

## Healthy performance; turning CV cycle boosts outlook

Wabco India (WIL) reported a relatively healthy Q2FY21 performance. Net sales were at ₹ 419 crore, down 6% YoY (domestic down 19%, exports up 8%, aftermarket performance flattish YoY). EBITDA in Q2FY21 was at ₹ 63 crore with corresponding EBITDA margins at 15.1%, up 330 bps YoY. PAT was up 3.5% YoY to ₹ 35.1 crore. The management sounded confident of industry leading growth over FY21-23E amid near bottoming out of CV cycle with increase in content per vehicle under BS-6 regime as well as cost competitive nature of exports & technology support by the wider ZF group.

## CV improvement underway in key markets

WIL has a dominant presence in the domestic CV braking solutions segment with a presence across OEM, replacement, export channels. The company also serves the M&HCV space in Europe and the US Class 8 truck market. The Indian M&HCV space has been suffering from an elongated slowdown beginning from FY20 courtesy a variety of demand and supply side issues such as slow economic growth, lower fleet utilisation, overcapacity (revised axle load norms), tighter financing availability and cost escalation under BS-VI. Covid disruption further added to the industry's woes, with wholesale offtake for major OEMs down ~60-90% YoY in H1FY21. However, sequential improvement (in trucks space in particular) in recent months is encouraging. Firmer freight rates and goods movement along with improvement in industrial and economic activity post lifting of Covid related restrictions is leading to improvement in outlook for the M&HCV industry (ex-buses, which could continue being laggards for some more time). A ~30% YoY rise in cumulative new US Class 8 truck orders for April - August 2020 further adds to optimism around CV dependent ancillaries like WIL.

## Increasing content per vehicle remains focus area

WIL has over the years outperformed user industries courtesy a clear focus on increasing kit value while transforming itself into a complete solutions provider. BS-VI switchover along with implementation of revised axle load norms have provided further such opportunities to the company while it is also working on introduction of offerings not yet mandated by law such as electronic stability control and air disc brakes. Additionally, WIL is also important as a sourcing hub for global parents Wabco and ZF given its frugal engineering capabilities, providing it an exports growth lever.

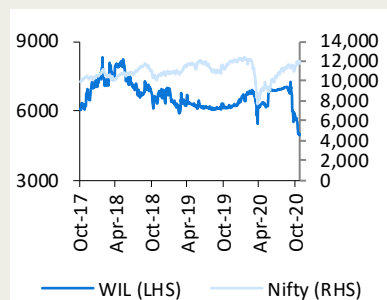
## Valuation & Outlook

We build 11%, 15.9% sales, PAT CAGR, respectively, for WIL in FY20-23E, with margins seen improving to erstwhile ~15% trajectory by that time. We value WIL at ₹ 5,220 i.e. 40x P/E on FY23E EPS of ₹ 130.5/share, upgrading it from SELL to **HOLD**. Key risk to our call is the impending stake sale by the new promoter (~18%) to comply with minimum public shareholding norms.



Particulars	
Particular	Amount
Market Capitalization	₹ 9265.7 Crore
Total Debt (FY 20)	₹ 0 Crore
Cash & Inv. (FY 20)	₹ 1003.6 Crore
E V	₹ 8262.1 Crore
52 week H/L (₹)	7623 / 4877
Equity capital	₹ 9.5 Crore
Face value	₹ 5

### Price chart



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### Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	2,854.2	1,929.6	1,545.8	2,055.7	2,636.8	11.0%
EBITDA	409.9	251.5	166.8	276.6	396.3	16.4%
EBITDA Margins (%)	14.4	13.0	10.8	13.5	15.0	
Net Profit	282.3	158.8	79.6	161.4	247.5	15.9%
EPS (₹)	148.8	83.7	42.0	85.1	130.5	
P/E	32.8	58.3	116.4	57.4	37.4	
RoNW (%)	15.9	8.4	4.1	7.7	10.7	
RoCE (%)	23.0	11.8	6.0	10.5	14.4	

