

1QFY22 Result Update

WABCO India

**Decent performance in weak environment;
content increase + CV upcycle holds
promise**

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CMP (Rs): 7,380

Market cap. (Rs bn): 140

Target price (Rs): 8,088

Maintain Hold

First Cut Feel of the Results

- Revenue de-grew by 30.9% QoQ to Rs 4.9 bn, primarily on weak demand in both domestic CV OEMs and aftermarket due to impact of local lockdowns.
 - Segment-wise revenue for the quarter: OEM (33% of revenue) – Rs 1,630 mn, After-market (12%) – Rs 608 mn, Exports (45%) – Rs 2,200 mn, Other operating income (10%) – Rs 481 mn.
- Despite rising steel prices, gross margins improved by ~180 bps QoQ due to pass-through of steel price increase to customers.
- EBITDA margin dropped ~310 bps QoQ to 8.6% on higher employee cost and other expenses due to lack of scale, partly offset by better gross margins.
- Adjusted PAT stood at Rs 214 mn, decline of 55% QoQ on weak operating performance.
- Promoter holdings stood at 77.01% of total shares as on June 2021 (80.43% in March 2021). No shares have been pledged by the promoters.

Financial highlights

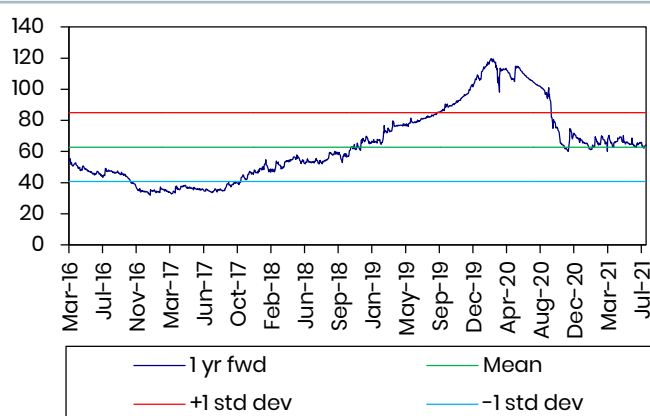
(Rs mn)	1QFY21	1QFY22	YoY (%)	4QFY21	QoQ (%)
Net sales	1,660	4,919	196.4	7,123	(30.9)
EBITDA	(286)	421	-	835	(49.5)
EBITDA margin	(17.2)	8.6		11.7	
Other Income	134	119	(11.3)	66	80.6
Interest	7	5		2	250.3
Depreciation	231	226	(2.1)	226	(0.1)
PBT	(389)	309	-	673	(54.1)
Tax	(76)	95	-	196	(51.7)
PAT	(314)	214	-	476	(55.1)
Adjusted PAT	(314)	214	-	476	(55.1)
EPS (Rs)	(16.5)	11.3	-	25.1	(55.1)

Key variables

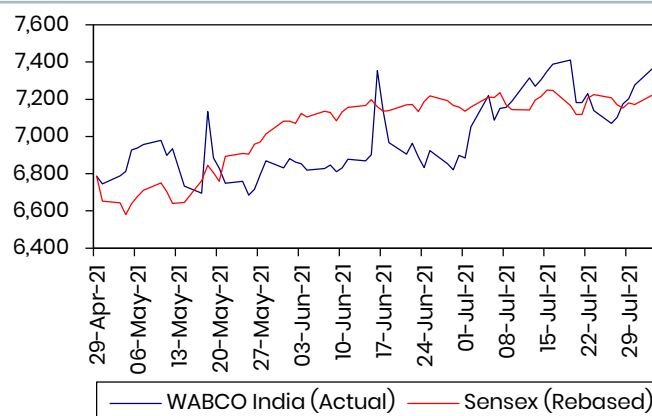
	Improvement on (%)	
	B&K est.	Consensus
Net sales	(5.4)	
EBITDA	1.2	
Adjusted PAT	10.4	

	FY22E	FY23E	FY24E
Valuations			
PER (x)	78.0	47.7	38.3
PBV (x)	6.4	5.7	4.9
EV/EBITDA (x)	43.0	27.8	22.2
Key Ratios			
RoE (%)	8.6	12.6	13.8
Liquidity			
Net D/E (x)	(0.5)	(0.4)	(0.5)

One year fwd PE



Relative performance



Is it in the Price?

