

6 November 2025

ZF Commercial Vehicles

Near-term macro headwinds; growth rear-ended with ADAS; retaining a Buy

Above ARE's Rs1.03bn, ZF's Q2 EBITDA fell 5% y/y to Rs1.32bn due to more -than-expected revenue and gross margin. We expect 12/10/13% revenue/ EBITDA/PAT growth over FY25-28 driven by 1) ADAS regulation draft notification, proposing ESC, AEBS and four ADAS functions with content opportunity of >Rs65,000/vehicle for M&H CVs (>9-tonne trucks/buses); 2) ESC regulation implemented for most bus segments from Sep'25; 3) Content would increase on higher tonnage mix, EV penetration and new products (particularly for LCVs); 4) The company's dominant market share would continue across M&H CVs even for coming opportunities; 5) India's M&H CV sector to record a healthy 5% CAGR over FY25-28, led by infra/economic activity and GST reforms; 6) Overseas CVs may be muted in the near term (from ongoing trade wars), but export revenue would outstrip that of the industry due to more sourcing by global group companies. We retain a Buy at a slightly higher TP of Rs15,900, 50x Sep'27e P/E (earlier 15,700, 50x Sep'27e P/E).

EBITDA above estimate. Q2 standalone revenue fell 1% y/y to Rs9.02bn, above our estimate (Rs8.54bn) due to better-than-expected domestic OEM and exports. Product sales fell 2% to Rs7.2bn (OEM up 7%, exports down 16%, aftermarket up 13%), and services grew 9% to Rs1.24bn. Export products declined 16% y/y mainly due to a ~20% decline in the US due to tariffs, partially offset by growth in Europe (up 9%)/ EMEA. EBITDA fell 5% to Rs1.32bn, above our Rs1.03bn estimate, due to higher-than-expected revenue and gross margin. The EBITDA margin contracted 70bps y/y to 14.6% (but q/q up 140bps). The gross margin expanded 160bps q/q to 43.7%. Overall, PAT fell 3% y/y to Rs1.06bn, above ARE's Rs821m due to higher operating income. The subsidiary's (Oragadam plant) revenue/EBITDA/PAT were Rs114m/23m/18m.

Valuation. We expect 12/13% revenue/PAT CAGRs over FY25-28. Our FY26e-28e EPS is slightly more due to higher other income, despite lower revenue and operating margins estimates. We retain a Buy with a slightly higher TP of Rs15,900, 50x Sep'27e P/E. **Key risks:** Less-than-expected growth in underlying segments; delay in new regulations for CVs; adverse commodities/forex; trade wars.

Key financials (YE Mar) - P	FY24	FY25	FY26e	FY27e	FY28e
Sales (Rs m)	37,837	38,041	38,477	42,841	53,947
Net profit (Rs m)	4,048	4,587	4,499	5,394	6,674
EPS (Rs)	213.4	241.8	237.2	284.4	351.9
P/E (x)	60.0	52.9	54.0	45.0	36.4
EV / EBITDA (x)	40.8	36.4	39.8	32.9	26.4
P/BV (x)	8.7	7.6	6.7	5.9	5.1
RoE (%)	11.7	11.5	9.9	10.4	11.3
RoCE (%)	16.0	15.5	13.4	14.1	15.3
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2
Net debt / equity (x)	-0.5	-0.5	-0.5	-0.5	-0.5

Source: Company, Anand Rathi Research

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Rating: Buy

Target price (12-mnth): Rs.15,900

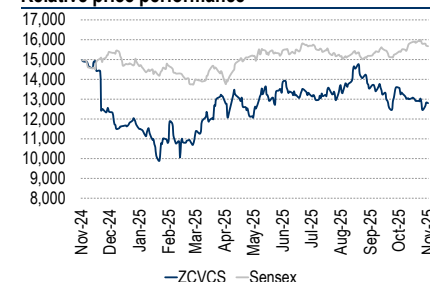
Share price: Rs.12,802

Key data	ZCVCS IN / WIL.BO
52-week high / low	Rs15284 / 9567
Sensex / Nifty	83311 / 25510
Market cap	Rs244bn
Shares outstanding	19m

Shareholding pattern (%)	Sep'25	Jun'25	Mar'25
Promoters	60.0	60.0	63.2
- of which, Pledged	-	-	-
Free float	40.0	40.0	36.8
- Foreign institutions	5.8	5.7	5.6
- Domestic institutions	26.3	26.4	23.3
- Public	8.0	7.9	7.9

