

# ZF Commercial Vehicle Control System (WABIND)

CMP: ₹ 9,525

Target: ₹ 11,000 (16%)

Target Period: 12 months

BUY

February 4, 2023

## Rising content per vehicle, cyclical upswing in CV space to drive superlative 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 the 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%

**Q3FY23 Results:** The company reported a healthy performance in Q3FY23.

- Total operating income for the quarter came in at ₹ 876 crore, up 10%QoQ
- For Q3FY23, OEM sales were up 47% YoY at ₹ 406 crore amid 30%+ volume growth for the domestic M&HCV industry while exports were up 23% YoY at ₹ 284 crore, aftermarket sales were at ~₹ 100 crore, up 6% YoY
- EBITDA came in at ₹ 120 crore with margins at 13.7%, up 10 bps QoQ
- PAT for the quarter ended was at ₹ 85.4 crore, up 24.5% on a QoQ basis

**What should investors do?** ZFCV's share price has grown at ~6% CAGR from ~₹ 7,040 in February 2018, thereby outperforming Nifty Auto index in that time.

- We retain **BUY** rating on ZFCV given its leadership position in braking solutions in M&HCV domain that is seeing healthy cyclical recovery. We also like ZFCV for its safety led clearly defined route for rising content per vehicle.

**Target Price and Valuation:** Introducing FY25E and rolling over valuations, we now value the company at ₹ 11,000 i.e. 45x P/E on FY24-25E average EPS of ₹ 244

**Key triggers for future price performance:**

- Robust capex allocation in Union Budget 2023-24 at ~₹ 10 lakh crore (up 33% YoY) to boost M&HCV growth, with ZFCV being a key beneficiary
- We build 24% sales CAGR over FY22-25E amid demonstrated ability to outperform the user industry and advancements on the technology front
- Uptick in content/vehicle amid regulatory norms mandating ESC in buses from FY24E & introduction of advanced products like ADAS, ESC, EBS, etc. with potential kit value at ~3x from current levels of ~₹ 40,000-45,000/unit
- With thrust on increasing localisation (currently at ~80-85%) and operating leverage at play; margins, RoIC seen at ~15.5,35%, respectively, by FY25E

**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 ₹ 350



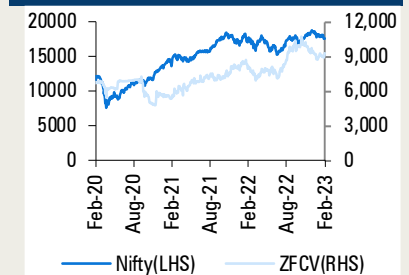
### Particulars

Particular	Amount
Market Capitalization	₹ 18067 Crore
Total Debt (FY22)	₹ 0 Crore
Cash & Inv. (FY22)	₹ 1067 Crore
EV	₹ 16999 Crore
52 week H/L (₹)	10,928 / 6,823
Equity capital	₹ 9.5 Crore
Face value	₹ 5

### Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoter	75.0	75.0	75.0	75.0
FII	0.7	0.9	1.2	1.3
DII	16.5	16.2	15.8	16.1
Other	7.8	7.8	8.0	7.6

### Price Chart



### Recent event & key risks

- Reported healthy Q3FY23 results
- Key Risk:** (i) Slower than anticipated rise in content per vehicle amidst higher technology offerings, (ii) Slower than expected o/p leverage gains

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### Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-25E)
Net Sales	2,854.2	1,929.6	1,863.5	2,543.3	4.2%	3,400.8	4,160.5	4,836.2	23.9%
EBITDA	409.9	251.5	205.8	252.6	-5.0%	462.1	623.9	749.4	43.7%
EBITDA Margins (%)	14.4	13.0	11.0	9.9		13.6	15.0	15.5	
Net Profit	282.3	158.8	103.8	142.1	-7.8%	303.6	418.5	508.7	53.0%
EPS (₹)	148.8	83.7	54.7	74.9		160.1	220.7	268.2	
P/E	64.0	113.8	174.1	127.2		59.5	43.2	35.5	
RoNW (%)	15.9	8.4	5.2	6.7		12.7	15.1	15.6	
RoCE (%)	23.0	8.5	5.8	7.6		14.9	18.3	19.0	
RoIC (%)	37.5	18.6	13.6	15.6		27.6	32.3	35.7	

