

July 30, 2018

Q1FY19 Result Update

☒ Change in Estimates | ☒ Target | ☒ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	7,111		8,086	
Sales (Rs. m)	29,804	34,127	30,250	35,761
% Chng.			(1.5)	(4.6)
EBITDA (Rs. m)	4,620	5,460	4,946	6,115
% Chng.			(6.6)	(10.7)
EPS (Rs.)	175.4	203.2	184.1	224.6
% Chng.			(4.7)	(9.5)

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. m)	20,675	25,689	29,804	34,127
EBITDA (Rs. m)	3,264	3,942	4,620	5,460
Margin (%)	15.8	15.3	15.5	16.0
PAT (Rs. m)	2,135	2,728	3,328	3,854
EPS (Rs.)	112.5	143.8	175.4	203.2
Gr. (%)	5.0	27.8	22.0	15.8
DPS (Rs.)	0.4	0.4	0.6	0.6
Yield (%)	0.0	0.0	0.0	0.0
RoE (%)	18.3	19.5	19.8	19.1
RoCE (%)	22.7	23.8	23.3	23.1
EV/Sales (x)	5.9	4.6	3.9	3.3
EV/EBITDA (x)	37.2	30.2	25.2	20.8
PE (x)	59.5	46.6	38.2	33.0
P/BV (x)	10.0	8.3	6.9	5.8

Key Data

WABC.BO | WIL IN

52-W High / Low	Rs.8,537 / Rs.5,230
Sensex / Nifty	37,494 / 11,320
Market Cap	Rs.127bn/ \$ 1,850m
Shares Outstanding	19m
3M Avg. Daily Value	Rs.64.84m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	2.40
Domestic Institution	9.04
Public & Others	13.56
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(4.7)	(10.7)	24.3
Relative	(9.9)	(14.2)	7.1

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Margin pressure to continue

For Q1FY19, Wabco India (WIL) reported net profit of Rs748mn, up 38% YoY (lower ~3% QoQ), above PLe of Rs678mn. While overall revenue for the quarter was ahead of our expectations at Rs7.5bn (~8% above PLe), growing 42% YoY / down ~5% QoQ (where other operating income was higher 13% YoY), operating performance missed estimates with EBITDA margin lowering 170bps YoY / 100bps QoQ to 13.3% (PLe: 14.4%). Disappointment in OPM was mainly on account of gross margins being lower 550bps YoY and 130bps QoQ, whereas other expenses and staff costs as a % of sales declined ~180bps YoY (flat QoQ) and 200bps YoY (down 30bps QoQ), respectively.

EBITDA surged 26% YoY to Rs997mn. With higher non-operating income (up 138% YoY / 25% QoQ) offset by higher tax rate (at 31.2% v/s 27% in Q1FY18), Q1FY19 net profit for the company was up ~38% YoY to Rs748mn, ahead of our expectations at Rs678mn.

From a long-term perspective, we remain optimistic about WIL given the companies near dominant position in its product segments and it being a key beneficiary of the surge in the CV demand. However, the recent regulation on increased axle load capacity and the lack of clarity on the same could impact demand in the short term and posts a downside risk to our call. If these norms are only applicable to new vehicles and strict regulations on overloading are in place after the new norms come in, these regulations would in fact give a further boost to demand going forward.

Management in the past has targeted margins in the range of 17-18% but given the uncertain environment, commodity cost pressures and the difficulty/delay in full pass on, we reduce our margin expectations for FY19/20E by ~90/100bps to 15.5%/16% respectively. The company is debt-free and is expected to sustain return ratios of over 20% in FY19/20E. At CMP, the stock is trading at 38.2x FY19E and 33.0x FY20E EPS. We maintain 'Accumulate' with a target price of Rs7,111 (earlier Rs8,086), at 35x Mar'20E EPS.

Exhibit 1: Q1FY19 Result Overview (Rs m)

