

Quality franchise, recommend subscribe in OFS...

ZF International UK i.e. the principal shareholder (promoter group) of Wabco India (WIL) proposes to sell up to 34.34 lakh shares or 18.1% stake (including green-shoe option) in WIL to comply with minimum public shareholding norms. The promoter group intend is to reduce its stake in WIL from 93.1% to 75% post offer-for-sale (OFS). It has set a floor price of ₹5,450/share in the proposed OFS with allocation in OFS on price priority basis. The minimum issue size thus stands at ₹1,872 crore. The offer will open on 25th March, 2021 for non-retail category and on 26th March, 2021 for retail category -with a minimum of 10% of the shares being reserved for retail category.

Market leader with robust premiumisation, exports prospects

WIL is a leader in the Indian CV braking space with a diversified presence across clients and channels i.e., OEM, aftermarket and exports. 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. WIL 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.

Worst of CV downcycle behind us, future outlook promising

Domestic CV industry has been in the cyclical downtrend amidst host of demand and supply side constraints such as slowing economic activity, overcapacity, financing crunch, BS-VI transition and the Covid-19 pandemic. However, improvement in offtake of M&HCV trucks at key OEMs over past few months is an encouraging sign amid pickup in demand from key sectors like mining, road building and construction. With a typical CV down cycle lasting about two years, we believe the cyclical bottom has been surpassed. However, buses remain an area of concern given the limited operations of schools, offices and travel activities. Recent policy interventions in the form of procurement of buses, voluntary scrappage policy are additional positives for CV industry to varying degrees and thereby for WIL too. Our estimates build 35% revenue CAGR at WIL over FY21E-23E to ₹3,156 crore in FY23E.

Valuation & Outlook

We hold a **positive view on WIL** amidst the cyclical upturn in its user segments i.e. Commercial Vehicles, promoter's intent to increase global sourcing from its Indian arm and wider product basket post the global acquisition of its erstwhile parent by ZF group. Henceforth **we recommend investors to subscribe in the upcoming OFS**. With forward assumptions & financials remaining unchanged, we retain our **BUY** rating on the stock with unchanged target price at ₹ 7,350 i.e., 45x P/E on FY23E EPS of ₹ 164/share.

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	41.0	72.9	107.6	51.0	37.3	
RoNW (%)	15.9	8.4	5.4	10.4	12.6	
RoCE (%)	23.0	11.8	7.8	14.0	16.9	

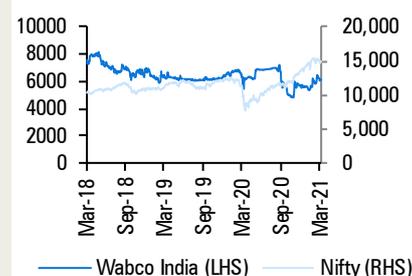
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization	₹ 11574 Crore
Total Debt (FY20)	₹ 0 Crore
Cash & Inv. (FY20)	₹ 1003.6 Crore
EV	₹ 10570.4 Crore
52 week H/L (₹)	7623 / 4770
Equity capital	₹ 9.5 Crore
Face value	₹ 5

Price Performance



Key Highlights

- ZF group launches an OFS to comply with minimum public shareholding norms. It proposes to sell up to 34.34 lakh shares i.e., 18.1% stake, incl. green-shoe option
- OFS floor price set at ₹ 5,450/share with allocation on price priority basis. Minimum 10% of OFS is reserved for the retail category.

Risks to our call

- Slower than anticipated pick up in M&HCV volumes over FY21E-23E
- Commodity cost increase escalation could elongate return to previous margin trajectory

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Financial Summary

Exhibit 1: 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 2: 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 3: 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 4: 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	72.9	107.6	51.0	37.3
EV / EBITDA	42.0	50.7	27.4	20.8
EV / Net Sales	5.5	6.0	4.0	3.2
Market Cap / Sales	6.0	6.7	4.4	3.7
Price to Book Value	6.1	5.8	5.3	4.7
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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Buy: >15%

Hold: -5% to 15%;

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Sell: <-15%



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