

CMP: ₹ 322

Target: ₹ 400 (24%) Target Period: 6-12 months

BUY

May 21, 2024

Attractive valuations; Outlook remains healthy...

About the stock: NRB Bearings is India's largest needle and conventional cylindrical roller bearings producer. As per the company, ~90% of Indian vehicles run on NRB parts in India

- Domestic markets contribute ~75% of total revenues while exports contribute the balance ~25%. In domestic markets, company cater to auto industry including 2W, PV, CV
- Company exports its products to approx. 45 countries worldwide including France, Italy, the US, Mexico, Brazil, Thailand, Bangladesh etc

Investment Rationale:

- Strong focus on expanding product portfolio in automobiles segment:** NRB Bearings has been able to retain its leadership position in auto bearings & components segment, led by continued focus on expanding its product portfolio. NRB is the market leader in needle roller bushes & cages which contributes 56% to revenues (as of FY23). In other segments also like ball & roller bearings (29% of revenue) and auto components (15% of revenue), company has sizable market share. Company claims that ~90% of Indian vehicles are run on its parts in India. Going ahead, company remains focused on maintaining its competitive edge in Indian auto space through strategic investments in R&D facilities and venturing into more efficient bearing products for electric vehicles (EVs) and internal combustion engine vehicles
- Diverse market presence continues to drive growth:** NRB Bearings, which sells ~75% in domestic markets and ~25% in foreign markets, has benefited significantly from its diverse market presence. With exporting its products to about 45 countries worldwide, the company's exports share has been increasing gradually led by its focus on growing presence through new products. Going ahead, with no major volatility expected in steel prices and double digit growth in export markets, margins are expected to improve over FY25E and FY26E. The recent land deal with Oberoi Realty for ₹ 182 crore in Q3FY24 would help the company in de-leveraging of balance sheet (gross debt stood at ~₹ 300 crore as of Q2FY24) and also help the company to execute its capex for electric vehicles products range

Rating and Target Price

- We believe NRB is strongly positioned to benefit from growing demand in both domestic & export markets. We estimate ~12% revenue CAGR over FY23-26E while EBITDA/PAT at ~16% & ~22% CAGR respectively
- With a healthy visibility on earnings growth and focus on strengthening balance sheet, NRB's valuation at 18x P/E on FY26E looks extremely attractive in the bearings space (as other players quoting at 40x-52x P/E on FY26E). We believe that, company's valuation discount to its peers (though factoring in the fact that NRB's presence in only auto space) is unjustified to some extent. Thus, we recommend Buy on NRB Bearings with at target price of ₹ 400 (i.e. 22x FY26E P/E)



Particulars

Particular	(Rs crore)
Market Capitalization	3,117
Total Debt (FY23)	322
Cash and Investments (FY23)	83
EV (FY23)	3,263
52 week H/L	402 / 130
Equity capital	19.4
Face value (Rs)	2

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	50.2	50.6	50.7	50.7
FII	21.9	14.3	14.3	14.3
DII	11.2	19.5	19.7	18.6
Others	16.7	15.6	15.3	16.4

Price Chart



Key risks

- (i) Slowdown in automobile sector
- (iii) Increase in commodity prices

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Key Financial Summary

(Rs Crore)	FY20	FY21	FY22	FY23	3 Year CAGR (FY20-23)	FY24E	FY25E	FY26E	3 Year CAGR (FY23-26E)
Revenue	776.0	762.4	944.2	1,057.2	10.9%	1,173.4	1,313.8	1,471.4	11.7%
EBITDA	85.8	103.9	146.5	172.2	26.1%	193.6	227.1	270.7	16.3%
EBITDA margin (%)	11.1	13.6	15.5	16.3		16.5	17.3	18.4	
Net Profit	32.1	54.1	73.3	96.5	44.3%	256.5	140.3	175.5	22.1%
EPS (Rs)	3.3	5.6	7.6	10.0		26.5	14.5	18.1	
P/E (x)	97.2	57.7	42.5	32.3		12.2	22.2	17.8	
EV/EBITDA	39.1	31.4	22.8	19.5		16.5	13.9	11.5	
RoCE (%)	8.7	11.8	13.7	15.4		15.0	16.9	19.2	
RoE (%)	7.0	10.4	12.4	14.4		29.3	14.5	16.2	

Source: Company, ICICI Direct Research Note: FY24E net profit includes Rs 182.3 crore of extraordinary income related to sale of land

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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