

November 5, 2018

Q2FY19 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY19E	FY20E	FY19E	FY20E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	7,111		7,111	
Sales (Rs. m)	29,804	34,127	29,804	34,127
% Chng.			-	-
EBITDA (Rs. m)	4,620	5,460	4,620	5,460
% Chng.			-	-
EPS (Rs.)	175.4	203.2	175.4	203.2
% Chng.			-	-

Key Financials

	FY17	FY18	FY19E	FY20E
Sales (Rs. m)	20,675	25,689	29,804	34,127
EBITDA (Rs. m)	3,264	3,942	4,620	5,460
Margin (%)	15.8	15.3	15.5	16.0
PAT (Rs. m)	2,135	2,728	3,328	3,854
EPS (Rs.)	112.5	143.8	175.4	203.2
Gr. (%)	5.0	27.8	22.0	15.8
DPS (Rs.)	0.4	0.4	0.6	0.6
Yield (%)	0.0	0.0	0.0	0.0
RoE (%)	18.3	19.5	19.8	19.1
RoCE (%)	22.7	23.8	23.3	23.1
EV/Sales (x)	5.9	4.6	3.9	3.3
EV/EBITDA (x)	37.1	30.1	25.2	20.8
PE (x)	59.4	46.5	38.1	32.9
P/BV (x)	10.0	8.3	6.9	5.8

Key Data

WABC.BO | WIL IN

52-W High / Low	Rs.8,537 / Rs.5,990
Sensex / Nifty	34,951 / 10,524
Market Cap	Rs.127bn / \$ 1,735m
Shares Outstanding	19m
3M Avg. Daily Value	Rs.55.08m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	2.55
Domestic Institution	9.06
Public & Others	13.39
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.3	(14.7)	(0.3)
Relative	3.6	(14.8)	(3.9)

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Positive surprise!!!

For Q2FY19, Wabco India (WIL) reported net profit of Rs955mn, up 23% YoY / 28% QoQ, surpassing our expectations of Rs738mn. While overall revenue for the quarter was marginally below our expectations, at Rs7.4bn (~3% below PLe), growing 22% YoY / down ~1% QoQ (where other operating income surged 151% YoY / 126% QoQ), operating performance beat estimates with EBITDA margin at 16.6% v/s Ple of 13.7%, down 20bps YoY but higher 310bps QoQ. The surprise in OPM was mainly on account of gross margins being higher 460bps QoQ (down 40bps YoY), whereas other expenses and staff costs as a % of sales were up 10bps YoY / 90bps QoQ and down 20bps YoY / up 70bps QoQ, respectively.

Absolute EBITDA grew 20% YoY to Rs1.2bn. With higher non-operating income (up ~85% YoY), Q2FY19 net profit for the company was up ~23% YoY to Rs955mn (PLe: Rs738mn).

From a long-term perspective, we remain optimistic about WIL given the companies near dominant position in its product segments and it being a key beneficiary of the surge in the CV demand. With the uncertainty in CV demand due to the on regulation on increased axle load capacity behind us we expect the growth momentum for the CV segment to continue given the modernization and shift towards higher tonnage of the existing fleet by operators and increased pre-buying before the BS6 norms kick in from 1st April 2020.

Management in the past has targeted margins in the range of 17-18% but given the uncertain environment, commodity cost pressures and the difficulty/delay in full pass on, we maintain our margin expectations for FY19/20E at 15.5%/16% respectively. The company is debt-free and is expected to sustain return ratios of over 20% in FY19/20E. At CMP, the stock is trading at 38.1x FY19E and 32.9x FY20E EPS. We maintain 'Accumulate' with a target price of Rs7,111, at 35x Mar'20E EPS.

Exhibit 1: Q2FY19 Result Overview (Rs m)

Y/e March	Q2FY19	Q2FY18	YoY gr. (%)	Q1FY19	H1FY19	H1FY18	YoY gr. (%)
Net Revenues	7,428	6,098	21.8	7,486	14,913	11,354	31.4
Raw Materials	4,559	3,720	22.6	4,944	9,503	6,911	37.5
<i>% of Net Sales</i>	<i>61.4</i>	<i>61.0</i>		<i>66.0</i>	<i>63.7</i>	<i>60.9</i>	
Personnel	665	559	19.0	605	1,270	1,079	17.7
<i>% of Net Sales</i>	<i>9.0</i>	<i>9.2</i>		<i>8.1</i>	<i>8.5</i>	<i>9.5</i>	
Manufacturing & Other Exp	973	792	22.8	928	1,900	1,547	22.8
<i>% of Net Sales</i>	<i>13.1</i>	<i>13.0</i>		<i>12.4</i>	<i>12.7</i>	<i>13.6</i>	
Total Expenditure	6,197	5,071	22.2	6,476	12,673	9,537	32.9
EBITDA	1,231	1,027	19.9	1,009	2,240	1,817	23.3
<i>EBITDA Margin (%)</i>	<i>16.6</i>	<i>16.8</i>		<i>13.5</i>	<i>15.0</i>	<i>16.0</i>	
Depreciation	169	152	11.3	161	330	304	8.5
EBIT	1,062	874	21.4	848	1,910	1,513	26.3
Interest Expenses	-	2	NA	-	-	3	NA
Non-operating income	257	139	84.5	238	495	245	102.3
PBT	1,319	1,012	30.4	1,086	2,405	1,755	37.1
Tax-Total	364	236	54.2	339	703	437	60.8
<i>Tax Rate (%) - Total</i>	<i>27.6</i>	<i>23.3</i>	<i>18.3</i>	<i>31.2</i>	<i>29.2</i>	<i>24.9</i>	<i>17.4</i>
Reported PAT	955	776	23.1	748	1,703	1,318	29.2
Adj. PAT	955	776	23.1	748	1,703	1,318	29.2

