

# ZF Commercial Vehicle Control (WABIND)

CMP: ₹ 10,150

Target: ₹ 12,160 (20%)

Target Period: 12 months

BUY

September 8, 2022

## New tech offerings to ensure industry leading 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%

### Key Highlights:

- The company is a key beneficiary of the ongoing CV cyclical upswing amid greater infra spends by the government with annual YTD wholesales at market leader Tata Motors up ~60% YoY in FY23E and August 2022 wholesales witnessing MoM recovery especially in the M&HCV truck space
- With FY22 being the first year of the upcycle, considerable double digit M&HCV volume growth is expected over FY23E, FY24E with industry volumes seen surpassing their FY19 peak some time in FY25E
- In Q1FY23 conference call, ZFCV spelt out its prowess in technologically advanced products for M&HCV space like ADAS, fleet management service, EV parts for E-Bus, ESC, T-EBS among others. Recent offerings from some OEMs depict the same. We believe this bodes well for the company in maintaining its leadership position and gradually increasing content/vehicle

**What should investors do?** ZFCV share price has grown at ~12% CAGR from ₹ 5,640 in September 2017 thereby outperforming Nifty Auto index in that time.

- We retain **BUY** on ZFCV amid cyclical upswing in CV space with ZFCV a key beneficiary, solutions in EV domain and advance technologies supporting its quest for content/vehicle increase

**Target Price and Valuation:** Upgrading our estimates, we now value the company at ₹ 12,160 i.e. 54x P/E on FY24E EPS (earlier target price ₹ 10,530).

### Key triggers for future price performance:

- Amid cyclical recovery, we build ~29.8% sales CAGR over FY22-24E
- With potential kit value pegged at ~3x from current levels of ~₹ 45,000-48,000/unit along with input cost cooling off and premium product offering, margins are seen inching up to the 15% mark by FY24E

**Alternate Stock Idea:** Besides ZFCV, 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 ₹ 290



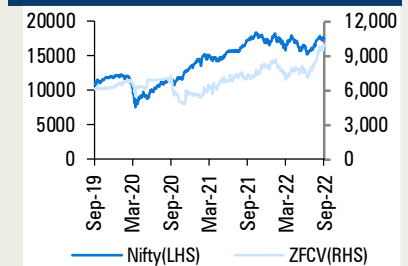
### Particulars

Particular	Amount
Market Capitalization	₹ 19252.1 Crore
Total Debt (FY22)	₹ 0 Crore
Cash & Inv. (FY22)	₹ 1067.2 Crore
EV	₹ 18184.9 Crore
52 week H/L (₹)	10297 / 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 acceptance of newer technological offerings, (ii) Slower than expected uptick in volumes in the CV space

### Research Analyst

Shashank Kanodia, CFA  
shashank.kanodia@icicisecurities.com

Raghvendra Goyal  
raghvendra.goyal@icicisecurities.com

### 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	4,286.5	29.8%
EBITDA	409.9	251.5	205.8	252.6	-5.0%	437.6	641.8	59.4%
EBITDA Margins (%)	14.4	13.0	11.0	9.9		13.2	15.0	
Net Profit	282.3	158.8	103.8	142.1	-7.8%	279.3	427.1	73.4%
EPS (₹)	148.8	83.7	54.7	74.9		147.3	225.2	
P/E	68.2	121.2	185.5	135.5		68.9	45.1	
RoNW (%)	15.9	8.4	5.2	6.7		11.8	15.5	
RoCE (%)	23.0	8.5	5.8	7.6		14.2	19.0	

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Total operating Income</b>	<b>1,863.5</b>	<b>2,543.3</b>	<b>3,306.7</b>	<b>4,286.5</b>
Growth (%)	-3.4	36.5	30.0	29.6
Raw Material Expenses	1,134.2	1,643.3	2,130.8	2,759.8
Employee Expenses	290.4	328.7	361.4	415.0
Other Expenses	233.1	318.8	377.0	470.0
Total Operating Expenditure	1,657.7	2,290.8	2,869.1	3,644.7
<b>EBITDA</b>	<b>205.8</b>	<b>252.6</b>	<b>437.6</b>	<b>641.8</b>
Growth (%)	-18.2	22.7	73.3	46.7
Depreciation	90.4	92.4	102.5	117.9
Interest	2.0	1.9	2.9	2.6
Other Income	38.9	37.5	43.8	49.6
<b>PBT</b>	<b>152.3</b>	<b>195.8</b>	<b>376.1</b>	<b>571.0</b>
Exceptional items	0.0	0.0	0.0	0.0
Total Tax	48.5	53.7	96.8	143.9
<b>PAT</b>	<b>103.8</b>	<b>142.1</b>	<b>279.3</b>	<b>427.1</b>
Growth (%)	-34.6	36.9	96.6	52.9
<b>EPS (₹)</b>	<b>54.7</b>	<b>74.9</b>	<b>147.3</b>	<b>225.2</b>

