

Robust growth prospects up ahead...

Wabco India (WIL) reported a mixed Q4FY21 performance. Net sales were up 75.9% YoY, 25.7% QoQ to ₹ 712 crore. Performance on a YoY basis was led by OEM channel (up 114%) with exports, aftermarket growth pegged at 70%, 50%, respectively. Margins for the quarter came in at 11.7%, down 377 bps QoQ amid a sharp 492 bps sequential jump in raw material cost as a percentage of sales. Consequent PAT for the period was at ₹ 47.7 crore (up 51.3% YoY). The company declared a dividend of ₹ 11/share for FY21.

Broad-based topline drivers in place

As of FY21, share of OEMs, aftermarket and exports within overall channel mix (sales) were at 41%, 16% and 43%, respectively. Share of OEMs is set to increase further in coming quarters as the domestic industry recovers from a cyclical bottom (hit after ~22 months of decline from April 2019 onwards), with industry tailwinds such as the government's sustained focus on infra, pickup in mining and construction activity and introduction of the nationwide scrappage policy are seen brightening the medium-term India M&HCV outlook. We believe the CV space will outperform the wider automotive industry over the next few years and WIL, as a market leader in the CV braking space, stands to benefit accordingly. On the exports front, the company is expected to continue to gain from its status as a sourcing hub for its parent due to its cost competitiveness and proven engineering capabilities. WIL announced that it is currently scouting for land for undertaking an expansion near Chennai in line with the increased visibility, although exact details are yet to be provided. WIL continues to innovate offerings and over the longer term has identified connected, autonomous and electric transition as the next drivers of growth in content per vehicle.

Q4FY21 earnings conference call: Highlights & key takeaways

WIL said (1) it aims to outperform market by >10% going forward; (2) global kit value is ~3x that of India but BS-VI is a facilitator for reducing the gap. Kit value per vehicle in India stands at ~US\$600 vs. ~US\$1,500 in US and ~US\$3,000 in Europe; (3) OEMs may voluntarily prepone introduction of electronic stability control (ESC; ASP stands at ~₹ 10-15,000/unit) before mandated 2023 timeline; (4) exports are done on transfer pricing basis while OEM pricing pass through takes place with a quarter's lag; (5) compressors for exports, air disc brake levers and reverse parking assist systems (RPAS) are some new product opportunities; and (6) it has tied up with few OEMs for connected offerings such as cloud-based subscription services.

Valuation & Outlook

We build 32.3% sales, 74.7% PAT CAGR (latter aided by low base) over FY21-23E and believe WIL continues to offer a prime play on the impending M&HCV revival domestically. We maintain our **BUY** rating, valuing WIL at ₹ 8,020, 48x P/E on FY23E EPS (previous target price ₹ 7,350). Strong technology support from MNC parentage & track record of outperformance vs. industry justify relative valuation premium, in our view.

Key Financial Summary

Key Financials	FY19	FY20	FY21P	FY22E	FY23E	CAGR (FY21P-23E)
Net Sales	2,854.2	1,929.6	1,863.5	2,676.2	3,262.0	32.3%
EBITDA	409.9	251.5	205.8	343.6	487.8	54.0%
EBITDA Margins (%)	14.4	13.0	11.0	12.8	15.0	
Net Profit	282.3	158.8	103.8	211.8	316.9	74.7%
EPS (₹)	148.8	83.7	54.7	111.6	167.1	
P/E	46.0	81.8	125.2	61.4	41.0	
RoNW (%)	15.9	8.4	5.2	9.7	12.8	
RoCE (%)	23.0	11.8	7.7	13.1	17.2	

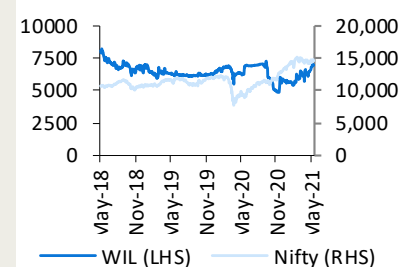
Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization	₹ 12992.8 Crore
Total Debt (FY21P)	₹ 0 Crore
Cash & Inv. (FY21P)	₹ 1097 Crore
EV	₹ 11895.8 Crore
52 week H/L (₹)	7623 / 4770
Equity capital	₹ 9.5 Crore
Face value	₹ 5