Y/e March	Q1FY19	Q1FY18	YoY gr. (%)	Q4FY18	FY19E	FY18	YoY gr. (%)
Net Revenues	7,473	5,256	42.2	7,849	29,804	25,701	16.0
Raw Materials	4,944	3,191	54.9	5,094	18,628	16,019	16.3
<i>% of Net Sales</i>	<i>66.2</i>	<i>60.7</i>		<i>64.9</i>	<i>62.5</i>	<i>62.3</i>	
Personnel	605	520	16.4	634	2,682	2,291	17.1
<i>% of Net Sales</i>	<i>8.1</i>	<i>9.9</i>		<i>8.1</i>	<i>9.0</i>	<i>8.9</i>	
Manufacturing & Other Exp	928	755	22.9	999	3,875	3,450	12.3
<i>% of Net Sales</i>	<i>12.4</i>	<i>14.4</i>		<i>12.7</i>	<i>13.0</i>	<i>13.4</i>	
Total Expenditure	6,476	4,465	45.0	6,727	25,185	21,760	15.7
EBITDA	997	791	26.1	1,122	4,620	3,942	17.2
<i>EBITDA Margin (%)</i>	<i>13.3</i>	<i>15.0</i>		<i>14.3</i>	<i>15.5</i>	<i>15.3</i>	
Depreciation	161	152	5.8	160	702	617	13.7
EBIT	836	638	30.9	961	3,918	3,324	17.8
Interest Expenses	0	1	(99.6)	12	16	16	-
Non-operating income	251	106	137.5	200	720	510	41.3
Extraordinary Expenses	0	0		0	0	0	
PBT	1,086	743	46.2	1,150	4,622	3,818	21.1
Tax-Total	339	201	68.7	377	1,294	1,090	18.8
<i>Tax Rate (%) - Total</i>	<i>31.2</i>	<i>27.0</i>		<i>32.8</i>	<i>28.0</i>	<i>28.5</i>	
Reported PAT	748	542	37.9	772	3,328	2,728	22.0
Adj. PAT	748	542	37.9	772	3,328	2,728	22.0

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	20,675	25,689	29,804	34,127
YoY gr. (%)	12.8	24.3	16.0	14.5
Cost of Goods Sold	12,381	16,019	18,628	21,261
Gross Profit	8,294	9,670	11,177	12,866
Margin (%)	40.1	37.6	37.5	37.7
Employee Cost	1,911	2,291	2,682	2,969
Other Expenses	3,119	3,437	3,875	4,437
EBITDA	3,264	3,942	4,620	5,460
YoY gr. (%)	13.9	20.8	17.2	18.2
Margin (%)	15.8	15.3	15.5	16.0
Depreciation and Amortization	616	617	702	810
EBIT	2,648	3,324	3,918	4,650
Margin (%)	12.8	12.9	13.1	13.6
Net Interest	5	16	16	16
Other Income	362	510	720	718
Profit Before Tax	3,005	3,818	4,622	5,352
Margin (%)	14.5	14.9	15.5	15.7
Total Tax	870	1,090	1,294	1,499
Effective tax rate (%)	28.9	28.5	28.0	28.0
Profit after tax	2,135	2,728	3,328	3,854
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,135	2,728	3,328	3,854
YoY gr. (%)	5.0	27.8	22.0	15.8
Margin (%)	10.3	10.6	11.2	11.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,135	2,728	3,328	3,854
YoY gr. (%)	5.0	27.8	22.0	15.8
Margin (%)	10.3	10.6	11.2	11.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,135	2,728	3,328	3,854
Equity Shares O/s (m)	19	19	19	19
EPS (Rs)	112.5	143.8	175.4	203.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	4,350	5,341	6,865	7,865
Tangibles	4,232	5,204	6,728	7,728
Intangibles	117	137	137	137
Acc: Dep / Amortization	1,170	1,752	2,453	3,264
Tangibles	1,089	1,638	2,340	3,150
Intangibles	81	114	114	114
Net fixed assets	3,179	3,590	4,412	4,601
Tangibles	3,143	3,567	4,389	4,578
Intangibles	36	23	23	23
Capital Work In Progress	617	524	-	-
Goodwill	-	-	-	-
Non-Current Investments	83	338	353	368
Net Deferred tax assets	(86)	(38)	(38)	(38)
Other Non-Current Assets	471	737	737	737
Current Assets				
Investments	2,981	4,457	4,957	5,457
Inventories	1,453	1,324	1,536	1,760
Trade receivables	5,180	6,483	7,521	8,619
Cash & Bank Balance	2,669	3,561	5,476	7,981
Other Current Assets	698	612	712	812
Total Assets	17,548	21,886	25,965	30,596
Equity				
Equity Share Capital	95	95	95	95
Other Equity	12,569	15,164	18,241	21,820
Total Network	12,664	15,259	18,335	21,915
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	165	265	265	265
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,419	5,324	6,177	7,078
Other current liabilities	1,036	803	953	1,103
Total Equity & Liabilities	17,548	21,886	25,965	30,596

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	3,005	3,818	4,622	5,352
Add. Depreciation	616	617	702	810
Add. Interest	5	16	16	16
Less Financial Other Income	362	510	720	718
Add. Other	(16)	18	(42)	(46)
Op. profit before WC changes	3,610	4,469	5,297	6,132
Net Changes-WC	(565)	139	(363)	(385)
Direct tax	(884)	(1,138)	(1,294)	(1,499)
Net cash from Op. activities	2,160	3,470	3,640	4,248
Capital expenditures	(687)	(935)	(1,000)	(1,000)
Interest / Dividend Income	-	-	-	-
Others	(798)	(1,475)	(500)	(500)
Net Cash from Invt. activities	(1,485)	(2,410)	(1,500)	(1,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(133)	(152)	(209)	(228)
Interest paid	(5)	(16)	(16)	(16)
Others	-	-	-	-
Net cash from Fin. activities	(137)	(168)	(225)	(244)
Net change in cash	538	892	1,915	2,505
Free Cash Flow	1,474	2,535	2,640	3,248

