

31-08-2016

CMP: Rs. 175 Weight: 5%



STOCK DATA

Market Cap(Rs. cr)	63 Cr
Debt	1 Cr
Cash	1 Cr
Enterprise Value	63 Cr
Promoters Holding	74.39%
52 week high/low	208.90/100
Shares outstanding	0.36

KEY FINANCIALS

(Rs. in cr)

Y/E March	2013	2014	2015	2016
Revenue	23	24	27	30
Operating Exp	17	16	19	20
EBITDA	6	8	8	10
Depreciation	0	0	1	1
Interest Expense	0	1	1	0
PBT	6	5	6	9
Taxes	2	2	2	3
PAT	4	3	4	6

VALUATION: The company trades at 9x PE 2017, having an ROE of 43%, and has sustained high margins for last 10 years. The company showed that it cares for the minority investors for the first time by giving dividends this year. We believe this is a no brainer and can easily double from these levels.

SNL Bearings

Thesis –

If I told you that this is a 10 PE Auto Ancillary Company, having an ROE of 43%, virtually Debt free, having growth expectations of 15-20% (Management Guidance For FY2017 in AGM), dividend yield of 1.1%, Capacity Utilization of 70%, backed by great management, having Deloitte as its auditor, and promoter buying stock from the market would you be Interested?

We believe that SNL Bearings is a mispriced bet and it will get re-rated from the current levels.

The company manufacturer's Needle Roller Bearing which is a low competition market, and where its parent company has a competitive advantage. NRB Bearings (Parent) has a 70% market share in Needle bearing and the rest 30% is a fragmented market.

The company's biggest risk is that it has its parent who is his biggest client and 60% of the revenue comes from the Parent. The Management can easily siphoning off money from the company but this risk has been partially mitigated as they have not done it in the last 16 years. The Company has high Quality Auditors (Deloitte) which is rare in Micro-cap. A very important reason why we like this stock is that they have for the first time in 15 years given a dividend, clearly suggesting change in policy and their willingness to share reward with minority Investors.

NRB and SNL Relationship:

- SNL is a Small company with a market cap of 63 cr whereas its parent NRB Bearing has a market cap of 1100cr
- NRB is majority stakeholder in SNL.
- SNL's 60% sales were from NRB in FY2016. SNL leverages marketing / sales network of NRB.

Both the companies are in the similar line of business of manufacturing Bearings.

NRB is the leader in the needle bearing segment in India with 70% market share. Needle Bearings constituted 42% of the NRB's topline in FY16.

SNL Bearings is a very small company with a turnover of 30 Cr and clientele concentration with the parent company (PNB Bearings) contributing 60% of the revenue, rest to replacement market and OEM directly.

Product Comparison: SNL Bearings and NRB Bearings

	% of total turnover-NRB Bearings	% of total turnover-SNL Bearings
Needle Roller Bushes and Cages	42%	98%
Ball and Roller Bearings	38%	-
Automobile Components	16%	-

NRB Bearing is market leader in needle bearing business having 70% market share in the country and enjoys higher margin there which is 42% of business. It has lower margins in other bearing business because a lot of competition is present in that space. Below Table shows why exactly NRB has higher margin in Needle bearings. **Clearly there is no competition for SNL and NRB in Needle Bearings.**

Company Name	Type of Bearings	Operating Margin (FY2016)
ABC Bearings	Ball, Taper & Cylindrical Bearings	15.05%
FAG Bearings	Ball Bearings, Cylindrical Roller Bearings, Tapered Bearings & Spherical Bearings	20.1%
NRB Bearings	All Bearings but only Company in Needle Bearing	16.65%
Timken India	Tapered Roller Bearings	15.3%
SKF India	Ball Bearings & Taper Bearings	12.15%
SNL Bearings	Only Needle Bearings	31.07%

Variance in the margins of both the companies:

NRB and SNL, both are in the similar business but have variance in the margins this is because SNL bearings are only company into Needles bearings where NRB has a competitive advantage. NRB has 42% of revenue coming from high margin Needle Roller Bearing space, whereas there is competition in the Ball bearing space.

	2012	2013	2014	2015	2016
SNL-OPM	34%	29%	24%	29%	31%
NRB - OPM	21%	17%	17%	19%	17%

*OPM – Operating Profit Margins

SNL has only one product i.e. Needle roller bearing which constitute 98% of total revenue whereas the parent company (NRB) to whom they sell have 42% revenue coming from needle Roller bearing. Since NRB enjoys market leadership in this space, SNL Bearings will continue to benefit from this.

History of SNL Bearings

SNL Bearings Ltd was incorporated as ‘Shriram Needle Bearings Industries Ltd’. The company was promoted by the ‘Shriram Group’ in 1983 in Ranchi, Bihar. It was a joint venture with Industriewerk Schaeffler INA, Germany to manufacture bearings. The joint venture agreement came to an end in 1997.