Source: Company, PL

Financials

Income Statement (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Net Revenues	20,675	25,689	29,804	34,127
YoY gr. (%)	12.8	24.3	16.0	14.5
Cost of Goods Sold	12,381	16,019	18,628	21,261
Gross Profit	8,294	9,670	11,177	12,866
Margin (%)	40.1	37.6	37.5	37.7
Employee Cost	1,911	2,291	2,682	2,969
Other Expenses	3,119	3,437	3,875	4,437
EBITDA	3,264	3,942	4,620	5,460
YoY gr. (%)	13.9	20.8	17.2	18.2
Margin (%)	15.8	15.3	15.5	16.0
Depreciation and Amortization	616	617	702	810
EBIT	2,648	3,324	3,918	4,650
Margin (%)	12.8	12.9	13.1	13.6
Net Interest	5	16	16	16
Other Income	362	510	720	718
Profit Before Tax	3,005	3,818	4,622	5,352
Margin (%)	14.5	14.9	15.5	15.7
Total Tax	870	1,090	1,294	1,499
Effective tax rate (%)	28.9	28.5	28.0	28.0
Profit after tax	2,135	2,728	3,328	3,854
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,135	2,728	3,328	3,854
YoY gr. (%)	5.0	27.8	22.0	15.8
Margin (%)	10.3	10.6	11.2	11.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,135	2,728	3,328	3,854
YoY gr. (%)	5.0	27.8	22.0	15.8
Margin (%)	10.3	10.6	11.2	11.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,135	2,728	3,328	3,854
Equity Shares O/s (m)	19	19	19	19
EPS (Rs)	112.5	143.8	175.4	203.2

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
Non-Current Assets				
Gross Block	4,350	5,341	6,865	7,865
Tangibles	4,232	5,204	6,728	7,728
Intangibles	117	137	137	137
Acc: Dep / Amortization	1,170	1,752	2,453	3,264
Tangibles	1,089	1,638	2,340	3,150
Intangibles	81	114	114	114
Net fixed assets	3,179	3,590	4,412	4,601
Tangibles	3,143	3,567	4,389	4,578
Intangibles	36	23	23	23
Capital Work In Progress	617	524	-	-
Goodwill	-	-	-	-
Non-Current Investments	83	338	353	368
Net Deferred tax assets	(86)	(38)	(38)	(38)
Other Non-Current Assets	471	737	737	737
Current Assets				
Investments	2,981	4,457	4,957	5,457
Inventories	1,453	1,324	1,536	1,760
Trade receivables	5,180	6,483	7,521	8,619
Cash & Bank Balance	2,669	3,561	5,476	7,981
Other Current Assets	698	612	712	812
Total Assets	17,548	21,886	25,965	30,596
Equity				
Equity Share Capital	95	95	95	95
Other Equity	12,569	15,164	18,241	21,820
Total Networkth	12,664	15,259	18,335	21,915
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	165	265	265	265
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	-	-	-	-
Trade payables	3,419	5,324	6,177	7,078
Other current liabilities	1,036	803	953	1,103
Total Equity & Liabilities	17,548	21,886	25,965	30,596

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY17	FY18	FY19E	FY20E
PBT	3,005	3,818	4,622	5,352
Add. Depreciation	616	617	702	810
Add. Interest	5	16	16	16
Less Financial Other Income	362	510	720	718
Add. Other	(16)	18	(42)	(46)
Op. profit before WC changes	3,610	4,469	5,297	6,132
Net Changes-WC	(565)	139	(363)	(385)
Direct tax	(884)	(1,138)	(1,294)	(1,499)
Net cash from Op. activities	2,160	3,470	3,640	4,248
Capital expenditures	(687)	(935)	(1,000)	(1,000)
Interest / Dividend Income	-	-	-	-
Others	(798)	(1,475)	(500)	(500)
Net Cash from Inv. activities	(1,485)	(2,410)	(1,500)	(1,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(133)	(152)	(209)	(228)
Interest paid	(5)	(16)	(16)	(16)
Others	-	-	-	-
Net cash from Fin. activities	(137)	(168)	(225)	(244)
Net change in cash	538	892	1,915	2,505
Free Cash Flow	1,474	2,535	2,640	3,248

