

Retail Equity Research (South India Focus)

WABCO INDIA LTD

Auto Ancillary

BSE CODE : 533023

NSE CODE: WABCOINDIA

BLOOMBERG CODE: WIL:IN

SENSEX : 41,945

Buy

12M Investment Period

Rating as per Mid Cap

CMP Rs6,434 TARGET Rs7,918 RETURN 23% 

(Closing: 17-01-2020)

Established player in CV industry

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

- Content per vehicle is expected to increase by 20% once the BS-VI vehicle kicks in.
- WIL technological advantage in the CV segment will provide significant growth and will result in better bargaining power with the original equipment manufacturers (OEMs).
- Government's impending scrappage policy expected in FY21 will spur additional demand in the CV sector. WIL holds 85% market share in the air braking systems of CV.
- We expect the revenue and PAT to grow by 15%/26% CAGR over FY20-22E owing to its higher participation in the segment.
- We believe that the weak outlook in the CV sector have been factored in the price. Given the strong fundamentals and expected structural change in the industry we value WIL at 48x FY22 EPS and recommend Buy rating at CMP.

New emission norms to increase content per vehicle.

Wabco India will be a direct beneficiary once the BS-VI enabled vehicle kick in from 1st April 2020. The content per vehicle is expected to increase by 20% from the current level. The company holds 85% market share in the air braking and safety products. In addition, the company is working on Automated Connected & Electric (ACE) technologies in view of the electrification in the CV segment. After acquiring Telematics LLC, WIL has expanded its portfolio to fleet management solution (FMS) and is highly accepted among the fleet operators. Government's action towards increasing 25% current load capacity of heavy trucks has led to improved realisation for large size air brake compressors.

Government considering to implement scrappage policy

For the year FY20, the M&HCV demand remains sluggish on account of slew of factors like lower spending for road & construction activities and implementation of Axle load norms. However we believe government action towards faster implementation of scrappage policy is expected to spur the demand for CV. As per the Road Ministry, there are ~700,000 Commercial vehicles registered before year 2000, that are currently on the roads. We believe that the policy would potentially lead to replacement of trucks that are over 20 years old, which augurs well for the company.

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 manufacturers (OEM). Kit value per vehicle comparing to its European CV market is far lower for India and provides significant room for incremental growth once the Euro or BS 6 vehicle commence operation. Other advanced active safety features will become mandatory in the near future like Electronic Stability Control (ESC) Advanced Driver Assistance Systems (ADAS) and active steering.

Valuations

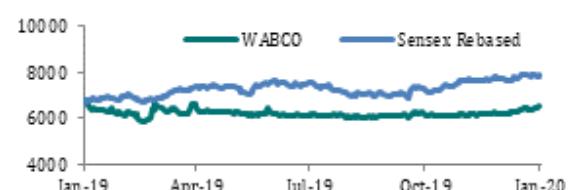
We expect the demand to remain weak in the near term but long term growth outlook remains promising on the back of economic growth, rising income levels and government thrust on increasing rural income and its focus on infrastructure and construction. Amid weak demand outlook and market volatility WABCO has corrected 28 percent from its 52 week high. However, given the strong fundamentals and expected structural change in the industry we value WIL at 48x (5yr Historical average at 50x)FY22 EPS and recommend Buy rating at CMP.

Company Data

| Market Cap (cr) | Rs12,203 | | |
|--------------------------|----------|--------|--------|
| Enterprise Value (cr) | Rs12,203 | | |
| Outstanding Shares (cr) | 1.89 | | |
| Free Float | 25.0% | | |
| Dividend Yield | 0.14 | | |
| 52 week high | Rs7,083 | | |
| 52 week low | Rs5,798 | | |
| 6m average volume (lacs) | 0.04 | | |
| Beta | 0.95 | | |
| Face value | Rs5.0 | | |
| Shareholding (%) | Q4FY19 | Q1FY20 | Q2FY20 |
| Promoters | 75.0 | 75.0 | 75.0 |
| FII's | 2.7 | 2.7 | 2.7 |
| MFs/Insti | 9.5 | 9.5 | 9.5 |
| Public | 12.8 | 12.8 | 12.8 |
| Total | 100.0 | 100.0 | 100.0 |
| Promoter pledge % | Nil | Nil | Nil |

| Price Performance | 3 month | 6 Month | 1 Year |
|-------------------|---------|---------|--------|
| Absolute Return | 7.5% | 7.3% | -3.6% |
| Absolute Sensex | 10.5% | 7.5% | 16.0% |
| Relative Return* | -3.0% | -0.2% | -19.6% |

*Over or under performance to benchmark index



| Y.E Mar (cr) | FY20E | FY21E | FY22E |
|-----------------|-------|-------|-------|
| Sales | 2,328 | 2,620 | 3,055 |
| Growth (%) | -18.4 | 12.5 | 16.6 |
| EBITDA | 1,390 | 1,593 | 1,860 |
| EBITDA Margins% | 13.1 | 13.8 | 14.5 |
| PAT Adj. | 199 | 254 | 313 |
| Growth (%) | -29.7 | 27.9 | 23.2 |
| Adj.EPS | 105 | 134 | 165 |
| Growth (%) | -29.7 | 27.9 | 23.2 |
| P/E | 61.5 | 48.1 | 39.0 |
| P/B | 6.2 | 5.6 | 4.9 |
| EV/EBITDA | 40.0 | 33.8 | 27.5 |
| ROE (%) | 10.6 | 12.2 | 13.4 |
| D/E | 0.0 | 0.0 | 0.0 |

Saji John
Research Analyst

Valuations

During the last 10 years, valuation has significantly re-rated and its P/E band has expanded from 9x to 66x. Revenue growth was 21% CAGR over FY09-FY19. WIL is currently trading at 52x on a 1 year forward basis, which is largely in-line with its 5 year historical average of 50x. Given strong earnings outlook of 26% CAGR over FY20E-22E, we value WIL at 48x on FY22E and recommend Buy rating.

