

ZF Commercial Vehicle Control System (WABIND)

CMP: ₹ 10,440

Target: ₹ 12,300 (18%)

Target Period: 12 months

BUY

May 29, 2023

Portfolio attributes unchanged, retain positive stance

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.

- FY23 sales channel mix – OEM ~46%, aftermarket ~12%, exports ~32%
- FY23 Product mix: Sale of products ~91%, Services ~9%

Q4FY23 Results: The company reported a healthy performance in Q4FY23.

- Net operating income for the quarter came in at ₹ 977 crore, up 11.6% QoQ
- In Q4FY23, OEM sales were up 28.7% YoY at ₹ 470 crore, exports were up 16.5% YoY at ₹ 295 crore & aftermarket was up 28.5% YoY at ~₹ 124 crore
- EBITDA came in at ₹ 144 crore with margins at 14.7%, up 100 bps QoQ
- PAT for the quarter ended was at ₹ 101.2 crore, up 18.5% QoQ

What should investors do? ZFCV share price has grown at ~7.8% CAGR from ~₹ 7,250 in May 2018, thereby outperforming Nifty Auto index in that time.

- We retain **BUY** on ZFCV amid CV cyclical upswing domestically, structural levers for content/vehicle increase (regulatory led, technology innovation, Electrification) and export growth amidst greater sourcing thrust by parent

Target Price and Valuation: Revising our estimates and rolling over our valuations, we now value the company at ₹ 12,300 i.e. 45x P/E on FY25E EPS of ₹ 273.

Key triggers for future price performance:

- Proxy play on healthy demand outlook for domestic M&CV industry tracking capex cycle revival, pickup in replacement demand, scrappage policy, etc
- Supplies of ESC for buses amid regulatory changes, onboarding of major CV player & active discussion with other OEMs for ADAS technology
- We build 17.7% sales CAGR over FY23-25E 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 to increase localisation (currently at ~80-85%) and operating leverage at play; margins, RoIC seen at ~15.7%, 40% respectively, by FY25E

Alternate Stock Idea: Besides ZFCV, in our ancillary coverage we like Mahindra CIE.

- Growth capex in India and driving efficiencies at its European operations
- BUY with target price of ₹ 520



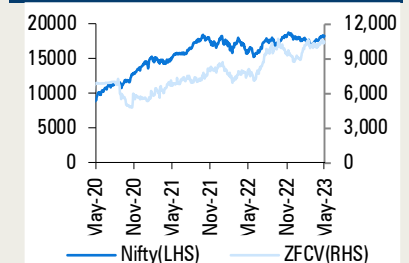
Particulars

Particular	Amount
Market Capitalization	₹ 19802 Crore
Total Debt (FY23P)	₹ 0 Crore
Cash & Inv. (FY23P)	₹ 1269 Crore
EV	₹ 18533 Crore
52 week H/L (₹)	11,344 / 6,893
Equity capital	₹ 9.5 Crore
Face value	₹ 5

Shareholding pattern

	Jun-22	Sep-22	Dec-22	May-23
Promoter	75.0	75.0	75.0	75.0
FII	0.9	1.2	1.3	1.3
DII	16.2	15.8	16.1	16.1
Other	7.8	8.0	7.6	7.6

Price Chart



Recent event & key risks

- Reported healthy Q4FY23 results
- Key Risk:** (i) Slower than expected content/vehicle increase (regulatory, technology led), (ii) Slower than expected operating leverage gain

Research Analyst

Shashank Kanodia, CFA
shashank.kanodia@icicisecurities.com

Raghvendra Goyal
raghvendra.goyal@icicisecurities.com

Key Financial Summary

Key Financials	FY19	FY20	FY21	FY22	FY23P	5 year CAGR (FY18-23P)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	2,854.2	1,929.6	1,863.5	2,543.3	3,444.6	6.0%	4,144.9	4,774.3	17.7%
EBITDA	409.9	251.5	205.8	252.6	470.3	3.6%	621.5	748.5	26.2%
EBITDA Margins (%)	14.4	13.0	11.0	9.9	13.7		15.0	15.7	
Net Profit	282.3	158.8	103.8	142.1	317.7	3.1%	426.5	518.2	27.7%
EPS (₹)	148.8	83.7	54.7	74.9	167.5		224.8	273.2	
P/E	70.2	124.7	190.8	139.4	62.3		46.4	38.2	
RoNW (%)	15.9	8.4	5.2	6.7	13.2		15.2	15.7	
RoCE (%)	23.0	8.5	5.8	7.6	14.8		17.5	18.4	
RoIC (%)	37.5	18.6	13.6	15.6	32.5		35.0	39.8	