Price Performance



Key Highlights

- Q4FY21 net sales rose 76% YoY led by OEM channel growth. Margins dropped 377 bps QoQ to 11.7% courtesy gross margin contraction
- Offers a prominent play on domestic M&HCV revival via market leadership. Sourcing hub for global parent and focus on kit value-based growth intact

Risks to our call

- Slower than anticipated pick up in M&HCV volumes over FY21-23E
- Commodity cost increase escalation could elongate return to previous margin trajectory

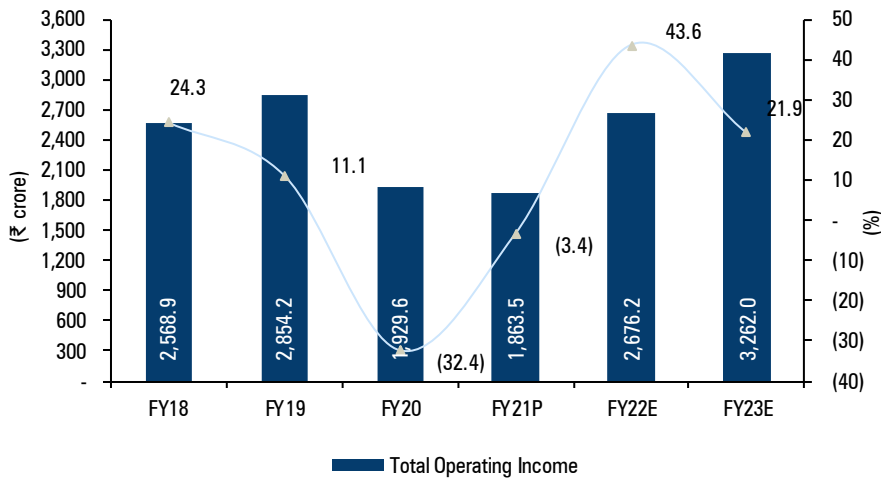
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Financial story in charts

