

FAG Bearings India Ltd

Stock Data

Industry	Automotive
Market Cap (Rs.Mn)	36,499
CMP	Rs.2373
Stock Return Year to Date	50%
BSE-Sensex Return Year to Date	16.12%
EPS(Annualised) (CY14E)	96.87
P/E (CY14E)	24.5

Shareholding Pattern

Promoter Shareholding	51.33%
Public Shareholding	48.67%
FII	15.88%
DII	16.64%
Others	16.15%

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Recommendation - Sell

50% Gains from Year to Date on Our Recommended Stock

We had recommended the stock on 8th January 2014 at levels of Rs.1590 and it has given a return of 50% as the stock now trades at Rs.2373 as on 28th May 2014.

We are booking Profits in FAG Bearings India Ltd. at Rs.2373 as it has reached our price target and the growth that is expected in the future has been factored in the current valuations.

The Stock has a market capitalization of Rs.39,466 million, is trading at 24.5x its CY 2014E earnings per share and an EV/EBITDA multiple of 16.34 for CY 2014E.

About the Company

- FAG Bearings India Limited was incorporated in 1962. Since January 2002 FAG has been integrated into a strong network with INA and LuK to form the Schaeffler Group. INA and FAG became the world's second largest rolling bearing manufacturer. FAG Bearings India Limited, a member company of FAG group of Germany - is a leading player in the Indian Bearing industry.
- The company manufactures a very wide range of bearings conforming to international quality standards. The manufacturing plant is located at Vadodara in Gujarat.

Valuation

- The company had no debt at the end of CY 2013 and has a current market capitalization of Rs.39,466 million with a Price to Earnings multiple of 24.5 at Rs.2373 per share.
- The Price to Book Value is 4 and the Market Capitalization to Sales ratio is 2.81.

Earnings Forecast

- The company is expected to post a CAGR of 11.27% in revenues from Rs.14,358 million in CY 2012 to Rs.24,486 million in CY 2017.
- Earnings are forecast to grow at 12.08% CAGR over the next 5 years.
- The stock at Rs.2373 is trading at 24.5x CY 2014E earnings and 16.3x CY 2014 EV/EBITDA multiple and the growth expected in the five year time period has been factored in the current valuations.

The Original research report published on 8th Jan 2014 is given below.

FAG Bearings India Ltd

The Company

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The company manufactures range of ball and roller type bearings. They find applications in industrial, railways and automotive industries. The company caters to all major industry segments that include Construction Machinery, Electrical Engineering, Fluid Technology, Conveying equipment, Industrial Gears, Mining & Cement, Power Generation, Agricultural Engineering, Steel plants, Motorcycles, Textile Machinery, Machine tools, Wind power, Pulp and Paper and so on. In the automotive sector the company supplies to all leading OEMs like Maruti, Tata motors, Ashok Leyland, Bajaj Auto and Hero Motocorp. FAG is the largest supplier of hub bearings to the Indian Passenger Car segment of the Automotive Industry.

The Indian Railways has been an important customer since the inception of the company in 1962 in India. The company has always taken a keen interest in the indigenization of bearings used in Locomotives (Electric and Diesel), Passenger Coaches, Freight Cars, etc. One unit of the production has been exclusively devoted to the manufacture of bearings supplied to Indian Railways - Integral Coach Factory, Rail Coach Factory, Diesel Locomotive Works, Chittaranjan Locomotive Works, Diesel Component Works and Zonal Railways. Apart from supplying to OEMs the Company also sells bearings for replacement market through dealers throughout the country. The company has exports to the regions of Europe, US and Asia. International customers for the company are Daimler Chrysler, Volvo, Volkswagen, Renault, Voith, Otis and General Dynamics.

Growth Prospects

The bearing market size in India is approximately Rs.85 billion and 40% to 45% of the entire demand is supplied through imports. The fortunes of the Bearing industry are directly linked to the growth prospects of the automotive industry in India. The bearing manufacturers have already diversified in other verticals like the industrial segment but the market relies majorly on the automotive industry for its supply. Aftermarket requirement from Automotive and Industrial sectors constitute approximately 35% of total bearing demand.

Economic expansion, rising aspirations, disposable income of the middle - income households and rural prosperity will continue to drive demand for automobile.

Near Term Risks to the Stock

Demand slowdown in the Automobile industry can affect the growth in revenues for the company. The replacement market gives higher profitability in comparison to the supply of products to Automotive OEMs. A slowdown in the replacement market can affect the earnings growth and the margins of the company.

Bearing Industry is capital intensive. Lower economic growth could lead to underutilisation of expensive resources and lesser absorption of fixed costs.