- Revenue stood at Rs 4.9 bn, below B&K estimate of Rs 5.2 bn due to weak demand in domestic market.
- EBITDA margin stood at 8.6%, marginally above B&K estimate of 8% on better than expected gross margin.
- Despite subdued operating performance in the quarter, considering the long-term positive outlook, we expect the stock to react marginally positively.

Connecting the Dots

Going forward, we expect WABCO India's (WIL) performance to improve considerably due to:

- **Market leadership in braking solutions:** WIL is the market leader in domestic CV braking segment with diversified exposure across OEMs, after-market and exports market. WIL is expected to sustain its dominance in the CV braking solutions space considering strong engineering expertise developed locally along with technological support from global parent. Going forward, focus to grow at a faster rate than the industry through enhanced value offerings is positive for the company.
- **Expected upcycle in domestic CV market:** In the domestic MHCV segment, we believe that volumes have bottomed out in FY21. Despite impact of second round of lockdowns, MHCV volumes are expected to further improve from 2HFY22 on increased economic activity, progress in e-commerce, growth in mining activity and thrust on road infra.
- **Increase in content per vehicle:** BS VI transition and new axle load norms necessitated upgradation in the braking system including optimising compressors' cubic capacity, changes in actuators, upgrading air-management system products leading to increase in content per vehicle by 15-25%.
 - o With regulatory changes such as mandatory implementation of electronic stability control (ESC) in Buses from 01 April 2023, content per vehicle is likely to increase by more than US\$ 200 (~Rs 15k) per vehicle. In future, with emergence of autonomous emergency braking (AEB) solutions and the shift towards ACE mobility solutions (Autonomous, Connected and Electric), content is expected to increase further.
- **Fast-growing exports portfolio:** WIL generates 30-35% of revenue from exports and has been developed as a key sourcing hub by the parent company due to cost efficiencies along with extensive and proven technology and engineering capability.
 - o With a strong pipeline of products in exports business and establishment of a new greenfield plant at Oragadam has been approved by the Board for enhancing export capacities over the next two years.
 - o ZF group globally is targeting to generate ~Euro 3 bn in revenues from India of which ~Euro 1 bn is expected to be from the CV solutions division. WIL is well placed to offer a large share of the Euro 1 bn in the domestic market.
- **Margin improvement:** Margin profile over FY20/21 has been impacted by unfavourable product mix, slowdown in CV segment, shortage of containers and volatile commodity prices. Post lockdown, with focus on cost reduction initiatives, scale benefits, pass-through of raw material price increase with customers and price revision in after-market segment, we expect margin to improve to 15-17% levels.

Outlook and Recommendation

In the near-term, performance is likely to be impacted due to uncertainty relating to third wave and surging steel prices. However, in the medium to long-term, we expect WIL to report strong growth driven by pick-up in the domestic CV volumes, improving after-market portfolio, steady growth momentum in revenues from services and exports along with increase in content per vehicle. We believe that WIL is one of the best proxy play for domestic MHCV recovery and India exports growth story.

With normalisation of raw material prices, we expect the company to improve EBITDA margin to 15-17% levels considering domestic MHCV cycle recovery, strong focus on cost reduction and expected scale benefits. Promoter, ZF, has reduced their 80.43% holding to 77.01% through an Offer for Sale (OFS) in June 2021. We expect another round of OFS shortly to reduce the stake further to maximum permissible holding of 75%. We introduce FY24 estimates with revenue and EPS growth of 17.5%/24.5%. At the current market price of Rs 7,380, the stock is trading at 47.7x FY23E revised EPS of Rs 154.7 and 38.3x FY24E EPS of Rs 192.6.

Considering improved visibility on content increase per vehicle (ESC, AEB, ACE mobility) and scope for further improvement in exports through ZF, we roll forward to FY24 and maintain Hold rating on the stock with a revised target price of Rs 8,088 (42x FY24E EPS).

Concall highlights

1QFY22 – Performance highlights

Revenue

- 49.6% YoY de-growth in domestic OEM segment due to lockdown and 10.9% de-growth in exports on supply chain disruptions.
- After-market de-grew by 35% YoY on closure of dealerships.

Margin

- Price revisions from customers partly offset the impact of higher raw material prices and led to QoQ improvement in gross margins.
- Efficiencies in shop floor resulted in conversion cost savings. Price revision taken up with domestic OEMs and exports and normally happens with a quarter lag.