In June 2000, SNL was acquired by NRB Bearings Ltd (NRB) and its name was changed to SNL Bearings Ltd (SNL). The Reason for the Acquisition was NRB gained the Needle Bearing Technology which SNL had.

Products:

Company manufacturer of needle bearing catering to industries like Automobiles,railways and electrical equipment.SNL operates in automotive OEM, aftermarket and exports. Company gets its major revenue from OEM Market. The bearings are broadly divided into Ball bearing and Roller bearing.

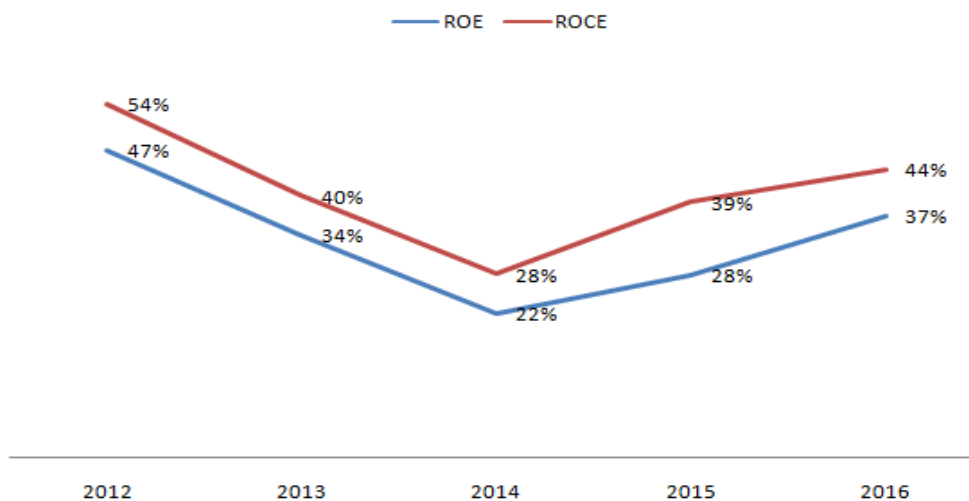


Why do we like it?

The company has all the fundamental parameters which we usually see in a company

- Higher ROE/ROCE
- Low debt
- Higher Margins
- Consistent financial performance
- Good Management
- Started Paying Dividends for the 1st time
- Promoter Buying from Open Market
- Capacity Utilization and Expected Growth

Strong Return ratios:



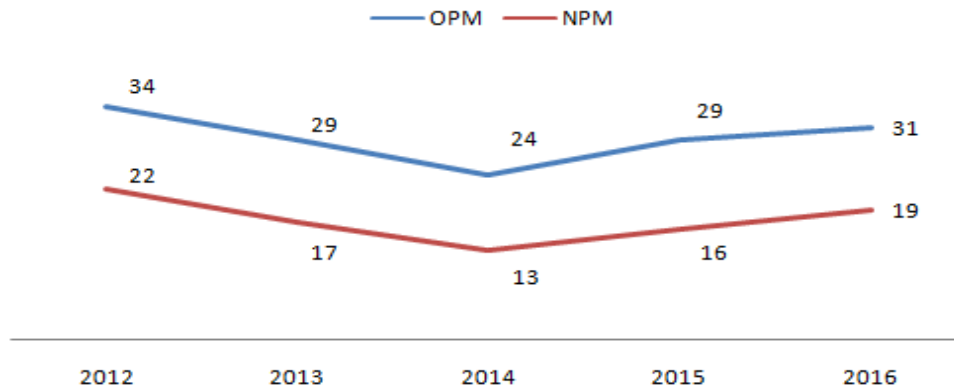
The company has managed to have higher return ratios as compared to the industry standard of 15%.

Company Name	ROE (FY2016)
ABC Bearings	4.37%
FAG Bearing	18.92%
NRB Bearings	15.24%
Timken India	19.23%
SKF India	17.23%
SNL Bearings	43.65%

Consistent Profit Margin:

The client concentration risk gets partially mitigated as the company has maintained its margins.

2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
24.89	25.91	21.06	6.46	32.02	33.55	29.46	24.16	28.59	31.07



2010 margins went down due to voluntary Retirement Scheme where they gave our 1.95 Crores as one time cashflow, or else margins would have been higher.

Good Management:

SNL and NRB have common management. Directors of the company have been remunerated only by way of sitting fees (no other benefits are taken). The company has appointed Deloitte as their auditors. Usually such a small company do not hire an auditor as big as Deloitte. Hence the chance of the company manipulating the earnings reduces.

Low Debt:

The company has manageable debt of 1 cr and doesn't need any major CAPEX. In the last 5 years the company has maintained its debt to equity of less than 0.50.