1Yr Fwd P/E

Valuation has significantly re-rated from P/E band from 9x-66x largely propelled by strong earning momentum of 21% CAGR over FY09-19 and FY14-19 respectively.

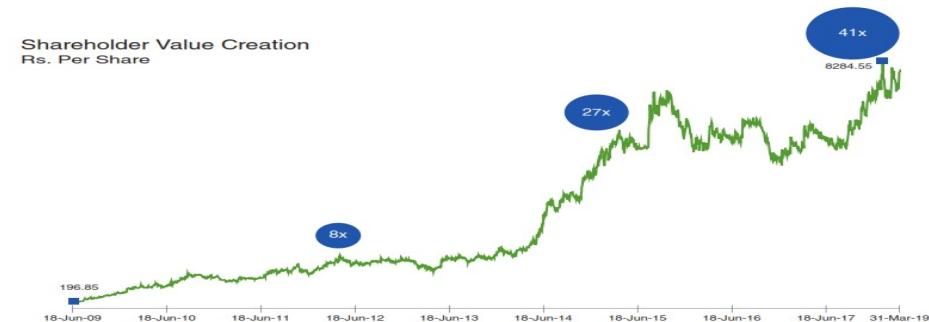


Source: Company, Geojit Research.

Re-rating of the valuation

The Anti-Lock Brake System (ABS) legislation for M3 and N3 vehicles got implemented from the third quarter of 2015-16 that resulted in increased business and re-rating of valuation. Other advanced active safety features will become mandatory in the near future and there are numerous discussion ongoing in terms of its implementation and to get effected during the course of next few years. In the last 10 year WIL could deliver strong wealth to its shareholders. The cost per share has moved to 40x from Rs196 in FY09 to Rs8264 in FY19. Similarly in the last five years it has given a return of 27x and 8x in 3 years.

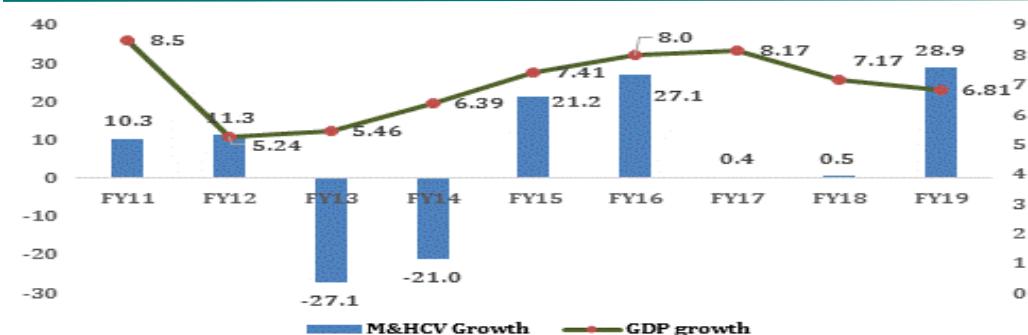
In the last 10 years shareholder value creation has grown at 41x and 27x in 5 years and 8x in 3 years.



Source: Company, Geojit Research.

Comparison of GDP trend with M&HCV production growth

India is poised to become the third largest economy by 2025.



Source: SIAM, CMIE.

India Poised to become fastest growing economy

India is recognized as the fastest growing economy in the world, despite the strong headwinds during the last fiscal caused by a lower liquidity because of NBFC crisis. The possible downside to 2019-20 may result from uncertain oil prices, and drop in global economic activity which may affect India's exports. India's focus in the coming year is expected to be largely on strengthening infrastructure, investment in renewable energy alternatives and capitalizing on the fact that India is poised to become the third largest economy by 2025. We also expect that the government's impending policy on truck scrappage will drive growth in future. As per road ministry, there are 700,000 Commercial vehicles registered Pre-2000 that are currently on the roads. Under the government plan, vehicles that are 20 years and older will stop plying and thereby helping to curb emission and boosting demand for new vehicles.

CV industry is expected to grow by 14% CAGR over FY20-25E

Content per vehicle is likely to increase by 20% owing to change in emission norms

India's Commercial vehicle Industry.

The commercial vehicle (CV) industry is always considered to be the barometer of the Indian economic activity. The overall CV industry recorded a 17.6% year on year growth during 2018-19. Medium heavy commercial vehicles (M&HCV) grew by 19.4% during the year 2018-19 compared to last year. The first half of 2018-19 witnessed good volume growth driven by the increased demand from the construction, Mining & E-commerce industry. However, during the second half the liquidity crisis and the increased axle load regulation had a negative impact on demand there by effecting sales of commercial vehicles. The first half of 2019-20 has also witnessed sluggish growth and a recovery is expected during the second half of the year. Investments into the proposed infrastructure projects, revival of construction and mining sectors, growth in tourism industry are likely to push the demand for commercial vehicles. The CV industry is expected to witness negative growth of -35% during the year 2019-20 and is projected to grow at a CAGR of about 14% over the course of next five years as per Society of Indian Automobile Manufacturers (SIAM).

Investment Rationale

New BS-VI emission norms will increase content per vehicle.

During the past, the company took focused efforts to increase the revenue through structured introduction of new products and foraying into new advanced domains of commercial vehicle technology. Going forward we believe on account of the BSVI mandate (1st April 2020) WIL may play a major role in creating demand of its products during 2020-21. Considering the upgrade costs, OEMs are expected to begin phasing out older models essentially leading to a technological shift in the market. In accordance, government action towards scrapping older vehicles augurs well for industry. As per the OEM's the content per vehicle is expected to increase by 20% following the transition. Similarly transition to BS VI will open more exports markets owing to cost advantage in India. Vehicle safety regulation in emerging markets and increasing level of automation in developed region are likely to drive higher penetration of WABCO products in future.