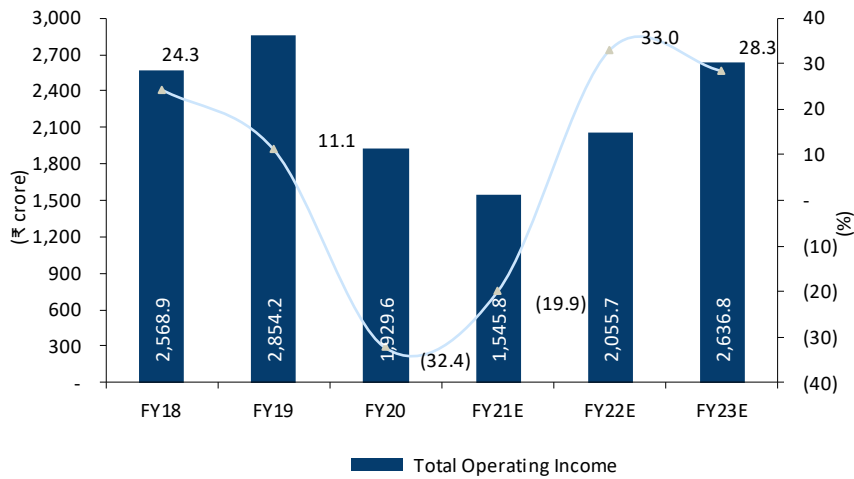
Source: Company, ICICI Direct Research

## Conference call highlights

- **WIL witnessed some increase in kit value under BS-VI, as OEM clients upgraded braking equipment to simultaneously cater to revised axle load norms.** Additionally, some OEMs have implemented applications related to driver comfort (integral pedal unit) in recent times, while some are incorporating features in the area of connected vehicles also. **The company sees connected vehicle features in CVs as a huge opportunity, going forward.** It has also introduced reverse parking assist sensors to address AIS 145 opportunity
- In India, a majority of vehicle features that address safety till recently have been initiated following regulatory requirement. However, OEMs now are viewing additional safety features as a product differentiator. The company has introduced such optional solutions like electronic stability control, air disc brakes
- **India is emerging as a best cost exporter in product areas like air compressors due to its frugal engineering prowess.** For WIL, the parent company is sourcing from India for global customers in air compressors and actuators, which presents a merchandise exports growth lever. **The company also expects service exports to grow. WIL expects to have an important role in global sourcing by parent & ZF**
- In aftermarket, the company, in recent times, has introduced diesel exhaust fluid (equivalent to 'adblue') and solutions on the fleet management & hydraulic side
- India is following the global trend of upgradation in air compressors (from 160 cc to 230 cc to 380 cc), largely on account of introduction of heavier capacity vehicles
- **To cater to EVs, Wabco has capabilities in e-compressors, advanced braking systems and electronic controls for air systems.** ZF, on the other hand, possesses strength in ADAS, electric motors, electric drives, DC-AC convertors and DC-DC convertors. ZF and Wabco will work together to meet customer needs. WIL has already partnered with some OEMs in India for providing braking solutions in electric buses e.g. air disc brakes
- Acquisition of parent by ZF provides an opportunity of receiving technological support to help improve kit value further
- **As per regulation, the promoter stake in WIL is required to be brought down to 75% in one year**
- **Going forward, WIL would stick to its core competence i.e. M&HCV safety solutions**
- **Directionally, the organisation is slated to be much leaner for the next CV upcycle than the previous one**