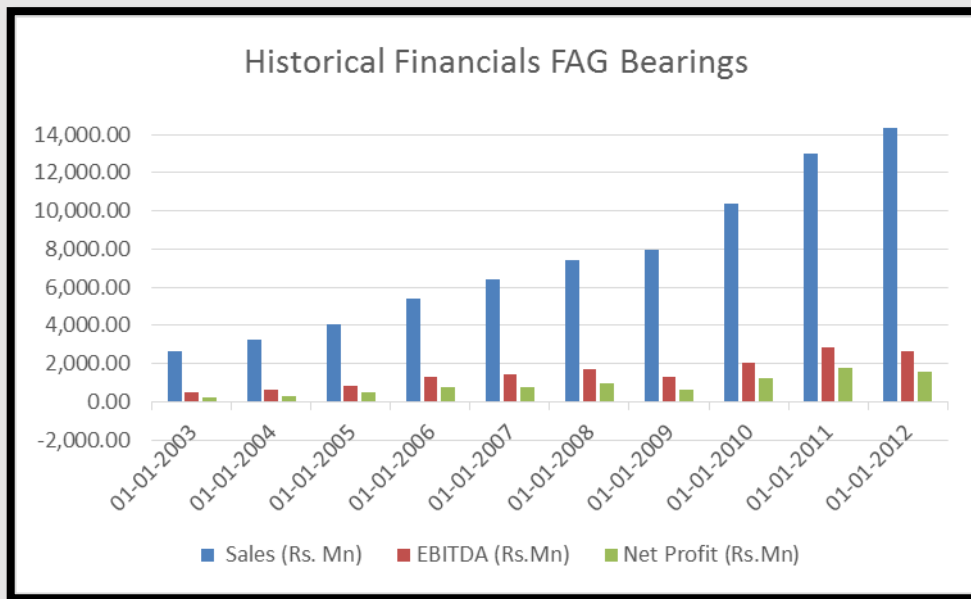
Competition continues to be strong in the Bearings market in India with SKF India Ltd. having the largest market share along with other smaller companies like Timken, NRB Bearings and Bimetal Bearing Ltd. The market share of FAG Bearings has seen a significant improvement in the last few years following its integration with the Schaeffler Group.

Counterfeit products costing significantly less than the original high quality products from FAG Bearings India Ltd. can affect the sales growth and erode the profitability of the company. Counterfeit bearing products approximately account for 20% to 30% of bearings sold in the replacement market.

FAG Bearings India Ltd

Financials

The Company reported Sales of Rs.14,470 million with an EBITDA of Rs.2200 million and a net profit of Rs.1590 million in CY 2012. The EBITDA margin was 15.2% and the net profit margin was 11% for CY 2012. The company reported a net profit of Rs.359 million with revenues of Rs.3763 million for the quarter ended September 2013. The Earnings per share was reported at Rs.95.79 and the Return on Capital Employed (RoCE) was reported at 23.5% and the Return on Equity at 19.8% for CY 2012. The company has shown a CAGR of 17.49% in revenues and the net profit has grown at a CAGR of 14.89% from CY 2007 to CY 2012. The EBITDA margin and the Net Profit margin is high in comparison to the industry average. The company has higher margins in the aftermarket business segment compared to the business derived from supply to OEMs.

