

Rating Rationale

September 30, 2019 | Mumbai

NRB Bearings Limited

Rating outlook revised to 'Stable', ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.362 Crore
Long Term Rating	CRISIL AA-/Stable (Outlook revised from 'Positive' and rating reaffirmed)

Rs.30 Crore Non Convertible Debentures	CRISIL AA-/Stable (Outlook revised from 'Positive' and rating reaffirmed)
Rs.20 Crore Non Convertible Debentures	CRISIL AA-/Stable (Outlook revised from 'Positive' and rating reaffirmed)
Rs.20 Crore Non Convertible Debentures	CRISIL AA-/Stable (Outlook revised from 'Positive' and rating reaffirmed)
Rs.85 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)

1 crore = 10 million

Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has revised the rating outlook on the long term long term bank facilities and credit instruments of NRB Bearings Limited (NRB) to 'Stable' from 'Positive', while reaffirming the rating at 'CRISIL AA-'. The rating on the commercial paper programme have been also been reaffirmed at 'CRISIL A1+'.

The revision in outlook reflects the expected impact on NRB's performance due to the steeper than anticipated slowdown being witnessed in the automotive sector and the consequent production cuts by various OEMs. Also, the export market for components is slowing down compared to earlier expectations, as global demand too is moderating. However, the performance of the aftermarket remains steady. Overall, given the slowdown in demand from OEMs and the export market, NRB's revenue, which grew by 12% in fiscal 2019, is expected to de-grow in fiscal 2020, and witness slower growth than earlier anticipated in fiscal 2021, while its operating profitability too is expected to moderate to ~14-16% (~19% in fiscal 2019). NRB, though, continues to be better placed, compared to many other peers in the automotive component sector due to its diverse customer and geographical base, technological expertise and strong management focus.

Further, NRB's financial risk profile, continues to be supported by management's efforts to keep debt levels under check, given the volatile nature of the automotive business. While working capital borrowings did increase in March 2019 to fund inventory purchases, given the long lead time for steel the main raw material for roller bearings, the same is expected to gradually correct by March 2020, as fresh purchases are being controlled. This, along with cash accruals of Rs.80-100 crore (earlier expectations of Rs.100-120 crore), and modest capital expenditure (capex) requirement will ensure credit metrics remain healthy. Liquidity is also healthy, supported by cash surpluses of Rs. 40 crore, and unused bank lines of over Rs 200 crore.

The ratings continue to reflect NRB's market leadership in the needle and cylindrical roller bearing segments and diverse customer profile and strong technical expertise. These should help resurrection in business performance, as the automobile industry recovers from the slowdown.

These strengths are partly offset by working capital-intensive operations, vulnerability to cyclical in the end-user industry, and pricing pressure from OEMs.

Analytical Approach

For arriving at its ratings, CRISIL has combined the business and financial risk profiles of NRB and its subsidiaries, together referred to as NRB, as all the companies are in the same business.

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

* **Market leadership in the needle and cylindrical roller bearing segments in India:** The Company has an estimated market share of 70% in the needle bearing industry in India, with a strong presence in the cylindrical roller, special tapered roller, and special ball bearings segments. This is aided by the promoters' extensive industry experience, robust in-house research and development facilities, and strong client relationships.

* **Diverse customer profile:** NRB has longstanding relationships with Indian and global automobile OEMs and Tier-I

vendors. It has customers across multiple segments, including two-wheelers, commercial vehicles (CVs), passenger cars, utility vehicles (UVs), farm equipment & tractors, off-highway vehicles, railways and defence. OEMs contributed the most to its revenue in fiscal 2019, while aftermarket and export sales contributed the rest. Despite the large proportion of revenue from OEMs, no single customer with its tier 1 supplier accounts for more than 12% of the total revenue, thereby limiting customer concentration risk.

*** Strong technical expertise:** NRB has been operating in India for over 6 decades, and has over time built strong technical expertise and knowhow covering the full range of bearing design, from conception to software aided simulation, testing, validation, benchmarking and production. The company's product range spans over 3000 designs, which are also made to suit its customer's requirements. In fiscal 2000, NRB established a dedicated engineering & design (E&D) centre, which is recognized by the Indian Department of Science & Technology as a world-class research and development facility. Today this is a standalone facility in a twenty thousand square feet area in Rabale. In addition, there is another centre that focusses on process engineering at the plant site in Waluj MIDC. Besides, its plants use automated production and assembly machinery designed in-house, reflecting the strong technical capabilities of its team. This has also enabled NRB keep abreast of technological changes and upgrades in the bearings market.

