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Q4FY21 result review
and reco change

Autos

Target price: Rs7,350

Earnings revision

(%)	FY22E	FY23E
Sales	↑ 0.4	↑ 5.3
EBITDA	↓ 8.3	↑ 10.1
EPS	↓ 13.1	↑ 7.7

Target price revision

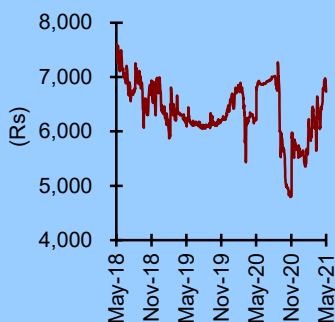
Rs7,350 from Rs5,955

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	93.1	93.1	80.4
Institutional investors	0.4	0.3	11.6
MFs and others	0.1	0.0	11.0
Banks & FIs	0.0	0.0	0.0
Insurance Cos	0.1	0.1	0.2
FIs	0.2	0.2	0.4
Others	6.5	6.6	8.0

Source: NSE

Price chart



Wabco India

ADD

Upgrade from *Hold*

Strong play on exports, domestic truck revival **Rs6,990**

Wabco India's (WIL) Q4FY21 earnings missed consensus profit expectations even as it surprised positively on growth (topline grew 76% YoY). EBITDA margin contracted 106bps YoY to 11.7% due to commodity price inflation (gross margins down 979bps). We structurally like WIL's business on: i) dominant market share (>85%) in domestic M&HCV industry, ii) domestic truck industry is likely to remain on growth path well into FY24E with scrappage policy also likely to act as a demand buffer during the same period, and iii) strong technology support (ZF Group) is likely to aid new product/content introductions (e.g. ESC, air disc brakes, services) for both domestic/export markets. The stock remains one of the best proxy plays for M&HCV upcycle. Upgrade to **ADD**.

- ▶ **Key highlights of the quarter:** Net sales grew ~76% YoY to ~Rs7.1bn, led by ~114% YoY jump in domestic OEM revenues to Rs3.2bn (share of revenues increased 655bps to 48.7%). Exports also grew ~70% YoY to ~Rs2.5bn (share of revenue declined 323bps at 37.2%) driven by actuators and compressors, designed and developed in India. The most profitable aftermarket division grew by ~50% YoY to Rs938mn (share of revenue down 332bps at 14.1%). Higher material costs (up 106% YoY) led to gross margin contraction of 979bps to ~34%. WIL has announced new capex for an export oriented facility in Chennai.
- ▶ **Key highlights from the earnings call:** Management indicated: a) Material costs are higher as steel/aluminium/copper were up ~60%/33%/50% QoQ, respectively. The commodity increase pass-through will be visible for domestic OEMs/exports with a quarter lag; aftermarket pricing changes have also become effective Apr'21; b) WIL has started selling air disc brakes (new business opportunity) to Indian OEMs and is also present in Tata Motors electric buses; c) content per vehicle is 3x of India; autonomous content value is significantly higher globally (EU/US/India: \$3k/\$1.5k/\$600 per vehicle respectively); and d) in aftermarket key focus points are: i) product quality improvements, aggressive marketing campaigns; ii) capability building towards remote diagnostics and preventive maintenance; iii) creating connected vehicle eco-system (subscription based); and iv) launching new products (e.g. diesel exhaust fuel systems).
- ▶ **Upgrade to ADD:** We raise earnings for FY23E by ~8% on the back of potential success in new growth levers (domestic) as robust exports demand. New capex plans indicates confidence of parent (ZF) in capabilities of Wabco India. We raise our target multiple to 40x (earlier: 35x) FY23E EPS of Rs183 on the back of higher visibility of content increase, margin recovery coupled with early recovery cycle in MHCV segment. We upgrade to **ADD** from *Hold* with a revised target price of Rs7,350 (earlier: Rs5,955).