Estimates revision (%)	FY26e	FY27e	FY28e
Sales	-2.2	-3.4	0.1
EBITDA	-8.5	-5.7	-3.1
EPS	3.1	0.1	2.7

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
Net revenues	37,837	38,041	38,477	42,841	53,947
Growth (%)	9.8	0.5	1.1	11.3	25.9
Raw material	23,211	22,057	21,828	24,074	31,268
Employee & other expenses	8,995	9,729	11,021	12,073	14,389
EBITDA	5,631	6,255	5,628	6,694	8,290
EBITDA margins (%)	14.9	16.4	14.6	15.6	15.4
- Depreciation	1,095	1,227	1,285	1,421	1,594
Other income	958	1,097	1,712	1,979	2,266
Interest expenses	50	57	57	60	63
PBT	5,444	6,068	5,998	7,192	8,899
Effective tax rates (%)	26	24	25	25	25
+ Associates / (Minorities)	-	-	-	-	-
Adjusted income	4,048	4,587	4,499	5,394	6,674
Extraordinary items	-	-	-	-	-
Net income	4,048	4,587	4,499	5,394	6,674
WANS	19	19	19	19	19
FDEPS (Rs)	213.4	241.8	237.2	284.4	351.9
Growth (%)	27.4	13.3	-1.9	19.9	23.7

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
PBT	5,444	6,068	5,998	7,192	8,899
+ Non-cash items	232	312	1,342	1,481	1,657
Oper. prof. before WC	5,676	6,380	7,340	8,673	10,556
- Incr. / (decr.) in WC	1,971	2,283	-113	1,033	2,630
Others incl. taxes	1,778	1,361	1,505	1,805	2,234
Operating cash-flow	1,927	2,736	5,948	5,834	5,692
- Capex (tang. + intang.)	1,810	1,511	1,500	2,000	3,500
Free cash-flow	117	1,225	4,448	3,834	2,192
Acquisitions	-	-	-	-	-
- Div. (incl. taxes)	247	322	360	360	432
+ Equity raised / buyback	-	-	-	-	-
+ Debt raised	-	-	-	-	-
- Fin investments	-590	-29	5,223	3,000	2,000
- Misc. (CFI + CFF)	(770)	(802)	57	60	63
Net cash-flow	1,231	1,734	-1,193	414	-303

Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 2 – Balance sheet (Rs m)

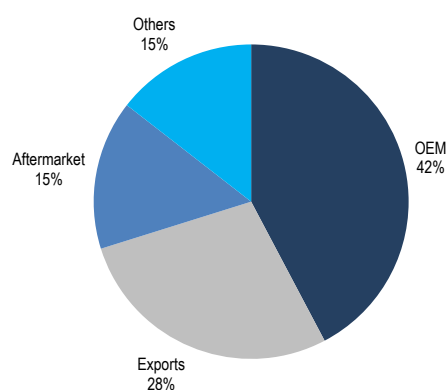
Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
Share capital	95	95	95	95	95
Net worth	27,887	32,108	36,247	41,209	47,349
Debt	-	-	-	-	-
Minority interest	-	-	-	-	-
DTL / (Assets)	-290	-248	-254	-261	-270
Capital employed	27,597	31,860	35,993	40,948	47,080
Net tangible assets	6,538	7,093	7,275	7,632	8,872
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	825	633	666	888	1,554
Investments (strategic)	177	223	223	223	223
Investments (financial)	233	286	5,509	8,509	10,509
Current assets (excl. cash)	12,713	14,470	14,636	16,296	20,521
Cash	12,918	14,652	13,459	13,874	13,571
Current liabilities	5,807	5,497	5,775	6,473	8,170
Working capital	6,906	8,973	8,861	9,823	12,351
Capital deployed	27,597	31,860	35,993	40,948	47,080

