

Wabco India (WABIND)

₹ 6750

Wabco parent to be acquired by ZF group...

The parent company of Wabco India (Wabco) i.e. Wabco Holdings Inc. (leader in safety solutions for commercial vehicles) has entered into a definite agreement for merger with ZF group, Germany (leader in powertrain and chassis systems for passenger vehicles and commercial vehicles) for an all-cash deal, valuing the parent at US\$7 billion. It valued Wabco Holding Inc. at ~17x P/E, ~11x EV/EBITDA & ~2x P/S on TTM basis. The said transaction is expected to be completed by early 2020. Wabco India's parent in its conference call hosted yesterday evening cited consolidation as a reason for merger with wider customer base for selling complete auto solutions as a package. It will also help to amortise the huge investments being undertaken in new age technologies over a wider product basket. We believe consolidation is the way, going forward, in the auto space amid growth concerns and changing technology landscape. In this context, merger of Wabco Holding with ZF group is a step in the right direction. However, its financial implications for Wabco India are too early to predict as ZF already has about seven legal entities in India across the auto components category. However, this will certainly trigger an open offer for the public shareholders of Wabco India, consequent to ZF group receiving approvals from various regulators in due course of time.

ZF Group leader in Driveline (powertrain), chassis technology globally

ZF Friedrichshafen is a private German company and a leader in powertrain and chassis technology. It is also developing solutions in the upcoming e-mobility as well as autonomous driving domain and incurs ~6% of its sales as R&D expense. It is also present in the safety solutions domain through the airbag category. In CY17, its revenues were spread across Europe (48%), North America (27%), Asia Pacific (21%), South America (3%), etc. It recorded nearly US\$2 billion as FCF in CY17. In terms of end usage; its product find application in cars & LCV (81% of sales), M&HCV (11%) and construction & agri M/c (8%). It has a history of taking its acquisitions private as seen in the case of TRW in 2015.

Exhibit 1: Financial snapshot of ZF Group & Wabco Holding

ZF Group AG (US\$ bn)	CY15			CY16			CY17			Wabco Holdings Inc (US\$ bn)		
	CY15	CY16	CY17	CY16	CY17	CY18	CY16	CY17	CY18			
Revenue	32.4	38.9	41.2	Revenue	2.8	3.3	3.8					
EBITDA	3.1	4.2	4.4	EBITDA	0.5	0.4	0.7					
EBITDA margin (%)	9.7	10.7	10.6	EBITDA margin (%)	18.3	10.7	17.7					
PAT	1.0	0.9	1.3	PAT	0.3	0.2	0.4					
PAT margin (%)	3.2	2.4	3.1	PAT margin (%)	11.1	6.4	10.9					

Source: Bloomberg, ICICI Direct Research

Focus on safety, increase in content to benefit Wabco India, retain HOLD

Wabco is a leading braking system solution provider to the domestic CV space. It derives ~50% of its sales from this segment with the rest being exports (~30%) and replacement market (~15%). Post FY16, the growth trajectory at Wabco has been largely linear with the company able to outperform the CV industry growth rates by steadily increasing its content per vehicle. Moreover, post-merger at the parent level, there is a possibility of sharing of new product basket with Wabco India that can provide a fillip to earnings. At this juncture, we maintain our estimates and expect sales & PAT to grow at a CAGR of 16.3% & 21.5%, respectively, in FY18-20E. We value Wabco at ₹ 7,000 i.e. 33x P/E on FY20E EPS of ₹ 212.3/share and retain our **HOLD** rating on the stock. We draw comfort from debt free, cash surplus balance sheet at Wabco with healthy return ratios matrix (20 %+) and healthy cash flow generation.

Rating matrix		
Rating	:	Hold
Target	:	₹ 7000
Target Period	:	12 months
Potential Upside	:	4%

What's Changed?		
Target	Changed from ₹ 6800 to ₹ 7000	
EPS FY19E	Unchanged	
EPS FY20E	Unchanged	
Rating	Unchanged	

Key Financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	1,960	2,436	2,830	3,298
EBITDA	326.4	394.2	454.8	558.5
Net Profit	213.5	272.8	326.6	402.7
EPS (₹)	112.5	143.8	172.2	212.3

Valuation summary				
	FY17	FY18	FY19E	FY20E
P/E (x)	60.0	46.9	39.2	31.8
Target P/E (x)	62.2	48.7	40.7	33.0
EV/EBITDA (x)	37.5	30.4	26.2	20.8
P/BV (x)	10.1	8.4	7.0	5.8
RoNW (%)	16.9	17.9	17.8	18.2
RoCE (%)	23.6	25.1	25.7	26.0