*** Healthy financial risk profile:** The financial risk profile is supported by adequate network and healthy gearing of 0.58 times at March 31, 2019, and interest coverage ratio of 13.35 times in fiscal 2019. Further, liquidity is also healthy, with cash surplus of Rs 40 crore and unutilized fund based bank limits of more than Rs 200 crore.

Weaknesses:

*** Working capital-intensive operations:** Specialised products, and need to maintain stock of its large variety of stock keeping units (SKUs) across more than 500 products for just-in-time delivery, leads to high inventory (126 days in fiscal 2019, compared to 84 days as on March 31, 2018). The increase in fiscal 2019 was also due to long lead time in steel grade raw material used in bearings, and shortage of the same, which led to higher stocking. The same is being corrected in the current fiscal. Receivables have improved from 102 days as on March 31, 2017, to 99 days in March 31, 2018), but remain slightly stretched, though counterparty risk is mitigated, with bulk of sales being to established OEMs. Write-off of receivables was negligible, at less than 0.5% per annum in the past four fiscals.

*** Vulnerability to cyclical demand in the automotive bearings segment and to pricing pressure from OEMs:** High dependence of bearing manufacturers on the automobile sector exposes them to cyclical demand. While bearing manufacturers enjoy reasonable pricing flexibility with OEMs, backed by mutual interdependence, and capital and technology intensity of operations, price negotiations happen with a lag, leading to price adjustment delays and impact on profitability in the interim. Furthermore, if there is a prolonged slowdown and decreasing demand for automobiles, it is not always possible for OEMs to completely pass on input price increase to end users. Hence, any significant increase in prices is absorbed jointly by suppliers and OEMs. Additionally, any significant decline in demand will increase overheads, and hence, impact profitability of component suppliers.

The company's is a net exporter and has a natural hedge on foreign exchange (forex) movement on its exports and imports. Company also hedges a portion of its forex exposure through currency swaps, and the impact on the same is modest.

Liquidity: Healthy

NRB is expected to generate annual cash accruals of Rs 80-100 crore in the next two fiscals that should take care of modest capex needs, and debt repayments totalling Rs.62 crore. Liquidity is also supported by cash surplus of Rs 40 crore and unused bank lines of over Rs. 200 crore.

Outlook: Stable

CRISIL believes that NRB's business performance will be impacted by the slowdown resulting in lower cash generation in fiscal 2020, before a gradual improvement is witnessed in fiscal 2021. Its financial risk profile though is expected to remain at healthy levels.

Rating Sensitivity Factors

Upward factors

- * Healthy double digit revenue growth, and operating profitability over 18-20%
- * Continued healthy financial risk profile, as reflected in low gearing levels
- * Further improvement in liquidity surpluses position

Downward factors

- * Sharper de-growth in revenues, and operating profitability declining below 14-16% in fiscal 2021
- * Deterioration in credit metrics; eg. gearing levels of above 1 time, due to stretch in working capital or debt funded capex or acquisitions

About the Company

Founded by Late Mr. Trilochan Singh Sahney in 1965, NRB manufactures needle, cylindrical, special ball and taper-roller bearings. It also makes other friction solution components such as planetary shafts, crank pins, and kingpins. The company has four subsidiaries: SNL Bearings Ltd, NRB Bearings (Thailand) Ltd, NRB Bearings Europe GmbH and NRB Bearings USA Inc. The company's manufacturing facilities are at Thane, Aurangabad, Jalna, and Waluj (all four in Maharashtra);

Hyderabad (Telangana) and Pantnagar (Uttarakhand). SNL's facilities are at Ranchi (Jharkhand); while NRB Thailand's plant is in Rayong in Thailand. The product engineering centre in Thane and process and advanced materials-based engineering centre at Waluj are government accredited.

Ms Harshbeena S Zaveri, daughter of Mr Trilochan Singh Sahney, was appointed the company's President in January 2001. Currently, she is the Vice Chairman and Managing Director of NRB Bearings and the Chairman of the Board of SNL Bearings.

Key Financial Indicators - (NRB Bearings Consolidated)

Particulars	Unit	2019	2018
Revenue	Rs crore	965	863
Profit after tax	Rs crore	110	93
PAT margin	%	9.9	11.4
Adjusted debt/Adjusted networkth	Times	0.58	0.56
Interest coverage	Times	13.35	12.41

Key Financial Indicators - Year to date financials (consolidated)

Particulars	Unit	Q1-FY20	Q1-FY19
Revenue	Rs crore	212	241
Profit after tax	Rs crore	12	37*
PAT Margin	%	5.6	15.5
Interest coverage	Times	6.88	15.24