Source: Company, ICICI Direct Research

Key takeaways of recent quarter & conference call highlights

Q4FY23 Results:

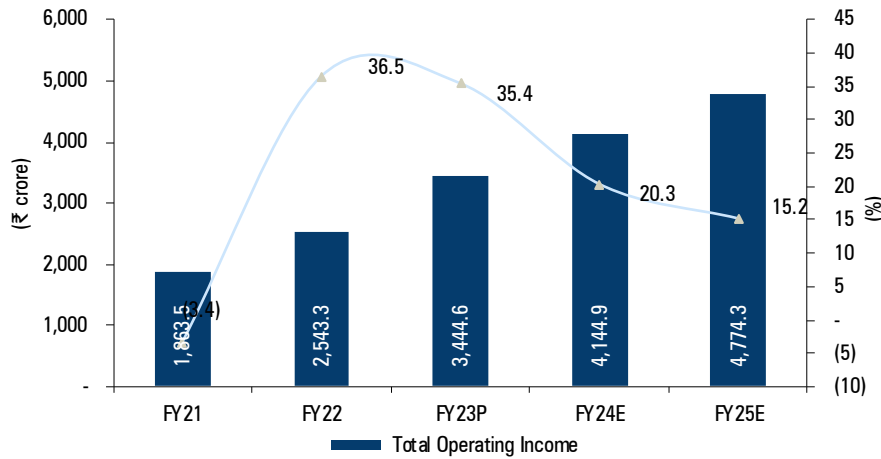
- Total operating income for Q4FY23 came in at ₹ 977 crore, up 11.6%QoQ. EBITDA was at ₹ 144 crore with margins coming in at 14.7% up 100 bps QoQ. PAT for the quarter ended was at ₹ 101.2 crore, up 18.5% QoQ
- For Q4FY23, the company witnessed 60 bps gross margin contraction with reduction in other expenses assisting margin recovery (employee down 30 bps QoQ & other expense down 138 bps QoQ)
- In Q4FY23, OEM sales were up 28.7% YoY at ₹ 470 crore, exports were up 16.5% YoY at ₹ 295 crore & aftermarket was up 28.5% YoY at ~₹ 124 crore

Q4FY23 Earnings Conference Call highlights

- The management informed about the company exceeding CV industry growth & expects CV industry to perform well in coming year on the back of healthy infra spends, pickup in replacement demand, increased demand for buses amidst need for mobility, etc. The management informed about ~1.4 lakh+ M&HCV (i.e., >6 tons) being produced during Q4FY23 up ~25.9% YoY leading to healthy growth at company level. Further, for FY23 related (>6T) CV production was at ~3.95 lakh vehicles, up ~37% YoY
- The management informed about trailer business witnessing uptick in production and the company starting supply of products & solutions like ABS, EBS, trailer pulse, etc.
- The management said it was ready for supply of electronic stability control (ESC) to buses & has homologated pneumatic and hydraulic products which has been mandated with effect from April 1, 2023. On the ADAS front the management has developed collision avoidance warning and has already won order from major OEM. The company also plans to set up ~400 units per month capacity for ESC for LCV tracking global trends with ASPs of ~₹ 8,000-9,000 per unit
- The management informed about starting supplies of E-Compressor & ESC to E-Buses being supplied under CESL tender. Further it informed about limited opportunity size for ESC initially as out of ~40,000-50,000 buses that are expected to be produced annually; ESC is applicable for ~60% of it
- The management added that sales to OEM for FY23 were at ₹ 1,587.6 crore up 54.9% YoY. On the exports front, the management said it started supplies of trailer components, car compressor to clients like BMW
- The management informed about import content remaining at ~10-15% of total raw material cost
- The management remained committed towards achieving €1 billion (₹ 8,900 crore) topline in long term (by 2030)
- The management informed about its content per vehicle in trailer being around ~₹ 30,000 per vehicle and is likely to go up post introduction of ADAS (likely in 2025)
- It expects domestic M&HCV industry to grow ~10% in FY24E
- In ADAS, its content/vehicle in case of collision warning alert is to the tune of ~₹ 15,000-20,000/unit, which, in case of automatic braking is pegged at ~₹ 80,000
- For E-Buses compressor ASP is pegged at ~₹ 85,000-90,000/unit while for Electronic Braking system ASP is pegged at ~₹ 70-80k/unit

