



Farsight

## MORNING FARSIGHT

Friday, May 25, 2018

**NRB BEARINGS**

**CMP:RS 160**

**TRGT:RS 185**

**TIME HORIZON: 3 MTHS**

NRB Bearings, the largest manufacturer of needle roller bearings in India, with a capacity of 79 million units, with market share of 70%, having technical collaboration from Nadella and INA Germany (through subsidiary SNL Bearings), is looking a good buy, post good Q4FY18 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. 26.79 cr against Rs. 21.28 cr QoQ and Rs. 11.66 cr YoY, a growth of 26% QoQ and 130% YoY, on an income of Rs. 243 cr (+16% QoQ, 17% YoY). On Consolidated basis, for FY18, company has posted very impressive Income / EBITDA / PAT growth of 10% / 45% / 75% respectively, at Rs. 886 cr / 168 cr (19.2% EBITDA Margin) / Rs.91 cr (PAT margin 10.5%) / Rs. 9.4 EPS, making stock to trade at an EV/Sales of 1.9x, EV/EBITDA of 10x and PE of 17x on historic basis, which is at discount to peers like Menon Bearings (PE 25x), Bimetal Bearings (PE 21x) and ABC Bearings (PE 40x). For FY19, company is very well placed to report an EPS of over Rs. 12, giving PE of 13.3x with RoE of over 24% and strong balance sheet (Net Debt / Equity 0.36x) which makes it very compelling buy, as Bearings sector always 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 49 million units and Other 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%), to Hero MotoCorp, Bajaj Auto, Maruti Suzuki, Tata Motors and Ashok Leyland, among others. Company is having excellent USP and significant moat, as it 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 choice 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, 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 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 and Institutional Holding is over 33.5%. Share ruling at Rs. 160 can move to Rs. 185 in the next 3 months, **while patient investor can see the stock hitting double century as well in a year. Buy**

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POTENTIAL CONFLICT OF INTEREST DISCLOSURE (as on date of report)

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