Fig 4 – Ratio analysis

Year-end: Mar	FY24	FY25	FY26e	FY27e	FY28e
P/E (x)	60.0	52.9	54.0	45.0	36.4
EV / EBITDA (x)	40.8	36.4	39.8	32.9	26.4
EV / Sales (x)	6.1	6.0	5.8	5.1	4.1
P/B (x)	8.7	7.6	6.7	5.9	5.1
RoE (%)	11.7	11.5	9.9	10.4	11.3
RoCE (%) - after tax	16.0	15.5	13.4	14.1	15.3
RoIC (%) - after tax	30.4	27.6	25.1	28.8	30.9
DPS (Rs)	17.0	19.0	19.0	22.8	28.1
Dividend yield (%)	0.1	0.1	0.1	0.2	0.2
Dividend payout (%)	8.0	7.9	8.0	8.0	8.0
Net debt / equity (x)	-0.5	-0.5	-0.5	-0.5	-0.5
Receivables (days)	90	107	107	107	107
Inventory (days)	16	18	18	18	18
Payables (days)	36	34	34	34	34
CFO : PAT (%)	48	60	132	108	85

Source: Company, Anand Rathi Research

Fig 6 – Revenue mix (Q2 FY26 standalone)



Source: Company

Quarterly financials (standalone)

Fig 7 – Quarterly performance

(Rs m)	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Y/Y (%)	Q/Q (%)	YTD FY26	YTD FY25	Y/Y (%)
Revenue	9,067	9,559	10,032	9,632	9,018	(0.5)	(6.4)	18,650	18,450	1.1
Expenditure	7,672	7,806	8,307	8,353	7,697	0.3	(7.9)	16,050	15,674	2.4
as % of sales	84.6	81.7	82.8	86.7	85.3			86.1	85.0	
Consumption of RM	5,239	5,420	5,841	5,574	5,078	(3.1)	(8.9)	10,651	10,796	(1.3)
as % of sales	57.8	56.7	58.2	57.9	56.3			57.1	58.5	
Employee cost	1,328	1,402	1,292	1,501	1,440	8.4	(4.0)	2,941	2,691	9.3
as % of sales	14.7	14.7	12.9	15.6	16.0			15.8	14.6	
Other expenditure	1,105	983	1,173	1,279	1,179	6.7	(7.8)	2,458	2,187	12.4
as % of sales	12.2	10.3	11.7	13.3	13.1			13.2	11.9	
EBITDA	1,395	1,753	1,725	1,279	1,321	(5.3)	3.3	2,601	2,777	(6.3)
EBITDA margins (%)	15.4	18.3	17.2	13.3	14.7			13.9	15.0	
Depreciation	311	314	315	322	317	2.0	(1.5)	639	598	6.9
EBIT	1,084	1,439	1,410	957	1,004	(7.4)	4.9	1,962	2,179	(10.0)
Other income	397	172	274	671	445	12.3	(33.6)	1,116	652	71.2
Interest	13	12	14	13	12	(4.0)	(5.2)	26	31	(16.6)
PBT	1,467	1,598	1,670	1,615	1,437	(2.1)	(11.0)	3,052	2,800	9.0
Total tax	374	349	418	413	372	(0.5)	(9.9)	785	715	9.9
Adj. PAT	1,093	1,249	1,252	1,202	1,065	(2.6)	(11.4)	2,266	2,086	8.7
Extra ordinary items (loss) / gain	-	-	-	-	-			-	-	
Reported PAT	1,093	1,249	1,252	1,202	1,065	(2.6)	(11.4)	2,266	2,086	8.7
Adj. EPS (Rs)	57.6	65.9	66.0	63.4	56.1	(2.6)	(11.4)	119.5	110.0	8.7
Margins (%)						(bps)	(bps)			(bps)
Gross	42.2	43.3	41.8	42.1	43.7	147	156	42.9	41.5	140
EBITDA	15.4	18.3	17.2	13.3	14.7	(73)	137	13.9	15.0	(110)
EBIT	12.0	15.1	14.1	9.9	11.1	(82)	120	10.5	11.8	(129)
PAT	12.1	13.1	12.5	12.5	11.8	(25)	(67)	12.2	11.3	85
Effective tax rates	25.5	21.8	25.0	25.6	25.9	42	33	25.7	25.5	21

Source: Compa

Fig 8 – Change in estimates

	Old			Revised			Change (%)		
(Rs m)	FY26e	FY27e	FY28e	FY26e	FY27e	FY28e	FY26	FY27	FY28
Revenue	39,336	44,330	53,868	38,477	42,841	53,947	-2.2	-3.4	0.1
EBITDA	6,154	7,096	8,558	5,628	6,694	8,290	-8.5	-5.7	-3.1
% of revenue	15.6%	16.0%	15.9%	14.6%	15.6%	15.4%			
Adj. PAT	4,365	5,386	6,496	4,499	5,394	6,674	3.1	0.1	2.7
EPS (Rs)	230.1	284.0	342.5	237.2	284.4	351.9	3.1	0.1	2.7

