

Improving outlook, kit value focus prompt BUY...

Wabco India (WIL) reported a strong Q3FY21 performance. Net sales were at ₹ 566 crore, up ~29% YoY on the back of a healthy pick-up in CV performance across domestic and export markets. Margins improved 40 bps QoQ to 15.5%, with the performance being impressive as it encompassed ~450 bps QoQ decline in employee & other expenses as percentage of sales i.e. operating leverage benefits, with gross margins contracting ~420 bps QoQ. Consequent PAT was higher by 35% YoY to ₹ 52 crore.

Domestic commercial vehicle (M&HCV) revival bodes well

WIL is a leader in the Indian CV braking space with a diversified presence across clients and channels i.e., OEM, aftermarket and exports. Domestic CV industry has been on a ~22 month declining trajectory since FY20. With a typical CV down cycle lasting about two years, we believe the cyclical bottom has been surpassed. Increase in offtake for trucks in recent months on the back of tangible pickup in infra, construction and mining space point to this direction – however buses remain an area of concern given the limited operations of schools, offices and travel activities. Recent Union Budget announcements in relation to increased capex spends, procurement of buses and proposed scrappage policy are additional positives for CV industry to varying degrees and thereby for WIL too. We expect steep YoY improvement in industry volumes in coming years on the low base of FY21E. Factoring in the positives, we pencil in ~35% revenue CAGR at WIL over FY21E-23E to ₹3,156 crore in FY23E (₹ 1,725 crore in FY21E).

Thrust on content per vehicle, exports additional positives

The company's status as a technology pioneer (over the years has been the first to introduce ABS, AMT, ESC, ADAS, etc, to the Indian CV market) and complete solutions provider has led to substantial outperformance vis-à-vis industry, translating into ever increasing content per vehicle. Nevertheless, present reading is below other large CV markets (~US\$600 in China, ~US\$1,000 in Brazil and ~US\$1,500 in US), leaving further headroom for realisation led growth. Post-acquisition of WIL's global parent by ZF Friedrichshafen of Germany, it has become a 93.1% subsidiary of the latter. The company has traditionally been an important sourcing hub for Wabco Holdings (exports accounting for >30% of sales) on account of its cost advantage and proven engineering capabilities. The same is set to continue under the new regime, providing further exports impetus for WIL.

Valuation & Outlook

We build ~70% PAT CAGR for WIL in FY21E-23E (albeit on a low base), with margins seen improving to ~15.5% trajectory by that time due to better operating leverage and increasing share of value additive products. We value WIL at ₹ 7,350 i.e. 45x P/E on FY23E EPS of ₹ 164/share, upgrading it from HOLD to **BUY** (earlier TP: ₹ 5,220). We believe premium valuations are justified amid MNC parentage and CV cycle upswing in the offing.

Key Financial Summary

Key Financials	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY21E-23E)
Net Sales	2,854.2	1,929.6	1,725.0	2,613.6	3,156.4	35.3%
EBITDA	409.9	251.5	205.8	379.1	490.4	54.4%
EBITDA Margins (%)	14.4	13.0	11.9	14.5	15.5	
Net Profit	282.3	158.8	107.6	226.7	310.5	69.9%
EPS (₹)	148.8	83.7	56.7	119.5	163.7	
P/E	41.8	74.4	109.7	52.1	38.0	
RoNW (%)	15.9	8.4	5.4	10.4	12.6	
RoCE (%)	23.0	11.8	7.8	14.0	16.9	

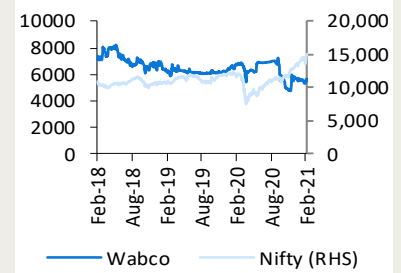
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization	₹ 11807.3 Crore
Total Debt (FY20)	₹ 0 Crore
Cash & Inv. (FY20)	₹ 1003.6 Crore
EV	₹ 10803.7 Crore
52 week H/L (₹)	7623 / 4770
Equity capital	₹ 9.5 Crore
Face value	₹ 5

Price Performance



Key Highlights

- Q3FY21 revenues up 29% YoY driven by domestic, global CV uptick. Margins up 40 bps QoQ to 15.5% on operating leverage benefits
- Demand revival in India, export focus bodes well. WIL to continue to play important role in ZF-Wabco combined entity.