INDIA REGULATION – STATUS AND FORECAST (JULY 2019)

Regulation drives installation of products enhancing Efficiency, Safety and Connectivity

*** having impact on 2019

Red = in discussion

| Type | Status (February 2019) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|--------------------------|---|------|------|--|---|---|---|------|------|
| Emission / Efficiency | BS IV BS VI | | | BS IV (Nation wide) Axe load increase *** | BS VI (Nation wide) *** Fuel Efficiency targets for M3 & N3 BS IV vehicles | | | | |
| Safety | 100% ABS for TB&C, Trailer & 2 Wheeler | | | ABS for M3 / N2 Trailer ABS | ABS for M1 / M2 & 2 Wheeler ABS (New model 04/2018, existing models 04/19) *** Speed Governor Trailer Code | ESC for M3 | ESC / AEBS for M & N | | |
| Connectivity | Intelligent Transport System Vehicle Level tracking Multiplexing Reverse Parking Assist System | | | | Truck Code (Phase 1 – 10/2018, Phase 2 – 10 / 2019) Bus Body Code Bus Body Code – Phase 1 Agricultural Trailer Brakes – On hold till further notice | Additional safety requirements / RPAS for M1 (07/19)*** IS11852 2013 for M2, M3 & all N New – 04/20, All 04/21. BAS*** | | | |
| Electrification & Others | E Vehicles End of Life Scrapping Policy | | | FAME – Phase 1 | FAME – Phase 2*** | Multiplexing/ electronic architecture – AIS 153 *** VTS and emergency button – AIR 140 (11/19 – NP Trucks) *** AIS 145 RPAS for M2, M3, N (04/2020) | E Vehicles / Hybrid Vehicles Policy in Nitaiayog scheme End of Life Scrapping Policy | | |

Commercial Vehicle Legislation Globally

| Region | Status (August 2017) | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2025 |
|--------|-------------------------|------|------|---|--|---|---------------------------|------|------|------|------|
| USA | 100% ABS EPA 10 | | | | ESC M & N > 11.8t AEBs | Autonomous driving permissible with increasing level of automation V2X / DSRC light vehicles | | | | | |
| EU | 100% ABS/EBS EURO VI | | | | ABS Agriculture < 60 km/h AEBS & LDWS M & N > 3.5 t | VRUD | CO2 limits M2, M3, N2, N3 | | | | |
| Korea | 100% ABS EURO VI | | | | | Autonomous driving permissible with increasing level of automation ESC + AEBS M & N > 4.5 t | | | | | |
| China | ABS 80% EURO V | | | ABS M2/M3/N2/N3 max 4 axles AEBS & ESC M&N>3.5t & RSS | ESC, FCW, LDWS, AEBS, ADB, ITM coach | EBS dangerous goods veh >12T LKAS for length>11m coach | | | | | |
| India | ABS 70% EURO IV | | | ABS N2 for dangerous goods, N3 & M3 ABS for heavy trailers | | BS VI (Euro VI) nationwide | | | | | |
| Brazil | 100 % ABS EURO V | | | | | | ESC | | | | |
| Russia | 100% ABS Euro V | | | Euro V | ESC | | | | | | |

Source: Company, Bloomberg

Air Assist and Air Actuation systems accounts for 89% of the revenue and hold 85% market share in the OEM sales

Acquiring Telematics LLC, WIL has led to order wins for fleet management solution

Axle load norm coming into effective, bringing forth opportunity of larger size compressors.

Market leader in Air compressor.

Air Assist & Air Actuation systems for automotive and non automotive is the key segment of WIL. The segment accounts for 89% of the revenue. By virtue of its leadership in technology and strong entry barriers in a duopoly market, the company is well poised to ride its growth in the M& HCV segment. The company holds 85% market share in the OEM market of the Indian M&HCV braking system, out of which it derives close to 70% of its revenue from Ashok Leyland and Tata motors. The company has always outperformed the M&HCV growth and is a dominant player in the air braking Industry. WIL value added products such as Automotive Slack Adjuster, Automatic Manual transmission and Electronically controller Air suspension has been well received by the Industry. However WIL sales in India are likely to remain volatile in the near term, yet regulation driving technology upgrades and need for more efficient vehicles are likely to spur long term growth.

Domestic leadership paves for higher revenue visibility

As a full time supplier, the company can uniquely connect truck, trailer, cargo drivers, business partners and fleet operator's real time so as to empower the fleets to significantly enhance safety and operational efficiency. The company has leapfrogged in the space of telematics and has been successful in becoming one of the leading suppliers of fleet management solution to two major global OEMs in India. The company launched the Automotive Indian Standard (AIS) 140 compliant fleet management solution (FMS) device to help the commercial vehicle industry to meet the specification of the GoI for Public transport vehicles. To better support the OEM's when the regulation for increased axle load was effected, the company introduced larger sized compressors. During the course of the year, the application of Automated Manual Transmission Technology (AMT) of the company saw a steady growth as many OEMs in India extended its application to their various other vehicle platforms. The company is also the strategic partner for one of the leading agriculture tractor OEMs in India and was successful in demonstrating the concept of an automated tractor by integrating AMT, brake control and steering technologies. In line with its vision of saving live; protecting the environment, the company introduced the Diesel Exhaust Fluid (DEF) which helps in the reduction of NOx gases in the vehicle exhaust.