*Includes profit on sale of property of Rs 16.5 cr

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Coupon Rate (%)	Date of Allotment	Date of Maturity	Issue Size (Rs Cr)	Rating Assigned with Outlook
NA	Cash Credit@	NA	NA	NA	80	CRISIL AA-/Stable
NA	Cash Credit#	NA	NA	NA	67	CRISIL AA-/Stable
NA	Cash Credit&	NA	NA	NA	75	CRISIL AA-/Stable
NA	Cash Credit^	NA	NA	NA	50	CRISIL AA-/Stable
NA	Cash Credit@@	NA	NA	NA	80	CRISIL AA-/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	10	CRISIL AA-/Stable
NA	Commercial paper	NA	NA	7-365 days	85	CRISIL A1+
INE349A08026	Non-convertible debentures	9.49	14-Jun-16	12-Jun-20	20	CRISIL AA-/Stable
INE349A08034	Non-convertible debentures	9.60	12-Sep-18	12-Sep-23	30	CRISIL AA-/Stable
NA	Non-convertible debentures*	NA	NA	NA	20	CRISIL AA-/Stable

@ Interchangeable with buyer's credit (BC), export packing credit (EPC), bill discounting (BD), letter of credit (LC), and bank guarantee (BG)

#Interchangeable with working capital demand loan (WC DL /LC/standby letter of credit/guarantee/EPC

& Interchangeable with WC DL, EPC, LC/BC, and capex BC

^ Interchangeable with cash credit, WC DL/foreign currency non-repatriable (FCNR)/EPC/BC

@@ Interchangeable with STL/CP, BC/EPC/FCNR, CC/WC DL.

*Yet to be issued

Annexure - List of entities consolidated

Sr. No.	Fully Consolidated entities
1	SNL Bearings
2	NRB Bearings (Thailand) Limited
3	NRB Bearings GmbH

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2019 (History)		2018		2017		2016		Start of 2016
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Commercial Paper	ST	85.00	CRISIL A1+			22-10-18	CRISIL A1+	15-06-17	CRISIL A1+	31-05-16	CRISIL A1+	CRISIL A1+
						24-09-18	CRISIL A1+					
						28-08-18	CRISIL A1+					

					29-06-18	CRISIL A1+						
Non Convertible Debentures	LT	50.00 30-09-19	CRISIL AA-/Stable		22-10-18	CRISIL AA-/Positive	15-06-17	CRISIL AA-/Stable	31-05-16	CRISIL AA-/Stable	CRISIL AA-/Stable	
					24-09-18	CRISIL AA-/Positive						
					28-08-18	CRISIL AA-/Positive						
					29-06-18	CRISIL AA-/Positive						
Fund-based Bank Facilities	LT/ST	362.00	CRISIL AA-/Stable		22-10-18	CRISIL AA-/Positive	15-06-17	CRISIL AA-/Stable	31-05-16	CRISIL AA-/Stable	CRISIL AA-/Stable	
					24-09-18	CRISIL AA-/Positive						
					28-08-18	CRISIL AA-/Positive						
					29-06-18	CRISIL AA-/Positive						

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Cash Credit@	80	CRISIL AA-/Stable	Cash Credit@	80	CRISIL AA-/Positive
Cash Credit#	67	CRISIL AA-/Stable	Cash Credit#	67	CRISIL AA-/Positive
Cash Credit&	75	CRISIL AA-/Stable	Cash Credit&	75	CRISIL AA-/Positive
Cash Credit^	50	CRISIL AA-/Stable	Cash Credit^	50	CRISIL AA-/Positive
Cash Credit@@	80	CRISIL AA-/Stable	Cash Credit@@	80	CRISIL AA-/Positive
Proposed Long Term Bank Loan Facility	10	CRISIL AA-/Stable	Proposed Long Term Bank Loan Facility	10	CRISIL AA-/Positive
Total	362	--	Total	362	--

@ Interchangeable with buyer's credit (BC), export packing credit (EPC), bill discounting (BD), letter of credit (LC), and bank guarantee (BG)

#Interchangeable with working capital demand loan (WCDL /LC/standby letter of credit/guarantee/EPC

& Interchangeable with WCDL, EPC, LC/BC, and capex BC

^ Interchangeable with cash credit, WCDL/foreign currency non-repatriable (FCNR)/EPC/BC

@@ Interchangeable with STL/CP, BC/EPC/FCNR, CC/WCDL.

Links to related criteria

[CRISILs Approach to Financial Ratios](#)

[CRISILs Bank Loan Ratings - process, scale and default recognition](#)

[Rating criteria for manufacturing and service sector companies](#)

[Rating Criteria for Auto Component Suppliers](#)

[CRISILs Criteria for Consolidation](#)

[CRISILs Criteria for rating short term debt](#)

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