Risks to our call

- Impending stake sale by ZF (~18% group (post open offer) to comply with public holding norms
- Slower than anticipated pick up in M&HCV volumes over FY21E-23E

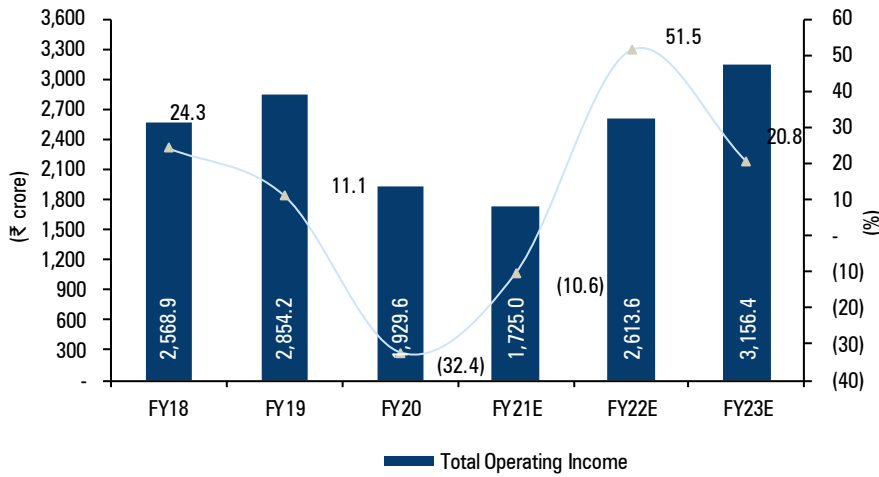
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Financial story in charts

