

24 July 2024

India | Equity Research | Q1FY25 results review

ZF Commercial Vehicle Control Systems

Auto Ancillaries

In-line operational result; maintain REDUCE

ZFCVCS' (ZFI) operational performance was in line vs our estimate, with EBITDA at INR 1.4bn (-5% QoQ) in Q1FY25. Revenue was down 2% YoY at INR 9.5bn with OEM/export/aftermarket segment revenue at INR 4.3bn/INR 2.8bn/INR 1.3bn, growth of ~ (4)% / (2)% / 4% YoY, respectively. EBITDAM stood at 14.7% (-50bps QoQ), in line with our estimate, with 120bps higher GM QoQ being balanced out via weaker operating leverage; Q1 is a seasonally weak quarter for CVs in general. We are building in ~13% revenue CAGR for FY24-26E with mean EBITDAM of ~15% led by strong outlook in exports, continued robust growth in services and ~6% CAGR in OEM segment. Maintain **REDUCE** with DCF-based revised TP of INR 13,963 (earlier INR 14,258), implying 48x FY26E EPS. We have cut FY26E EPS by 8% due to ~80bps cut in EBITDAM.

Conference call takeaways, and our views

- Domestic OE sales growth decline of ~4% YoY was largely similar to vehicle production growth decline of 4% YoY (>6ton CV segment). Value growth was lower in Q1 due to mix worsening, with share of ICV segment increasing in Q1FY25, for which the content per vehicle is lower; ZF expects this mix change to reverse. ZFI expects flattish growth in FY25 in its target OEM segment volume. It expects to beat flattish industry growth by ~10% with technology/good performance. Aftermarket was up 4% YoY, driven by higher sales of new products, including door control systems. ZFI expects further growth in this segment led by increasing penetration of torque control system business for one of its leading corporate customers for their employee transportation bus fleet. Exports were 2% lower YoY due to delay in sea shipments leading to increased lead time for exports (from six weeks earlier to nine weeks now) and production slowdown for a key customer. Based on customer demand, ZFI sees exports recovering in FY25, with growth of 15-20% YoY, led by new projects and increasing orderbook in Europe bus and EVs.
- EBITDAM stood at 14.7% (-50bps QoQ) in Q1FY25, in line with I-Sec estimate, with higher employee cost offsetting higher gross margin QoQ. ZFI expects to improve margins further with price increase and cost reduction. Content per vehicle is growing with 1) e-compressors being used in EV bus braking systems – this requires 10x more content than what ZFI currently produces for mechanical system; 2) EBS (higher content/unit vs mechanical system) being fitted in EVs; and 3) ESC for buses. It expects higher adoption of ESC in buses from Sep'25 with regulatory mandate kicking in. ZFI expects regulation on ESC and autonomous emergency braking for trucks to be introduced soon.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	34,442	38,156	43,588	48,917
EBITDA	4,704	5,664	6,538	7,435
EBITDA %	13.7	14.8	15.0	15.2
Net Profit	3,177	4,064	4,816	5,570
EPS (INR)	167.5	214.3	253.9	293.6
EPS % Chg YoY	123.6	27.9	18.5	15.7
P/E (x)	93.0	72.7	61.3	53.0
EV/EBITDA (x)	60.3	49.9	42.5	36.9
RoCE (%)	15.2	16.4	16.5	16.4
RoE (%)	13.2	14.6	14.9	14.9

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Market Data

Market Cap (INR)	295bn
Market Cap (USD)	3,530mn
Bloomberg Code	ZCVCS IN
Reuters Code	ZFCV BO
52-week Range (INR)	18,250 / 11,684
Free Float (%)	25.0
ADTV-3M (mn) (USD)	8.0

Price Performance (%)	3m	6m	12m
Absolute	10.1	(10.4)	27.2
Relative to Sensex	0.8	(23.2)	6.4

Earnings Revisions (%)	FY25E	FY26E
Revenue	(1.3)	(2.7)
EBITDA	(4.5)	(7.6)
EPS	(4.6)	(7.8)

Previous Reports

27-05-2024: [Q4FY24 results review](#)

31-01-2024: [Q3FY24 results review](#)