Outlook

- In 1Q, production has been scaled down due to impact of lockdown. However, pipeline of order backlog has been built-up which would enable the company to outperform industry growth going forward.
- Strong exports outlook driven by pipeline of new export orders and improving global outlook. Currently, exports are at Rs 10 bn p.a. run-rate which is expected to further improve going forward.
- Mandatory Electronic Stability control systems (ESC) for Buses from 01 April 2023 and is likely to be further extended to trucks later on which is expected to increase content per vehicle appreciably.

ZF strategy and integration update

- ZF global has increased R&D spend to 7.5% of sales in 1HCY21 to invest in next generation mobility.
- ZF has already won new business in the ZF-WABCO combined systems solutions, in line with the strategy to become a systems supplier to CV segment.
- ZF group plans to invest Euro 200 mn to partner with domestic OEMs and play a key role in India's next generation mobility.
 - o ZF India would become a global hub for worldwide requirement across R&D, IT and digital innovation, manufacturing and material sourcing which reinforces WIL's role in the global ZF group.
 - o ZF aims to launch advanced global technological solutions in India through higher localisation.
 - o ZF group targeting to achieve Euro 3 bn revenues from Indian market by 2030, of which Euro 2 bn will be from sourcing volumes. CV solutions division is expected to contribute Euro 1 bn over the next 10 years of which a large share of revenues is expected to be routed through WABCO India due to the strong presence in India.

- New Commercial Vehicles solutions division is set to be established from 01 January 2022 combining the CV technology division of ZF and existing CV control systems division (WABCO).
- The combined division has won several follow up orders and has won new orders in complementary system solutions such as e-Drives, vehicle electronics and sensor technologies.
- All software application for existing portfolio and new products will be developed by WABCO India.
- No changes in royalty arrangements on integration.
- ZF has divested its stake in Brakes India. Depending on terms of agreement, WIL will obtain incremental opportunity.

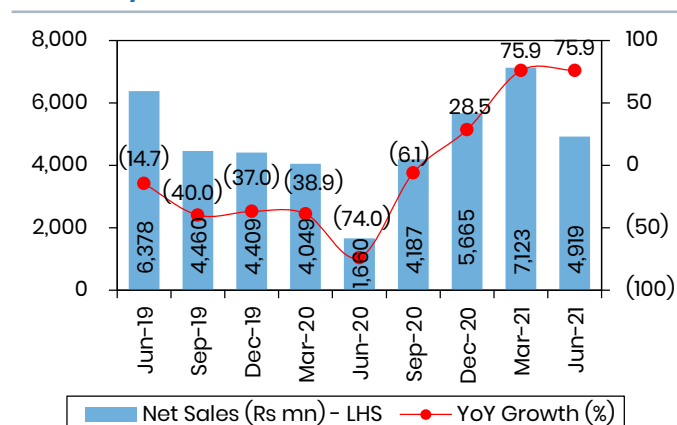
Other key takeaways

- **Oragadam plant expansion:** Greenfield manufacturing plant to be set-up in Oragadam for catering to increased exports demand. Agreement for 50 acres of land has been signed, to be taken on lease for a period of 99 years for setting up a manufacturing unit. Allotment of land from SIPCOT is under progress.
 - o The proposed unit will cater to both exports and domestic markets going forward.
 - o Initial Investment of Euro 15 mn to be made in the plant including investment in buildings and plant & equipment.
 - o All new investments will adopt the new tax regime.
- **Capex:** WIL has made a capex of Rs 1 bn p.a. historically and is expected to increase to Rs 1.8 bn p.a. for the next 10 years.

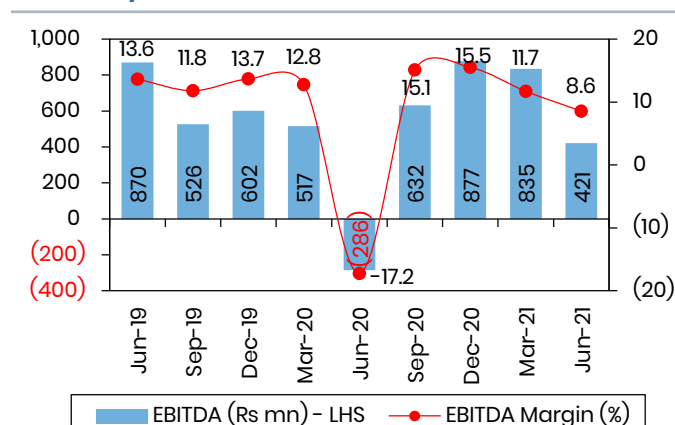
Segment-wise revenues

(Rs mn)	1QFY21	1QFY22	YoY (%)	4QFY21	QoQ (%)
OEM	306	1,630	433.4	3,232	(49.6)
Replacement	319	608	90.5	938	(35.2)
Exports	546	2,200	302.9	2,470	(10.9)
Other operating income	489	481	(1.6)	483	(0.5)
Total revenue	1,660	4,919	196.4	7,123	(30.9)