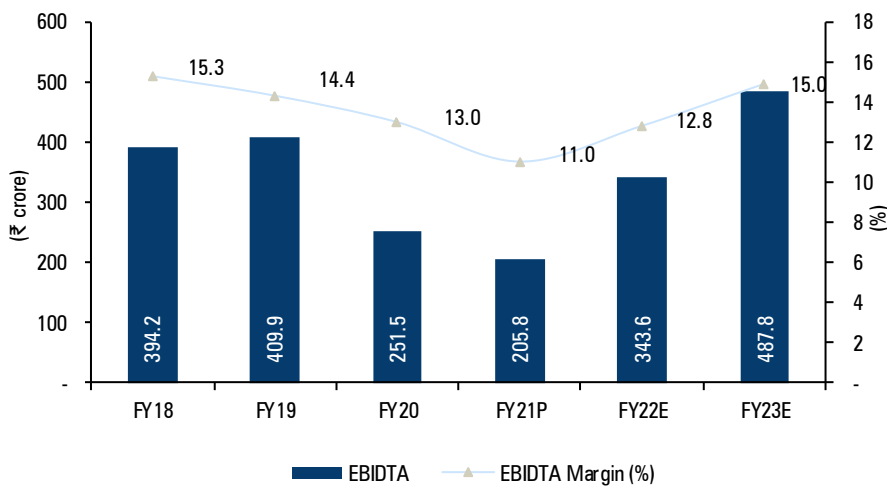
Exhibit 1: Topline trend



Net sales are seen growing at a CAGR of 32.3% over FY21-23E

Source: Company, ICICI Direct Research

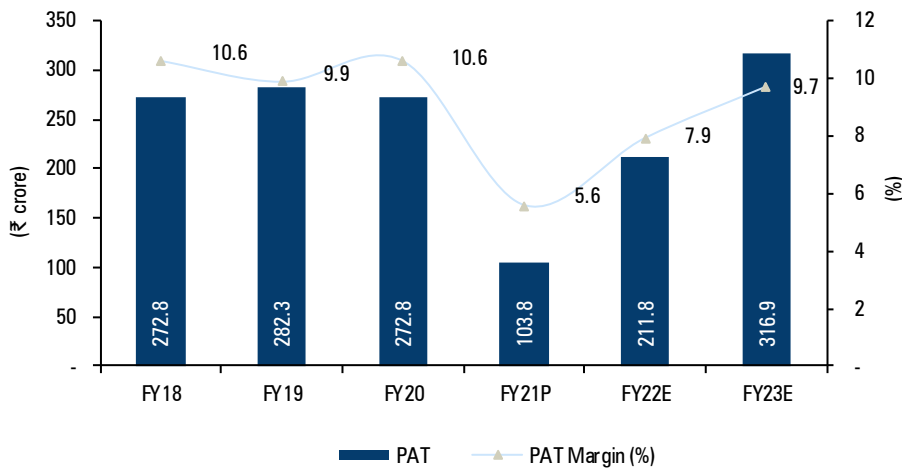
Exhibit 2: EBITDA, EBITDA margin trend



We expect margins to climb to 12.8% in FY22E and thereafter to 15% in FY23E

Source: Company, ICICI Direct Research

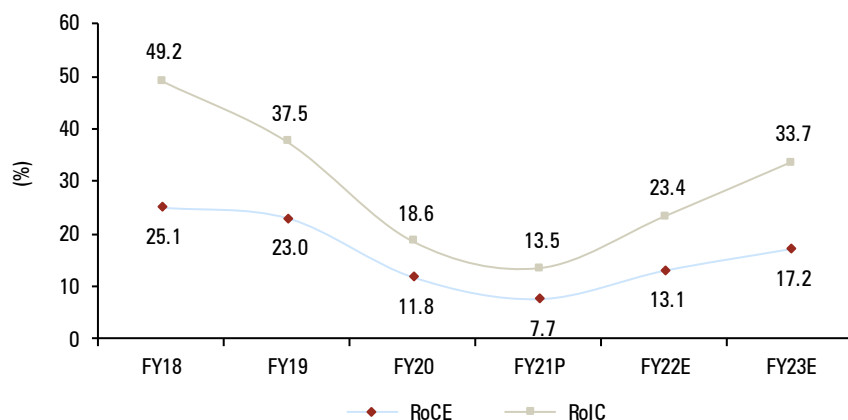
Exhibit 3: Profitability trend



PAT CAGR is expected to be at ~74.7% CAGR over FY21-23E aided by 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	46.0	29.6	15.9	23.0
FY20	1929.6	-32.4	83.7	-43.7	81.8	47.7	8.4	11.8
FY21P	1863.5	-3.4	54.7	-34.6	125.2	57.8	5.2	7.7
FY22E	2676.2	43.6	111.6	104.0	61.4	34.5	9.7	13.1
FY23E	3262.0	21.9	167.1	49.7	41.0	23.9	12.8	17.2

Source: Company, ICICI Direct Research

Exhibit 6: Shareholding pattern

	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Promoters	75	75	93.1	93.1	80.4
FII	2.7	2.6	0.2	0.2	0.4
DII	8.8	9.1	0.1	0.1	11.2
Others	13.5	13.3	6.6	6.6	8.0

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Total operating Income	1,929.6	1,863.5	2,676.2	3,262.0
Growth (%)	-32.4	-3.4	43.6	21.9
Raw Material Expenses	1,148.7	1,134.2	1,711.5	2,066.1
Employee Expenses	265.7	290.4	325.0	352.6
Other Expenses	263.7	233.1	296.1	355.5
Total Operating Expenditure	1,678.1	1,657.7	2,332.6	2,774.2
EBITDA	251.5	205.8	343.6	487.8
Growth (%)	-38.7	-18.2	67.0	42.0
Depreciation	90.1	90.4	100.4	114.2
Interest	1.9	2.0	4.0	3.2
Other Income	63.9	38.9	43.9	53.3
PBT	223.3	152.3	283.1	423.7
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	64.5	48.5	71.3	106.8
PAT	158.8	103.8	211.8	316.9
Growth (%)	-43.7	-34.6	104.0	49.7
EPS (₹)	83.7	54.7	111.6	167.1