WABCO INDIA STRATEGY TO DRIVE TOPLINE GROWTH



Source: Company, Bloomberg

Large opportunity for new products from parent

Strategic opportunities to introduce like ADAS, DEF, ESC, FMS

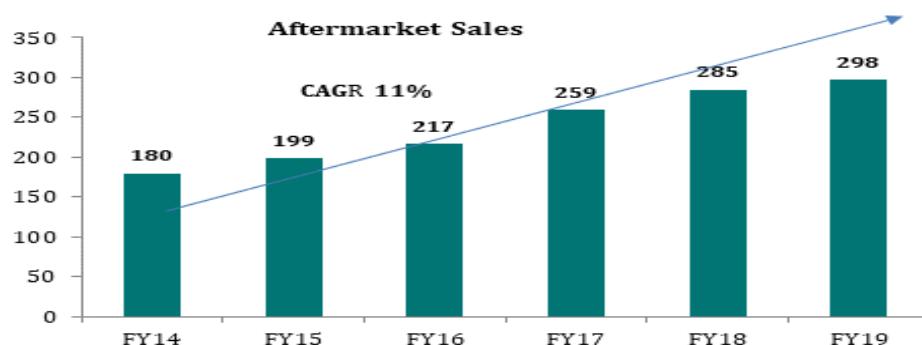
The Anti-Lock Brake System (ABS) legislation for M3 and N3 vehicles got implemented from the third quarter of 2015-16 that resulted in increased business. Other advanced active safety features will become mandatory in the near future and there are numerous discussion ongoing in terms of promulgation legislation to this effect during the course of next few years, The Company looks forward strategic opportunities in the coming years.

- ⇒ Partner with Trailer customers for implementing 100% TABS and penetrating intelligent Trailer Program products.
- ⇒ Technical / Homologation support for advanced technology products.
- ⇒ Leverage / expand its manufacturing footprints to ensure increase customer centricity.
- ⇒ Penetration road map for newer technologies like Electronic Stability Control (ESC) Advanced Driver Assistance Systems (ADAS) and active steering.
- ⇒ Doors with door control system, air suspension systems.
- ⇒ Increase the share of market for Diesel Exhaust Fluid (DEF) post BS-VI Implementation.

Replacement market registered a growth of 11% CAGR over FY14-19.

Strong replacement market

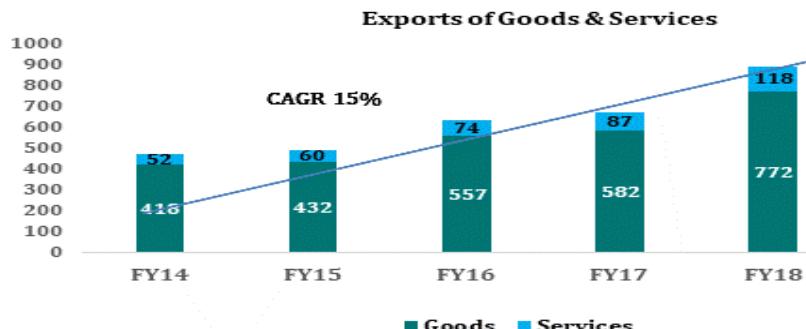
Anticipating evolutionary changes in the traditional aftermarket business model, the company is striving to introduce new revenue models, like technical service stations at OEM dealer points and major fleets points across the country, thereby leveraging the wave of digitalization by better utilizing the e-commerce models and other initiatives to be ahead of the one. Distributors are continuing to increase in B & C towns resulting in increased availability of genuine spare parts in far flung locations. The authorized service center network is expanding and currently the company has around 280 service centers with pan India presence to cater to the customer requirements. To improve the customer reach, mobile smart catalogue application has been launched and so far approximately 14500 customers have been connected. These initiatives would result in improved service practices, availability of genuine parts and generate additional revenue for the company. Given the growth opportunities that are available in the commercial vehicle industry we expect activity levels of the competitors on the rise.



