18 May 2025

ZF Commercial Vehicles

Upcoming ADAS regulation to propel growth to next level; retaining a Buy

Rating: **Buy**
Target Price (12-mnth): Rs.16,000
Share Price: Rs.13,221

Slightly lagging ARe of Rs1.79bn, ZF's Q4 EBITDA rose 17% y/y to Rs1.73bn on less-than-expected revenue. The ADAS regulation draft notification is out, proposing ESC, AEBS and 4 ADAS functions from Oct'26, with content opportunity of >Rs65,000/vehicle for CVs (>3.5-tonne trucks and >5-tonne buses). ESC regulation to be implemented for most bus segments from Sep'25. Entry into LCV (leveraging ZF's global portfolio) would add to growth (€90m sales by 2030). Content, due to government regulations, would increase in stages for CVs on penetration of ESC, AEBS, ADAS and EVs, with potential to more than double ahead. The company's dominant market share would continue across M&H CV/LCVs even for the upcoming opportunities. India's CV sector is to record a healthy 5% CAGR over FY25-27, led by infra/economic activity. Overseas CV sector may be muted in the near term, but export revenue would outstrip that of the industry due to increase sourcing by global group companies. We expect 12%/14%/15% revenue/EBITDA/PAT growth over FY25-27. We retain a Buy at a higher TP of Rs16,000 (earlier Rs15,700; 45x FY27e P/E), 50x FY27e P/E.

EBITDA slightly below estimate. Q4 standalone revenue grew 5% y/y to Rs10bn (ARe Rs10.4bn), affected by less-than-expected aftermarket (supply issues) and services sales. Product sales rose 3% to Rs8.8bn (OEM down 3%, exports up 19% and aftermarket down 5%), services grew 14% to Rs1.1bn. EBITDA grew 17% to Rs1.73bn, slightly below our Rs1.79bn estimate, on less-than-expected revenue. The EBITDA margin expanded 180bps y/y to 17.2%. Other income grew 37% y/y to Rs274m. Accordingly, PAT grew 24% y/y to Rs1.25bn, in line with ARe of Rs1.28bn. The subsidiary's (Oragadam plant) revenue/EBITDA/PAT were Rs87m/26m/15m.

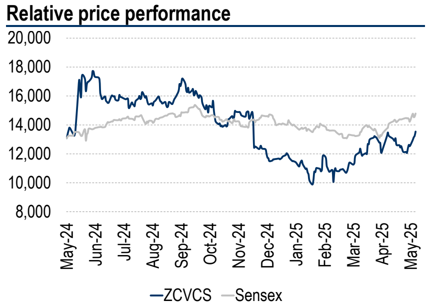
Valuation. We expect 12%/15% revenue/PAT CAGRs over FY25-27. We lower our FY26e/27e EPS by 8-9% (due to the slow overseas CV sector in the near term) and slightly lower our margins. We retain a Buy at a higher TP of Rs16,000, 50x FY27e P/E (earlier Rs15,700, 45x FY27e P/E). The multiple applied is higher owing to strong tailwind due to the upcoming ADAS regulation. **Key risks:** Less-than-expected growth in underlying segments; delay in new regulations for CVs; adverse commodities/forex.

Key data	ZCVCS IN / WIL.BO
52-week high / low	Rs18,100 / 9,567
Sensex / Nifty	80293 / 24287
Market cap	Rs.256bn
Shares outstanding	18m

Shareholding pattern (%)	Mar'25	Dec'24	Sep'24
Promoters	63.2	63.2	67.5
- of which, Pledged	-	-	-
Free float	36.8	36.8	32.5
- Foreign institutions	5.6	5.1	4.1
- Domestic institutions	23.3	23.9	21.0
- Public	7.9	7.9	7.4

Estimates revision (%)	FY26e	FY27e
Sales	-6.7	-6.3
EBITDA	-8.3	-9.6
EPS	-7.6	-8.6