Source: Company, ICICI Direct Research

## Key takeaways of recent quarter & conference call highlights

### Q3FY23 Results:

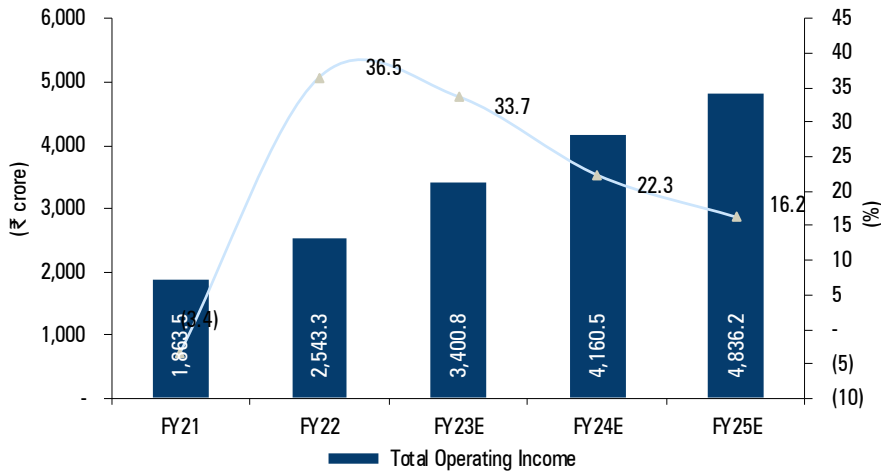
- Total operating income for Q3FY23 came in at ₹ 876 crore, up 10% QoQ. EBITDA was at ₹ 120 crore with margins coming in at 13.7%, up 10 bps QoQ. PAT for the quarter ended was at ₹ 85.4 crore, up 24.5% QoQ
- For Q3FY23, the company witnessed 60 bps expansion in gross margins with a rise in other expenses denting the gains (employee down 76 bps QoQ & other expense up 119 bps QoQ)
- For Q3FY23, OEM sales were up 47% YoY at ₹ 406 crore amid 30%+ volume growth for the domestic M&HCV industry while exports were up 23% YoY at ₹ 284 crore, aftermarket sales were at ~₹ 100 crore, up 6% YoY
- OEM & export share in sales were at ~50%, ~36%, respectively, in Q3FY23

### Q3FY23 Earnings Conference Call highlights

- The management informed about the company exceeding CV industry growth and expects the CV industry to perform well in the coming year. Further, ZF CV added that CV demand in America & Europe are expected to be moderate but no cancellation has been witnessed till date. The managements expects to outperform industry in terms of growth
- The management informed about domestic buses to mandatorily have Electronic Stability Control (ESC) from April, 2023 with potential rise in content/vehicle to the tune of ~₹ 20,000-25,000 per vehicle. It expects similar features to be made mandatory for safety purposes in the truck segment in due course of time viz. two years
- The management added that its capabilities in the AIS 140 domain (vehicle tracking solutions) with it being approved in ~23 states & UTs with process underway for approval in another ~14 states and union territories
- Further, on LCV front it alluded to active discussion with OEMs for adoption of ESC. ZFCV has also started exporting some components (compressors, etc) to BMW and is witnessing healthy demand in this domain
- The management informed about starting supply for its in house developed compressor to EV OEMs (bus manufacturers) with ASPs ~₹ 5-6k/vehicle
- The company said a few of its products had been already approved for PLI. Further, it will make application to the concerned authority for ADAS components
- The management informed about electronic braking system (EBS) to command ~₹ 30,000 delta over traditional ABS and would save energy in EVs
- Royalty to parent is unchanged at around 4.5% of topline
- Capex for FY24E would be ~₹ 250 crore

## Financial story in charts

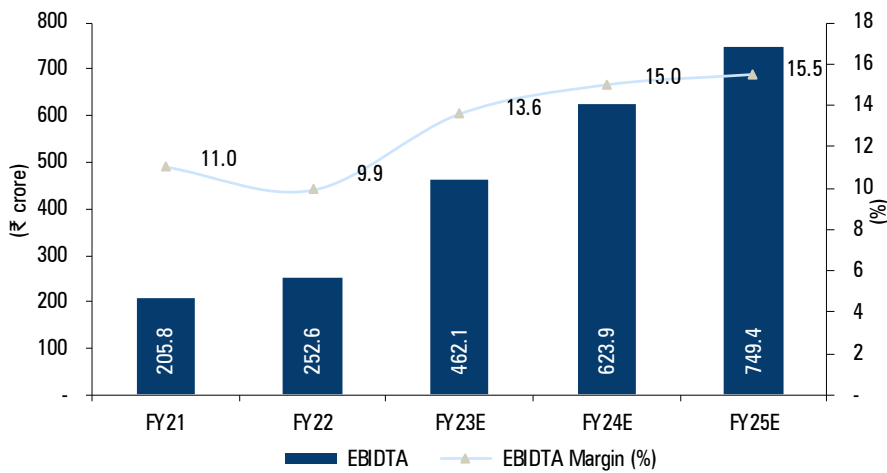
Exhibit 1: Topline trend



We expect topline to grow at a CAGR of ~24% over FY22-25E to ₹ 4,836 crore by FY25E