Stock data	
Particular	Amount
Market Capitalization (₹ Crore)	₹ 12803.1 Crore
Total Debt (FY18) (₹ Crore)	₹ 0 Crore
Cash & Investments (FY18) (₹ Crore)	₹ 801.8 Crore
EV (₹ Crore)	₹ 12001.4 Crore
52 week H/L (₹)	8320/ 5800
Equity capital (₹ crore)	₹ 9.5 Crore
Face value (₹)	₹ 5
DII Holding (%)	13.1
FII Holding (%)	2.9



Price Performance (%)				
	1M	3M	6M	12M
Wabco India Ltd	-6.9	-9.4	-8.0	-20.1
Bosch Ltd	-6.0	-8.9	-10.3	-0.7
Motherson Sumi Systems	-10.4	-10.4	-14.9	-29.7

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Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Total operating Income	2,067.5	2,568.9	3,037.7	3,496.1	
Growth (%)	12.5	24.3	18.3	15.1	
Raw Material Expenses	1,238.1	1,601.9	1,934.2	2,203.2	
Employee Expenses	191.1	229.1	260.3	299.0	
Other Expenses	311.9	343.7	388.4	435.4	
Total Operating Expenditure	1,741.1	2,174.7	2,582.9	2,937.6	
EBITDA	326.4	394.2	454.8	558.5	
Growth (%)	11.5	20.8	15.4	22.8	
Depreciation	61.6	61.7	68.3	82.2	
Interest	0.5	1.6	0.0	0.0	
Other Income	36.2	51.0	84.5	98.9	
PBT	300.5	381.8	470.9	575.3	
Exceptional items	0.0	0.0	0.0	0.0	
Total Tax	87.0	109.0	144.3	172.6	
PAT	213.5	272.8	326.6	402.7	
Growth (%)	4.5	27.8	19.7	23.3	
EPS (₹)	112.5	143.8	172.2	212.3	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Liabilities					
Equity Capital	9.5	9.5	9.5	9.5	
Reserve and Surplus	1,256.9	1,516.4	1,822.4	2,202.2	
Total Shareholders funds	1,266.4	1,525.9	1,831.9	2,211.7	
Total Debt	0.0	0.0	0.0	0.0	
Deferred Tax Liability	25.1	30.3	30.3	30.3	
Total Liabilities	1,291.6	1,556.3	1,862.2	2,242.0	
Assets					
Gross Block	649.8	752.5	894.9	994.9	
Less: Acc Depreciation	331.9	393.6	462.0	544.1	
Net Block	317.9	358.9	433.0	450.8	
Capital WIP	61.7	52.4	10.0	10.0	
Total Fixed Assets	379.6	411.3	443.0	460.8	
Investments	298.1	445.7	520.7	770.7	
Inventory	145.3	132.4	166.5	191.6	
Debtors	518.0	648.3	749.0	862.1	
Loans and Advances	70.9	87.3	103.2	118.8	
Other current assets	2.7	6.3	7.4	8.5	
Cash	266.9	356.1	370.2	402.4	
Total Current Assets	1,003.9	1,230.4	1,396.3	1,583.3	
Creditors	341.9	532.4	499.4	574.7	
Provisions	16.5	26.5	26.5	26.5	
Other Current Liabilities	92.9	80.0	94.6	108.8	
Total Current Liabilities	451.4	638.9	620.4	710.1	
Net Current Assets	552.5	591.4	775.8	873.2	
Other non-current Assets	20	53	62	72	
Application of Funds	1,291.6	1,556.3	1,862.2	2,242.0	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	213.5	272.8	326.6	402.7	
Add: Depreciation	61.6	61.7	68.3	82.2	
(Inc)/dec in Current Assets	-53.6	-137.3	-151.8	-154.8	
Inc/(dec) in CL and Provisions	4.6	167.2	-18.5	89.7	
CF from operating activities	226.5	366.1	224.7	419.7	
(Inc)/dec in Investments	-77.9	-147.5	-75.0	-250.0	
(Inc)/dec in Fixed Assets	-67.9	-93.5	-100.0	-100.0	
Others	-35.0	6.3	-5.3	-5.1	
CF from investing activities	-171.1	-262.0	-189.9	-364.6	
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	-16.1	-18.3	-20.6	-22.9	
Others	14.8	3.4	0.0	0.0	
CF from financing activities	-1.3	-14.9	-20.7	-22.9	
Net Cash flow	54.2	89.2	14.1	32.2	
Opening Cash	212.7	266.9	356.1	370.2	
Closing Cash	266.9	356.1	370.2	402.4	

