Wabco India

Strong revenue growth; "Accumulate"

Q1FY17 Result Update

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During Q1FY17, Wabco India (WIL) reported strong revenue growth, boosted by good M&HCV industry growth and an increase in its content sold. Operating performance was also healthy and at 19.5%, WIL reported its highest EBITDA margin since Q2FY13. Margin improvement was a combination of operating leverage improvement in localisation and a relatively improved customer mix. On the low profit base and with a lower tax rate, profit growth was robust at 55.1% YoY to Rs739m. This was the highest ever reported quarterly profit for the company and bettered our expectations.

From a long-term perspective, we are optimistic about WIL as it is a beneficiary of recovery in the CV cycle, has good growth potential from technologies like ABS and AMT and has strong parentage which provides good possibility for export growth and strong aftermarket potential.

We expect WIL to record earnings CAGR of 32.9% over FY16-18e (after a compounded annual decline of 7.7% over FY12-15) on the back of revenue CAGR of 24% and EBITDA margin growth of 260bps over the same period. After successfully negotiating the CV industry downturn with a mid-double-digit ROE, we expect it to recover to 23.9% in FY18E. We maintain 'Accumulate' with a target price of Rs6,666 (previously Rs6,163).

- WIL registered higher-than-expected 39.4% YoY revenue growth to Rs5.4bn. Of this, net sales growth was 40.7% and other operating income growth was 17.7% YoY.
- OEM segment reported the strongest growth at 79.8% YoY. Growth was boosted by increase in CV sales as well as sale of ABS. Exports and replacement segment had relatively lower growth at 5.8% and 6.3% YoY, respectively.

Rating	**Accumulate**
Price	Rs6,358
Target Price	Rs6,666
Implied Upside	4.8%
Sensex	28,052
Nifty	8,639

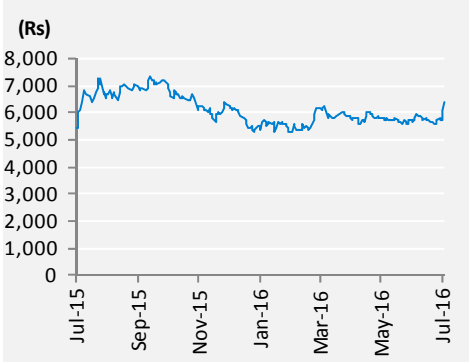
(Prices as on July 29, 2016)

Trading data	
Market Cap. (Rs bn)	120.6
Shares o/s (m)	19.0
3M Avg. Daily value (Rs m)	40.3
Major shareholders	
Promoters	75.00%
Foreign	2.16%
Domestic Inst.	8.39%
Public & Other	14.45%

Stock Performance			
(%)	**1M**	**6M**	**12M**
Absolute	10.7	13.4	17.6
Relative	5.8	0.6	15.8

How we differ from Consensus			
EPS (Rs)	**PL**	**Cons.**	***% Diff.***
2017	163.1	147.0	*10.9*
2018	190.4	182.3	*4.5*

Price Performance (RIC: WABC.BO, BB: WIL IN)



Source: Bloomberg

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Key financials (Y/e March)	**2015**	**2016**	**2017E**	**2018E**
Revenues (Rs m)	13,480	18,383	24,691	28,263
Growth (%)	*21.4*	*36.4*	*34.3*	*14.5*
EBITDA (Rs m)	2,034	2,929	4,494	5,215
PAT (Rs m)	1,207	2,046	3,093	3,612
EPS (Rs)	63.6	107.9	163.1	190.4
Growth (%)	*4.8*	*69.6*	*51.2*	*16.8*
Net DPS (Rs)	5.0	6.0	8.0	10.0

Profitability & Valuation	**2015**	**2016**	**2017E**	**2018E**
EBITDA margin (%)	*15.1*	*15.9*	*18.2*	*18.5*
RoE (%)	*14.9*	*21.3*	*25.8*	*23.9*
RoCE (%)	*14.9*	*21.4*	*25.8*	*23.9*
EV / sales (x)	8.8	6.4	4.8	4.1
EV / EBITDA (x)	58.2	40.4	26.2	22.3
PE (x)	99.9	58.9	39.0	33.4
P / BV (x)	14.0	11.4	9.0	7.2
Net dividend yield (%)	*0.1*	*0.1*	*0.1*	*0.2*