Source: Company, ICICI Direct Research

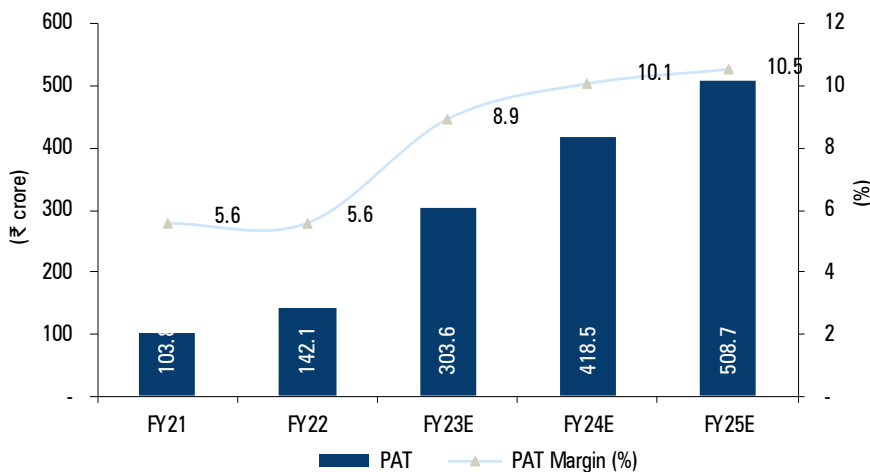
Exhibit 2: Trend in margins



EBITDA margins are seen climbing to 15.5% by FY25E vs. ~9.9% levels clocked in FY22 amid superior tech offerings as well as operating leverage gains amid cyclical recovery in M&HCV volumes

Source: Company, ICICI Direct Research

Exhibit 3: Trend in profitability



PAT is expected to grow to ₹ 509 crore by FY25E. PAT margins in the similar timeframe are seen crossing the 10% mark

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 4: Profit and loss statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
<b>Total operating Income</b>	<b>2,543.3</b>	<b>3,400.8</b>	<b>4,160.5</b>	<b>4,836.2</b>	
Growth (%)	36.5	33.7	22.3	16.2	
Raw Material Expenses	1,643.3	2,162.9	2,619.2	3,044.6	
Employee Expenses	328.7	369.6	406.6	461.6	
Other Expenses	318.8	406.2	510.8	580.6	
Total Operating Expenditure	2,290.8	2,938.7	3,536.6	4,086.8	
<b>EBITDA</b>	<b>252.6</b>	<b>462.1</b>	<b>623.9</b>	<b>749.4</b>	
Growth (%)	22.7	83.0	35.0	20.1	
Depreciation	92.4	105.4	114.4	130.6	
Interest	1.9	7.2	6.4	5.8	
Other Income	37.5	59.1	56.5	67.0	
<b>PBT</b>	<b>195.8</b>	<b>408.6</b>	<b>559.5</b>	<b>680.1</b>	
Exceptional items	0.0	0.0	0.0	0.0	
Total Tax	53.7	104.9	141.0	171.4	
<b>PAT</b>	<b>142.1</b>	<b>303.6</b>	<b>418.5</b>	<b>508.7</b>	
Growth (%)	36.9	113.7	37.8	21.5	
<b>EPS (₹)</b>	<b>74.9</b>	<b>160.1</b>	<b>220.7</b>	<b>268.2</b>	