Source: Anand Rathi Research

Earnings call takeaways

- **OEM** (consolidated) sales grew 7.4% y/y, broadly in line with production (CV >6 tonnes up 7.6%), despite adverse tonnage mix, owing to higher ESC penetration (Sep'25 regulation) and market-share gains in e-compressors (EV applications). Only local supplier for e-compressors (some OEMs are importing a little). Focusing on deeper penetration of trailer ABS, trailer EBS, scalar EVO telematics, exhaust brake valve, AMT, ECAS and EV buses (e-compressor, EBS, ESC, ECAS) products. EBS gives regen capability and sees demand with EVs. Disc-brake penetration also goes in tandem with EBS but due to cost, adoption is low. AMT penetration is low at few hundred volumes/month, though penetration is increasing for mining (higher powered engines) trucks and city buses.
- **ESC.** Updated regulation has been effective from Sep'25. Pneumatic volumes up 40-45% y/y. Hydraulic volumes slightly up (caters to LCVs), awaiting regulation for school buses (in a draft stage), which would lift volumes. Working on localisation to sustain market share.
- **ADAS regulation.** Delay expected, while exact dates may be out in a few months.
- **Aftermarket** sales grew 12.6% y/y. Driven by retro-fitment of trailer ABS/ESC (petro companies), DCS, clutch boosters and OES (BS4/6 models replacement demand).
- **Export products** fell 16% y/y. US down ~20% due to tariffs, partially offset by growth in Europe (up 9%) and EMEA. Air compressor (BMW) demand soft. Started supply of actuator 4.0 and air-compressors to other global OEMs. Smart actuators (an upgrade to current actuators) are being planned for Europe.
- **Export services** grew 12.1% y/y.
- **Manufacturing update.** Rollout of brake signal transmitter for e-mobility applications and supplying leading India OEMs. Expanded further with relay walls, high force actuators and localised ASP cartridges for both OEM and aftermarket. Assembly lines at Lucknow and Pantnagar have been upgraded.
- **Management changes.** Andreas Moser appointed Board member of CV solutions for the India region in place of Peter Laier.

Valuation

More content because of regulations, EVs. The ADAS regulation draft notification is out, proposing ESC (Rs25,000), AEBS and four ADAS functions (>Rs40,000), with content opportunity of over Rs65,000 per CV (>9-tonne trucks/buses). **ESC regulation** for most bus segments is implemented from Sep'25. **Electric vehicles and trailer penetration** would drive products such as electric compressors (Rs80,000), EBS (Rs60,000) and trailer ABS (Rs30,000). **Content, due to government regulations**, would increase in stages for CVs on penetration of ESC, AEBS, ADAS and EVs, **with potential to more than double ahead.** The **dominant market share** is expected to continue across M&H CVs.

Analysis of impact of ADAS regulations. Of Rs65,000 CPV, assuming implementation in phases with content of Rs32,500 from Oct'27 and Rs32,500 from Oct'28, **revenue would record a 17% CAGR (OEM at 25%) over FY25-30 and a 25% CAGR (OEM at 37%) over FY27-30.**

Exports to be driven by market-share gains in CVs/PVs from group companies. The wider distribution network and retro-fitment solutions would drive the **aftermarket**. **Service** revenue would increase, led by more software sales and R&D support to group companies.

LCV segment expansion would see products such as hydraulic ABS, vacuum-brake boosters, vacuum pumps, ADAS and lightweight calipers. The portfolio targets more EVs (for models like Tata's ACE). €90m revenue targeted by 2030, with double-digit margins in the long run. Portfolio expansion has been driven by leveraging ZF's global products.