Source: Company Data; PL Research

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- EBITDA margin, at 19.5%, was the highest since Q2FY13. Despite the increase in royalty due to the revised royalty agreement for the use of technical know-how, trademark and other services availed from a related party, EBITDA margin was higher 140bps YoY. This was attributable to operating leverage, a relatively better customer mix and an increase in localisation. While gross margins were lower 100bps YoY, staff costs to sales ratio was lower 230bps YoY.
- EBITDA grew 49.5% YoY to Rs1.04bn, which was the highest quarterly EBITDA for WIL.
- On the low profit base, with a lower tax rate, profit growth was robust at 55.1% YoY to Rs739m. This was the highest ever reported profit for the company.

Exhibit 1: Q1FY17 Result Overview (Rs m)

Y/e March	Q1FY17	Q1FY16	YoY gr. (%)	Q4FY16	FY17E	FY16	YoY gr. (%)
Net Revenues	**5,367**	**3,849**	***39.4***	**5,665**	**24,691**	**18,383**	***34.3***
Raw Materials	3,168	2,232	*41.9*	3,480	14,938	10,997	*35.8*
% of Net Sales	*59.0*	*58.0*		*61.4*	*60.5*	*59.8*	
Personnel	435	399	*9.1*	467	1,951	1,738	*12.2*
% of Net Sales	*8.1*	*10.4*		*8.2*	*7.9*	*9.5*	
Manufacturing & Other Exp	720	519	*38.7*	913	3,309	2,718	*21.7*
% of Net Sales	*13.4*	*13.5*		*16.1*	*13.4*	*14.8*	
Total Expenditure	4,323	3,150	*37.2*	4,860	20,198	15,453	*30.7*
EBITDA	**1,044**	**698**	***49.5***	**805**	**4,494**	**2,929**	***53.4***
EBITDA Margin (%)	*19.5*	*18.1*		*14.2*	*18.2*	*15.9*	
Depreciation	152	134	*13.0*	147	648	562	*15.2*
EBIT	**892**	**564**	***58.1***	**659**	**3,846**	**2,367**	***62.5***
Interest Expenses	-	-	*NA*	2	2	2	*NA*
Non-operating income	93	91	*2.3*	102	308	346	*(11.1)*
PBT	**986**	**656**	***50.4***	**759**	**4,152**	**2,712**	***53.1***
Tax-Total	247	179	*37.7*	186	1,059	665	*59.1*
Tax Rate (%) - Total	*25.0*	*27.3*	*(8.4)*	*24.5*	*25.5*	*24.5*	*3.9*
Reported PAT	**739**	**476**	***55.1***	**573**	**3,093**	**2,046**	***51.2***
Adj. PAT	**739**	**476**	***55.1***	**573**	**3,093**	**2,046**	***51.2***

Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2015	2016	2017E	2018E
Net Revenue	**13,480**	**18,383**	**24,691**	**28,263**
Raw Material Expenses	7,929	10,997	14,938	17,029
Gross Profit	5,550	7,385	9,753	11,235
Employee Cost	1,434	1,738	1,951	2,233
Other Expenses	2,082	2,718	3,309	3,787
EBITDA	**2,034**	**2,929**	**4,494**	**5,215**
Depr. & Amortization	467	562	648	714
Net Interest	4	2	2	2
Other Income	203	346	308	350
Profit before Tax	**1,766**	**2,712**	**4,152**	**4,849**
Total Tax	560	665	1,059	1,236
Profit after Tax	**1,207**	**2,046**	**3,093**	**3,612**
Ex-Od items / Min. Int.	—	—	—	—
Adj. PAT	**1,207**	**2,046**	**3,093**	**3,612**
Avg. Shares O/S (m)	**19.0**	**19.0**	**19.0**	**19.0**
EPS (Rs.)	**63.6**	**107.9**	**163.1**	**190.4**