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
<b>Profit after Tax</b>	<b>142.1</b>	<b>303.6</b>	<b>418.5</b>	<b>508.7</b>	
Add: Depreciation	92.4	105.4	114.4	130.6	
Sub: Other Income	37.5	59.1	56.5	67.0	
(Inc)/dec in Current Assets	-91.4	-286.1	-262.1	-233.2	
Inc/(dec) in CL and Provisions	14.6	159.3	146.9	130.7	
<b>CF from operating activities</b>	<b>122.1</b>	<b>230.4</b>	<b>367.6</b>	<b>475.5</b>	
(Inc)/dec in Investments	240.9	0.0	-50.0	-250.0	
(Inc)/dec in Fixed Assets	-166.4	-200.0	-250.0	-150.0	
Other Income & Misc	31.3	43.9	43.1	55.1	
<b>CF from investing activities</b>	<b>111.4</b>	<b>(183.1)</b>	<b>(280.8)</b>	<b>(366.2)</b>	
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	-22.8	-26.6	-30.3	-34.1	
Others	-3.5	-7.2	-6.4	-5.8	
<b>CF from financing activities</b>	<b>(26.2)</b>	<b>(33.7)</b>	<b>(36.8)</b>	<b>(39.9)</b>	
Net Cash flow	207.2	13.5	50.0	69.4	
Opening Cash	461.8	669.1	682.6	732.6	
<b>Closing Cash</b>	<b>669.1</b>	<b>682.6</b>	<b>732.6</b>	<b>802.0</b>	

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet					₹ crore
(Year-end March)	FY22	FY23E	FY24E	FY25E	
<b>Liabilities</b>					
Equity Capital	9.5	9.5	9.5	9.5	
Reserve and Surplus	2,104.6	2,381.7	2,769.9	3,244.4	
<b>Total Shareholders funds</b>	<b>2,114.1</b>	<b>2,391.2</b>	<b>2,779.3</b>	<b>3,253.9</b>	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	23.9	23.9	23.9	23.9	
<b>Total Liabilities</b>	<b>2,138.2</b>	<b>2,415.3</b>	<b>2,803.5</b>	<b>3,278.0</b>	
<b>Assets</b>					
Gross Block	1,273.7	1,473.9	1,723.9	1,873.9	
Less: Acc Depreciation	738.0	843.4	957.8	1,088.4	
<b>Net Block</b>	<b>535.7</b>	<b>630.5</b>	<b>766.1</b>	<b>785.5</b>	
Capital WIP	20.3	20.0	20.0	20.0	
Total Fixed Assets	555.9	650.5	786.1	805.5	
Investments	399.1	399.1	449.1	699.1	
Inventory	144.8	186.3	228.0	265.0	
Debtors	666.4	885.1	1,082.9	1,258.7	
Loans and Advances	76.3	102.1	124.8	145.1	
Other current assets	0.0	0.0	0.0	0.0	
<b>Cash</b>	<b>669.1</b>	<b>682.6</b>	<b>732.6</b>	<b>802.0</b>	
Total Current Assets	1,556.5	1,856.2	2,168.3	2,470.9	
Creditors	354.6	465.9	569.9	662.5	
Provisions	23.9	23.9	23.9	23.9	
Other Current Liabilities	119.9	160.3	196.1	228.0	
Total Current Liabilities	498.3	650.1	790.0	914.4	
<b>Net Current Assets</b>	<b>1,058.2</b>	<b>1,206.1</b>	<b>1,378.4</b>	<b>1,556.5</b>	
Other non-current Assets	80	107	131	152	
<b>Application of Funds</b>	<b>2,138.2</b>	<b>2,415.3</b>	<b>2,803.5</b>	<b>3,278.0</b>	

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per share data (₹)				
EPS	74.9	160.1	220.7	268.2
Cash EPS	123.6	215.7	281.0	337.0
BV	1,114.6	1,260.7	1,465.3	1,715.5
DPS	12.0	14.0	16.0	18.0
Cash Per Share	352.7	359.9	386.3	422.8
<b>Operating Ratios (%)</b>				
EBITDA Margin	9.9	13.6	15.0	15.5
EBIT / Net sales	6.3	10.5	12.2	12.8
PAT Margin	5.6	8.9	10.1	10.5
Inventory days	20.8	20.0	20.0	20.0
Debtor days	95.6	95.0	95.0	95.0
Creditor days	50.9	50.0	50.0	50.0
<b>Return Ratios (%)</b>				
RoE	6.7	12.7	15.1	15.6
RoCE	7.6	14.9	18.3	19.0
RoIC	15.6	27.6	32.3	35.7
<b>Valuation Ratios (x)</b>				
P/E	127.2	59.5	43.2	35.5
EV / EBITDA	67.3	36.8	27.1	22.1
EV / Net Sales	6.7	5.0	4.1	3.4
Market Cap / Sales	7.1	5.3	4.3	3.7
Price to Book Value	8.5	7.6	6.5	5.6
<b>Solvency Ratios</b>				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	2.3	2.4	2.4	2.4
<b>Quick Ratio</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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