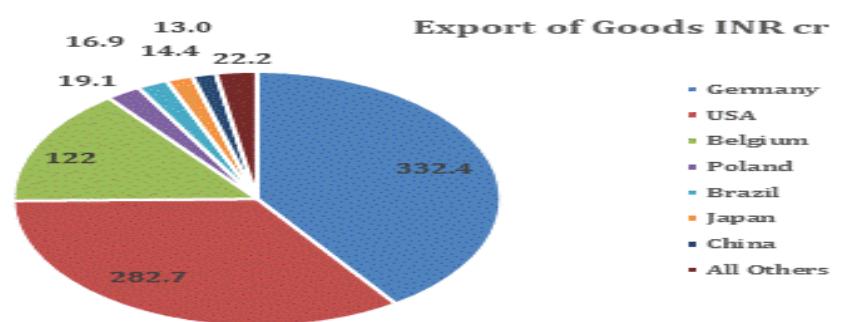
Source: Company, Geojit

Export of goods & services

Export of goods registered a CAGR of 15% over FY14-19



Source: Company, Geojit



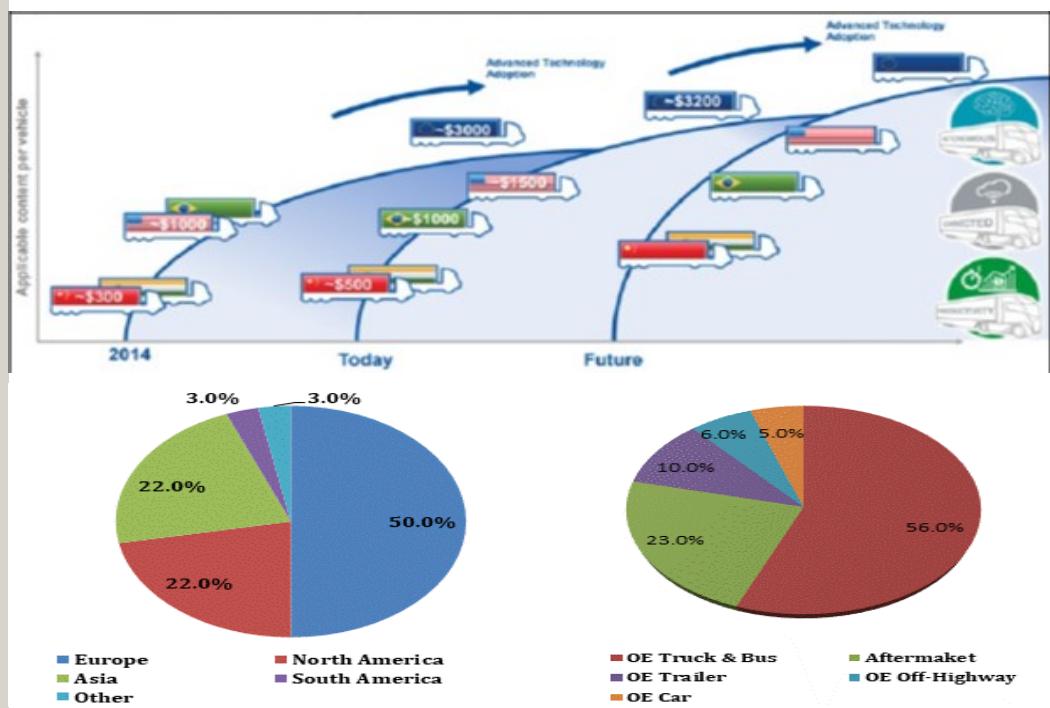
Source: Company, Geojit

WIL has reported an impressive export CAGR of 15% over FY14-19 accounting for 30% of revenue in FY19. Over the next 5 years the company is looking for multi-fold jump in its export revenue from current levels of Rs822cr predominantly driven by global demand from its parent company(Currently 90% of export are to made to WABCO holdings). The company is expanding its global portfolio to improve content per vehicle. WIL's parents sees India has a strong manufacturing base economically for global sourcing and engineering activities. As a low cost manufacturing hub we expect export growth momentum to continue. We believe pick in the commercial vehicle in Europe will deliver higher participation for export in the coming years.

India market comparatively consumes lower penetration in safety standards comparing to developed countries

Technology Adoption Globally fuels Increased Content

WABCO holding the parent company in US, stands at the No. 1 position in the brand of choice in China, India, Japan, Russia, South Korea and South America. Electronic Content in commercial vehicles has increased with each platform introduction as manufacturers strive to meet safety standards and improve productivity. As the trucks and bus market moves towards electrification and autonomy more intelligent vehicle technologies should drive greater WABCO content on vehicle through the cycle. Emerging markets comparatively consumes lower penetration in contents with regards to developed countries. We believe that the adoption of vehicle safety standards and efficiency technologies should narrow the gap between developed and emerging markets overtime, supporting more WABCO products. Management estimates its potential market is \$3200 a vehicle in Europe, followed by US at \$1500. China and India trails at about \$500 a vehicle.



Source: Company, Bloomberg

Agreement—ZF & WABCO Holdings INC USA

The Acquisition will bring together two global leaders with highly complementary and innovative technology offering to serve future serving OEMs and fleets in the automobile and commercial vehicle industry. Combining Wabco's technologies involved in vehicle safety and efficiency, including technologies in air suspension system and fleet management systems with ZF's leading position in driveline and chassis technologies for cars and commercial vehicles. However a slowing global CV market due to ongoing US- China trade war and Brexit has lead the Heavy Truck Registration in Europe to remain flat and in North America it registered a growth of 9% till November CY19.

Acquisition of WABCO by ZF LLC, Germany will bring innovative technology will bring future serving OEMs and Fleet operators.

| | |
|--|--|
| WABCO Holding Inc. US. | <ul style="list-style-type: none"> ZF is based in Friedrichshafen, Germany. Owned by 2 foundations Global workforce of over 148,000 With approximately 230 locations Presence in 40 Countries |
| 28 th March 19:- WABCO Holding Inc., US, - definitive merger agreement with ZF Friedrichshafen | |
| ZF to acquire – all outstanding shares for \$136.50 per share (Value of over \$7 billion) | |
| Unanimously approved by the WABCO Holding – Board of Directors | |
| 27 th June 19:- WABCO Holdings – Shareholders approved | |
| By Early 2020:- Other regulatory approvals – Merger expected to be complete | |
| WABCO India Ltd | |
| 2 nd April 2019:- Public announcement of offer by ZF for acquisition of up to 47,41,900 publicly held shares of WABCO India ltd, (25%) @ Rs. 6318 per share | <ul style="list-style-type: none"> Right combination at the right price & time. History of successful collaboration. Anticipation of transforming industry landscape <ul style="list-style-type: none"> *Increasing strategic Complexity *Competition *Autonomous, Connected & electric *Significant Investments |
| Conclusion of the merger: - Will result in indirect acquisition of 75% shares in WABCO India Ltd. | |

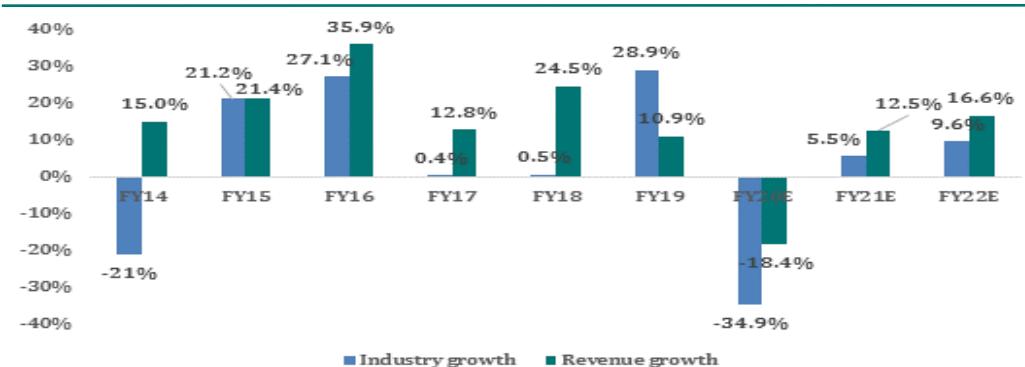
Source: Company, Geojit Research.

WIL registered a revenue growth of 21% CAGR over FY14-19.