Cash Flow Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
C/F from Operations	1,370	2,707	2,829	3,822
C/F from Investing	(595)	(2,691)	(2,000)	(2,000)
C/F from Financing	(98)	(115)	(153)	(191)
Inc. / Dec. in Cash	676	(100)	676	1,631
Opening Cash	1,554	2,231	2,130	2,806
Closing Cash	2,231	2,130	2,806	4,438
FCFF	746	2,110	1,469	2,845
FCFE	746	2,110	1,469	2,845

Key Financial Metrics

Y/e March	2015	2016	2017E	2018E
Growth				
Revenue (%)	21.4	36.4	34.3	14.5
EBITDA (%)	22.4	44.1	53.4	16.0
PAT (%)	4.8	69.6	51.2	16.8
EPS (%)	4.8	69.6	51.2	16.8
Profitability				
EBITDA Margin (%)	15.1	15.9	18.2	18.5
PAT Margin (%)	9.0	11.1	12.5	12.8
RoCE (%)	14.9	21.4	25.8	23.9
RoE (%)	14.9	21.3	25.8	23.9
Balance Sheet				
Net Debt : Equity	(0.3)	(0.2)	(0.2)	(0.3)
Net Wrkng Cap. (days)	46	30	31	30
Valuation				
PER (x)	99.9	58.9	39.0	33.4
P / B (x)	14.0	11.4	9.0	7.2
EV / EBITDA (x)	58.2	40.4	26.2	22.3
EV / Sales (x)	8.8	6.4	4.8	4.1
Earnings Quality				
Eff. Tax Rate	31.7	24.5	25.5	25.5
Other Inc / PBT	11.5	12.8	7.4	7.2
Eff. Depr. Rate (%)	8.7	9.3	8.7	8.5
FCFE / PAT	61.8	103.1	47.5	78.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2015	2016	2017E	2018E
Shareholder's Funds	8,630	10,540	13,450	16,834
Total Debt	—	—	—	—
Other Liabilities	165	99	114	129
Total Liabilities	**8,795**	**10,639**	**13,565**	**16,964**
Net Fixed Assets	3,414	3,733	4,085	4,371
Goodwill	—	—	—	—
Investments	392	2,202	3,202	4,202
Net Current Assets	4,989	4,704	6,278	8,391
Cash & Equivalents	*2,231*	*2,130*	*2,806*	*4,438*
Other Current Assets	*5,099*	*7,176*	*9,431*	*10,738*
Current Liabilities	*2,340*	*4,602*	*5,960*	*6,784*
Other Assets	—	—	—	—
Total Assets	**8,795**	**10,639**	**13,565**	**16,964**

Quarterly Financials (Rs m)

Y/e March	Q2FY16	Q3FY16	Q4FY16	Q1FY17
Net Revenue	**4,289**	**4,578**	**5,665**	**5,367**
EBITDA	**651**	**777**	**940**	**1,044**
% of revenue	*15.2*	*17.0*	*16.6*	*19.5*
Depr. & Amortization	139	142	147	152
Net Interest	—	—	2	—
Other Income	92	61	102	93
Profit before Tax	**604**	**695**	**894**	**986**
Total Tax	121	180	186	247
Profit after Tax	**483**	**515**	**573**	**739**
Adj. PAT	**483**	**515**	**708**	**739**

Source: Company Data, PL Research.

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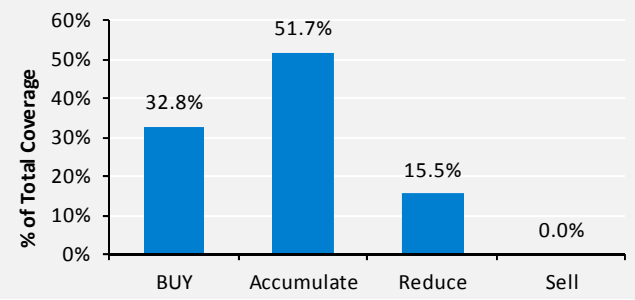

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Accumulate	:	Outperformance to Sensex over 12-months
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