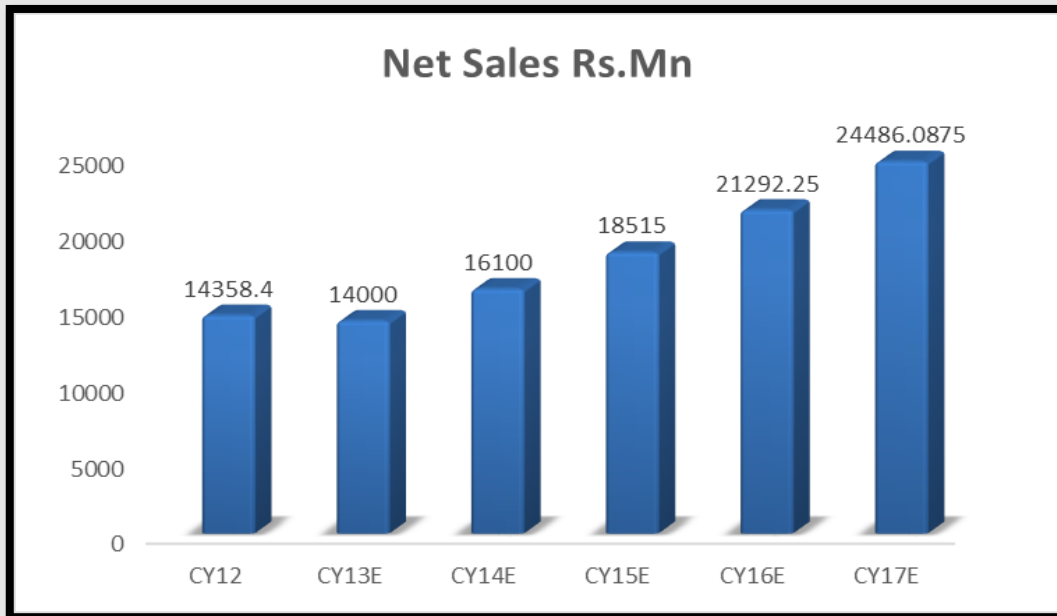


Debt and Valuation

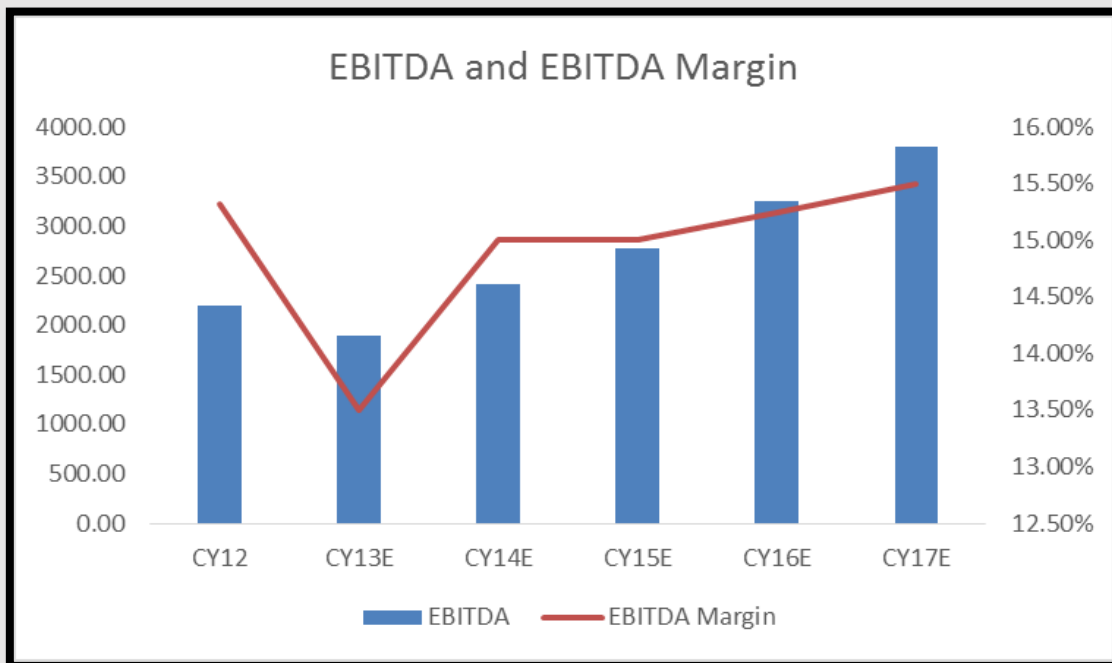
The company had no debt at the end of CY 2012 and has a current market capitalization of Rs.26,921 million with a Price to Earnings multiple of 16.91 at Rs.1620 per share. The Price to Book Value is 3.06 and the Market Capitalization to Sales ratio is 1.86. The company had last declared a dividend of 50.00% of Rs.5 per share for the year ended March 2013. The Promoters have a shareholding of 51.33% and the FIIs have a shareholding of 15.88% in the company.

Five Year Financials

The company is expected to post a CAGR of 11.27% in revenues from Rs.14,358 million in CY 2012 to Rs.24,486 million in CY 2017. Earnings are forecast to grow at 12.08% CAGR over the next 5 years.