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Profit after Tax</b>	<b>103.8</b>	<b>142.1</b>	<b>279.3</b>	<b>427.1</b>
Add: Depreciation	90.4	92.4	102.5	117.9
Sub: Other Income	38.9	37.5	43.8	49.6
(Inc)/dec in Current Assets	-237.1	-91.4	-253.6	-338.1
Inc/(dec) in CL and Provisions	220.6	14.6	141.1	189.5
<b>CF from operating activities</b>	<b>140.8</b>	<b>122.1</b>	<b>228.3</b>	<b>349.3</b>
(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	32.3
<b>CF from investing activities</b>	<b>(136.2)</b>	<b>111.4</b>	<b>(193.8)</b>	<b>(298.6)</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	-20.9	-22.8	-26.6	-30.3
Others	16.8	-3.5	-2.9	-2.6
<b>CF from financing activities</b>	<b>(4.0)</b>	<b>(26.2)</b>	<b>(29.4)</b>	<b>(32.9)</b>
Net Cash flow	0.6	207.2	5.2	17.8
Opening Cash	461.2	461.8	669.1	674.3
<b>Closing Cash</b>	<b>461.8</b>	<b>669.1</b>	<b>674.3</b>	<b>692.1</b>

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	9.5	9.5	9.5	9.5
Reserve and Surplus	1,986.9	2,104.6	2,357.3	2,754.1
<b>Total Shareholders funds</b>	<b>1,996.3</b>	<b>2,114.1</b>	<b>2,366.8</b>	<b>2,763.5</b>
Total Debt	0.0	0.0	0.0	0.0
Deferred Tax Liability	11.6	23.9	23.9	23.9
<b>Total Liabilities</b>	<b>2,012.4</b>	<b>2,138.2</b>	<b>2,390.9</b>	<b>2,787.7</b>
<b>Assets</b>				
Gross Block	1,077.8	1,273.7	1,423.9	1,623.9
Less: Acc Depreciation	645.6	738.0	840.5	958.4
<b>Net Block</b>	<b>432.3</b>	<b>535.7</b>	<b>583.4</b>	<b>665.5</b>
Capital WIP	49.7	20.3	20.0	20.0
Total Fixed Assets	482.0	555.9	603.4	685.5
Investments	640.0	399.1	449.1	549.1
Inventory	113.7	144.8	181.2	234.9
Debtors	585.5	666.4	860.7	1,115.7
Loans and Advances	96.9	76.3	99.2	128.6
Other current assets	0.0	0.0	0.0	0.0
<b>Cash</b>	<b>461.8</b>	<b>669.1</b>	<b>674.3</b>	<b>692.1</b>
Total Current Assets	1,257.9	1,556.5	1,815.3	2,171.2
Creditors	342.0	354.6	453.0	587.2
Provisions	11.6	23.9	23.9	23.9
Other Current Liabilities	126.5	119.9	155.9	202.1
Total Current Liabilities	480.2	498.3	632.7	813.2
<b>Net Current Assets</b>	<b>777.7</b>	<b>1,058.2</b>	<b>1,182.6</b>	<b>1,358.1</b>
Other non-current Assets	73	80	104	135
<b>Application of Funds</b>	<b>2,012.4</b>	<b>2,138.2</b>	<b>2,390.9</b>	<b>2,787.7</b>

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
<b>Per share data (₹)</b>				
EPS	54.7	74.9	147.3	225.2
Cash EPS	102.4	123.6	201.3	287.3
BV	1,052.5	1,114.6	1,247.8	1,457.0
DPS	11.0	12.0	14.0	16.0
Cash Per Share	243.5	352.7	355.5	364.9
<b>Operating Ratios (%)</b>				
EBITDA Margin	11.0	9.9	13.2	15.0
EBIT / Net sales	6.2	6.3	10.1	12.2
PAT Margin	5.6	5.6	8.4	10.0
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
<b>Return Ratios (%)</b>				
RoE	5.2	6.7	11.8	15.5
RoCE	5.8	7.6	14.2	19.0
RoIC	13.6	15.6	27.4	34.8
<b>Valuation Ratios (x)</b>				
P/E	185.5	135.5	68.9	45.1
EV / EBITDA	88.2	72.0	41.4	28.1
EV / Net Sales	9.7	7.2	5.5	4.2
Market Cap / Sales	10.3	7.6	5.8	4.5
Price to Book Value	9.6	9.1	8.1	7.0
<b>Solvency Ratios</b>				
Debt/Equity	0.0	0.0	0.0	0.0
Current Ratio	2.2	2.3	2.4	2.4
<b>Quick Ratio</b>	<b>1.9</b>	<b>2.0</b>	<b>2.0</b>	<b>2.0</b>

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](mailto:pankaj.pandey@icicisecurities.com)**

**ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto: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 – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. 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](http://www.icicibank.com).

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](http://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 a 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.