

## Retail Equity Research (South India Focus)

# WABCO INDIA LTD

## Auto Ancillary

BSE CODE : 533023

NSE CODE: WABCOINDIA

BLOOMBERG CODE: WIL:IN

SENSEX : 49,903

## Accumulate

12 month Investment Period

Rating as per Mid Cap

CMP Rs 6,920 TARGET Rs 7,909 RETURN 14% ↑

(Closing: 19-05-2021)

## KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↓

### Technological advantage to reap benefit

WABCO India Ltd (WIL) is a leading supplier of technologies and services that improve safety, efficiency and connectivity of commercial vehicles (CV) in India.

- Q4FY21 revenue came with a mixed result of 76%YoY. The company outperformed the CV industry growth by 25%. Export grew by 70%YoY due to Strong global market.
- We expect the export momentum is likely to continue due to providing global export hub and local engineering footprint.
- EBITDA margin contracted by 110bps due to commodity inflation, Increase in freight cost and supply side constraints.
- Wabco ZF technological advantage in the CV segment will provide significant growth in product intelligence and will result in higher value enhancing offer for the domestic and global customers.
- After the merger, promoter's diluted its stake from 93.1% to 80.4% through OFS. As per the SEBI guidelines the decision to limit at 75% is awaited.
- WIL is a direct beneficiary given the strong fundamentals and early sign of recovery in the truck sales. We value WIL at 50x FY23E EPS.

### Mixed performance across channels

Q4FY21 revenue came with a mixed result of 76%YoY. The company outperformed the CV industry growth by 25%. Export grew by 70%YoY due to Strong global market, Domestic OEM and aftermarket sales witnessed a robust growth of 114%YoY and 40%YoY respectively. EBITDA margin contracted by 110bps due to commodity price increase (especially steel and Aluminium price), Increase in freight cost owing to delay in order completion and non availability of semi conductors. The content per vehicle is expected to increase by 20% from the current level due to the new emission and regulatory changes. The company holds 85% market share in the air braking and safety products. Today, OEMs use the opportunity to launch the BS VI vehicles, not only to address the emission aspects, but to improve and advance the braking system to meet the new requirement of safety and efficiency guidelines.

### WABCO and ZF Merger to redraw new heights.

ZF announced the successful conclusion of the process to acquire WABCO. The acquisition will bring together two global leaders with highly complementary and innovative technology offering to serve future serving OEMs Likes Autonomous, connectivity and electric in the trucks industry. including technologies in air suspension system, Automatic transmission, fleet management systems (FMS) and also ZF's leading position in driveline and Chassis technologies for cars and CVs.

### Dominant position in product segment

WABCO enjoys leadership position in their product segment. Its technological leadership among auto ancillary companies and its technological prowess make it one of the few companies that have bargaining power with original equipment manufactures (OEM). Kit value per vehicle comparing to its European CV market is 3200\$ vs 600\$ which is far lower for India and provides significant room for incremental growth. Other advanced active safety features will become mandatory in the near future like Electronic Stability Control (ESC) Advanced Driver Assistance Systems (ADAS) & Autonomous emergency braking.

### Valuations

Given the strong fundamentals and potential merger we believe WIL will be a direct beneficiary in the long run owing to economic growth, wider portfolio and governments thrust on infrastructure development. However, considering the near term margin pressure due to higher material and logistics cost, we recommend Accumulate rating for long term earning visibility. We value WIL at 50x (3yr historical avg) FY23E EPS and arrive at a target price of Rs7909.

#### Company Data

Market Cap (cr)	Rs13,125
Enterprise Value (cr)	Rs13,125
Outstanding Shares (cr)	1.89
Free Float	6.9%
Dividend Yield	0.2%
52 week high	Rs7,623
52 week low	Rs4,770
6m average volume (lacs)	0.04
Beta	0.48
Face value	Rs5.0

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	93.1	93.1	80.4
FII's	0.2	0.2	0.4
MFs/Insti	0.1	0.2	11.2
Public	6.5	6.5	8.0
Total	100.0	100.0	100.0
Promote pledge %	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	19.5%	21.5%	4.7%
Absolute Sensex	-2.9%	15.1%	67.1%
Relative Return*	22.4%	6.4%	-62.5%

