

ZF Commercial Vehicle Control System (WABIND)

CMP: ₹ 8,010

Target: ₹ 9,600 (20%)

Target Period: 12 months

BUY

May 24, 2022

CV cyclical recovery, exports –key catalyst for growth

About the stock: ZF Commercial Vehicle Control Systems India (ZFCV) (erstwhile Wabco India), now part of the ZF Group, is the market leader in CV braking space and a technology-focused complete solutions provider.

- FY22 sales channel mix – OEM ~45%, aftermarket ~14%, exports ~41%
- FY22 product mix: sale of products ~91%, services ~9%

Q4FY22 Results: The company reported a healthy performance in Q4FY22.

- Total operating income for the quarter came in at ₹ 782 crore, up 20%QoQ
- EBITDA came in at ₹ 89 crore with margins at 11.4%, up 240 bps QoQ
- PAT for the quarter was at ₹ 56.6 crore, up 78% on a QoQ basis

What should investors do? ZFCV's share price has grown at ~6% CAGR from ~₹ 5,940 in May 2017, thereby outperforming Nifty Auto index in that time.

- We retain **BUY** as ZFCV will be a key beneficiary of CV cyclical recovery amidst new promoter i.e. ZF group's intent to increase sourcing from India

Target Price and Valuation: Upgrading our estimates, we now value the company at ₹ 9,600 i.e. 48x P/E on FY24E EPS (earlier target price ₹ 9,530).

Key triggers for future price performance:

- Domestic CV space amid cyclical upswing, greater infrastructure spend by the central government and revived private capex cycle, with ZFCV a key beneficiary of the same. We build ~27.4% sales CAGR over FY22-24E amid proven ability to outperform the user industry
- New product development including on futuristic technology fronts i.e., connected, autonomous and electric vehicles
- Gains in content per vehicle amidst introduction of value added products & services (~potential kit value at 3x from current levels of ~₹ 45,000/unit)
- With thrust to increase localisation (currently placed at ~80-85%) and o/p leverage at play; margins, RoCE seen at ~14,17%, respectively, by FY24E

Alternate Stock Idea: Besides WIL, in our ancillary coverage we like Apollo Tyres.

- India CV revival beneficiary, focused on debt reduction, higher return ratios
- BUY with a target price of ₹ 250



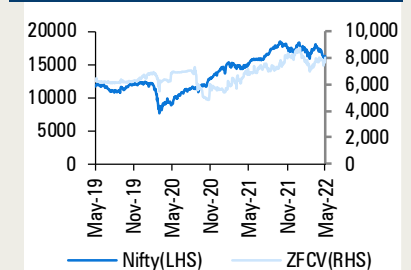
Particulars

Particular	Amount
Market Capitalization	₹ 15193 Crore
Total Debt (FY22P)	₹ 0 Crore
Cash & Inv. (FY22P)	₹ 1067.2 Crore
EV	₹ 14125.9 Crore
52 week H/L (₹)	8780 / 6644
Equity capital	₹ 9.5 Crore
Face value	₹ 5

Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	77.0	75.0	75.0	75.0
FII	0.6	0.7	0.8	0.7
DII	14.1	16.2	16.3	16.5
Other	8.3	8.1	7.9	7.8

Price Chart



Recent event & key risks

- Reported healthy Q4FY22 results
- Key Risk:** (i) Slower than anticipated sales growth in export market, (ii) Continued pressure on gross margins due to hiked commodity prices

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22P	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	2,854.2	1,929.6	1,863.5	2,543.3	4.2%	3,299.3	4,127.2	27.4%
EBITDA	409.9	251.5	205.8	252.6	-5.0%	418.0	577.7	51.2%
EBITDA Margins (%)	14.4	13.0	11.0	9.9		12.7	14.0	
Net Profit	282.3	158.8	103.8	142.1	-7.8%	267.2	379.4	63.4%
EPS (₹)	148.8	83.7	54.7	74.9		140.9	200.0	
P/E	53.8	95.7	146.4	106.9		56.9	40.0	
RoNW (%)	15.9	8.4	5.2	6.7		11.3	14.0	
RoCE (%)	23.0	8.5	5.8	7.6		13.4	17.1	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY22 Results:

