

ZF Commercial Vehicle Control System (WABIND)

CMP: ₹ 8,750

Target: ₹ 10,530 (20%)

Target Period: 12 months

BUY

August 5, 2022

Technological extension amid upswing in CV space...

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%

Q1FY23 Results: The company reported a healthy performance in Q1FY23.

- Total operating income for the quarter came in at ₹ 798.4 crore, up 2% QoQ
- EBITDA came in at ₹ 98.7 crore with margins at 12.4% up 100 bps QoQ
- PAT for the quarter ended was at ₹ 62.4 crore, up 10% on a QoQ basis

What should investors do? ZFCV share price has grown at ~9% CAGR from ~₹ 5,500 in August 2017, thereby outperforming Nifty Auto index in that time.

- We retain **BUY** on ZFCV amid introduction of advanced technologies, solutions for electric buses & well charted path on content/vehicle front

Target Price and Valuation: Upgrading our estimates, we now value the company at ₹ 10,530 i.e. 50x P/E on FY24E EPS (earlier target price ₹ 9,600).

Key triggers for future price performance:

- Cyclical upswing in domestic CV space, with ZFCV being a key beneficiary. We build ~27.6% sales CAGR over FY22-24E amid proven ability to outperform the user industry and advancements on the technology front
- Diversified product portfolio following new launches such as connected tech, ADAS components and E-Components, Hill Assist, ESC among others
- Uptick in content per vehicle amid introduction of advanced products & services, shift to superior offering & premiumisation play (~potential kit value at 3x from current levels of ~₹ 45,000-48,000/unit)
- With thrust to increase localisation (currently at ~80-85%) and operating leverage at play; margins, RoCE seen at ~15,18%, respectively, by FY24E

Alternate Stock Idea: In the auto coverage, we also like M&M.

- Focused on prudent capital allocation, UV differentiation & EV proactiveness
- BUY with a target price of ₹ 1,500



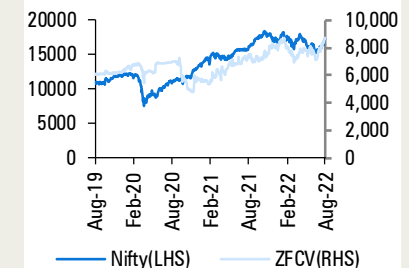
Particulars

Particular	Amount
Market Capitalization	₹ 16596.7 Crore
Total Debt (FY22)	₹ 0 Crore
Cash & Inv. (FY22)	₹ 1067.2 Crore
EV	₹ 15529.5 Crore
52 week H/L (₹)	8793 / 6815
Equity capital	₹ 9.5 Crore
Face value	₹ 5

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	75.0	75.0	75.0	75.0
FII	0.7	0.8	0.7	0.9
DII	16.2	16.3	16.5	16.2
Other	8.1	7.9	7.8	7.8

Price Chart



Recent event & key risks

- Reported healthy Q1FY23 results
- Key Risk:** (i) Slower than anticipated rise in content per vehicle amid higher technology offerings, (ii) Slower than expected uptick in M&HCV space

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Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	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%	3,306.7	4,139.0	27.6%
EBITDA	409.9	251.5	205.8	252.6	-5.0%	437.6	600.8	54.2%
EBITDA Margins (%)	14.4	13.0	11.0	9.9		13.2	14.5	
Net Profit	282.3	158.8	103.8	142.1	-7.8%	279.3	399.4	67.7%
EPS (₹)	148.8	83.7	54.7	74.9		147.3	210.6	
P/E	58.8	104.5	159.9	116.8		59.4	41.6	
RoNW (%)	15.9	8.4	5.2	6.7		11.8	14.6	
RoCE (%)	23.0	8.5	5.8	7.6		14.2	17.8	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q1FY23 Results:

- Total operating income for Q1FY23 came in at ₹ 798.4 crore, up 2% QoQ. EBITDA was at ₹ 98.7 crore with margins at 12.4% up 100 bps QoQ. PAT for the quarter ended was at ₹ 62.4 crore, up 10% QoQ
- For Q1FY23, margin performance was real surprise aided by gross margin expansion up 55 bps QoQ (as percentage of sales) and savings realised under employee expenses down 50 bps QoQ (as percentage of sales)