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Profit after Tax	158.8	103.8	211.8	316.9
Add: Depreciation	90.1	90.4	100.4	114.2
Sub: Other Income	63.9	38.9	43.9	53.3
(Inc)/dec in Current Assets	341.5	-241.9	-248.3	-185.0
Inc/(dec) in CL and Provisions	-257.1	220.6	144.1	137.4
CF from operating activities	271.3	136.0	168.0	333.5
(Inc)/dec in Investments	-228.9	-97.6	0.0	-200.0
(Inc)/dec in Fixed Assets	-131.8	-71.5	-100.0	-100.0
Other Income & Misc	72.8	27.2	25.2	39.8
CF from investing activities	(313.6)	(136.2)	(106.9)	(283.3)
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	-20.9	-22.8	-24.7
Others	-23.2	16.8	-4.0	-3.2
CF from financing activities	(46.1)	(4.0)	(26.8)	(27.9)
Net Cash flow	-88.4	-4.2	34.3	22.3
Opening Cash	549.6	461.2	457.0	491.3
Closing Cash	461.2	457.0	491.3	513.6

Source: Company, ICICI Direct Research

Exhibit 9: Balance Sheet				
	₹ crore			
(Year-end March)	FY20	FY21P	FY22E	FY23E
Liabilities				
Equity Capital	9.5	9.5	9.5	9.5
Reserve and Surplus	1,885.1	1,986.9	2,175.9	2,468.1
Total Shareholders funds	1,894.6	1,996.4	2,185.3	2,477.6
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	14.1	11.6	11.6	11.6
Total Liabilities	1,917.4	2,012.4	2,201.4	2,493.6
Assets				
Gross Block	1,026.1	1,077.8	1,207.6	1,307.6
Less: Acc Depreciation	555.1	645.6	745.9	860.1
Net Block	471.0	432.3	461.6	447.5
Capital WIP	30.0	49.7	20.0	20.0
Total Fixed Assets	500.9	482.0	481.6	467.5
Investments	542.4	640.0	640.0	840.0
Inventory	112.6	113.7	146.6	178.7
Debtors	363.5	585.5	769.9	893.7
Loans and Advances	71.3	96.9	125.7	153.3
Other current assets	11.6	4.9	7.0	8.5
Cash	461.2	457.0	491.3	513.6
Total Current Assets	1,020.2	1,257.9	1,540.6	1,747.8
Creditors	156.5	342.0	439.9	536.2
Provisions	14.1	11.6	11.6	11.6
Other Current Liabilities	94.3	126.5	168.3	205.2
Total Current Liabilities	264.9	480.2	619.9	753.0
Net Current Assets	755.3	777.7	920.7	994.8
Other non-current Assets	82	73	105	129
Application of Funds	1,917.4	2,012.4	2,201.4	2,493.6

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
(Year-end March)	FY20	FY21P	FY22E	FY23E
Per share data (₹)				
EPS	83.7	54.7	111.6	167.1
Cash EPS	131.2	102.4	164.5	227.3
BV	998.8	1,052.5	1,152.1	1,306.2
DPS	10.0	11.0	12.0	13.0
Cash Per Share	243.2	240.9	259.0	270.8
Operating Ratios (%)				
EBITDA Margin	13.0	11.0	12.8	15.0
EBIT / Net sales	8.4	6.2	9.1	11.5
PAT Margin	8.2	5.6	7.9	9.7
Inventory days	21.3	22.3	20.0	20.0
Debtor days	68.8	114.7	105.0	100.0
Creditor days	29.6	67.0	60.0	60.0
Return Ratios (%)				
RoE	8.4	5.2	9.7	12.8
RoCE	11.8	7.7	13.1	17.2
RoIC	18.6	13.5	23.4	33.7
Valuation Ratios (x)				
P/E	81.8	125.2	61.4	41.0
EV / EBITDA	47.7	57.8	34.5	23.9
EV / Net Sales	6.2	6.4	4.4	3.6
Market Cap / Sales	6.7	7.0	4.9	4.0
Price to Book Value	6.9	6.5	5.9	5.2
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	3.3	2.2	2.3	2.2
Quick Ratio	2.6	1.9	2.0	1.9

Source: Company, ICICI Direct Research

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