- Total operating income for Q4FY22 came in at ₹ 782 crore, up 20% QoQ. EBITDA was at ₹ 89 crore with margins coming in at 11.4%, up 240 bps QoQ. PAT for the quarter ended was at ₹ 56.6 crore, up 78% QoQ
- On a full year basis; FY22, total operating income was at ₹ 2,543 crore, up 37% YoY; EBITDA was at ₹ 253 crore with corresponding EBITDA margins at 9.9%, down 110 bps YoY and PAT was at ₹ 142 crore, up 37% YoY
- For Q4FY22, gross margins were down 80 bps QoQ while savings were realised under other expense, which came in at 11.5% of sales, down 220 bps QoQ primarily tracking higher utilisation levels

Q4FY22 Earnings Conference Call highlights

- The management expects robust demand in coming years on the back of cyclical upswing in CV space & increased capex spend
- Demand would primarily rise due to: (i) rise in e-commerce operations, (ii) revival in demand of fleet aggregators, (iii) reopening of schools & workplaces to be fruitful for buses, (iv) scrappage policy by the government to further support underlying demand
- The company has received a sizable order from a E-Bus maker for electric compressor with expected content per vehicle of \$1,000-1,300 with further ~€400 addition possible due to EBS. Also it is in discussions with various OEM's for development and adoption of regenerative braking system with application in EVs
- The company has developed its ADAS system for key players in global as well as domestic market
- In the aftermarket, it has developed a digital platform for selling its products and have already received 60,000+ orders from the same
- Exports were impacted due to lockdown in China, higher freight cost and non-availability of containers. For FY22 they were largely flat YoY
- With respect to the plant expansion for export with capex of ~₹ 150 crore, construction for the same got delayed and would commence by end of Q2FY22 and will be fully operational in FY24 (August 2023). The company will continue to incur maintenance capex of ~₹ 100 crore/year as usual
- With respect to channel wise sales to OEM, it was ~₹ 366 crore (up 13% YoY) in Q4FY22. Aftermarket sales was ~₹ 101 crore (up 8% YoY) and exports were at ~₹ 247 crore (up 31% YoY) in Q4FY22
- The company has been approved as applicant for PLI scheme. Going forward, it plans to develop new products under PLI scheme. This would potentially help in increasing content value. The company expects ESC & autonomous braking to be high value products in coming time. Currently, the company will focus on air brakes where it remains a market leader and has added BMW in international market as its client
- The company has developed a few products like brake chamber & automatic slack adjusted, which are developed locally and are gaining good traction in export markets
- Content per vehicle going forward can potentially jump to 3x from current level of ~₹ 45,000 due to adoption of ESC, ABS, EBS, etc

Management remains committed towards attainment of margins in range of 14-15% with various measures in place to attain the same

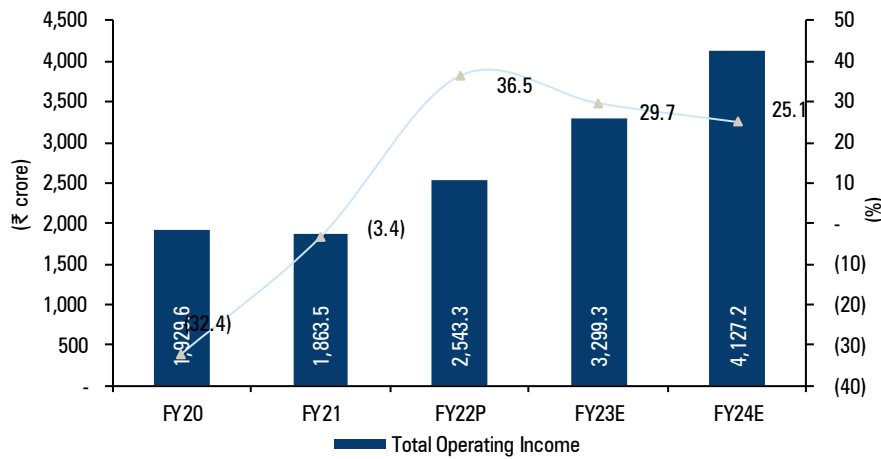
ZFCV aims to recover ~90% of hiked commodity cost from OEM & 100% in replacement market & is on right path for the same.