## Financial story in charts

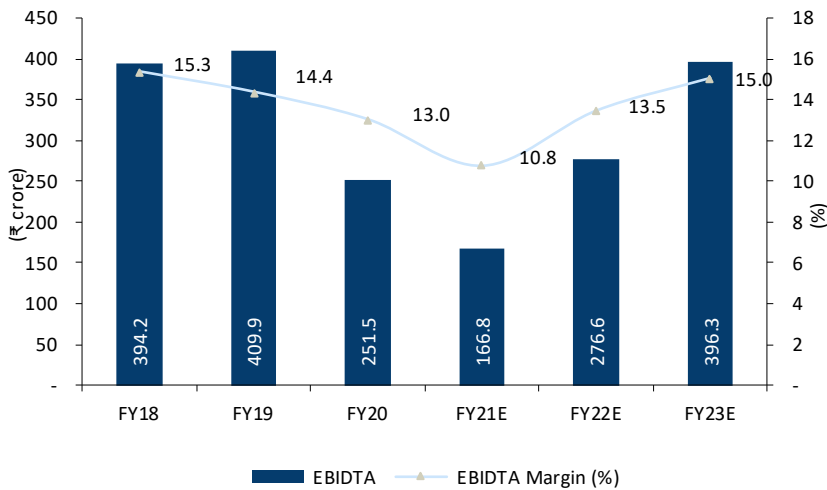
Exhibit 1: Topline trend



Net sales are seen growing at a CAGR of 11% over FY20-23E

Source: Company, ICICI Direct Research

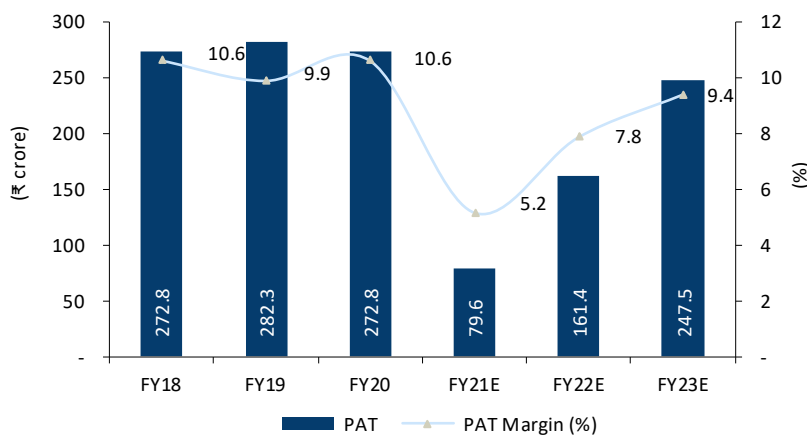
Exhibit 2: EBITDA, EBITDA margin trend



We expect margins to come back to earlier 15% trajectory by FY23E

Source: Company, ICICI Direct Research

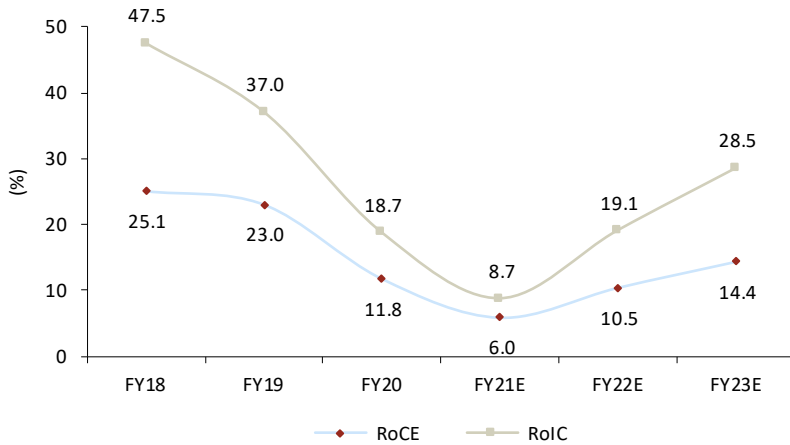
Exhibit 3: Profitability trend



PAT CAGR is expected to be at ~16% CAGR over FY20-23E

Source: Company, ICICI Direct Research

Exhibit 4: Return ratios trend



Uptick in margins is seen leading to sharp improvement in return ratios

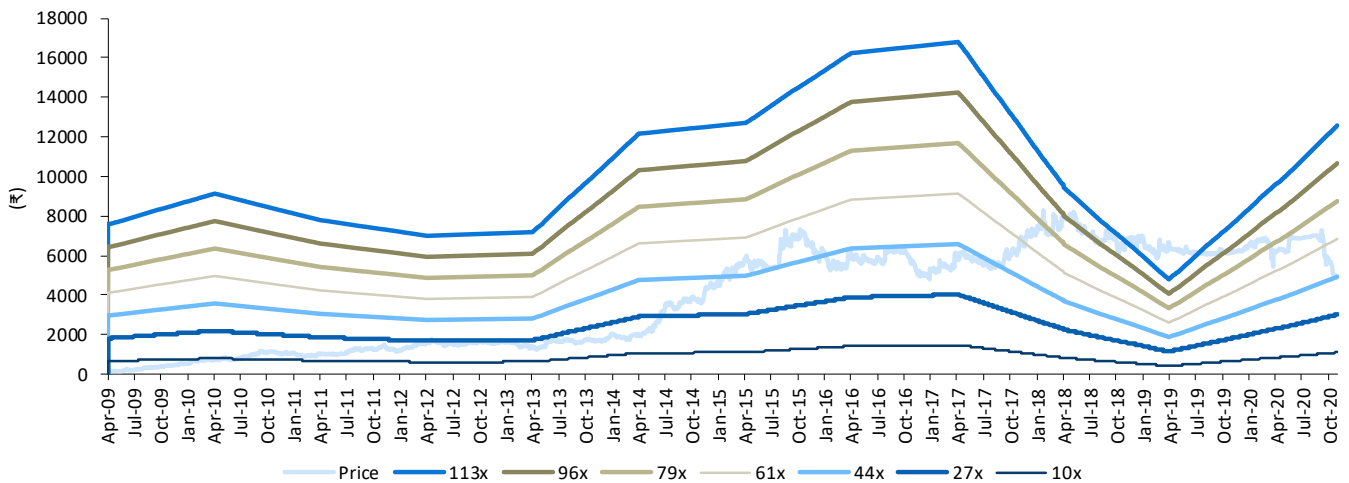
Source: Company, ICICI Direct Research

Exhibit 5: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY 19	2854.2	11.1	148.8	3.5	32.8	20.5	15.9	23.0
FY 20	1929.6	-32.4	83.7	-43.7	58.3	32.9	8.4	11.8
FY 21E	1545.8	-19.9	42.0	-49.9	116.4	48.5	4.1	6.0
FY 22E	2055.7	33.0	85.1	102.6	57.4	29.2	7.7	10.5
FY 23E	2636.8	28.3	130.5	53.4	37.4	20.1	10.7	14.4

Source: Bloomberg, ICICI Direct Research