Relative price performance



Source: Bloomberg

Key financials (YE Mar) - P	FY23	FY24	FY25	FY26e	FY27e
Sales (Rs m)	34,446	37,837	38,041	41,553	47,706
Net profit (Rs m)	3,177	4,048	4,587	5,186	6,067
EPS (Rs)	167.5	213.4	241.8	273.4	319.8
P/E (x)	78.9	62.0	54.7	48.4	41.3
EV / EBITDA (x)	50.6	42.2	37.7	33.1	28.2
P/BV (x)	10.4	9.0	7.8	6.8	5.9
RoE (%)	10.5	11.7	11.5	11.3	11.5
RoCE (%)	14.5	16.0	15.5	15.3	15.5
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2
Net debt / equity (x)	-0.5	-0.5	-0.5	-0.5	-0.5

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations (Standalone)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
Net revenues	34,446	37,837	38,041	41,553	47,706
Growth (%)	*35.4*	*9.8*	*0.5*	*9.2*	*14.8*
Raw material	21,971	23,211	22,057	24,016	27,685
Employee & other expenses	7,772	8,995	9,729	10,524	11,918
EBITDA	**4,703**	**5,631**	**6,255**	**7,013**	**8,104**
EBITDA margins (%)	*13.7*	*14.9*	*16.4*	*16.9*	*17.0*
- Depreciation	1,048	1,095	1,227	1,365	1,509
Other income	670	958	1,097	1,329	1,563
Interest expenses	57	50	57	63	69
PBT	4,269	5,444	6,068	6,914	8,089
Effective tax rates (%)	26	26	24	25	25
+ Associates / (Minorities)	-	-	-	-	-
Adjusted income	**3,177**	**4,048**	**4,587**	**5,186**	**6,067**
Extraordinary items	-	-	-	-	-
Net income	3,177	4,048	4,587	5,186	6,067
WANS	19	19	19	19	19
FDEPS (Rs)	167.5	213.4	241.8	273.4	319.8
Growth (%)	*123.6*	*27.4*	*13.3*	*13.1*	*17.0*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
Share capital	95	95	95	95	95
Net worth	24,091	27,887	32,108	36,879	42,460
Debt	-	-	-	-	-
Minority interest	-	-	-	-	-
DTL / (Assets)	-220	-290	-248	-255	-263
Capital employed	**23,871**	**27,597**	**31,860**	**36,624**	**42,198**
Net tangible assets	5,855	6,538	7,093	7,505	8,011
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	768	825	633	756	832
Investments (strategic)	10	177	223	223	223
Investments (financial)	1,001	233	286	5,509	10,509
Current assets (excl. cash)	10,656	12,713	14,470	15,806	18,147
Cash	11,687	12,918	14,652	13,096	11,701
Current liabilities	6,107	5,807	5,497	6,272	7,226
Working capital	4,549	6,906	8,973	9,534	10,921
Capital deployed	**23,871**	**27,597**	**31,860**	**36,624**	**42,198**

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
PBT	4,269	5,444	6,068	6,914	8,089
+ Non-cash items	1,104	232	312	1,427	1,578
Oper. prof. before WC	5,373	5,676	6,380	8,342	9,667
- Incr. / (decr.) in WC	756	1,971	2,283	615	1,457
Others incl. taxes	1,629	1,778	1,361	1,735	2,030
Operating cash-flow	**2,987**	**1,927**	**2,736**	**5,991**	**6,179**
- Capex (tang. + intang.)	1,276	1,810	1,511	1,900	2,090
Free cash-flow	**1,712**	**117**	**1,225**	**4,091**	**4,089**
Acquisitions	-	-	-	-	-
- Div. (incl. taxes)	228	247	322	360	415
+ Equity raised / buyback	-	-	-	-	-
+ Debt raised	-	-	-	-	-
- Fin investments	1,816	-590	-29	5,223	5,000
- Misc. (CFI + CFF)	(5,328)	(770)	(802)	63	69
Net cash-flow	4,996	1,231	1,734	-1,556	-1,395