Started Paying Dividend for the First time – Only this Year the company has started paying dividends, showing that minority investors will be rewarded and this is a very big change in policy. Its very important that promoter care about minority investors and we believe that this is a inflection.

Promoter Buying from Open Market –

Sr. No.	Shareholder's Name	Shareholding at the beginning of the year		Cumulative Shareholding during the year	
		No. of Shares	% of total Shares of the Company	No. of Shares	% of total Shares of the Company
1.	Ms. Harshbeena S. Zaveri				
	At the beginning of the year	25459	0.70		
	05 /11/2015 Purchase	1050	0.03	26509	0.73
	18/11/ 2015 Purchase	751	0.02	27260	0.76
	19 /11/2015 Purchase	947	0.03	28207	0.78
	20/11/2015 Purchase	1881	0.05	30088	0.81
	23/11/2015 Purchase	350	0.01	30438	0.86
	04/02/2016 Purchase	2298	0.06	32736	0.87
	05/02/2016 Purchase	640	0.02	33376	0.93
	08/02/2016 Sell	(2298)	(0.06)	31078	0.95
	09/02/ 2016 Purchase	850	0.02	31928	0.89
	11/02/2016 Purchase	1150	0.03	33078	0.91
	12/02/2016 Purchase	633	0.02	33711	0.94
	29/02/2016 Purchase	200	0.00	33911	0.94
	At the End of the year			33911	0.94

Capacity Utilization and Expected Growth – In the AGM, the management has guided for a 15-20% Sales growth, and said the existing capacity utilization is 70%.

2. Mr. Mustafa Khedwala (IN30021415721839) complimented management for the results and declaration of Maiden dividend for the Equity Shareholders. He requested the Chairman to brief about the working of the Company and the performance of the Company for the F.Y. 16-17.

Ms. H S Zaveri responded stating that the major OEMs in the two wheeler, commercial vehicle and tractor segments were the major customers with Bajaj Auto being the single largest OEM. Supplies were also made to the replacement market through the dealer network and small exports to Europe. For the F.Y. 2016-17 the company plans to expand the customer base in all segments and the expected growth is around 15% - 20% as compared to the F.Y. 2015-16 Rs.3006 lacs.

Mr. Mustafa was also keen to know about the plant capacity and whether the Company is in near future considering for further enhancement of capacity?. Ms. H S Zaveri responded that presently the Plant has a sufficient capacity and is running at around 70% of the Capacity. Further She informed that, from time to time additional investments will be made to further enhance capacities by use of latest technology and high-speed machines.

Risks:

The company is heavily dependent on NRB Bearings for its performance as major income comes from this company. Hence the company's performance is directly dependent on the performance of NRB Bearings. Basically all east based companies procure their Needle bearing needs from SNL.

	FY12	FY13	FY14	FY15	FY16
Total Sales	21	23	23	26	30
Sales to NRB	11	13	13	16	18
Sales to NRB as % of sales	52%	57%	57%	62%	60%

The Rest sales come from Bajaj Auto, Tvs, Maruti, Tata Motors & Exports.

Cost Comparison:

We have compared the cost to the company as a % of sales of both the companies. The table below clearly highlights that NRB has higher material cost as compared to SNL thus the variance in the operating margins.

As a % of sales	NRB	SNL
Cost of materials	43%	26%
Employee cost	17%	20%
Finance Cost	2.2%	1%

Valuations – Now Let’s Start to Value this company just looking at financial and without taking in consideration any discounts for Parent-subsidary relationship. The Fair Value would be somewhere close of 160-200 Crores against the current market cap of 63.

The Real Question is how much Discount I should give to this company for Parent – Subsidiary Relationship. I don’t know what discount is appropriate so let’s start with worse case discount of 50%, i.e. valuing the company at 80-100 Crores. The fact the company gave out dividends for the first time actually calls for narrowing the discount to a certain extend.

Company has very limited downside risk with stable business which we expect to grow at 15%. Since the company has low debt and high ROE, the company seems to be mispriced at 9X 2017 earnings (as against the median P/E of the Industry been 20x).

	Median	SNL Bearings (FY2016)
3 Year Sales Growth	7.0%	9.4%
3 Year Profit Growth	11.0%	13.3%
PE Ratio	20	10
ROCE	15.0%	37%
ROE	14.8%	44%
D/E	0.5	0.12
1 year Sales	9.1%	13.6%

The company beats the Industry in all parameters, we believe the downside side is limited and can deliver amazing returns in the next 1-2 years.

Conclusion – I like stable companies, who don’t need capital to grow with an amazing product, high return of equity, good management, and sustainable growth. We believe SNL is ignored and Mispriced by the market and can surprise you with the returns.

Disclosure: Amit Jeswani & Family have no positions

Analyst Disclosures: No positions

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