Q1FY23 Earnings Conference Call highlights & key takeaways

- The management expect robust demand, going forward, on the back of positive sentiments from CV OEMs
- The company has introduced various new products like ADAS, Hill Start Aid, Automatic Traction control, Electronic stability control, Trailer Electronic Breaking System, connected digital solutions, Electric vehicle related products among others finding application in M&HCV space with great potential increase in kit value
- Current content per vehicle is ~₹ 45,000 with ADAS to increase it by ₹ 25,000. EBS would command ~₹ 30,000 delta over traditional ABS and would save energy in EVs
- The company's new Hill Start Aid along with automatic traction control can be equipped in existing trucks equipped with ABS without any additional parts and can provide additional kit value of ₹ 3,000
- The company's new facility at Qragadam would be operational in H2FY24
- Capex for FY23, FY24 would be ~₹ 120 crore, ~₹170-180 crore, respectively

Connectivity solution would be sold to OEM for fees against hardware. Also, the company would be receiving subscription fees for online service for initial two years from OEM post two years same will be paid by fleet operators

EV products are mostly developed by ZF CV India and its new facility at Oragadam would be for producing technologically advanced products as listed in PLI scheme. With respect to localization, braking components are localised with efforts in progress towards localising other products also



The company introduced complete portfolio of ADAS co-developed by its new parent for M&HCV space and will be offered through ZF CV India. It would potentially increase content per vehicle

Source: Company, ICICI Direct Research



The company introduced EV specific components with good traction and orders in place for its e-compressor

Source: Company, ICICI Direct Research

Exhibit 3: New offerings: Hill Start Aid

Hill Start Aid
Avoids unintended roll-backs to enhance driver comfort and safety

Helps prevent roll back



- Add-on functionality to Antilock Braking System (ABS)
- Can be activated on the ABS system and does not require any additional hardware / modifications on the vehicle.
- Improves safety during "Stop & Go" situation on a gradient
- Helps to avoid roll-back on steep slopes and gradient
- Prevents accidents caused due to unintended vehicle roll back
- Minimizes clutch and brake liner wear (esp. for vehicles operating on hilly terrain)
- Extends tyre life and stabilizes vehicle when supplemented with Automatic Traction Control

Source: Company, ICICI Direct Research

Started offering technological advanced products like Hill Start Aid & ATC for M&HCV space which can be added without modification in existing trucks

Exhibit 4: New offering: Automatic traction control

Automatic Traction Control (ATC)



- Add on functionality to ABS , ECU includes ATC function
- ATC can be enabled by adding one 3/2 solenoid valve
- Prevents wheel spin during acceleration under different surface conditions (especially slippery surface like mining / sand / Ice)
- Prevents loss of traction of one or more wheels, helps to prevent wheel slip on different surface conditions
- Better vehicle stability management, increase tire life
- Helps while driving on gradient especially with lesser adhesion between tire & ground

Source: Company, ICICI Direct Research

Exhibit 5: New product offering: Trailer electronic braking system

Trailer Electronic Braking System (T-EBS)
New global electronic braking solutions for trailers

- Enables ZF's award winning Intelligent Trailer Program, supporting more than 40 optional functions to improve operating safety and efficiency.
 - With EBS-E, the braking system has evolved to become an advanced control center.
- System development process complies with automotive safety standards ISO 26262, making the product more robust and reliable
- Optimizes the cost of building, operating and maintaining a trailer throughout its operational life
- Can be mounted and retrofitted to all trailer types, including road trains, bi-trains and tri-trains

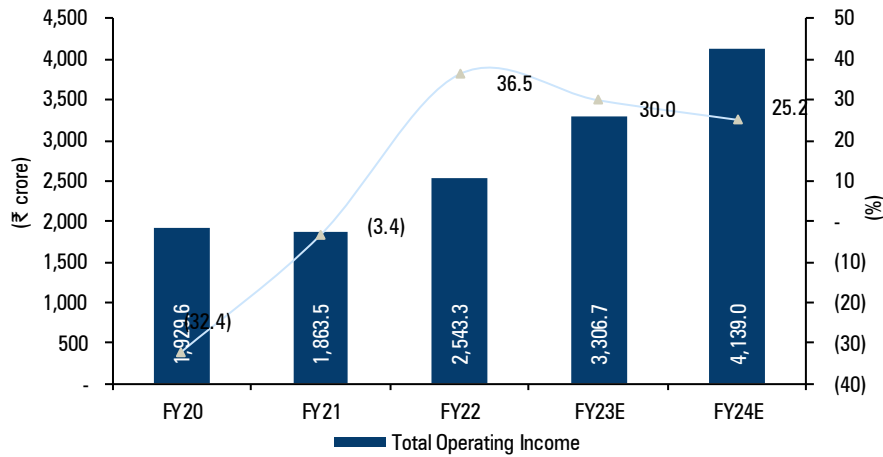


Emerging as global supplier for T-EBS finding use in trailers with retrofitting capabilities