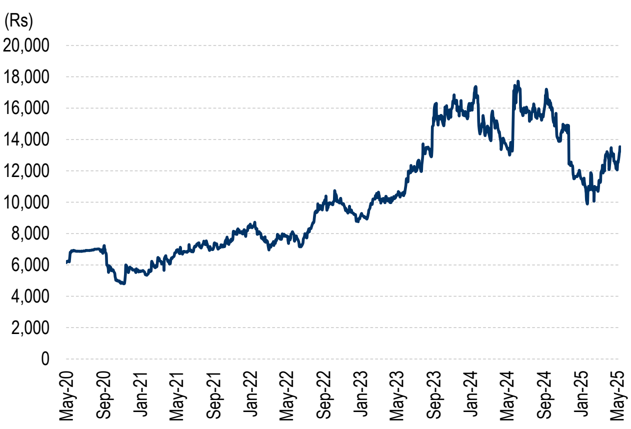
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25	FY26e	FY27e
P/E (x)	78.9	62.0	54.7	48.4	41.3
EV / EBITDA (x)	50.6	42.2	37.7	33.1	28.2
EV / Sales (x)	6.9	6.3	6.2	5.6	4.8
P/B (x)	10.4	9.0	7.8	6.8	5.9
RoE (%)	10.5	11.7	11.5	11.3	11.5
RoCE (%) - after tax	14.5	16.0	15.5	15.3	15.5
RoIC (%) - after tax	28.7	30.4	27.6	28.1	30.3
DPS (Rs)	13.0	17.0	19.0	21.9	25.6
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2
Dividend payout (%)	7.8	8.0	7.9	8.0	8.0
Net debt / equity (x)	-0.5	-0.5	-0.5	-0.5	-0.5
Receivables (days)	80	90	107	107	107
Inventory (days)	16	16	18	18	18
Payables (days)	38	36	34	34	34
CFO : PAT (%)	94	48	60	116	102

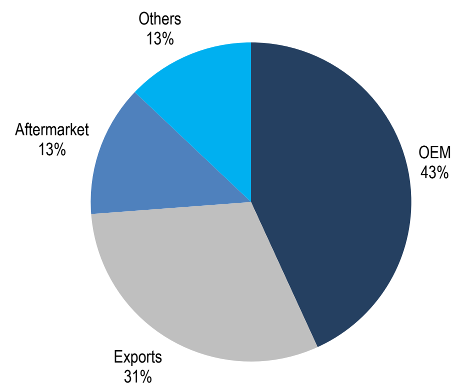
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Revenue mix (FY25)



Source: Company

Quarterly financials (Standalone)

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Fig 7 – Quarterly performance

(Rs m)	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Y/Y (%)	Q/Q (%)
Revenue	**9,555**	**9,383**	**9,067**	**9,559**	**10,032**	**5.0**	**4.9**
Expenditure	**8,086**	**8,001**	**7,672**	**7,806**	**8,307**	**2.7**	**6.4**
as % of sales	*84.6*	*85.3*	*84.6*	*81.7*	*82.8*		
Consumption of RM	5,764	5,557	5,239	5,420	5,841	1.3	7.8
as % of sales	*60.3*	*59.2*	*57.8*	*56.7*	*58.2*		
Employee cost	1,175	1,363	1,328	1,402	1,292	10.0	(7.8)
as % of sales	*12.3*	*14.5*	*14.7*	*14.7*	*12.9*		
Other expenditure	1,147	1,082	1,105	983	1,173	2.3	19.3
as % of sales	*12.0*	*11.5*	*12.2*	*10.3*	*11.7*		
EBITDA	**1,469**	**1,382**	**1,395**	**1,753**	**1,725**	**17.4**	**(1.6)**
EBITDA margins (%)	***15.4***	***14.7***	***15.4***	***18.3***	***17.2***		
Depreciation	287	287	311	314	315	9.9	0.3
EBIT	**1,182**	**1,095**	**1,084**	**1,439**	**1,410**	**19.2**	**(2.0)**
Other income	200	255	397	172	274	37.1	59.6
Interest	10	18	13	12	14	44.7	13.6
PBT	**1,372**	**1,333**	**1,467**	**1,598**	**1,670**	**21.7**	**4.5**
Total tax	362	340	374	349	418	15.5	19.7
Adj. PAT	**1,011**	**992**	**1,093**	**1,249**	**1,252**	**23.9**	**0.2**
Extra ordinary items (loss) / gain	-	-	-	-	-		
Reported PAT	**1,011**	**992**	**1,093**	**1,249**	**1,252**	**23.9**	**0.2**
Adj. EPS (Rs)	**53.3**	**52.3**	**57.6**	**65.9**	**66.0**	**23.9**	**0.2**
Margins (%)						**(bps)**	**(bps)**
Gross	39.7	40.8	42.2	43.3	41.8	209	-153
EBIDTA	15.4	14.7	15.4	18.3	17.2	182	-115
EBIT	12.4	11.7	12.0	15.1	14.1	168	-100
PAT	10.6	10.6	12.1	13.1	12.5	190	-59
Effective tax rates	26.4	25.6	25.5	21.8	25.0	-133	318