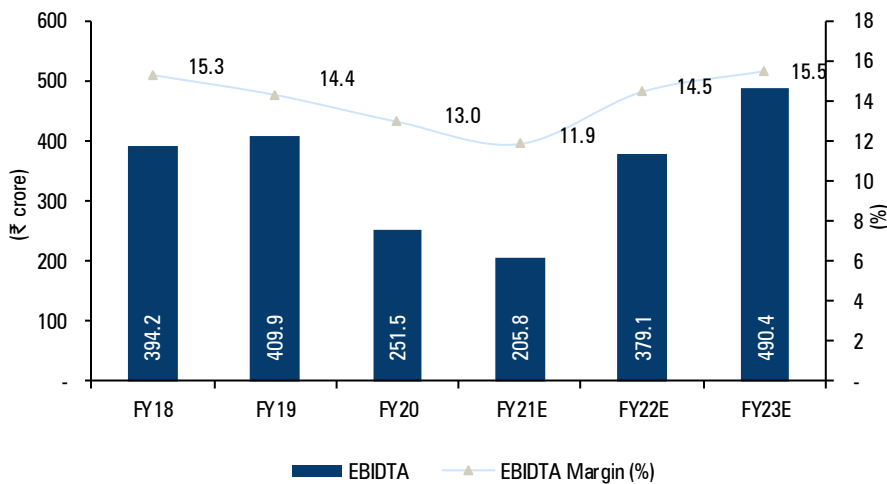
Exhibit 1: Topline trend



Net sales are seen growing at a CAGR of 35% over FY21E-23E

Source: Company, ICICI Direct Research

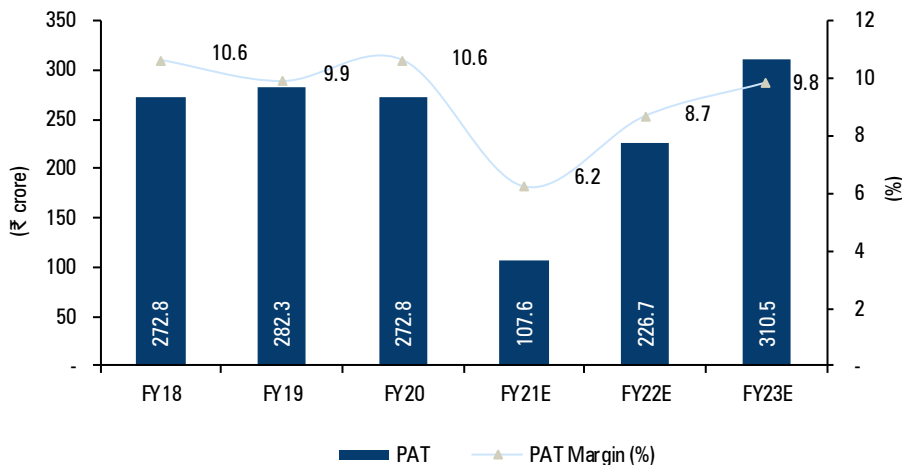
Exhibit 2: EBITDA, EBITDA margin trend



We expect margins to revert back to its erstwhile 15%+ trajectory by FY23E

Source: Company, ICICI Direct Research

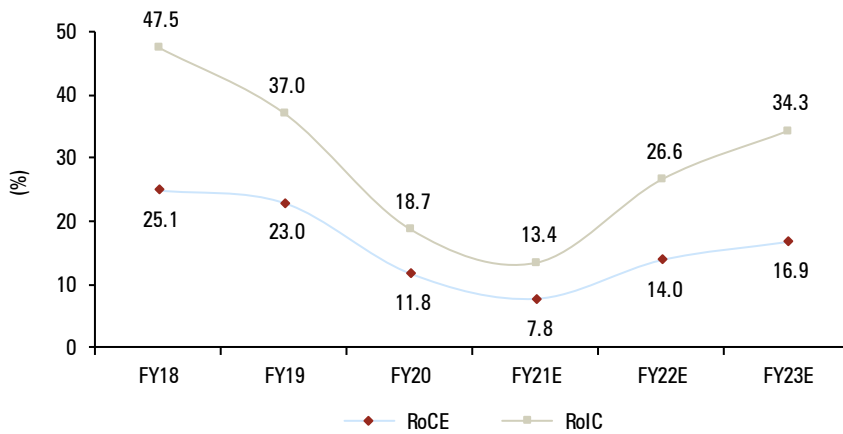
Exhibit 3: Profitability trend



PAT CAGR is expected to be at ~70% CAGR over FY21E-23E, albeit on a low base

Source: Company, ICICI Direct Research

Exhibit 4: Return ratios trend



Uptick in margins is seen leading to sharp improvement in return ratios with RoICs seen clocking >30% by FY23E

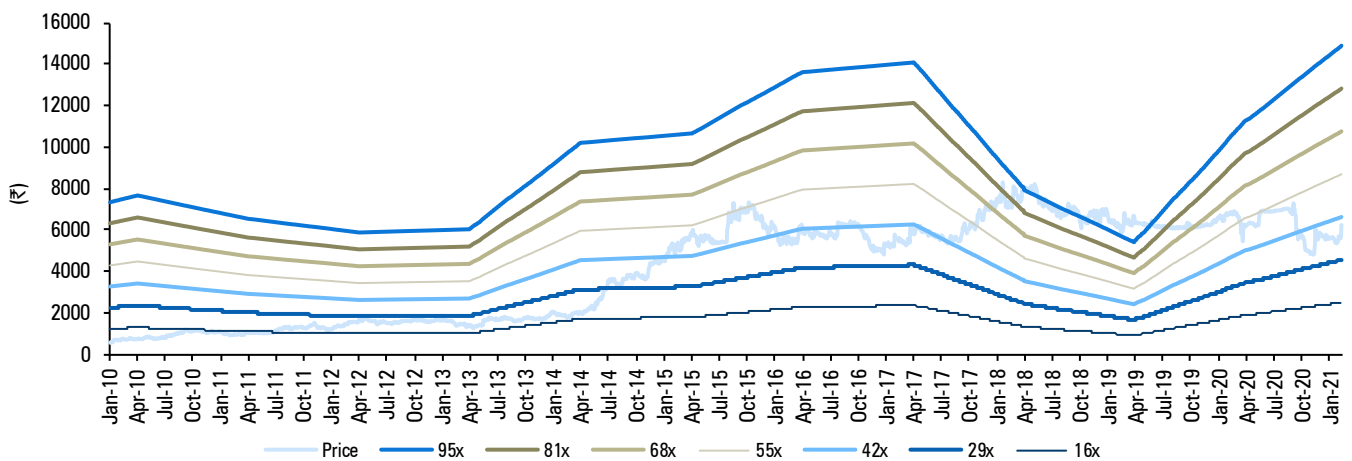
Source: Company, ICICI Direct Research

Exhibit 5: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY19	2854.2	11.1	148.8	3.5	41.8	26.7	15.9	23.0
FY20	1929.6	-32.4	83.7	-43.7	74.4	43.0	8.4	11.8
FY21E	1725.0	-10.6	56.7	-32.2	109.7	51.8	5.4	7.8
FY22E	2613.6	51.5	119.5	110.7	52.1	28.0	10.4	14.0
FY23E	3156.4	20.8	163.7	36.9	38.0	21.3	12.6	16.9

Source: Company, ICICI Direct Research

Exhibit 6: Two-year forward P/E Chart (WIL currently trades at ~38x P/E FY23E EPS of ₹ 163.7 per share)



Source: Bloomberg, ICICI Direct Research

Exhibit 7: Shareholding pattern

	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20
Promoters	75.0	75.0	75.0	93.1	93.1
FII	2.8	2.7	2.6	0.2	0.2
DII	9.1	8.8	9.1	0.1	0.1
Others	13.1	13.5	13.3	6.6	6.6