Revenue to grow by 15% CAGR over FY20-22E

After a sluggish demand in the domestic commercial vehicle Industry we expect the demand to get stabilise by H1FY20. During FY20 the CV industry witnessed a decade low demand owing to a slew of headwinds like lower demand, liquidity issue and Axle load norms. The slower execution in the construction industry, which constitutes 45% of volume mix also impacted the demand. We believe, WIL will be a direct beneficiary owing to any structural change in the CV industry (85% revenue constitutes from M&HCV sector). During FY15-16 WIL achieved highest revenue growth of 36% due to the Mandatory implementation of ABS in truck segment and entire segment constitutes 35% of revenue. Government's change in emission norms to BSVI by 1st April FY2020 and impending scrappage policy will lead to demand revival for M&HCV sector. The company has a consistent track record of outperforming the industry growth. Its diversified portfolio and technological advantage differentiate WIL from its peers. The companies advancement in the M&HCV segment per vehicle is much higher in the developed countries comparing to Emerging markets, that gives more levy for growth expansion in the future.

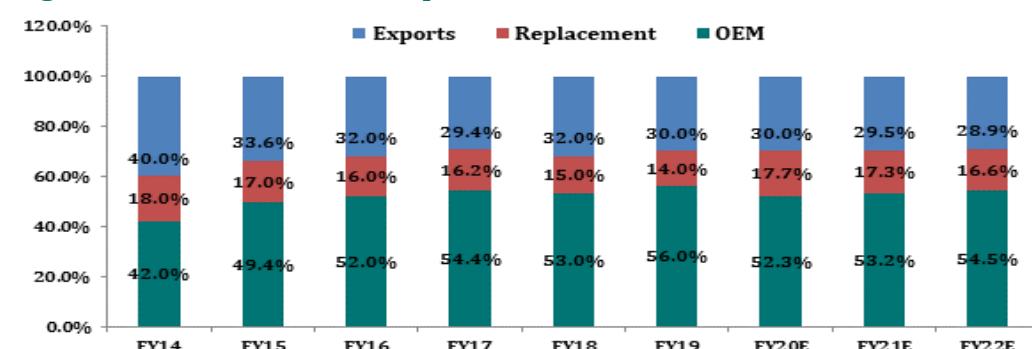
Revenue outperformed Industry Growth



Source: Company, Geojit Research.

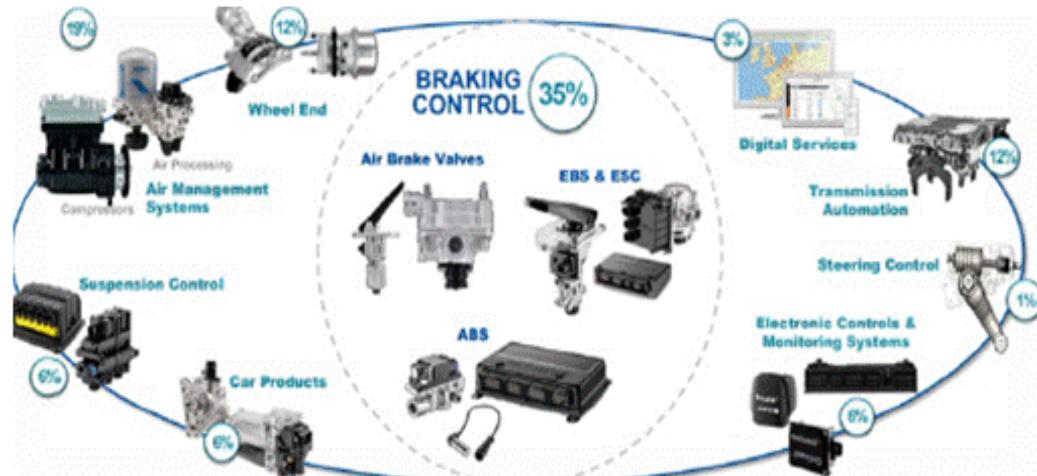
Contribution from OEM mix is expected to improve from 42% to 58% going forward

Segment wise Revenue Breakup



Source: Company, Geojit Research.

Rich Portfolio of technologies

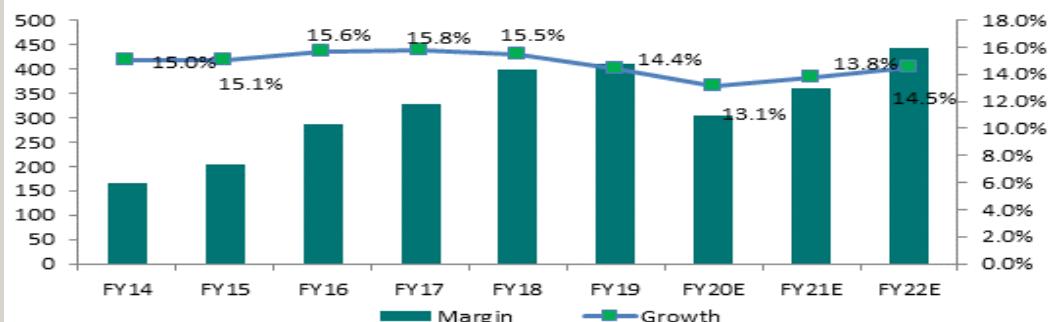


Braking control system contributes 35% of revenue mix

Source: Company, Bloomberg

Technological advantage in the price will lead to margin expansion for WIL

EBITDA Margin to improve 110bps by FY22E



Source: Geojit, Company.

Margin to show resilience at current level

WABCO has been able to maintain its margin at 14-15% consistently. This is on account of the competitiveness in the market. WABCO's diversified product portfolio and market leadership in the vehicle control system enables to maintain its margin at current level. The company has always outperformed the industry growth and registered a margin growth of 20% CAGR over FY14-19. We believe that the trend to continue and enjoys margin expansion from current level owing to change in the government regulation. Despite weaker sales in FY19 and FY20 due to economic slowdown and sluggish M&HCV sales we expect the margin to show resilience and grow at 16% CAGR over FY20E-22E respectively.