Source: Company

Earnings call takeaways

- **Domestic OEM.**
  - **ADAS.** 1) Collaborating with all major OEMs for readiness with respect to the upcoming regulation. Few global suppliers also have technology; however, the regulation timeline has already been announced and with the company's domestic footprint advantage, it expects to maintain its lead position. It expects some pushback from OEMs for Oct'26 timeline; however, implementation is likely from 2027. The regulation is applicable for >3.5-tonne trucks and >5-tonne buses (>8 seater). Content opportunity is over Rs65,000, including Rs25,000 for ESC and >Rs40,000 for AEBS & 4 ADAS functions. Localisation is expected in phases for mechanical and some electronic parts. Radars and cameras to be sourced from other group companies in India/globally.
  - **LCV.** Currently, it is supplying Hydraulic ESC in small volumes (400 units per month) to OEMs like Force Motors, M&M and SML Isuzu, but expects to see higher volumes with ESC regulation for buses from Sep'25. **The upcoming ADAS regulation for LCV (>3.5-tonne trucks and >5-tonne buses) would also drive higher content. Volumes at >3.5-tonne LCV trucks were 67,681 and for >5-tonne LCV buses, 30,951 units in FY25.** Hydraulic ESC is highly localised and there is no competition currently. **The company expects to play a major role ahead even with new competition.** Also, it is looking at introducing other products. **Revenue of ~€90m is expected by 2030.**
  - The focus is on increasing penetration of advance trailer technologies (trailer ABS, trailer EBS and SCALAR telematics), AMT, ECAS, EV portfolio (electronic compressor and EBS) and new products such as exhaust brake valve and automatic traction control.
  - ESC regulation for buses to be implemented from Sep'25.
- **Aftermarket.** Q4 sales declined 5% y/y due to supply-chain disruptions affecting product availability. New products such as Door Control Systems (11 variants), retrofitment of hydraulic ABS and diagnostic software/tools for EBS/ECAS would support growth. LPG transporters have been mandated for use of trailer EBS in Karnataka, Gujarat, Assam and Rajasthan and trailer ABS in other states. The company expects higher penetration of trailer ABS/EBS in FY26. The aftermarket segment has the highest margins.
- **Digital business.** The company won an order for SCALAR telematics for 800 buses from a leading trailer manufacturer and a repeat order for video management solution (AI-driven video telematics) from a leading OEM.
- **Product exports.** Despite the drop in volumes from EV PV OEM, the start of production for actuators 4.0 for Volvo and air compressors for global OEMs drove growth. Near-term headwind is expected due to emerging tariffs from the US market.
- **Service exports.** Growth was driven by increasing engineering activities from India to global centres.

- **Engineering updates.** Domestic value addition increased to 62% for e-compressors, driving cost efficiency.
- **Manufacturing updates.** New manufacturing lines for e-mobility products (e-compressors, ASP cartridges and hydraulic ESC for domestic) and wheel end-products (actuators, brake chambers and automatic slack adjusters for domestic/exports). New products such as twin cylinder compressors, actuators, AMTs, air processing units, charging valves and ECUs for Indian OEMs have been launched. Manufacturing capacities have been scaled up across plants for braking system. New assembly lines at Jamshedpur and Lucknow plants for 25 parts.
- **Debtor days** increased in FY25 due to higher credit days (45 to 50-90 days) for a few customers. **Capex is** expected at Rs1.9bn for FY26 for expansion of Oragadam plant and other plant line expansions.