Exhibit 1: Q1FY25 result summary

INR mn	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Total operating income	9,458	9,668	-2.2	9,586	-1
Raw material costs	5,609	5,993	-6	5,796	-3
As a % of sales	59.3%	62.0%	-268 bps	60.5%	-115 bps
Gross Profit	3,848	3,675	5	3,790	2
Gross margin (%)	40.7%	38.0%	268 bps	39.5%	115 bps
Employee costs	1,365	1,146	19	1,178	16
As a % of sales	14.4%	11.9%	258 bps	12.3%	215 bps
Other expenditures	1,093	1,116	-2	1,152	-5
As a % of sales	11.6%	11.5%	2 bps	12.0%	-45 bps
Total operating expenses	8,068	8,255	-2	8,126	-1
EBITDA	1,390	1,413	-2	1,461	-5
EBITDA margin (%)	14.7%	14.6%	8 bps	15.2%	-54 bps
Depreciation & Amortization	290	277	5	288	1
Other income	253	213	19	199	27
Interest costs	18	13	33	10	82
PBT	1,335	1,336	-0	1,362	-2
Taxes	341	339	1	360	-5
Reported PAT	994	997	-0	1,002	-1

Source: I-Sec research, Company data

Exhibit 2: Q1FY25 segmental summary

(INR mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
OEM	4,300	4,470	(3.8)	4,743	(9.3)
Exports	2,777	2,840	(2.2)	2,497	11.2
Aftermarket	1,260	1,207	4.4	1,306	(3.5)
Total	8,337	8,517	(2.1)	8,546	(2.4)

Source: I-Sec research, Company data

Exhibit 3: Segmental revenue assumptions

(INR mn)	FY21	FY22	FY23	FY24	FY25E	FY26E
OEM	6,847	10,311	14,951	18,430	19,904	20,701
Aftermarket	2,597	3,340	4,342	4,787	5,170	5,584
Exports	7,219	9,443	12,276	10,740	13,425	16,781
Services	1,972	2,340	3,392	4,240	5,088	5,852
Total	18,635	25,434	34,961	38,197	43,588	48,917

Source: Company data, I-Sec research

Exhibit 4: Estimates revision

	FY25E			FY26E		
	Old	Revised	% change	Old	Revised	% change
Revenue (INR mn)	44,168	43,588	-1.3%	50,277	48,917	-2.7%
EBITDA (INR mn)	6,846	6,538	-4.5%	8,044	7,435	-7.6%
EBITDA margin (%)	15.5%	15.0%	(50)	16.0%	15.2%	(80)
PAT (INR mn)	5,050	4,816	-4.6%	6,039	5,570	-7.8%
EPS (INR)	266.2	253.9	-4.6%	318.4	293.6	-7.8%

Source: I-Sec research

Upside risks

- Prolonging of CV upcycle beyond FY25.
- Exports out of Oragadam adding to revenue growth much higher than expected.
- Significant improvement in product mix led by new-gen portfolio replacing legacy commoditised products.

Exhibit 5: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	75.0	75.0	67.5
Institutional investors	17.8	18.0	24.9
MFs and other	14.8	14.5	19.6
FIs/ Banks	0.0	0.0	0.1
Insurance Cos.	1.0	1.3	1.5
FIIIs	2.0	2.2	3.7
Others	7.2	7.0	7.6

Source: Bloomberg, I-Sec research

Exhibit 6: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 7: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	34,442	38,156	43,588	48,917
Operating Expenses	7,773	9,022	10,025	11,153
EBITDA	4,704	5,664	6,538	7,435
EBITDA Margin (%)	13.7	14.8	15.0	15.2
Depreciation & Amortization	1,048	1,098	1,200	1,300
EBIT	3,656	4,566	5,338	6,135
Interest expenditure	57	50	50	50
Other Non-operating Income	670	948	1,048	1,148
Recurring PBT	4,269	5,464	6,336	7,233
Profit / Loss from Associates	-	-	-	-
Less: Taxes	1,092	1,400	1,521	1,664
PAT	3,177	4,064	4,816	5,570
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	-	-	-	-
Net Income (Reported)	3,177	4,064	4,816	5,570
Net Income (Adjusted)	3,177	4,064	4,816	5,570