Source: Company, ICICI Direct Research

Financial story in charts

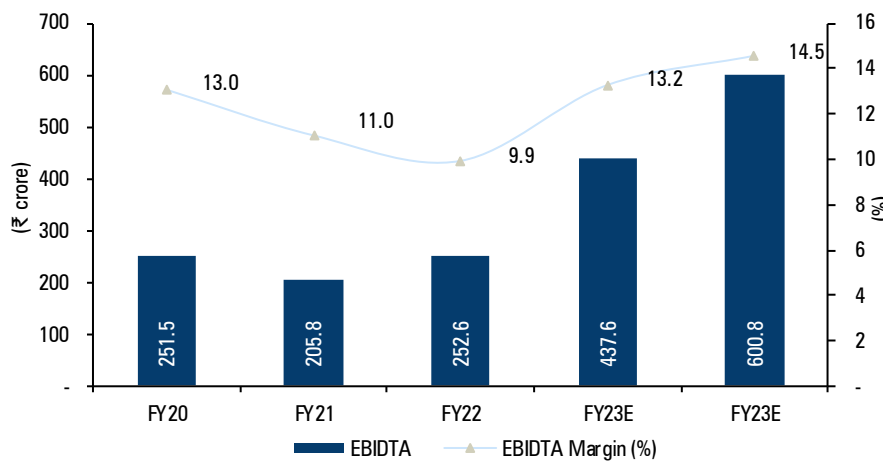
Exhibit 6: Topline trend



We expect topline to grow at a CAGR of ~27.6% over FY22-24E to ₹ 4,139 crore by FY24E

Source: Company, ICICI Direct Research

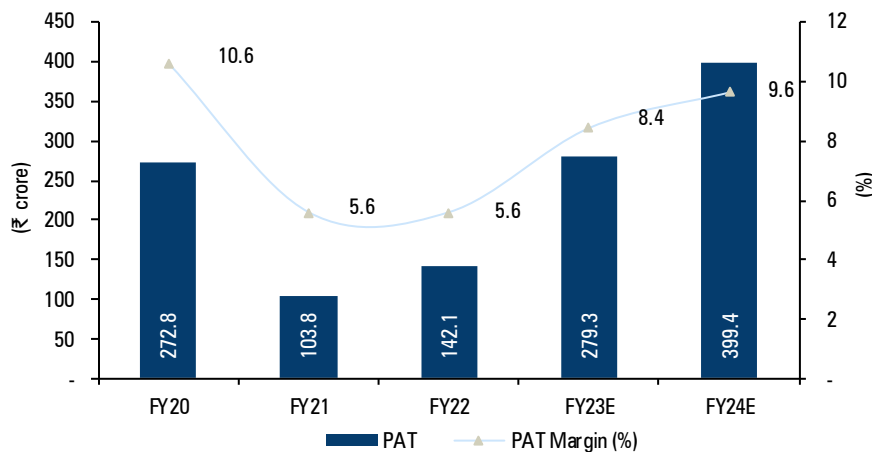
Exhibit 7: Trend in margins



EBITDA margins are seen climbing to ~15% by FY24E vs. ~9.9% levels clocked in FY22

Source: Company, ICICI Direct Research

Exhibit 8: Trend in profitability



PAT is expected to grow to ₹ 399.4 crore by FY24E

Source: Company, ICICI Direct Research

Exhibit 9: Valuation Summary

	Sales	Growth	EPS	Growth	PE	EV/EBITDA	RoNW	RoCE
	(₹ cr)	(%)	(₹)	(%)	(x)	(x)	(%)	(%)
FY20	1929.6	-32.4	83.7	-43.7	104.5	62.0	8.4	8.5
FY21	1863.5	-3.4	54.7	-34.6	159.9	75.3	5.2	5.8
FY22	2543.3	36.5	74.9	36.9	116.8	61.5	6.7	7.6
FY23E	3306.7	30.0	147.3	96.6	59.4	35.4	11.8	14.2
FY24E	4139.0	25.2	210.6	43.0	41.6	25.6	14.6	17.8