Valuation

More content because of regulations and EVs. The **ADAS regulation** draft notification is out, proposing ESC (Rs25,000), AEBS and 4 ADAS functions (>Rs40,000) from Oct'26, with content opportunity of over Rs65,000 per vehicle for CVs (>3.5-tonne trucks and >5-tonne buses). **ESC regulation** for most bus segments would be implemented from Sep'25. **Electric vehicles and trailer penetration** would drive products such as electric compressors (Rs80,000), EBS (Rs60,000) and trailer ABS (Rs30,000). **Content, due to government regulations,** would increase in stages for CVs on penetration of ESC, AEBS, ADAS and EVs, **with potential to more than double ahead. The dominant market share** is expected to continue across M&H CV and LCV segments for the upcoming opportunities.

Scenario analysis of impact of ADAS regulations. Of Rs75,000 CPV (included impact of LCV volumes of ~1,00,000), assuming implementation in phases with content of Rs30,000 from Oct'27 and Rs45,000 from Oct'28; **revenue would grow at 21% CAGR (OEM at 30%) over FY25-30 and 27% CAGR (OEM at 43%) over FY27-30.**

Fig 8 – Scenario analysis assumptions – ADAS regulations

Segmental revenue (Rs m)	FY25	FY26e	FY27e	FY28e	FY29e	FY30e	CAGR FY25-30 (%)
OEM	16,427	18,451	21,123	28,832	46,925	61,589	**30**
Y/Y change, %	(10)	12	14	37	63	31	
Exports	11,647	11,647	13,394	15,001	16,726	18,566	**10**
Y/Y change, %	8	0	15	12	12	11	
Aftermarket	5,054	5,559	6,115	6,666	7,232	7,811	**9**
Y/Y change, %	6	10	10	9	9	8	
Other operating income/Service	4,913	5,895	7,074	8,136	9,275	10,480	**16**
Y/Y change, %	20	20	20	15	14	13	
Revenues	**38,041**	**41,553**	**47,706**	**58,635**	**80,158**	**98,446**	**21**
Y/Y change, %	1	9	15	23	37	23	

Source: Anand Rathi Research

Exports to be driven by market-share gains in CVs/PVs from group companies. The wider distribution network and retro-fitment solutions would drive the **aftermarket**. **Service** revenue would increase, led by more software sales and R&D support to group companies.

LCV segment expansion would see products such as hydraulic ABS, vacuum brake boosters, vacuum pumps, ADAS and lightweight calipers. The portfolio targets more EV (for models like Tata's ACE). Revenue of €90m is targeted by 2030, with double-digit margin in the long term. Portfolio expansion has been driven by leveraging ZF's global products.

Better CV demand ahead. India's CV sector is likely to see a healthy, 5% CAGR over FY25-27. The overseas CV sector could be muted in the near term, but export revenue would outstrip that of the industry due to sourcing by global group companies.

View, Valuation. We expect 12% revenue CAGR over FY25-27, led by 13% in OEMs, 10% in aftermarket, 7% in exports and 20% in services. We expect 14%/15% EBITDA/PAT CAGRs over FY25-27. We recommend a Buy at a TP of Rs16,000, 50x FY27e P/E.

Fig 9 – Change in estimates – Near term cut due to lower overseas CV weakness

	Old		Revised		Change (%)	
(Rs m)	FY26e	FY27e	FY26e	FY27e	FY26	FY27
Revenue	44,543	50,933	41,553	47,706	-6.7	-6.3
EBITDA	7,651	8,960	7,013	8,104	-8.3	-9.6
% of revenue	17.2%	17.6%	16.9%	17.0%		
Adj. PAT	5,611	6,636	5,186	6,067	-7.6	-8.6
EPS (Rs)	295.8	349.9	273.4	319.8	-7.6	-8.6