Market Cap	Rs135bn/US\$1.9bn
Reuters/Bloomberg	WABC.BO/WIL IN
Shares Outstanding (mn)	19.0
52-week Range (Rs)	7268/4791
Free Float (%)	19.6
FII (%)	0.4
Daily Volume (US\$/'000)	1,651
Absolute Return 3m (%)	18.9
Absolute Return 12m (%)	4.7
Sensex Return 3m (%)	(2.1)
Sensex Return 12m (%)	69.0

Year to Mar	FY20	FY21P	FY22E	FY23E
Revenue (Rs mn)	19,296	18,635	24,371	32,115
Rec. Net Inc (Rs mn)	1,589	1,038	1,948	3,475
EPS (Rs)	83.8	54.7	102.7	183.2
% Chg YoY	(43.7)	(34.7)	87.7	78.3
P/E (x)	79.9	122.3	65.2	36.5
CEPS (Rs)	131.3	102.4	155.2	240.9
EV/E (x)	46.5	56.4	39.2	23.1
Dividend Yield (%)	0.1	0.2	0.3	0.5
RoCE (%)	8.5	5.8	9.1	15.8
RoE (%)	8.4	5.2	9.1	14.4

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Table 1: Q4FY21 result summary*(Rs mn, year ending March 31)*

	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Total operating income	7,123	4,049	76	5,665	26
Raw material costs	4,711	2,282	106	3,468	36
Employee costs	784	671	17	708	11
Other expenditures	793	579	37	611	30
Total operating expenses	6,289	3,532	78	4,787	31
EBITDA	835	517	61	878	-5
EBITDA margin (%)	11.7	12.8	-106 bps	15.5	-377 bps
Depreciation & Amortization	226	247	-8	223	2
Other income	66	181	-64	78	-16
Interest costs	2	6	-75	2	-37
PBT	673	446	51	730	-8
Exceptional Items	-	-	-	-	-
Taxes	196	130	51	206	-5
Reported PAT	476	316	51	524	-9

Source: Company data, I-Sec research

Table 2: Earnings revision

<i>(Rs mn)</i>	FY22E			FY23E		
	Previous	New	Chg (%)	Previous	New	Chg (%)
Sales	24,271	24,371	0.4	30,491	32,115	5.3
EBITDA	3,204	2,928	(8.6)	4,451	4,902	10.1
PAT	2,242	1,948	(13.1)	3,227	3,475	7.7
EPS (Rs)	118.2	102.7	(13.1)	170.1	183.2	7.7

Source: I-Sec research

Valuation methodology

We raise earnings for FY23E by ~8% on the back of potential success in new growth levers (domestic) as robust exports demand. New capex plans indicates confidence of parent (ZF) in capabilities of Wabco India. We raise our target multiple to 40x (earlier: 35x) FY23E EPS of Rs183 on the back of higher visibility of content increase, margin recovery coupled with early recovery cycle in MHCV segment. We upgrade to **ADD** from **HOLD** with a revised target price of Rs7,350 (earlier: Rs5,955).

Upside risk: Faster adoption rates of new products such as AMT/ESC amongst large M&HCV OEMs.

Downside risk: Slower than expected M&HCV recovery; lack of well incentivised scrappage policy.

Chart 1: Trailing P/E

Source: I-Sec research, 12m trailing data

Chart 2: Trailing P/B

Source: I-Sec research, 12m trailing data

Financial summary

Table 3: Profit and loss statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Total Op. Income (Sales)	19,296	18,635	24,371	32,115
Operating Expenses	16,780	16,577	21,443	27,213
EBITDA	2,516	2,058	2,928	4,902
% margins	13.0%	11.0%	12.0%	15.3%
Depreciation & Amortisation	901	904	996	1,095
EBIT	1,614	1,154	1,932	3,807
Other Income	639	389	667	824
Gross Interest	19	20	5	4
PBT	2,234	1,523	2,594	4,627
Less: Exceptionals	-	-	-	-
PBT after Exceptionals	2,234	1,523	2,594	4,627
Less: Taxes	645	485	646	1,152
Less: Minority Interest	0	0	0	0
Add: Profit from Associates	0	0	0	0
Net Income (Reported)	1,589	1,038	1,948	3,475
Net Income (Adjusted)	1,589	1,038	1,948	3,475