Source: Company Data, PL Research

Key Financial Metrics

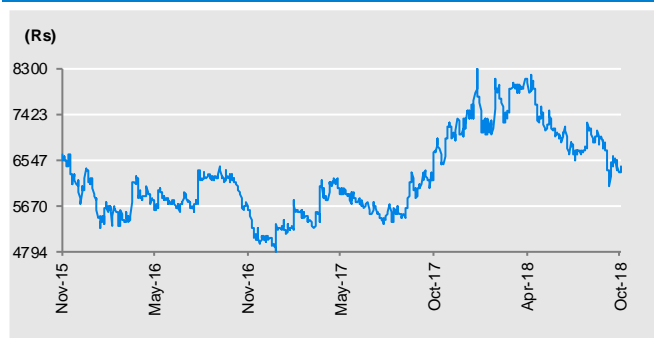
Y/e Mar	FY17	FY18	FY19E	FY20E
Per Share(Rs)				
EPS	112.5	143.8	175.4	203.2
CEPS	145.0	176.4	212.4	245.9
BVPS	667.7	804.5	966.7	1,155.4
FCF	77.7	133.7	139.2	171.3
DPS	0.4	0.4	0.6	0.6
Return Ratio(%)				
RoCE	22.7	23.8	23.3	23.1
ROIC	31.2	40.0	44.3	50.1
RoE	18.3	19.5	19.8	19.1
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.5)	(0.6)	(0.6)
Net Working Capital (Days)	57	35	35	35
Valuation(x)				
PER	59.4	46.5	38.1	32.9
P/B	10.0	8.3	6.9	5.8
P/CEPS	145.0	176.4	212.4	245.9
EV/EBITDA	37.1	30.1	25.2	20.8
EV/Sales	5.9	4.6	3.9	3.3
Dividend Yield (%)	0.0	0.0	0.0	0.0

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q3FY18	Q4FY18	Q1FY19	Q2FY19
Net Revenue	6,499	7,849	7,486	7,428
YoY gr. (%)	32.7	36.1	42.4	21.8
Raw Material Expenses	4,014	5,094	4,944	4,559
Gross Profit	2,485	2,754	2,542	2,869
Margin (%)	38.2	35.1	34.0	38.6
EBITDA	1,003	1,122	1,009	1,231
YoY gr. (%)	(2.3)	11.9	(10.0)	22.0
Margin (%)	15.4	14.3	13.5	16.6
Depreciation / Depletion	153	160	161	169
EBIT	850	961	848	1,062
Margin (%)	13.1	12.3	11.3	14.3
Net Interest	1	12	-	-
Other Income	64	200	238	257
Profit before Tax	913	1,150	1,086	1,319
Margin (%)	14.1	14.6	14.5	17.8
Total Tax	275	377	339	364
Effective tax rate (%)	30.1	32.8	31.2	27.6
Profit after Tax	638	772	748	955
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	638	772	748	955
YoY gr. (%)	20.4	55.7	37.9	23.1
Margin (%)	9.8	9.8	10.0	12.9
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	638	772	748	955
YoY gr. (%)	1.0	55.7	37.9	23.1
Margin (%)	9.8	9.8	10.0	12.9
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	638	772	748	955
Avg. Shares O/s (m)	19	19	19	-
EPS (Rs)	33.6	40.7	39.4	-

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	10-Jan-18	Accumulate	7,276	7,346
2	24-Jan-18	Accumulate	8,820	7,895
3	28-May-18	Accumulate	8,086	7,545
4	11-Jun-18	Accumulate	8,086	7,545
5	10-Jul-18	Accumulate	8,086	6,930
6	30-Jul-18	Accumulate	7,111	6,698
7	5-Oct-18	Accumulate	7,111	6,422

Analyst Coverage Universe

Sr. No.	CompanyName	Rating	TP (Rs)	Share Price (Rs)
1	Ashok Leyland	BUY	146	118
2	Atul Auto	Accumulate	397	303
3	Bajaj Auto	Reduce	2,394	2,478
4	Bharat Forge	Accumulate	696	607
5	CEAT	Accumulate	1,255	1,106
6	Eicher Motors	Accumulate	30,296	21,908
7	Exide Industries	Accumulate	282	252
8	Hero Motocorp	Accumulate	3,385	2,895
9	Mahindra & Mahindra	BUY	1,058	795
10	Maruti Suzuki	BUY	8,510	6,723
11	Motherson Sumi Systems	Accumulate	348	242
12	Tata Motors	BUY	267	179
13	TVS Motors	Accumulate	618	535
14	Wabco India	Accumulate	7,111	6,422

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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