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	112.5	143.8	175.4	203.2
CEPS	145.0	176.4	212.4	245.9
BVPS	667.7	804.5	966.7	1,155.4
FCF	77.7	133.7	139.2	171.3
DPS	0.4	0.4	0.6	0.6
Return Ratio(%)				
RoCE	22.7	23.8	23.3	23.1
ROIC	31.2	40.0	44.3	50.1
RoE	18.3	19.5	19.8	19.1
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.6)	(0.6)
Net Working Capital (Days)	57	35	35	35
Valuation(x)				
PER	59.5	46.6	38.2	33.0
P/B	10.0	8.3	6.9	5.8
P/CEPS	140.2	170.5	205.3	237.6
EV/EBITDA	37.2	30.2	25.2	20.8
EV/Sales	5.9	4.6	3.9	3.3
Dividend Yield (%)	0.0	0.0	0.0	0.0

Source: Company Data, PL Research

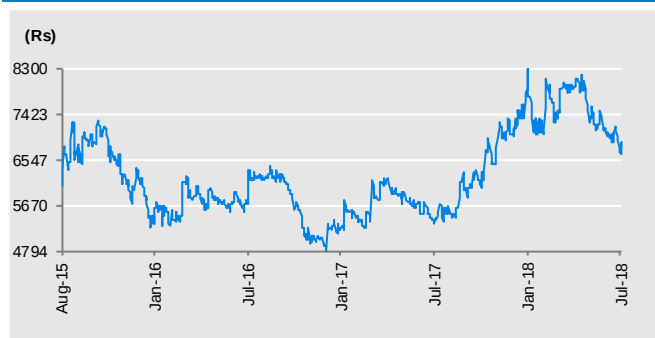
Quarterly Financials (Rs m)

Y/e Mar	Q2FY18	Q3FY18	Q4FY18	Q1FY19
Net Revenue	6,098	6,499	7,849	7,473
YoY gr. (%)	20.8	32.7	36.1	42.2
Raw Material Expenses	3,720	4,014	5,094	4,944
Gross Profit	2,378	2,485	2,754	2,529
Margin (%)	39.0	38.2	35.1	33.8
EBITDA	1,027	1,003	1,122	997
YoY gr. (%)	29.8	(2.3)	11.9	(11.1)
Margin (%)	16.8	15.4	14.3	13.3
Depreciation / Depletion	152	153	160	161
EBIT	874	850	961	836
Margin (%)	14.3	13.1	12.3	11.2
Net Interest	2	1	12	-
Other Income	139	64	200	251
Profit before Tax	1,012	913	1,150	1,086
Margin (%)	16.6	14.1	14.6	14.5
Total Tax	236	275	377	339
Effective tax rate (%)	23.3	30.1	32.8	31.2
Profit after Tax	776	638	772	748
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	776	638	772	748
YoY gr. (%)	16.8	1.0	55.7	37.9
Margin (%)	12.7	9.8	9.8	10.0
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	776	638	772	748
YoY gr. (%)	16.8	1.0	55.7	37.9
Margin (%)	12.7	9.8	9.8	10.0
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	776	638	772	748
Avg. Shares O/s (m)	19	19	19	19
EPS (Rs)	40.9	33.6	40.7	39.4

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	9-Oct-17	Accumulate	5,819	6,061
2	10-Jan-18	Accumulate	7,276	7,346
3	24-Jan-18	Accumulate	8,820	7,895
4	28-May-18	Accumulate	8,086	7,545
5	11-Jun-18	Accumulate	8,086	7,545
6	10-Jul-18	Accumulate	8,086	6,930

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	146	111
2	Atul Auto	Accumulate	397	394
3	Bajaj Auto	Reduce	2,573	2,684
4	Bharat Forge	Accumulate	760	620
5	CEAT	Accumulate	1,451	1,324
6	Eicher Motors	Accumulate	33,516	28,079
7	Exide Industries	Accumulate	281	262
8	Hero Motocorp	Accumulate	3,824	3,110
9	Mahindra & Mahindra	BUY	1,041	894
10	Maruti Suzuki	BUY	10,705	9,396
11	Motherson Sumi Systems	Accumulate	373	293
12	Tata Motors	BUY	378	269
13	TVS Motors	Accumulate	678	561
14	Wabco India	Accumulate	8,086	6,930

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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