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NRB BEARINGS

CMP:RS 161

TRGT:RS 200

TIME HORIZON: 1 YEAR

NRB Bearings, the largest manufacturer of needle roller bearings in India, with capacity of 79 million units, market share of 70%. in technical collaboration from Nadella and INA Germany (through subsidiary SNL Bearings), is looking a good buy, post recent correction in stock price from levels of Rs 193, while earnings growth and valuations continue to remain attractive. Recall the company had posted good set of Q4FY18 and FY18 earnings, while NRB Bearings is the cheapest available stock in entire Bearings sectors, despite being market leader and having 33% institutional holding. For Q4FY18, company has posted PAT of Rs 27.4 cr against Rs 20.9 cr QoQ and Rs 13.2 cr YoY, a growth of 31% QoQ and 108%YoY, with PAT margin of 11%, on an income of Rs 243 a (+16% QoQ, 17% YoY). On Consolidated basis, for full year FY18, Company has posted an income / EBITDA / PAT growth of 10%/ 45%/ 75% respectively, at Rs 886 cr / 168 cr (19.2% EBITDA Margin) / 93 cr (PAT margin 10.5%)/ Rs 9.4 EPS, while stock is trading at EV/Sales of 1.9x, EVIEBITDA of 10x and PE of 17x on historic basis, which is hefty discount to peers like Menon Bearings (PE 25x). Bimetal Bearings (PE 21x) and ABQ Bearings (PE 40x). For FY19, company is very well placed to report an EPS of over Rs 11, giving PE of 14.5x, which is makes it very compelling buy, as Bearings sector commands premium multiples. Also, company is expanding its capacity of Needle Roller Bushes & Cages to 88 million units from 79 million units, Ball and Roller Bearings capacity to 54 million units from 49million units and Others Automobile Components capacity to 36 million units from 30 million units. To expand its geographical footprints and foray into newer platforms, NRB has forayed into exports wherein it caters to global players such as Daimler, Renault, Volvo and Getrag. Company caters to almost all the segments in the automobile sector viz. 2W (30%), CV (28%). PV (15%) and farm/off-highway (10%), and company's client portfolio is well-diversified with names like Hero MotoCorp, Bajaj Auto, Maruti Suzuki, Tata Motors and Ashok Leyland, among otheRs Company is having very excellent USP and significant moat, as prefers working with automotive OEMs from the product development stage and has a strong affiliation with them. Needle roller bearings are very compact in size and it is the preferred choke for applications like steering systems, gear boxes, front axles, engines etc and given the increasing use of automation in 4Ws and the need to make engines with strict transmission norms requirement, demand for Needle Roller Bearings. Company's two subsidiaries viz., NRB Bearings Thailand and SNL Bearings are also on healthy growth trajectory. NRB Bearings Thailand is now finalizing new business deals with European and Japanese customers and has now increased Mfg activity to 40% of total business from complete trading activity earlier, and has turned PAT positive in FY17 from losses seen in earlier yeaRs After Auto Sector, Railways is the second largest sector in the country and NRB Bearings is increasing focus towards the Defence, Aerospace and Railway segments for incremental revenue. Apart from the automotive segment, the company also enjoys a presence in the race boats segment, wherein Ingersoll Rand is one of the key customers Furthermore, NRB has also outlined growth opportunities in other mobility segments such as defence in the form of gun carriers, marine, Railways and MRTS wherein rising investment could open up avenues for bearings demands. Promoters are holding 53.63% stake in the company and Institutional Holding is over 33.5%. Share ruling at Rs 161 can move to Rs 200 in 1 year.

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Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.