Quarterly revenue trend

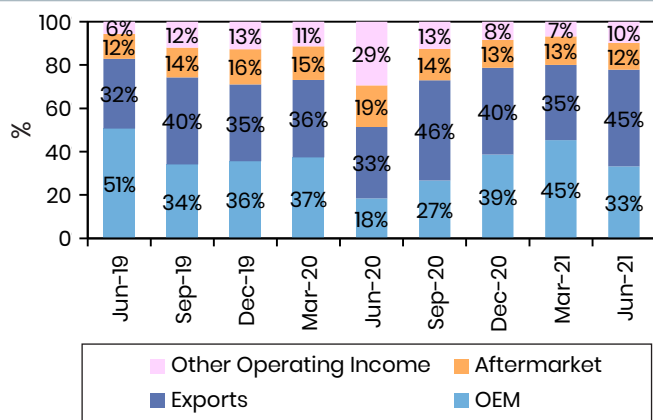


Quarterly EBITDA trend



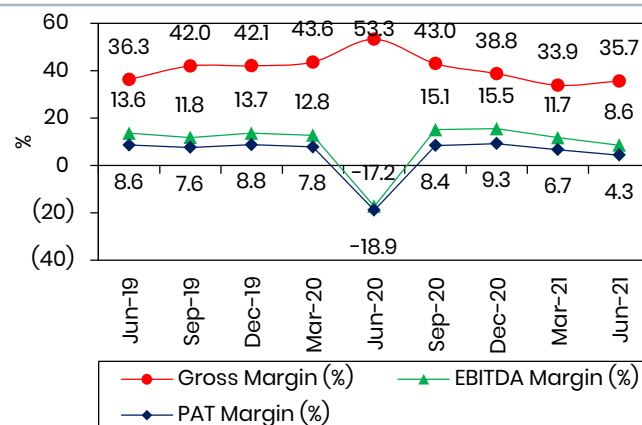
Source: Company, B&K Research

Quarterly segment mix

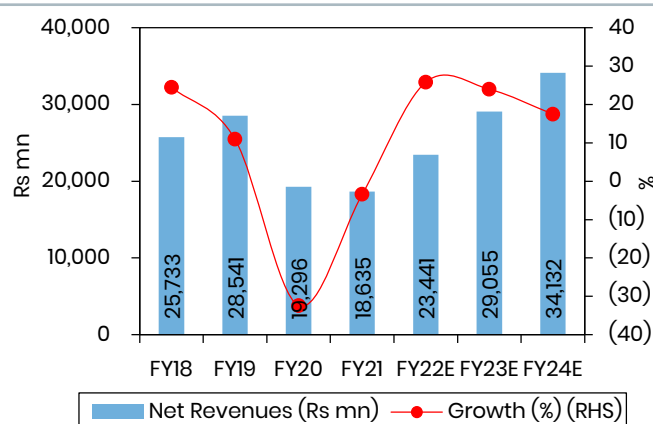


Source: Company, B&K Research

Quarterly profitability trend

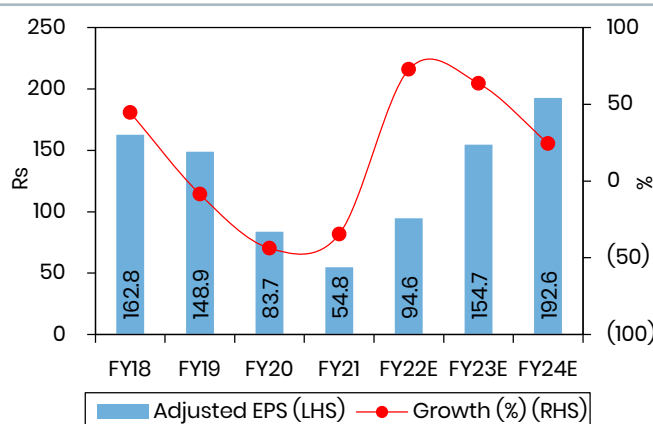


Annual revenue trend

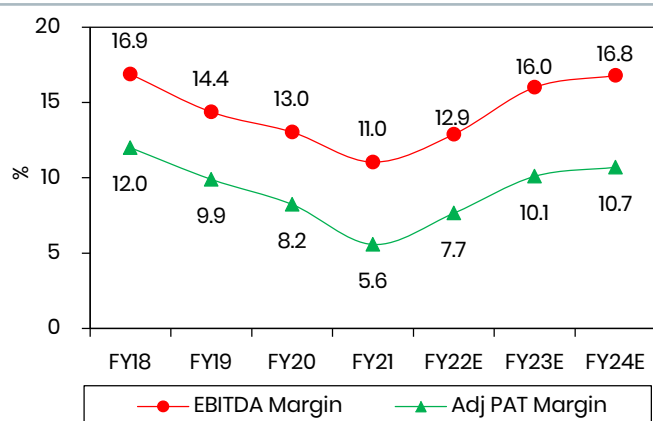


Source: Company, B&K Research

Adjusted EPS trend

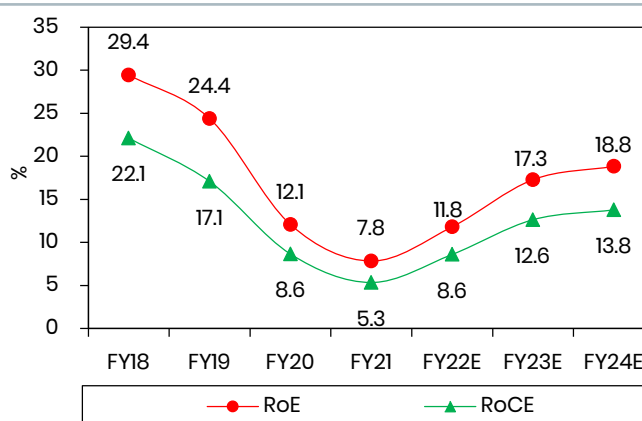


Margin trend



Source: Company, B&K Research

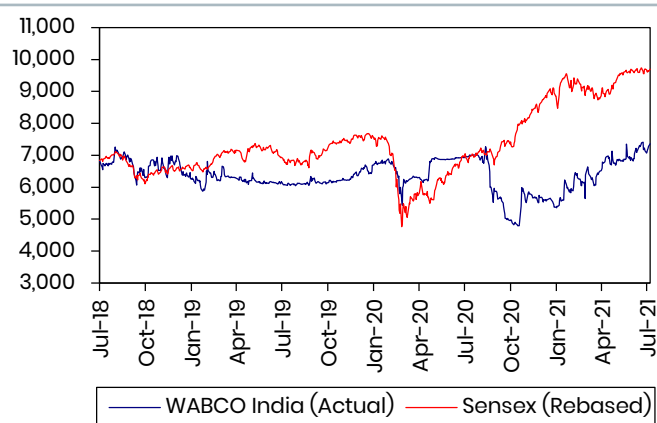
RoE/RoCE trend



Major shareholders (%)

	Mar 21	Jun 21	Change
Promoters	80.4	77.0	(3.4)
GOI	0.0	0.0	0.0
FII's	0.4	0.6	0.3
MFs	11.0	12.9	1.9
BFSI's	0.3	1.2	0.9
Public & Others	8.0	8.3	0.3
Pledge	0.0	0.0	0.0

Relative to Sensex 3 Years



Income Statement

Period end (Rs mn)	Mar 21	Mar 22E	Mar 23E	Mar 24E
Net sales	18,635	23,441	29,055	34,132
Growth (%)	(3.4)	25.8	24.0	17.5
Operating expenses	(16,577)	(20,419)	(24,403)	(28,400)
Operating profit	2,058	3,021	4,652	5,732
EBITDA	2,058	3,021	4,652	5,732
Growth (%)	(18.2)	46.8	54.0	23.2
Depreciation	(904)	(992)	(1,139)	(1,280)
Other income	389	467	560	616
EBIT	1,543	2,496	4,073	5,068
Finance cost	(20)	(22)	(25)	(30)
Profit before tax	1,523	2,474	4,048	5,038
Tax (current + deferred)	(485)	(680)	(1,113)	(1,385)
Profit/(Loss) for the period	1,039	1,794	2,935	3,653
Reported Profit/(Loss)	1,039	1,794	2,935	3,653
Adjusted net profit	1,039	1,794	2,935	3,653
Growth (%)	(34.6)	72.7	63.6	24.5