Exhibit 6: Wabco currently trades at ~37x FY23E EPS of ₹ 130.5 per share



Source: Bloomberg, ICICI Direct Research

Exhibit 7: Shareholding pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	75.0	75.0	75.0	75.0	93.1
FII	2.7	2.8	2.7	2.6	0.2
DII	9.5	9.1	8.8	9.1	0.1
Others	12.8	13.1	13.5	13.3	6.5

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Total operating income</b>	<b>1,929.6</b>	<b>1,545.8</b>	<b>2,055.7</b>	<b>2,636.8</b>
Growth (%)	-32.4	-19.9	33.0	28.3
Raw Material Expenses	1,148.7	885.2	1,211.4	1,570.1
Employee Expenses	265.7	278.5	299.7	334.5
Other Expenses	263.7	215.3	268.0	335.9
Total Operating Expenditure	1,678.1	1,379.0	1,779.1	2,240.5
<b>EBITDA</b>	<b>251.5</b>	<b>166.8</b>	<b>276.6</b>	<b>396.3</b>
Growth (%)	-38.7	-33.7	65.8	43.3
Depreciation	90.1	100.5	110.0	120.6
Interest	1.9	3.5	4.0	3.2
Other Income	63.9	50.6	53.1	58.4
<b>PBT</b>	<b>223.3</b>	<b>113.4</b>	<b>215.7</b>	<b>330.9</b>
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	64.5	33.8	54.4	83.4
<b>PAT</b>	<b>158.8</b>	<b>79.6</b>	<b>161.4</b>	<b>247.5</b>
Growth (%)	-43.7	-49.9	102.6	53.4
<b>EPS (₹)</b>	<b>83.7</b>	<b>42.0</b>	<b>85.1</b>	<b>130.5</b>