Financial story in charts

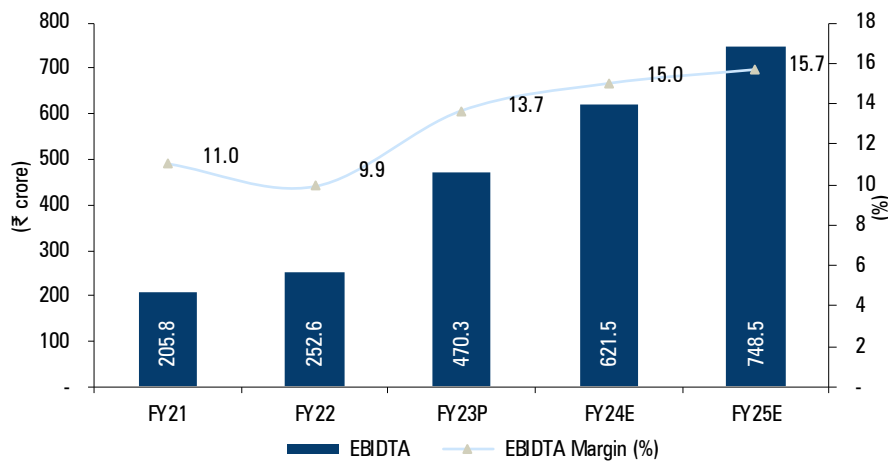
Exhibit 1: Topline trend



We expect topline to grow at a CAGR of ~17.7% over FY23-25E to ₹ 4,774 crore by FY25E

Source: Company, ICICI Direct Research

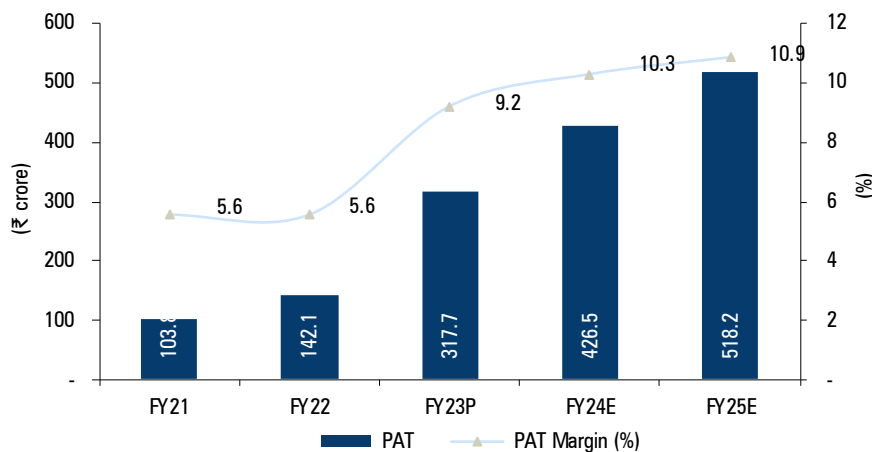
Exhibit 2: Trend in margins



EBITDA margins are seen climbing to 15.7% by FY25E vs. ~13.7% levels clocked in FY23 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 ₹ 518 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	FY23P	FY24E	FY25E
Total operating Income	2,543.3	3,444.6	4,144.9	4,774.3
Growth (%)	36.5	35.4	20.3	15.2
Raw Material Expenses	1,643.3	2,197.1	2,628.3	3,027.3
Employee Expenses	328.7	376.7	405.1	455.7
Other Expenses	318.8	400.5	490.1	542.7
Total Operating Expenditure	2,290.8	2,974.3	3,523.4	4,025.8
EBITDA	252.6	470.3	621.5	748.5
Growth (%)	22.7	86.2	32.2	20.4
Depreciation	92.4	104.8	120.2	131.3
Interest	1.9	5.7	5.1	4.6
Other Income	37.5	67.0	73.9	80.2
PBT	195.8	426.9	570.2	692.8
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	53.7	109.2	143.7	174.6
PAT	142.1	317.7	426.5	518.2
Growth (%)	36.9	123.6	34.2	21.5
EPS (₹)	74.9	167.5	224.8	273.2