Source: Company, ICICI Direct Research

Key ratios					
(Year-end March)	FY17	FY18	FY19E	FY20E	
Per share data (₹)					
EPS	112.5	143.8	172.2	212.3	
Cash EPS	145.0	176.4	208.2	255.6	
BV	667.7	804.5	965.8	1,166.0	
DPS	7.0	8.0	9.0	10.0	
Cash Per Share	140.7	187.7	195.2	212.2	
Operating Ratios (%)					
EBITDA Margin	15.8	15.3	15.0	16.0	
PBIT / Net sales	12.8	12.9	12.7	13.6	
PAT Margin	10.3	10.6	10.8	11.5	
Inventory days	25.7	18.8	20.0	20.0	
Debtor days	60.4	75.7	60.0	60.0	
Creditor days	91.4	92.1	90.0	90.0	
Return Ratios (%)					
RoE	16.9	17.9	17.8	18.2	
RoCE	23.6	25.1	25.7	26.0	
RoIC	37.7	47.5	40.3	45.1	
Valuation Ratios (x)					
P/E	60.0	46.9	39.2	31.8	
EV / EBITDA	37.5	30.4	26.2	20.8	
EV / Net Sales	5.9	4.7	3.9	3.3	
Market Cap / Sales	6.2	5.0	4.2	3.7	
Price to Book Value	10.1	8.4	7.0	5.8	
Solvency Ratios					
Debt/Equity	0.0	0.0	0.0	0.0	
Current Ratio	2.1	1.6	2.1	2.1	
Quick Ratio	1.7	1.4	1.7	1.7	

Source: Company, ICICI Direct Research

ICICI Direct coverage universe (Auto & Auto Ancillary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Amara Raja (AMARAJ)	721	700	Hold	12254	27.6	30.2	39.8	26.0	23.7	18.0	14.8	13.1	10.2	23.3	22.0	24.7	16.0	15.2	17.1
Apollo Tyre (APOTYR)	221	225	Buy	12619	12.7	14.2	22.5	17.4	15.5	9.8	6.7	6.7	5.7	7.8	9.1	11.0	7.4	9.1	11.1
Ashok Leyland (ASHLEY)	91	85	Hold	25425	5.3	6.4	7.8	16.9	14.1	11.5	7.3	6.6	5.0	28.1	28.2	31.9	21.9	23.2	24.3
Bajaj Auto (BAAUTO)	2900	2380	Hold	83919	140.6	149.7	167.2	17.8	16.7	14.9	11.9	11.3	9.3	22.9	21.1	21.7	21.5	20.3	20.2
Balkrishna Ind. (BALIND)	1017	820	Hold	19153	38.2	42.5	49.8	25.9	23.3	19.9	14.2	11.6	9.5	22.4	21.0	22.4	18.1	21.0	22.4
Bharat Forge (BHAFOR)	512	535	Buy	23814	16.2	23.5	27.6	31.6	21.7	18.5	13.9	11.5	9.9	18.2	21.1	23.3	17.3	20.8	21.4
Bosch (MICO)	17998	17565	Hold	56515	449.1	545.6	622.9	40.1	33.0	28.9	25.1	22.4	18.9	14.4	14.9	15.2	21.4	22.2	22.6
Eicher Motors (EICMOT)	20666	21250	Hold	56334	718.9	848.4	1112.9	28.7	24.4	18.6	19.0	16.7	12.3	39.1	34.6	35.3	29.9	26.0	26.4
Escorts (ESCORT)	796	700	Hold	9757	28.1	40.7	44.1	23.8	16.5	15.2	14.2	10.6	9.3	18.8	20.9	20.8	13.5	16.5	15.3
Exide Industries (EXIIND)	222	235	Hold	18862	8.2	8.4	9.8	26.9	26.5	22.7	15.2	14.1	12.0	19.1	17.6	19.1	13.0	12.2	13.1
Hero Moto (HERHON)	2543	3000	Buy	50783	185.1	174.5	199.9	13.7	14.6	12.7	8.7	9.0	7.7	42.4	38.0	39.0	31.4	26.9	27.4
JK Tyre & Ind (JKIND)	91	82	Hold	2067	2.9	10.0	22.0	31.3	9.1	4.1	9.2	5.8	4.1	7.7	12.2	16.1	3.6	12.9	19.2
Mahindra CIE (MAHAUT)	234	275	Buy	8870	14.5	17.0	19.1	16.2	13.8	12.3	8.9	7.0	6.1	12.8	13.2	13.0	13.2	15.5	16.2
Maruti Suzuki (MARUTI)	6731	6000	Sell	202468	255.6	246.2	272.6	26.2	27.2	24.6	14.0	14.8	13.2	21.1	17.0	17.4	18.5	16.1	16.1
Motherson (MOTSUM)	149	125	Hold	47053	5.1	5.3	7.0	29.5	28.1	21.3	9.3	8.5	6.8	16.3	15.2	18.0	17.4	15.7	18.0
Tata Motors (TELCO)	175	145	Hold	52006	26.8	-83.4	16.6	5.6	NA	9.1	2.4	3.3	2.6	9.1	5.1	9.9	10.3	5.9	12.6
Wabco India (WABTVS)	6800	7000	Hold	12920	143.8	172.2	212.3	47.3	39.5	32.0	30.4	26.2	20.8	17.9	17.8	18.2	25.1	25.7	26.0

Source: Company, ICICI Direct Research

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