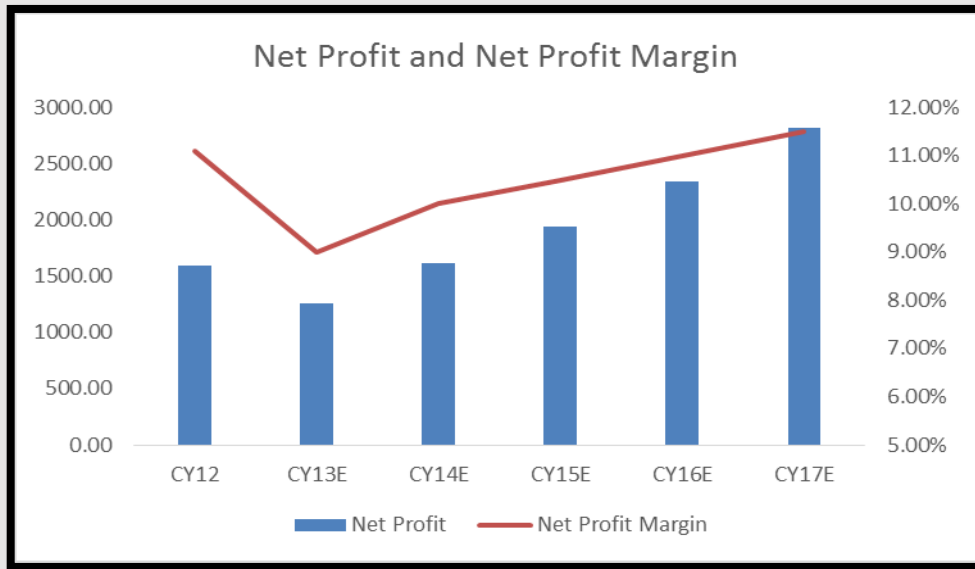


The EBITDA is expected to grow at 11.52% CAGR from CY 2012 to CY 2017. The EBITDA margin is expected to improve from 13.5% in CY 2013 to 15.5% in CY 2017 on account of growth in revenues accompanied by further improvement in operational efficiencies.

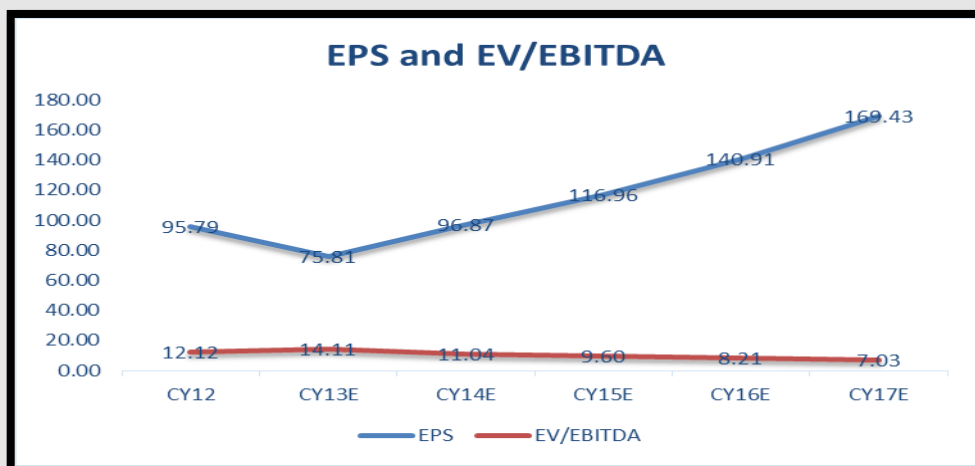


The Net Profit margin is expected to improve from 9% in CY 2013 to 11.5% in CY 2017.

FAG Bearings India Ltd



The stock at Rs.1565 is trading at 9.38x CY 2017 earnings and 7x CY 2017 EV/EBITDA multiple and given the growth expected in the five year time period it will get a higher rating going forward.



Peer Comparison

SKF India is the biggest competitor of FAG Bearings India Ltd. and has a current market capitalization of Rs.35,000 million with a Price to Earnings multiple of 18.44 at Rs.665 per share. The Price to Book Value is 3.03 and the Market Capitalization to Sales ratio is 1.58. SIL had last declared a dividend of 75.00% of Rs.7.5 per share for the year ended March 2013.

The Company reported Sales of Rs.22041 million with an EBITDA of Rs.2350 million and a net profit of Rs.1900 million in CY 2012. The EBITDA margin was 10.19% and the net profit margin was 8.6% for CY 2012. The company reported a net profit of Rs.466 million with revenues of Rs.5727 million for the quarter ended September 2013. The Earnings per share was reported at Rs.36 and the Return on Capital Employed (RoCE) was reported at 25% and the Return on Equity (RoE) at 16% for CY 2012.

The EBITDA margin, net profit margin, RoCE and RoE for FAG Bearings India Ltd. is higher than SKF India Ltd. but the sales lag behind in comparison. The revenue growth is expected to be much higher for FAG due to a smaller revenue base in comparison to SKF India Ltd. The revenue growth is expected to be in the range of 11% to 12% for FAG but that of SKF India is expected to be lower than 10% for the next five years.

Other companies like Timken, NRB Bearings and Bimetal Bearing are small in comparison to FAG and SKF India Ltd.