Source Company data, I-Sec research

Exhibit 8: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	21,387	24,515	30,397	35,571
of which cash & cash eqv.	11,694	12,974	17,666	21,201
Total Current Liabilities & Provisions	5,358	5,100	7,384	8,163
Net Current Assets	16,030	19,415	23,013	27,408
Investments	1,001	250	250	250
Net Fixed Assets	5,868	6,704	7,504	8,204
ROU Assets	-	-	-	-
Capital Work-in-Progress	770	864	864	864
Total Intangible Assets	-	-	-	-
Other assets	793	1,020	1,020	1,020
Deferred Tax assets	-	-	-	-
Total Assets	24,866	28,716	33,115	38,210
Liabilities				
Borrowings	-	-	-	-
Deferred Tax Liability	-	-	-	-
Provisions	158	200	200	200
Other Liabilities	617	613	613	613
Equity Share Capital	95	95	95	95
Reserves & Surplus	23,996	27,808	32,207	37,302
Total Net Worth	24,091	27,903	32,301	37,397
Minority Interest	-	-	-	-
Total Liabilities	24,866	28,716	33,115	38,210

Source Company data, I-Sec research

Exhibit 9: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	9,917	8,985	9,586	9,458
% growth (YOY)	33.5	2.6	-1.8	(2.2)
EBITDA	1,455	1,336	1,461	1,390
Margin %	14.7	14.9	15.2	14.7
Other Income	241	295	199	253
Adjusted Net Profit	1,057	1,008	1,002	994

Source Company data, I-Sec research

Exhibit 10: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	3,836	3,107	7,160	6,059
Working Capital Changes	(445)	(2,106)	1,095	(861)
Capital Commitments	(2,127)	(2,028)	(2,000)	(2,000)
Free Cashflow	1,709	1,079	5,160	4,059
Other investing cashflow	3,577	503	-	-
Cashflow from Investing Activities	1,450	(1,525)	(2,000)	(2,000)
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	-	-	-	-
Dividend paid	(247)	(322)	(417)	(474)
Others	(37)	20	(50)	(50)
Cash flow from Financing Activities	(283)	(303)	(467)	(524)
Chg. in Cash & Bank balance	5,003	1,280	4,693	3,535
Closing cash & balance	11,694	12,974	17,667	21,201

Source Company data, I-Sec research

Exhibit 11: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	167.5	214.3	253.9	293.6
Adjusted EPS (Diluted)	167.5	214.3	253.9	293.6
Cash EPS	222.7	272.2	317.1	362.2
Dividend per share (DPS)	13.0	17.0	22.0	25.0
Book Value per share (BV)	1,270.1	1,471.1	1,703.0	1,971.6
Dividend Payout (%)	7.8	7.9	8.7	8.5
Growth (%)				
Net Sales	35.4	10.8	14.2	12.2
EBITDA	86.2	20.4	15.4	13.7
EPS (INR)	123.6	27.9	18.5	15.7
Valuation Ratios (x)				
P/E	93.0	72.7	61.3	53.0
P/CEPS	69.9	57.2	49.1	43.0
P/BV	12.3	10.6	9.1	7.9
EV / EBITDA	60.3	49.9	42.5	36.9
EV / Sales	8.2	7.4	6.4	5.6
Profitability Ratios				
Gross Profit Margins (%)	36.2	38.5	38.0	38.0
EBITDA Margins (%)	13.7	14.8	15.0	15.2
EBIT Margins (%)	10.6	12.0	12.2	12.5
Net Profit Margins (%)	9.2	10.7	11.0	11.4
RoCE (%)	15.2	16.4	16.5	16.4
RoE (%)	13.2	14.6	14.9	14.9
Dividend Yield (%)	0.1	0.1	0.1	0.2
Operating Ratios				
Fixed Asset Turnover (x)	5.2	5.0	5.2	5.4
Inventory Turnover Days	17	17	17	17
Receivables Days	80	90	85	85
Payables Days	38	37	50	50
Effective Tax Rate (%)	25.6	25.6	24.0	23.0
Net Debt / Equity (x)	(0.5)	(0.5)	(0.5)	(0.6)
Net Debt / EBITDA (x)	(2.5)	(2.3)	(2.7)	(2.9)

Source Company data, I-Sec research

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