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Total operating Income	1,863.5	2,543.3	3,306.7	4,139.0
Growth (%)	-3.4	36.5	30.0	25.2
Raw Material Expenses	1,134.2	1,643.3	2,130.8	2,664.8
Employee Expenses	290.4	328.7	361.4	400.7
Other Expenses	233.1	318.8	377.0	472.7
Total Operating Expenditure	1,657.7	2,290.8	2,869.1	3,538.2
EBITDA	205.8	252.6	437.6	600.8
Growth (%)	-18.2	22.7	73.3	37.3
Depreciation	90.4	92.4	102.5	113.8
Interest	2.0	1.9	2.9	2.6
Other Income	38.9	37.5	43.8	49.6
PBT	152.3	195.8	376.1	534.0
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	48.5	53.7	96.8	134.6
PAT	103.8	142.1	279.3	399.4
Growth (%)	-34.6	36.9	96.6	43.0
EPS (₹)	54.7	74.9	147.3	210.6

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	103.8	142.1	279.3	399.4
Add: Depreciation	90.4	92.4	102.5	113.8
Sub: Other Income	38.9	37.5	43.8	49.6
(Inc)/dec in Current Assets	-237.1	-91.4	-253.6	-287.2
Inc/(dec) in CL and Provisions	220.6	14.6	141.1	161.0
CF from operating activities	140.8	122.1	228.3	340.0
(Inc)/dec in Investments	-97.6	240.9	-50.0	-100.0
(Inc)/dec in Fixed Assets	-71.5	-166.4	-150.0	-200.0
Other Income & Misc	27.2	31.3	30.3	34.8
CF from investing activities	(136.2)	111.4	(193.8)	(291.4)
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	-26.6	-30.3
Others	16.8	-3.5	-2.9	-2.6
CF from financing activities	(4.0)	(26.2)	(29.4)	(32.9)
Net Cash flow	0.6	207.2	5.2	15.7
Opening Cash	461.2	461.8	669.1	674.3
Closing Cash	461.8	669.1	674.3	690.0

Source: Company, ICICI Direct Research

Exhibit 12: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	9.5	9.5	9.5	9.5
Reserve and Surplus	1,986.9	2,104.6	2,357.3	2,726.4
Total Shareholders funds	1,996.3	2,114.1	2,366.8	2,735.9
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	2,390.9	2,760.0
Assets				
Gross Block	1,077.8	1,273.7	1,423.9	1,623.9
Less: Acc Depreciation	645.6	738.0	840.5	954.3
Net Block	432.3	535.7	583.4	669.6
Capital WIP	49.7	20.3	20.0	20.0
Total Fixed Assets	482.0	555.9	603.4	689.6
Investments	640.0	399.1	449.1	549.1
Inventory	113.7	144.8	181.2	226.8
Debtors	585.5	666.4	860.7	1,077.3
Loans and Advances	96.9	76.3	99.2	124.2
Other current assets	0.0	0.0	0.0	0.0
Cash	461.8	669.1	674.3	690.0
Total Current Assets	1,257.9	1,556.5	1,815.3	2,118.3
Creditors	342.0	354.6	453.0	567.0
Provisions	11.6	23.9	23.9	23.9
Other Current Liabilities	126.5	119.9	155.9	195.1
Total Current Liabilities	480.2	498.3	632.7	786.0
Net Current Assets	777.7	1,058.2	1,182.6	1,332.3
Other non-current Assets	73	80	104	130
Application of Funds	2,012.4	2,138.2	2,390.9	2,760.0

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per share data (₹)				
EPS	54.7	74.9	147.3	210.6
Cash EPS	102.4	123.6	201.3	270.6
BV	1,052.5	1,114.6	1,247.8	1,442.4
DPS	11.0	12.0	14.0	16.0
Cash Per Share	243.5	352.7	355.5	363.8
Operating Ratios (%)				
EBITDA Margin	11.0	9.9	13.2	14.5
EBIT / Net sales	6.2	6.3	10.1	11.8
PAT Margin	5.6	5.6	8.4	9.6
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	11.8	14.6
RoCE	5.8	7.6	14.2	17.8
RoIC	13.6	15.6	27.4	32.9
Valuation Ratios (x)				
P/E	159.9	116.8	59.4	41.6
EV / EBITDA	75.3	61.5	35.4	25.6
EV / Net Sales	8.3	6.1	4.7	3.7
Market Cap / Sales	8.9	6.5	5.0	4.0
Price to Book Value	8.3	7.9	7.0	6.1
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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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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