Balance Sheet

Period end (Rs mn)	Mar 21	Mar 22E	Mar 23E	Mar 24E
Share capital	95	95	95	95
Reserves & surplus	19,869	21,663	24,597	28,250
Shareholders' funds	19,964	21,758	24,692	28,345
Non-current liabilities	250	301	360	414
Other non-current liabilities	250	301	360	414
Current liabilities	2,652	3,332	3,975	4,654
Other current liabilities	2,652	3,332	3,975	4,654
Total (Equity and Liabilities)	22,866	25,390	29,027	33,413
Non-current assets	5,947	7,163	8,063	8,601
Fixed assets (Net block)	5,211	6,237	6,916	7,253
Non-current Investments	160	160	160	160
Long-term loans and advances	576	766	987	1,188
Current assets	16,919	18,228	20,964	24,812
Cash & current investment	10,443	10,089	10,884	12,976
Other current assets	6,476	8,138	10,080	11,836
Total (Assets)	22,866	25,390	29,027	33,413
Capital employed	20,214	22,058	25,052	28,759

Cash Flow Statement

Period end (Rs mn)	Mar 21	Mar 22E	Mar 23E	Mar 24E
Profit before tax	1,523	2,474	4,048	5,038
Depreciation	904	992	1,139	1,280
Change in working capital	(372)	(1,122)	(1,462)	(1,224)
Total tax paid	(435)	(679)	(1,112)	(1,385)
Others	20	22	25	30
Cash flow from oper. (a)	1,639	1,687	2,638	3,740
Capital expenditure	(1,105)	(2,018)	(1,818)	(1,618)
Change in investments	2,289	(1,254)	(1,097)	(1,371)
Cash flow from inv. (b)	1,184	(3,272)	(2,915)	(2,989)
Free cash flow (a+b)	2,823	(1,585)	(277)	750
Dividend (incl. tax)	(46)	(273)	(319)	(319)
Others	(81)	251	294	289
Cash flow from fin. (c)	(127)	(22)	(25)	(30)
Net chg. in cash (a+b+c)	2,696	(1,607)	(302)	720

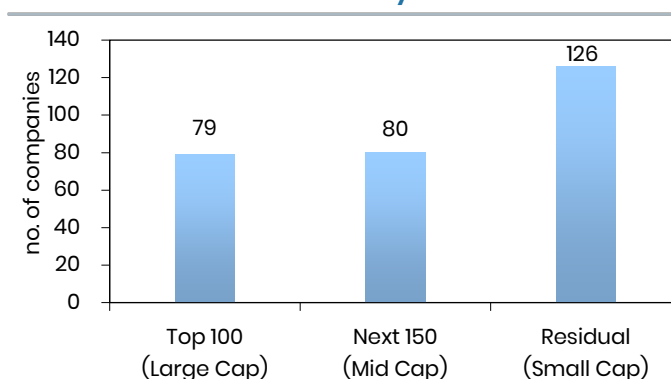
Key Ratios

Period end (%)	Mar 21	Mar 22E	Mar 23E	Mar 24E
Adjusted EPS (Rs)	54.8	94.6	154.7	192.6
Growth	(34.6)	72.7	63.6	24.5
CEPS (Rs)	102.4	146.9	214.8	260.1
Book NAV/share (Rs)	1,052.5	1,147.1	1,301.8	1,494.4
Dividend/share (Rs)	2.0	12.0	14.0	14.0
Dividend payout ratio	4.4	15.2	10.9	8.7
EBITDA margin	11.0	12.9	16.0	16.8
EBIT margin	8.3	10.6	14.0	14.8
Tax rate	31.8	27.5	27.5	27.5
RoCE	7.8	11.8	17.3	18.8
Net debt/Equity (x)	(0.5)	(0.5)	(0.4)	(0.5)
Du Pont Analysis – RoE				
Net margin	5.6	7.7	10.1	10.7
Asset turnover (x)	0.8	1.0	1.1	1.1
Leverage factor (x)	1.1	1.2	1.2	1.2
Return on equity	5.3	8.6	12.6	13.8

Valuations

Period end (x)	Mar 21	Mar 22E	Mar 23E	Mar 24E
PER	134.8	78.0	47.7	38.3
PCE	72.1	50.2	34.4	28.4
Price/Book	7.0	6.4	5.7	4.9
Yield (%)	0.0	0.2	0.2	0.2
EV/EBITDA	63.0	43.0	27.8	22.2

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HOLD	+15% to -10 %	+20% to -15 %
SELL	<-10%	<-15%

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