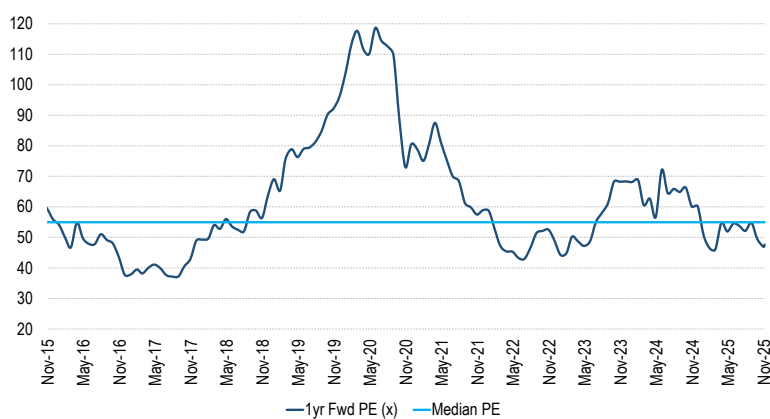
Better M&H CV demand ahead. India's M&H CV sector is likely to see a 5% CAGR over FY25-28. The overseas CV sector could be muted in the near term, but export revenue would outstrip that of the industry due to sourcing by global group companies.

View, Valuation. We expect a 12% revenue CAGR over FY25-28, led by 18% in OEMs, 9% in aftermarket, 5% in exports and 12% in services. We expect 10/13% EBITDA/PAT CAGRs over FY25-28. We recommend a Buy at a TP of Rs15,900, 50x Sep'27e P/E.

Fig 9 – Key assumptions

Segmental revenue (Rs m)	FY25	FY26e	FY27e	FY28e	FY29e	FY30e	CAGR FY25-30 (%)
OEMs	16,427	17,283	19,472	27,064	40,131	49,710	25
Y/Y change, %	-10	5	13	39	48	24	
Exports	11,647	10,133	11,146	13,375	15,382	17,612	9
Y/Y change, %	8	-13	10	20	15	15	
Aftermarket	5,054	5,559	6,060	6,605	7,200	7,848	9
Y/Y change, %	6	10	9	9	9	9	
Other operating income / Service	4,913	5,502	6,163	6,902	7,661	8,428	11
Y/Y change, %	20	12	12	12	11	10	
Revenues	38,041	38,477	42,841	53,947	70,374	83,597	17
Y/Y change, %	1	1	11	26	30	19	

Source: Company, Anand Rathi Research

Fig 10 – Valuation chart (1yr-forward P/E) – Historical median is 55x

Source: Bloomberg, Anand Rath Research

Downside risks

- Less-than-expected growth in underlying segments.
- Delay in new regulations for CVs.
- Adverse commodities/forex movement.
- Trade wars

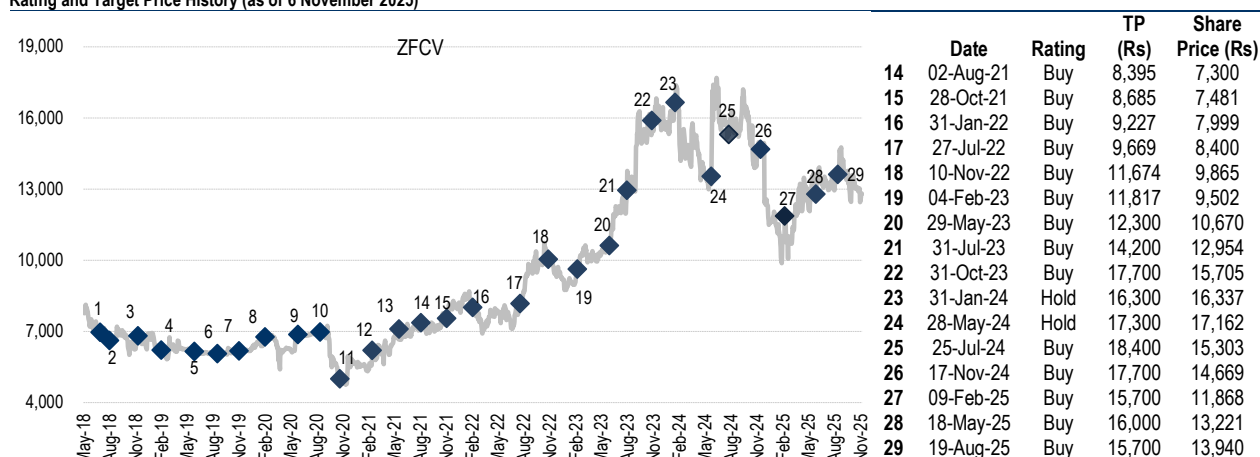
Appendix

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