To remain technologically advance the company is developing connected tech system in coordination with OEMs

ZFCV provides various engineering & software related services to its clients is billed on cost plus margin basis ensuring stable margins

Financial story in charts

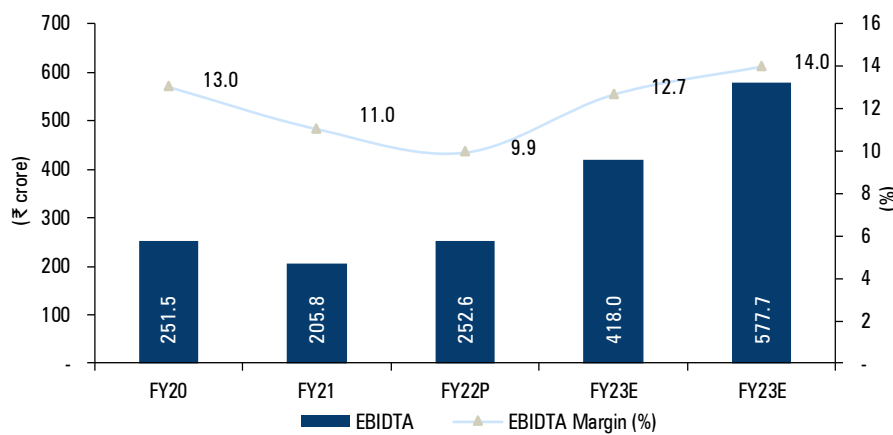
Exhibit 1: Topline trend



We expect topline to grow at a CAGR of ~27.4% over FY22-24E to ₹ 4,127 crore by FY24E

Source: Company, ICICI Direct Research

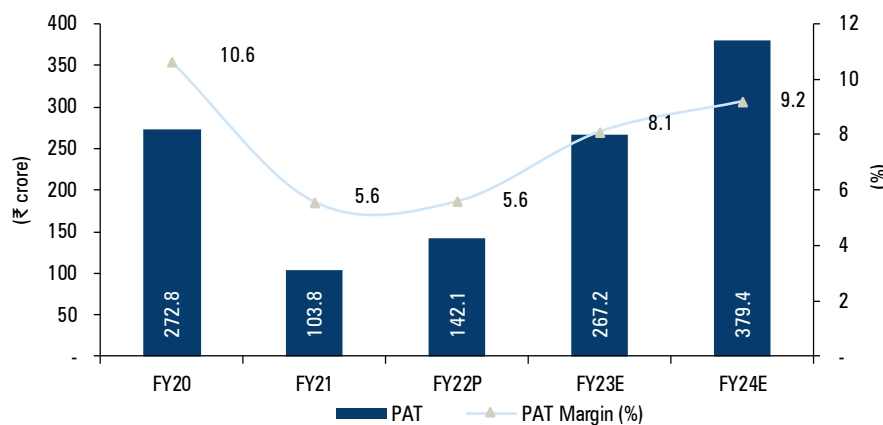
Exhibit 2: Trend in margins



EBITDA margins are seen climbing to 14 % by FY24E vs. ~9.9% levels clocked in FY22

Source: Company, ICICI Direct Research

Exhibit 3: Trend in profitability



PAT is expected to grow to ₹ 379.4 crore by FY24E

Source: Company, ICICI Direct Research

Exhibit 4: Valuation Summary

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY20	1929.6	-32.4	83.7	-43.7	95.7	56.4	8.4	8.5
FY21	1863.5	-3.4	54.7	-34.6	146.4	68.5	5.2	5.8
FY22P	2543.3	36.5	74.9	36.9	106.9	55.9	6.7	7.6
FY23E	3299.3	29.7	140.9	88.1	56.9	33.9	11.3	13.4
FY24E	4127.2	25.1	200.0	42.0	40.0	24.2	14.0	17.1

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 5: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Total operating Income	1,863.5	2,543.3	3,299.3	4,127.2
Growth (%)	-3.4	36.5	29.7	25.1
Raw Material Expenses	1,134.2	1,643.3	2,144.5	2,682.7
Employee Expenses	290.4	328.7	363.1	407.8
Other Expenses	233.1	318.8	373.7	459.0
Total Operating Expenditure	1,657.7	2,290.8	2,881.3	3,549.5
EBITDA	205.8	252.6	418.0	577.7
Growth (%)	-18.2	22.7	65.5	38.2
Depreciation	90.4	92.4	102.3	113.5
Interest	2.0	1.9	1.7	1.5
Other Income	38.9	37.5	43.2	44.5
PBT	152.3	195.8	357.2	507.2
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	48.5	53.7	90.0	127.8
PAT	103.8	142.1	267.2	379.4
Growth (%)	-34.6	36.9	88.1	42.0
EPS (₹)	54.7	74.9	140.9	200.0