PAT to grow by 26% CAGR over FY20E-22E

Lower tax and no debt will help to deliver robust PAT growth

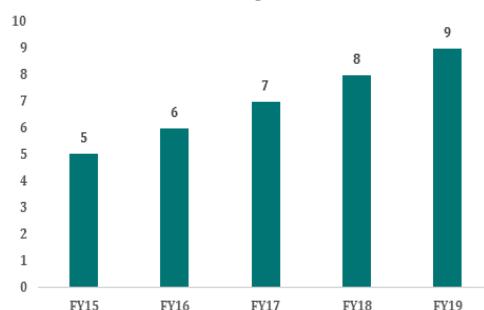


Source: Geojit, Company.

ROCE



Dividend per share



Source: Geojit, Company.

Change in government regulation for implementing ABS has positively expanded the ROCE from 21% to 27% respectively

WIL has delivered robust return of 19% CAGR during its last five year. Its net worth has improved from Rs755cr in FY14 to Rs1780 to FY19. This largely on account of high profitability that the company has showcased during the tenure. It profit has jumped from Rs121 to Rs282cr on the same period registering a growth of 18%YoY. After government action towards compulsory implementation of Anti braking system (ABS) for Commercial vehicle WABCO played a pivotal role in the development of the systems and improved profitability owing to its market leadership in the airbrake system. ROCE has positively expanded from 19.4% to 24.1% respectively for the period 2015-16. We believe that the WIL will garner higher market share and improve content per vehicle after the implementation of BS-VI emission norms from 1st April 2019. The company has a consistent record in delivering value creation for shareholders. WIL has doubled its dividend per share in the last 5 years from Rs5 to Rs9 per share. The company was able to maintain its status as zero debt company consistently. We expect that the valuation of the company will be re-rating due to the strong earning growth of 26% CAGR over FY20-22 estimates and expected structural change in the industry going forward.

About WABCO India

WABCO is a leading supplier of technologies and services that improve safety, efficiency and connectivity of commercial vehicles. Powered by the vision for accident free-driving and greener transportation solutions the company excels in pioneering breakthrough innovation that bring leading solutions to the commercial vehicle industry in India and worldwide. The parent company which has its Headquarter in US as WABCO Holding is listed in NYSE. Commercial vehicle industry is undergoing fast paced changes paving way for technological advanced smart vehicles. Anticipating this the company's focus has been on three key domains of Innovation namely Autonomous Connected & Electric (ACE) technologies for commercial vehicles. The Company is engaged in the manufacture of air brake actuation systems for commercial vehicles. It also provides software development and other services. Its products include Air assist and full air actuation system for automotive and non-automotive applications and elements, Spares, Exports of automotive components and Anti-lock braking system. Its conventional products include Automatic Slack Adjusters, Actuators, Brake Chambers, Valves and Air Compressors. Its braking system includes Electronic Braking System (EBS). Its Driveline Controls include Clutch Control, Integrated Pedal Unit and OptiDrive. The Company is involved in various segments, such as off-highway, defense, luxury bus, car and trailers. Currently WIL has 5 plants, 2 in Chennai, 2 in Jamshedpur and one in Pantnagar.

Risk and concerns

- The cyclical nature of the Indian commercial vehicle industry presents its own risk to the business.
- The operating expenses are likely to rise with the expected increase in prices of key raw materials.

YOUR WABCO HOSTS



M Lakshminarayyan
Chairman-WABCO India



P. Kaniappan
Managing Director-
WABCO India



Sean Deason
Chief Financial Officer
- WABCO Holdings Inc.



R.S. Raja Gopal Sastry
Chief Financial Officer-
WABCO India

WABCO

Standalone Financials

PROFIT & LOSS

| Y.E March (Rs Cr) | FY18A | FY19A | FY20E | FY21E | FY22E |
|--------------------|-------|-------|-------|-------|-------|
| Sales | 2,573 | 2,854 | 2,328 | 2,620 | 3,055 |
| % change | 24.5 | 10.9 | -18.4 | 12.5 | 16.6 |
| EBITDA | 1,602 | 1,822 | 1,390 | 1,593 | 1,860 |
| % change | 22.1 | 2.8 | -25.6 | 18.5 | 22.5 |
| Depreciation | 62 | 70 | 85 | 92 | 107 |
| EBIT | 337 | 338 | 219 | 268 | 334 |
| Interest | 2 | 0 | 2 | 1 | 1 |
| Other Income | 47 | 72 | 58 | 73 | 86 |
| PBT | 382 | 411 | 275 | 340 | 419 |
| % change | 27.1 | 7.6 | -33.1 | 23.7 | 23.2 |
| Tax | 109 | 129 | 76 | 86 | 106 |
| Tax Rate (%) | 0.29 | 0.31 | 0.28 | 0.25 | 0.25 |
| Reported PAT | 273 | 282 | 199 | 254 | 313 |
| Adj. | 0 | 0 | 0 | 0 | 0 |
| Adj. PAT | 273 | 282 | 199 | 254 | 313 |
| % change | 27.8 | 3.4 | -29.7 | 27.9 | 23.2 |
| No. of shares (cr) | 1.9 | 1.9 | 1.9 | 1.9 | 1.9 |
| Adj EPS (Rs) | 144 | 149 | 105 | 134 | 165 |
| % change | 27.8 | 3.4 | -29.7 | 27.9 | 23.2 |
| DPS (Rs) | 8.4 | 9.6 | 9.6 | 9.6 | 9.6 |