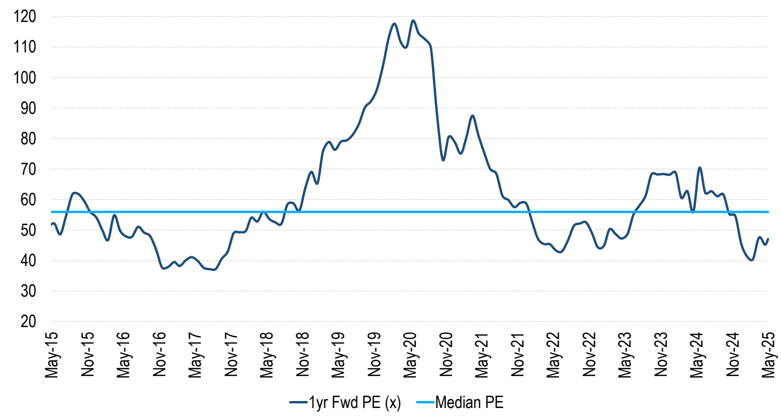
Source: Anand Rathi Research

Fig 10 – Key assumptions (excluding ADAS regulation)

Segmental revenue (Rs m)	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25	FY26e	FY27e	CAGR FY25-27 (%)
OEM	13,749	15,302	7,695	6,848	10,311	15,976	18,201	16,427	18,451	21,123	13
Y/Y change, %		11	(50)	(11)	51	55	14	(10)	12	14	
Exports	7,765	8,222	6,985	7,218	9,443	10,999	10,747	11,647	11,647	13,394	7
Y/Y change, %		6	(15)	3	31	16	(2)	8	0	15	
Aftermarket	2,861	2,983	2,599	2,598	3,340	4,291	4,785	5,054	5,559	6,115	10
Y/Y change, %		4	(13)	(0)	29	28	12	6	10	10	
Other operating income/Service	1,371	2,035	2,016	1,971	2,340	3,180	4,104	4,913	5,895	7,074	20
Y/Y change, %		48	(1)	(2)	19	36	29	20	20	20	
Revenues	**25,746**	**28,541**	**19,296**	**18,635**	**25,434**	**34,446**	**37,837**	**38,041**	**41,553**	**47,706**	**12**
Y/Y change, %		11	(32)	(3)	36	35	10	1	9	15	

Source: Company, Anand Rathi Research

Fig 11 – Valuation chart (1-year forward P/E) – Historical median is 56x



Source: Bloomberg, Anand Rathi Research

Downside risks

- Less-than-expected growth in underlying segments.
- Delay in new regulations for CVs.
- Adverse commodities/forex movement.

Appendix

Analyst Certification

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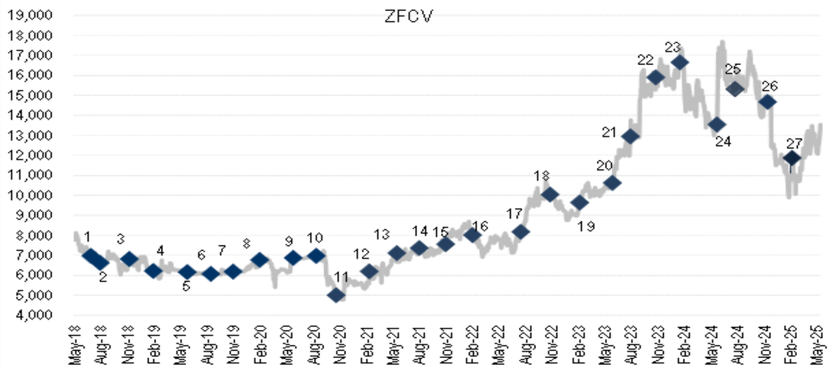
Rating and Target Price History (as of 18 May 2025)



	Date	Rating	TP (Rs)	Share Price (Rs)
14	02-Aug-21	Buy	8,395	7,300
15	28-Oct-21	Buy	8,685	7,481
16	31-Jan-22	Buy	9,227	7,999
17	27-Jul-22	Buy	9,669	8,400
18	10-Nov-22	Buy	11,674	9,865
19	04-Feb-23	Buy	11,817	9,502
20	29-May-23	Buy	12,300	10,670
21	31-Jul-23	Buy	14,200	12,954
22	31-Oct-23	Buy	17,700	15,705
23	31-Jan-24	Hold	16,300	16,337
24	28-May-24	Hold	17,300	17,162
25	25-Jul-24	Buy	18,400	15,303
26	17-Nov-24	Buy	17,700	14,669
27	09-Feb-25	Buy	15,700	11,868

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Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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