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Profit after Tax	103.8	142.1	267.2	379.4
Add: Depreciation	90.4	92.4	102.3	113.5
Sub: Other Income	38.9	37.5	43.2	44.5
(Inc)/dec in Current Assets	-241.9	-86.6	-251.0	-285.7
Inc/(dec) in CL and Provisions	220.6	14.6	139.6	160.1
CF from operating activities	136.0	126.9	216.6	324.3
(Inc)/dec in Investments	-97.6	240.9	50.0	-150.0
(Inc)/dec in Fixed Assets	-71.5	-166.4	-250.0	-100.0
Other Income & Misc	27.2	31.3	29.8	29.9
CF from investing activities	(136.2)	111.4	(194.0)	(246.2)
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	-20.9	-22.8	-24.7	-26.6
Others	16.8	-3.5	-1.7	-1.5
CF from financing activities	(4.0)	(26.2)	(26.4)	(28.1)
Net Cash flow	-4.2	212.1	-3.8	50.1
Opening Cash	461.2	457.0	669.1	665.3
Closing Cash	457.0	669.1	665.3	715.4

Source: Company, ICICI Direct Research

Exhibit 7: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22P	FY23E	FY24E
Liabilities				
Equity Capital	9.5	9.5	9.5	9.5
Reserve and Surplus	1,986.9	2,104.6	2,347.1	2,700.0
Total Shareholders funds	1,996.3	2,114.1	2,356.6	2,709.4
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	11.6	23.9	23.9	23.9
Total Liabilities	2,012.4	2,138.2	2,380.7	2,733.6
Assets				
Gross Block	1,077.8	1,273.7	1,523.9	1,623.9
Less: Acc Depreciation	645.6	738.0	840.3	953.8
Net Block	432.3	535.7	683.6	670.1
Capital WIP	49.7	20.3	20.0	20.0
Total Fixed Assets	482.0	555.9	703.6	690.1
Investments	640.0	399.1	349.1	499.1
Inventory	113.7	144.8	180.8	226.1
Debtors	585.5	666.4	858.7	1,074.2
Loans and Advances	96.9	76.3	99.0	123.8
Other current assets	4.9	0.0	0.0	0.0
Cash	457.0	669.1	665.3	715.4
Total Current Assets	1,257.9	1,556.6	1,803.8	2,139.6
Creditors	342.0	354.6	452.0	565.4
Provisions	11.6	23.9	23.9	23.9
Other Current Liabilities	126.5	119.9	155.5	194.6
Total Current Liabilities	480.2	498.3	631.4	783.8
Net Current Assets	777.7	1,058.2	1,172.4	1,355.7
Other non-current Assets	73	80	104	130
Application of Funds	2,012.4	2,138.2	2,380.7	2,733.7

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
(Year-end March)	FY21	FY22P	FY23E	FY24E
Per share data (₹)				
EPS	54.7	74.9	140.9	200.0
Cash EPS	102.4	123.6	194.8	259.9
BV	1,052.5	1,114.6	1,242.4	1,428.5
DPS	11.0	12.0	13.0	14.0
Cash Per Share	240.9	352.7	350.8	377.2
Operating Ratios (%)				
EBITDA Margin	11.0	9.9	12.7	14.0
EBIT / Net sales	6.2	6.3	9.6	11.2
PAT Margin	5.6	5.6	8.1	9.2
Inventory days	22.3	20.8	20.0	20.0
Debtor days	114.7	95.6	95.0	95.0
Creditor days	67.0	50.9	50.0	50.0
Return Ratios (%)				
RoE	5.2	6.7	11.3	14.0
RoCE	5.8	7.6	13.4	17.1
RoIC	13.5	15.6	23.9	31.4
Valuation Ratios (x)				
P/E	146.4	106.9	56.9	40.0
EV / EBITDA	68.5	55.9	33.9	24.2
EV / Net Sales	7.6	5.6	4.3	3.4
Market Cap / Sales	8.2	6.0	4.6	3.7
Price to Book Value	7.6	7.2	6.4	5.6
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	2.2	2.3	2.4	2.4
Quick Ratio	1.9	2.0	2.0	2.0

Source: Company, ICICI Direct Research

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Sell: <-15%



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