BALANCE SHEET

| Y.E March (Rs Cr) | FY18A | FY19A | FY20E | FY21E | FY22E |
|---------------------|-------|-------|-------|-------|-------|
| Cash | 346 | 49 | 95 | 51 | 109 |
| Accounts Receivable | 648 | 634 | 415 | 502 | 586 |
| Inventories | 132 | 151 | 114 | 131 | 153 |
| Other Cur. Assets | 185 | 727 | 223 | 284 | 331 |
| Investments | 446 | 313 | 1,000 | 1,100 | 1,200 |
| Gross Fixed Assets | 520 | 670 | 835 | 995 | 1,145 |
| Net Fixed Assets | 357 | 437 | 517 | 585 | 628 |
| CWIP | 52 | 19 | 20 | 20 | 20 |
| Intangible Assets | 2 | 3 | 2 | 2 | 2 |
| Def. Tax (Net) | -4 | -4 | -6 | -3 | 0 |
| Other Assets | 0 | 0 | 0 | 0 | 0 |
| Total Assets | 2,165 | 2,330 | 2,381 | 2,672 | 3,029 |
| Current Liabilities | 532 | 412 | 268 | 316 | 368 |
| Provisions | 61 | 75 | 96 | 86 | 84 |
| Debt Funds | 0 | 0 | 0 | 0 | 0 |
| Minority Interest | 46 | 63 | 57 | 74 | 87 |
| Equity Capital | 9 | 9 | 9 | 9 | 9 |
| Reserves & Surplus | 1,516 | 1,770 | 1,951 | 2,186 | 2,481 |
| Shareholder's Fund | 1,526 | 1,780 | 1,960 | 2,196 | 2,490 |
| Total Liabilities | 2,165 | 2,330 | 2,381 | 2,672 | 3,029 |
| BVPS | 805 | 939 | 1,034 | 1,158 | 1,313 |

CASH FLOW

| Y.E March (Rs Cr) | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------|-------|-------|-------|-------|-------|
| Net inc. + Depn. | 440 | 480 | 360 | 432 | 526 |
| Non-cash adj. | -135 | -171 | -73 | -87 | -108 |
| Changes in W.C | 6 | -650 | 630 | -109 | -90 |
| C.F.O | 311 | -341 | 917 | 236 | 328 |
| Capital exp. | -95 | -116 | -166 | -160 | -150 |
| Change in inv. | -110 | 178 | -688 | -101 | -102 |
| Other invest.CF | 0 | 0 | 0 | 0 | 0 |
| C.F - investing | -205 | 62 | -853 | -261 | -252 |
| Issue of equity | 0 | 0 | 0 | 0 | 0 |
| Issue/repay debt | 0 | 0 | 0 | 0 | 0 |
| Dividends paid | -14 | -16 | -18 | -18 | -18 |
| Other finance.CF | 0 | -2 | 0 | 0 | 0 |
| C.F - Financing | -14 | -18 | -18 | -18 | -18 |
| Chg. in cash | 88 | -297 | 46 | -44 | 58 |
| Closing cash | 346 | 49 | 95 | 51 | 109 |

RATIOS

| Y.E March | FY18A | FY19A | FY20E | FY21E | FY22E |
|-------------------------------|-------|-------|-------|-------|-------|
| Profitab. & Return | | | | | |
| EBITDA margin (%) | 15.5 | 14.4 | 13.1 | 13.8 | 14.5 |
| EBIT margin (%) | 13.1 | 11.9 | 9.4 | 10.2 | 10.9 |
| Net profit mgn.(%) | 10.6 | 9.9 | 8.5 | 9.7 | 10.2 |
| ROE (%) | 19.5 | 17.1 | 10.6 | 12.2 | 13.4 |
| ROCE (%) | 24.1 | 20.5 | 11.7 | 12.9 | 14.3 |
| W.C & Liquidity | | | | | |
| Receivables (days) | 82.7 | 82.0 | 82.2 | 63.9 | 65.0 |
| Inventory (days) | 31.6 | 28.4 | 34.8 | 28.1 | 27.8 |
| Payables (days) | 97.8 | 94.6 | 89.3 | 66.9 | 67.1 |
| Current ratio (x) | 2.2 | 3.2 | 2.3 | 2.4 | 2.6 |
| Quick ratio (x) | 1.9 | 1.7 | 1.9 | 1.8 | 1.9 |
| Turnover & Levg. | | | | | |
| Gross asset T.O (x) | 5.5 | 4.8 | 3.1 | 2.9 | 2.9 |
| Total asset T.O (x) | 1.3 | 1.3 | 1.0 | 1.0 | 1.1 |
| Int. covge. ratio (x) | 208.3 | 338.4 | 109.3 | 267.5 | 334.3 |
| Adj. debt/equity (x) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Valuation ratios | | | | | |
| EV/Sales (x) | 4.7 | 4.3 | 5.2 | 4.7 | 4.0 |
| EV/EBITDA (x) | 30.6 | 29.8 | 40.0 | 33.8 | 27.5 |
| P/E (x) | 44.7 | 43.2 | 61.5 | 48.1 | 39.0 |
| P/BV (x) | 8.0 | 6.9 | 6.2 | 5.6 | 4.9 |



PRICE HISTORY



| Dates | Rating | Target |
|------------|--------|--------|
| 20.01.2020 | Buy | 7,918 |
| | | |
| | | |
| | | |
| | | |
| | | |

Source: Bloomberg, Geojit Research.

Investment Rating Criteria

| Large Cap Stocks: | | | Mid Cap and Small Cap: | | |
|-------------------|---|-----------------------------|------------------------|---|------------------------------|
| Buy | - | Upside is above 10%. | Buy | - | Upside is above 15%. |
| Hold | - | Upside is between 0% - 10%. | Accumulate | - | Upside is between 10% - 15%. |
| Reduce | - | Downside is more than 0%. | Hold | - | Upside is between 0% - 10%. |
| Neutral | - | Not Applicable | Reduce/Sell | - | Downside is more than 0%. |
| | | | Neutral | - | Not Applicable |

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

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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

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