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Total operating Income	1,929.6	1,725.0	2,613.6	3,156.4
Growth (%)	-32.4	-10.6	51.5	20.8
Raw Material Expenses	1,148.7	1,015.3	1,604.7	1,957.6
Employee Expenses	265.7	285.0	317.2	340.2
Other Expenses	263.7	218.9	312.6	368.2
Total Operating Expenditure	1,678.1	1,519.2	2,234.5	2,665.9
EBITDA	251.5	205.8	379.1	490.4
Growth (%)	-38.7	-18.2	84.2	29.4
Depreciation	90.1	94.9	117.6	126.3
Interest	1.9	2.1	4.0	3.2
Other Income	63.9	44.9	45.6	54.1
PBT	223.3	153.8	303.1	415.1
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	64.5	46.2	76.4	104.6
PAT	158.8	107.6	226.7	310.5
Growth (%)	-43.7	-32.2	110.7	36.9
EPS (₹)	83.7	56.7	119.5	163.7

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	158.8	107.6	226.7	310.5
Add: Depreciation	90.1	94.9	117.6	126.3
Sub: Other Income	63.9	44.9	45.6	54.1
(Inc)/dec in Current Assets	341.5	-35.0	-305.9	-186.9
Inc/(dec) in CL and Provisions	-257.1	76.1	174.8	106.8
CF from operating activities	271.3	200.8	171.6	305.7
(Inc)/dec in Investments	-228.9	-120.0	0.0	-175.0
(Inc)/dec in Fixed Assets	-131.8	-100.0	-100.0	-100.0
Other Income & Misc	72.8	48.7	29.3	44.1
CF from investing activities	(313.6)	(162.6)	(108.3)	(253.9)
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	-2.1	-4.0	-3.2
CF from financing activities	(46.1)	(21.1)	(26.8)	(29.8)
Net Cash flow	-88.4	17.1	36.5	22.1
Opening Cash	549.6	461.2	478.3	514.8
Closing Cash	461.2	478.3	514.8	536.9

Source: Company, ICICI Direct Research

Exhibit 10: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	9.5	9.5	9.5	9.5
Reserve and Surplus	1,885.1	1,973.7	2,177.7	2,461.6
Total Shareholders funds	1,894.6	1,983.2	2,187.2	2,471.1
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	14.1	14.1	14.1	14.1
Total Liabilities	1,917.4	2,006.0	2,210.0	2,493.9
Assets				
Gross Block	1,026.1	1,136.1	1,236.1	1,336.1
Less: Acc Depreciation	555.1	650.0	767.6	893.9
Net Block	471.0	486.0	468.4	442.2
Capital WIP	30.0	20.0	20.0	20.0
Total Fixed Assets	500.9	506.0	488.4	462.2
Investments	542.4	662.4	662.4	837.4
Inventory	112.6	118.2	179.0	216.2
Debtors	363.5	401.7	608.6	735.0
Loans and Advances	71.3	63.7	96.5	116.6
Other current assets	11.6	10.4	15.7	19.0
Cash	461.2	478.3	514.8	536.9
Total Current Assets	1,020.2	1,072.2	1,414.7	1,623.7
Creditors	156.5	236.3	358.0	432.4
Provisions	14.1	14.1	14.1	14.1
Other Current Liabilities	94.3	84.3	127.7	154.3
Total Current Liabilities	264.9	334.7	499.9	600.8
Net Current Assets	755.3	737.5	914.8	1,022.9
Other non-current Assets	82	73	111	134
Application of Funds	1,917.4	2,006.0	2,210.0	2,493.9

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	83.7	56.7	119.5	163.7
Cash EPS	131.2	106.7	181.5	230.2
BV	998.8	1,045.6	1,153.1	1,302.8
DPS	10.0	10.0	12.0	14.0
Cash Per Share	243.2	252.2	271.4	283.1
Operating Ratios (%)				
EBITDA Margin	13.0	11.9	14.5	15.5
EBIT / Net sales	8.4	6.4	10.0	11.5
PAT Margin	8.2	6.2	8.7	9.8
Inventory days	21.3	25.0	25.0	25.0
Debtor days	29.6	50.0	50.0	50.0
Creditor days	68.8	85.0	85.0	85.0
Return Ratios (%)				
RoE	8.4	5.4	10.4	12.6
RoCE	11.8	7.8	14.0	16.9
RoIC	18.7	13.4	26.6	34.3
Valuation Ratios (x)				
P/E	74.4	109.7	52.1	38.0
EV / EBITDA	43.0	51.8	28.0	21.3
EV / Net Sales	5.6	6.2	4.1	3.3
Market Cap / Sales	6.1	6.8	4.5	3.7
Price to Book Value	6.2	6.0	5.4	4.8
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	3.3	2.3	2.3	2.3
Quick Ratio	2.6	1.9	1.9	1.9

Source: Company, ICICI Direct Research

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