may from time to time, perform investment banking, investment management, financial advisory or any other services not explicitly mentioned herein, or solicit investment banking or other business from, any entity and/or company mentioned in this Research Report; however, the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the other companies of Anand Rathi, even though there might exist an inherent conflict of interest.

Furthermore, this Research Report is prepared for private circulation and use only. It does not have regard to the specific investment objectives, financial situation and the specific financial needs or objectives of any specific person who may receive this Research Report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this Research Report, and, should understand that statements regarding future prospects may or may not be realized, and we can not guarantee the same as analysis and valuation is a tool to enable investors to make investment decisions but, is not an exact and/or a precise science. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Past performance is not necessarily a guide to future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investments mentioned in this report.

Other Disclosures pertaining to distribution of research in the United States of America

This material was produced by ARSSBL, solely for information purposes and for the use of the recipient. It is not to be reproduced under any circumstances and is not to be copied or made available to any person other than the recipient. It is distributed in the United States of America by Enclave Capital LLC (19 West 44th Street, Suite 1700, New York, NY 10036) and elsewhere in the world by ARSSBL or an authorized affiliate of ARSSBL (such entities and any other entity, directly or indirectly, controlled by ARSSBL, the "Affiliates"). This document does not constitute an offer of, or an invitation by or on behalf of ARSSBL or its Affiliates or any other company to any person, to buy or sell any security. The information contained herein has been obtained from published information and other sources, which ARSSBL or its Affiliates consider to be reliable. None of ARSSBL or its Affiliates accepts any liability or responsibility whatsoever for the accuracy or completeness of any such information. All estimates, expressions of opinion and other subjective judgments contained herein are made as of the date of this document. Emerging securities markets may be subject to risks significantly higher than more established markets. In particular, the political and economic environment, company practices and market prices and volumes may be subject to significant variations. The ability to assess such risks may also be limited due to significantly lower information quantity and quality. By accepting this document, you agree to be bound by all the foregoing provisions.

1. ARSSBL or its Affiliates may or may not have been beneficial owners of the securities mentioned in this report.
2. ARSSBL or its affiliates may have or not managed or co-managed a public offering of the securities mentioned in the report in the past 12 months.
3. ARSSBL or its affiliates may have or not received compensation for investment banking services from the issuer of these securities in the past 12 months and do not expect to receive compensation for investment banking services from the issuer of these securities within the next three months.
4. However, one or more of ARSSBL or its Affiliates may, from time to time, have a long or short position in any of the securities mentioned herein and may buy or sell those securities or options thereon, either on their own account or on behalf of their clients.
5. As of the publication of this report, ARSSBL does not make a market in the subject securities.
6. ARSSBL or its Affiliates may or may not, to the extent permitted by law, act upon or use the above material or the conclusions stated above, or the research or analysis on which they are based before the material is published to recipients and from time to time, provide investment banking, investment management or other services for or solicit to seek to obtain investment banking, or other securities business from, any entity referred to in this report.

Enclave Capital LLC is distributing this document in the United States of America. ARSSBL accepts responsibility for its contents. Any US customer wishing to effect transactions in any securities referred to herein or options thereon should do so only by contacting a representative of Enclave Capital LLC.

© 2013 Anand Rathi Shares and Stock Brokers Limited. All rights reserved. This report or any portion thereof may not be reprinted, sold or redistributed without the prior written consent of Anand Rathi Shares and Stock Brokers Limited.

Additional information on recommended securities/instruments is available on request.