\*Over or under performance to benchmark index



Y.E Mar (cr)	FY21A	FY22E	FY23E
Sales	1,864	2,409	3,103
Growth (%)	7.8	29.3	28.8
EBITDA	206	313	475
EBITDA Margins%	11.0	13.0	15.3
PAT Adj.	104	183	300
Growth (%)	-341.8	75.8	64.4
Adj.EPS	55	96	158
Growth (%)	-341.8	75.8	64.4
P/E	122.8	69.9	42.5
P/B	6.4	6.8	5.9
EV/EBITDA	62.0	40.7	26.9
ROE (%)	5.3	9.4	14.9
D/E	0	0	0

Saji John

Research Analyst

## Quarterly Financials (Standalone)

### Profit & Loss

Rs cr	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %
Sales	712	405	75.9	566	25.7
EBITDA	83	52	61.5	88	-4.9
EBITDA margins	11.7	12.8	-110bps	15.5	-380bps
Depreciation	23	25	-8.3	22	1.6
EBIT	61	27	125.3	65	-7.1
Interest	0.2	0.6	0.0	0.2	-36.8
Other Income	7	18	-63.7	7.8	-15.7
Exceptional Items	0	0	0	0	0
PBT	67	45	51.1	73.0	-7.9
Tax	20	13	50.7	20.6	-4.8
Share of profit from Associate	0	0	0	0	0
Minority Interest	0	0	0	0	0
Reported PAT	48	31	51.2	52.4	-9.1
Adjustments	0	0	0	0	0
Adj PAT	48	31	51.2	52.4	-9.1
No. of Shares (cr)	1.9	1.9	0	1.9	0
EPS (Rs)	25.1	16.6	51.2	27.6	-9.1

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	2,494	-	2,409	3,103	-3.4	-
EBITDA	367	-	313	475	-14.7	-
Margins (%)	14.7	-	13.0	15.3	-170bps	-
Adj. PAT	244	-	183	300	-25.2	-
EPS	128	-	96	158	-25.2	-

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Sales	<b>2,854</b>	<b>1,930</b>	<b>1,864</b>	<b>2,409</b>	<b>3,103</b>
% change	10.9	-32.4	-3.4	29.3	28.8
EBITDA	<b>410</b>	<b>251</b>	<b>206</b>	<b>313</b>	<b>475</b>
% change	2.8	-38.6	-18.2	52.1	51.6
Depreciation	70	88	88	96	107
EBIT	338	161	115	214	364
Interest	0	2	2	2	1
Other Income	72	64	39	51	68
PBT	<b>411</b>	<b>223</b>	<b>152</b>	<b>263</b>	<b>432</b>
% change	7.6	-45.7	-31.8	72.5	64.4
Tax	129	65	48	80	132
Tax Rate (%)	0.31	0.29	0.32	0.31	0.31
Reported PAT	<b>282</b>	<b>159</b>	<b>104</b>	<b>183</b>	<b>300</b>
Adj.	0	0	0	0	0
Adj. PAT	<b>282</b>	<b>159</b>	<b>104</b>	<b>183</b>	<b>300</b>
% change	3.4	-43.8	-34.6	75.8	64.4
No. of shares (cr)	1.9	1.9	1.9	1.9	1.9
Adj EPS (Rs)	<b>149</b>	<b>84</b>	<b>55</b>	<b>96</b>	<b>158</b>
% change	3.4	-43.8	-34.6	75.8	64.4
DPS (Rs)	9.6	23.2	23.2	23.2	23.2

### CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Net inc. + Depn.	480	311	240	359	539
Non-cash adj.	-171	-67	-52	-79	-131
Changes in W.C	-650	172	79	-17	-211
C.F.O	<b>-341</b>	<b>416</b>	<b>267</b>	<b>263</b>	<b>197</b>
Capital exp.	-116	-128	-55	-100	-100
Change in inv.	178	-232	-99	37	-3
Other invest.CF	0	0	0	0	0
C.F - investing	<b>62</b>	<b>-361</b>	<b>-155</b>	<b>-63</b>	<b>-103</b>
Issue of equity	0	0	0	0	0
Issue/repay debt	0	0	0	0	0
Dividends paid	-18	-44	-44	-44	-44
Other finance.CF	0	192	52	0	0
C.F - Financing	<b>-18</b>	<b>148</b>	<b>8</b>	<b>-44</b>	<b>-44</b>
Chg. in cash	-297	204	120	156	50
Closing cash	49	253	373	529	579