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Profit after Tax	142.1	317.7	426.5	518.2
Add: Depreciation	92.4	104.8	120.2	131.3
Sub: Other Income	37.5	67.0	73.9	80.2
(Inc)/dec in Current Assets	-91.4	-80.4	-347.2	-199.7
Inc/(dec) in CL and Provisions	14.6	34.7	252.2	119.3
CF from operating activities	122.1	315.4	382.8	493.5
(Inc)/dec in Investments	240.9	298.0	-50.0	-250.0
(Inc)/dec in Fixed Assets	-166.4	-211.2	-250.0	-150.0
Other Income & Misc	31.3	133.9	65.9	73.0
CF from investing activities	111.4	212.5	(250.4)	(341.7)
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	-24.7	-26.6	-28.5
Others	-3.5	-3.6	-5.1	-4.6
CF from financing activities	(26.2)	(28.3)	(31.7)	(33.0)
Net Cash flow	207.2	499.6	100.8	118.8
Opening Cash	461.8	669.1	1,168.7	1,269.4
Closing Cash	669.1	1,168.7	1,269.4	1,388.2

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet				
	₹ crore			
(Year-end March)	FY22	FY23P	FY24E	FY25E
Liabilities				
Equity Capital	9.5	9.5	9.5	9.5
Reserve and Surplus	2,104.6	2,399.6	2,799.6	3,289.3
Total Shareholders funds	2,114.1	2,409.1	2,809.0	3,298.8
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	23.9	15.8	15.8	15.8
Total Liabilities	2,138.2	2,486.6	2,886.5	3,376.3
Assets				
Gross Block	1,273.7	1,428.3	1,735.1	1,885.1
Less: Acc Depreciation	738.0	842.8	963.0	1,094.3
Net Block	535.7	585.5	772.1	790.9
Capital WIP	20.3	76.8	20.0	20.0
Total Fixed Assets	555.9	662.3	792.1	810.9
Investments	399.1	101.1	151.1	401.1
Inventory	144.8	155.2	227.1	261.6
Debtors	666.4	757.9	1,022.0	1,177.2
Loans and Advances	76.3	54.9	66.0	76.0
Other current assets	0.0	0.0	0.0	0.0
Cash	669.1	1,168.7	1,269.4	1,388.2
Total Current Assets	1,556.5	2,136.6	2,584.6	2,903.0
Creditors	354.6	358.7	567.8	654.0
Provisions	23.9	15.8	15.8	15.8
Other Current Liabilities	119.9	154.5	185.9	214.1
Total Current Liabilities	498.3	528.9	769.4	883.9
Net Current Assets	1,058.2	1,607.7	1,815.2	2,019.2
Other non-current Assets	80	80	96	111
Application of Funds	2,138.2	2,486.6	2,886.5	3,376.3

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios				
(Year-end March)	FY22	FY23P	FY24E	FY25E
Per share data (₹)				
EPS	74.9	167.5	224.8	273.2
Cash EPS	123.6	222.7	288.2	342.4
BV	1,114.6	1,270.1	1,481.0	1,739.2
DPS	12.0	13.0	14.0	15.0
Cash Per Share	352.7	616.1	669.3	731.9
Operating Ratios (%)				
EBITDA Margin	9.9	13.7	15.0	15.7
EBIT / Net sales	6.3	10.6	12.1	12.9
PAT Margin	5.6	9.2	10.3	10.9
Inventory days	20.8	16.4	20.0	20.0
Debtor days	95.6	80.3	90.0	90.0
Creditor days	50.9	38.0	50.0	50.0
Return Ratios (%)				
RoE	6.7	13.2	15.2	15.7
RoCE	7.6	14.8	17.5	18.4
RoIC	15.6	32.5	35.0	39.8
Valuation Ratios (x)				
P/E	139.4	62.3	46.4	38.2
EV / EBITDA	74.2	39.4	29.6	24.1
EV / Net Sales	7.4	5.4	4.4	3.8
Market Cap / Sales	7.8	5.7	4.8	4.1
Price to Book Value	9.4	8.2	7.0	6.0
Solvency Ratios				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	2.3	2.6	2.2	2.2
Quick Ratio	2.0	2.1	1.8	1.8

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
Third Floor, Brillanto House,
Road No 13, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Shashank Kanodia, CFA, MBA (Capital Markets) and Raghvendra Goyal, CA, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH00000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. Registered Office Address: ICICI Venture House, Appasaheb Marathe Marg, Prabhadevi, Mumbai - 400 025. CIN: L67120MH1995PLC086241, Tel: (91 22) 6807 7100. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by Sebi and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. None of the research recommendations promise or guarantee any assured, minimum or risk-free return to the investors.

Name of the Compliance officer (Research Analyst): Mr. Anoop Goyal
Contact number: 022-40701000 E-mail Address: complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Prabodh Avadhoot Email address: headservicequality@icicidirect.com Contact Number: 18601231122

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or actual/ beneficial ownership of one percent or more or other material conflict of interest various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.