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
ASSETS				
Current Assets	10,202	12,581	12,601	14,383
Cash & cash eqv.	4,595	4,572	4,729	4,332
Current Liabilities & Provisions	2,633	4,838	4,275	5,258
Net Current Assets	7,570	7,743	8,326	9,126
Investments	5,424	6,400	7,400	9,400
Goodwill	0	0	0	0
Net Fixed Assets	5,010	4,819	4,623	4,628
Capital Work-in-Progress	300	497	497	497
Long term loans & advances	122	127	171	227
Deferred Tax Assets	8	66	66	66
Other non-current asset	1,042	970	970	970
Total Assets	19,175	20,125	21,555	24,415
LIABILITIES				
Borrowings	0	0	0	0
long-term borrowings	0	0	0	0
short-term borrowings	0	0	0	0
Long-term provisions	229	161	211	261
Deferred Tax Liability	0	0	0	0
Other Non-current Liabilities	0	0	0	0
Minority Interest	0	0	0	0
Equity Share Capital	95	95	95	95
Reserves & Surplus	18,850	19,869	21,249	24,060
Net Worth	18,945	19,964	21,344	24,154
Total Liabilities	19,175	20,125	21,555	24,415

Source: Company data, I-Sec research

Table 7: 5-stage DuPont analysis

(% , year ending March 31)

All figures in %	FY20	FY21P	FY22E	FY23E
Tax Burden	71.1	68.2	75.1	75.1
Interest Burden	138.4	131.9	134.3	121.5
EBIT Margin	9.4	6.9	8.7	12.8
Asset Turnover	89.9	82.8	103.6	121.5
Financial Leverage	101.2	100.8	101.0	101.1
ROE	8.4	5.2	9.1	14.4

Source: Company data

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21P	FY22E	FY23E
Cashflow before working capital changes	2,509	1,962	2,949	4,574
Working Capital Changes	826	(578)	(425)	(1,198)
Operating Cashflow	3,335	1,384	2,524	3,376
Capital Commitments	(1,215)	(713)	(800)	(1,100)
Free Cashflow	2,120	671	1,724	2,276
Cashflow from Investing Activities	(3,672)	(1,748)	(1,793)	(3,106)
Issue of Share Capital	-	-	-	-
Inc/(Dec) in securities premium	-	-	-	-
Buyback of shares	-	-	-	-
Inc/(Dec) in Borrowings	-	-	-	-
Dividend paid	(228)	(209)	(379)	(664)
Others	(234)	551	(194)	(4)
Cashflow from Financing Activities	(462)	342	(573)	(668)
Net Cashflow	(799)	(22)	157	(398)
Closing Cash & Bank balance	4,595	4,572	4,729	4,332

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21P	FY22E	FY23E
Per Share Data (in Rs.)				
EPS (Basic)	83.8	54.7	102.7	183.2
EPS (Adjusted)	83.8	54.7	102.7	183.2
Cash EPS	131.3	102.4	155.2	240.9
Dividend per share (DPS)	10.0	11.0	20.0	35.0
BVPS (Adjusted)	999	1,053	1,125	1,273
Growth Ratios (%)				
Total Op. Income (Sales)	-32.4	-3.4	30.8	31.8
EBITDA	-38.4	-18.2	42.3	67.4
Net Income (Adjusted)	-43.7	-34.7	87.7	78.3
EPS (Adjusted)	-43.7	-34.7	87.7	78.3
Cash EPS	-29.6	-22.0	51.6	55.2
BVPS (Adjusted)	6.4	5.4	6.9	13.2
Valuation Ratios (x)				
P/E (Adjusted)	79.9	122.3	65.2	36.5
P/BV (Adjusted)	6.7	6.4	5.9	5.3
EV/EBITDA	46.5	56.4	39.2	23.1
EV/Sales	6.7	6.9	5.2	3.9
Return/Profitability Ratios (%)				
EBITDA Margin	13.0	11.0	12.0	15.3
Net Income Margin (Adjusted)	8.2	5.6	8.0	10.8
RoCE	8.5	5.8	9.1	15.8
RoNW	8.4	5.2	9.1	14.4
Dividend Payout Ratio	11.9	20.1	19.5	19.1
Dividend Yield	0.1	0.2	0.3	0.5

Wkg. Cap. Ratios (x)

Net D/E	-	-	-	-
Debt/EBITDA	-	-	-	-
EBIT/Interest	84	58	390	959
Current Ratio	3.9	2.6	2.9	2.7
Quick Ratio	3.9	2.6	2.9	2.7
Inventory (days)	24	25	25	25
Receivables (days)	77	128	85	80
Payables (days)	44	86	55	50

Source: Company data, I-Sec research

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