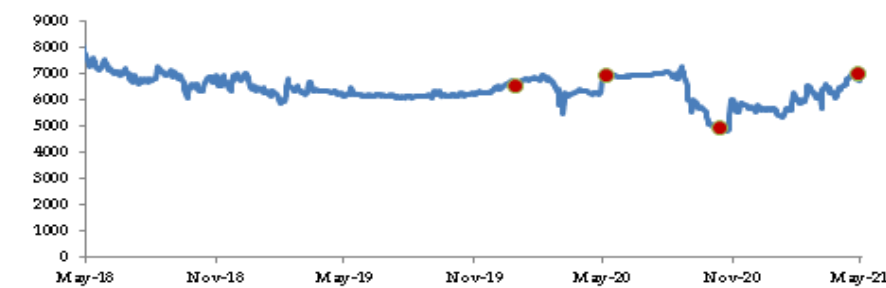
### BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	49	253	373	529	579
Accounts Receivable	634	364	585	462	595
Inventories	151	113	114	127	158
Other Cur. Assets	727	600	512	690	889
Investments	313	542	640	600	600
Gross Fixed Assets	670	767	823	923	1,023
Net Fixed Assets	437	447	415	419	412
CWIP	19	50	50	50	50
Intangible Assets	3	4	3	3	3
Def. Tax (Net)	-4	1	7	8	10
Other Assets	0	0	0	0	0
<b>Total Assets</b>	<b>2,330</b>	<b>2,373</b>	<b>2,698</b>	<b>2,887</b>	<b>3,296</b>
Current Liabilities	412	157	342	363	468
Provisions	75	27	27	40	51
Debt Funds	0	0	0	0	0
Minority Interest	63	103	131	148	185
Equity Capital	9	9	9	9	9
Reserves & Surplus	1,770	2,077	2,189	2,327	2,583
Shareholder's Fund	1,780	2,087	2,198	2,337	2,593
<b>Total Liabilities</b>	<b>2,330</b>	<b>2,373</b>	<b>2,698</b>	<b>2,887</b>	<b>3,296</b>
BVPS	<b>939</b>	<b>1,101</b>	<b>1,159</b>	<b>1,232</b>	<b>1,367</b>

### RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	14.4	13.0	11.0	13.0	15.3
EBIT margin (%)	11.9	8.4	6.2	8.9	11.7
Net profit mgn.(%)	9.9	8.2	5.6	7.6	9.7
ROE (%)	17.1	8.2	4.8	8.1	12.2
ROCE (%)	20.5	8.3	5.4	9.4	14.8
W.C & Liquidity					
Receivables (days)	82.0	94.3	92.9	79.3	62.2
Inventory (days)	28.4	41.9	36.4	28.5	27.0
Payables (days)	94.6	90.3	80.2	83.4	78.8
Current ratio (x)	3.2	7.3	4.3	4.5	4.3
Quick ratio (x)	1.7	3.9	2.8	2.7	2.5
Turnover & Levg.					
Gross asset T.O (x)	4.8	2.7	2.3	2.8	3.2
Total asset T.O (x)	1.3	0.8	0.7	0.9	1.0
Int. covge. ratio (x)	338.4	84.0	115.4	214.0	364.4
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation ratios					
EV/Sales (x)	4.6	6.8	7.0	5.4	4.2
EV/EBITDA (x)	32.0	52.2	63.8	41.9	27.7
P/E (x)	46.5	82.7	126.4	71.9	43.7
P/BV (x)	7.4	6.3	6.0	5.6	5.1

## PRICE HISTORY



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
20.01.2020	Buy	7,918
27.05.2020	Hold	7,064
07.11.2020	Hold	5,224
20.05.2021	Accumulate	7,909

## Investment Rating Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-	-	-

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated :** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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