FAG Bearings India Ltd

One year relative performance to Sensex

FAG Bearings India Ltd. has underperformed the Sensex with a 12.8% margin as the stock has delivered -7.2% returns in the last one year compared to the Sensex return of 5.6% in the same time period. The stock shows relative underperformance for the time period under consideration with the BSE Sensex.

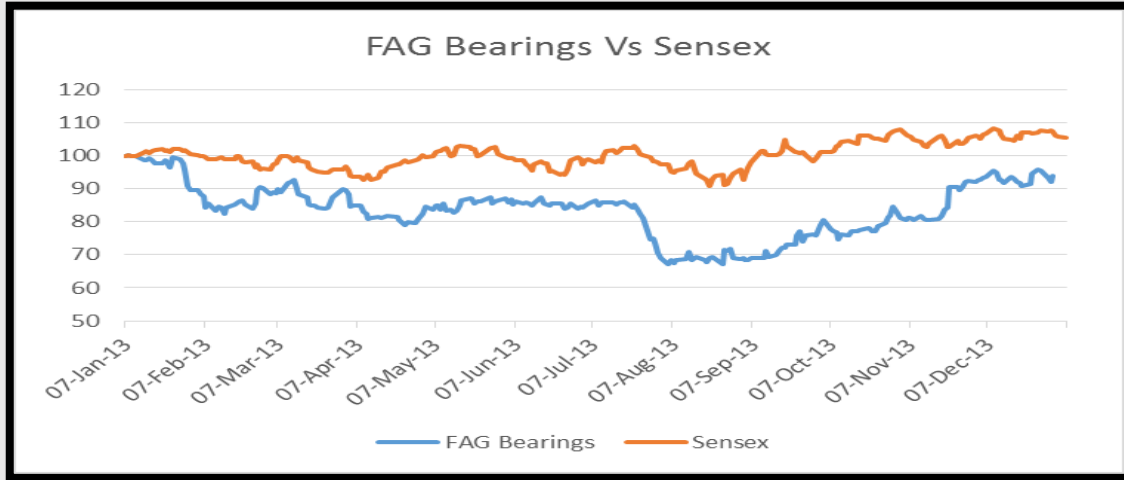


Table 1. FAG Bearings Ltd Financials CY12

INR Million	Q3CY13	Q2CY13	Q-o-Q %Growth	CY13E	CY12	Y-o-Y %Growth
Net Sales	3,763	3,116	20.76%	14,000	14,358	-2.50%
EBITDA	507	416	21.69%	1,890	2,200	-14.09%
EBITDA Margin	13.46%	13.36%	10	13.50%	15.32%	-182
Net Profit	358.9	255.8	40.30%	1,260	1,592	-20.84%
Net Profit Margin	9.54%	8.21%	132.88	9.00%	11.09%	-209
EPS	21.59	15.39	40.29%	75.81	95.79	-20.86%

(Source: Company, Own Estimates)

Table 2. Ratios & Valuations

	CY17E	CY16E	CY15E	CY14E	CY13E	CY12	CAGR
RoCE (%)	24.5%	24.00%	23.5%	23.00%	21.5%	23.50%	
EPS	169.43	140.91	116.96	96.87	75.81	95.79	12.08%
P/E	9.38	11.28	13.59	16.41	20.97	16.60	
EV/EBITDA	7.03	8.21	9.60	11.04	14.11	12.12	

(Source: Company, Own Estimates)

Table 3. FAG Bearings India Ltd. Financial CY17E

INR Million	CY17E	CY16E	CY15E	CY14E	CY13E	CY12	CAGR
Net Sales	24,486	21,292	18,515	16,100	14,000	14,358	11.27%
EBITDA	3,795	3,247	2,777	2,415	1,890	2,200	11.52%
EBITDA Margin	15.50%	15.25%	15.00%	15.00%	13.50%	15.32%	
Net Profit	2,816	2,342	1,944	1,610	1,260	1,592	12.08%
Net Profit Margin	11.50%	11.00%	10.50%	10.00%	9.00%	11.09%	
EPS	169.43	140.91	116.96	96.87	75.81	95.79	12.08%

(Source: Company, Own Estimates)

Table 4. Cash Flow Estimates FAG Bearings India Ltd.

INR Million	CY17E	CY16E	CY15E	CY14E	CY13E	CY12
Cash Flow from Operation	2,200	2,000	1,700	1,500	1,370	1,371
Cash Flow from Financing	-1,800	-1,700	-1,500	-1,400	-1,500	-1,721
Cash Flow from Investing	-200	-150	-100	-50	-150	-206
Net Cash Flow	200	150	100	50	-280	-556

(Source: Company, Own Estimates)

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