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Profit after Tax</b>	<b>158.8</b>	<b>79.6</b>	<b>161.4</b>	<b>247.5</b>
Add: Depreciation	90.1	100.5	110.0	120.6
Sub: Other Income	63.9	50.6	53.1	58.4
(Inc)/dec in Current Assets	341.5	52.1	-201.0	-200.1
Inc/(dec) in CL and Provisions	-257.1	40.9	100.3	114.3
<b>CF from operating activities</b>	<b>271.3</b>	<b>226.0</b>	<b>121.5</b>	<b>227.2</b>
(Inc)/dec in Investments	-228.9	-120.0	0.0	-100.0
(Inc)/dec in Fixed Assets	-131.8	-100.0	-100.0	-100.0
Other Income & Misc	72.8	57.6	43.8	47.7
<b>CF from investing activities</b>	<b>(313.6)</b>	<b>(146.1)</b>	<b>(77.8)</b>	<b>(176.9)</b>
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	0.0	0.0	0.0	0.0
Dividend paid & dividend tax	-22.9	-19.0	-22.8	-26.6
Others	-23.2	-3.5	-4.0	-3.2
<b>CF from financing activities</b>	<b>(46.1)</b>	<b>(22.4)</b>	<b>(26.8)</b>	<b>(29.8)</b>
Net Cash flow	-88.4	57.5	17.0	20.5
Opening Cash	549.6	461.2	518.7	535.6
<b>Closing Cash</b>	<b>461.2</b>	<b>518.7</b>	<b>535.6</b>	<b>556.2</b>

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	9.5	9.5	9.5	9.5
Reserve and Surplus	1,885.1	1,945.7	2,084.3	2,305.3
<b>Total Shareholders funds</b>	<b>1,894.6</b>	<b>1,955.2</b>	<b>2,093.8</b>	<b>2,314.8</b>
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	14.1	14.1	14.1	14.1
<b>Total Liabilities</b>	<b>1,917.4</b>	<b>1,978.1</b>	<b>2,116.7</b>	<b>2,337.6</b>
<b>Assets</b>				
Gross Block	1,026.1	1,136.1	1,236.1	1,336.1
Less: Acc Depreciation	555.1	655.6	765.6	886.2
<b>Net Block</b>	<b>471.0</b>	<b>480.4</b>	<b>470.5</b>	<b>449.8</b>
Capital WIP	30.0	20.0	20.0	20.0
Total Fixed Assets	500.9	500.4	490.5	469.8
Investments	542.4	662.4	662.4	762.4
Inventory	112.6	101.6	140.8	180.6
Debtors	363.5	338.8	478.7	614.1
Loans and Advances	71.3	57.1	75.9	97.4
Other current assets	11.6	9.3	12.4	15.9
<b>Cash</b>	<b>461.2</b>	<b>518.7</b>	<b>535.6</b>	<b>556.2</b>
Total Current Assets	1,020.2	1,025.5	1,243.4	1,464.1
Creditors	156.5	211.8	281.6	361.2
Provisions	14.1	14.1	14.1	14.1
Other Current Liabilities	94.3	75.6	100.5	128.9
Total Current Liabilities	264.9	301.4	396.2	504.2
<b>Net Current Assets</b>	<b>755.3</b>	<b>724.1</b>	<b>847.2</b>	<b>959.9</b>
Other non-current Assets	82	65	87	112
<b>Application of Funds</b>	<b>1,917.4</b>	<b>1,978.1</b>	<b>2,116.7</b>	<b>2,337.6</b>

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
<b>Per share data (₹)</b>				
EPS	83.7	42.0	85.1	130.5
Cash EPS	131.2	95.0	143.1	194.1
BV	998.8	1,030.8	1,103.9	1,220.4
DPS	10.0	10.0	12.0	14.0
Cash Per Share	243.2	273.5	282.4	293.2
<b>Operating Ratios (%)</b>				
EBITDA Margin	13.0	10.8	13.5	15.0
EBIT / Net sales	8.4	4.3	8.1	10.5
PAT Margin	8.2	5.2	7.8	9.4
Inventory days	21.3	24.0	25.0	25.0
Debtor days	29.6	50.0	50.0	50.0
Creditor days	68.8	80.0	85.0	85.0
<b>Return Ratios (%)</b>				
RoE	8.4	4.1	7.7	10.7
RoCE	11.8	6.0	10.5	14.4
RoIC	18.7	8.7	19.1	28.5
<b>Valuation Ratios (x)</b>				
P/E	58.3	116.4	57.4	37.4
EV / EBITDA	32.9	48.5	29.2	20.1
EV / Net Sales	4.3	5.2	3.9	3.0
Market Cap / Sales	4.8	6.0	4.5	3.5
Price to Book Value	4.9	4.7	4.4	4.0
<b>Solvency Ratios</b>				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	3.3	2.2	2.3	2.3
<b>Quick Ratio</b>	<b>2.6</b>	<b>1.8</b>	<b>1.9</b>	<b>1.9</b>

Source: Company, ICICI Direct Research

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