



Wabco India Ltd.

STOCK INFO. BSE Sensex: 16,216	BLOOMBERG WIL.IN
S&P CNX: 4,908	REUTERS CODE WABC.BO

15 May 2012

Accumulate

Initiating Coverage

₹1550

	(₹ CRORES)		
Y/E MARCH	FY11A	FY12E	FY13E
Net sales	868	1,014	1,165
EBITDA	206	250	294
RPAT	127	157	184
BV/Share (₹)	204	279.4	367.9
Adj. EPS (₹)	67.2	83	97.3
EPS growth (%)	63	24	17
P/E (x)	23.1	18.7	15.9
P/BV (x)	7.6	5.5	4.2
EV/EBITDA (x)	14.1	11.4	9.3
Div yld (%)	0.3	0.4	0.5
ROE (%)	39	34	30
RoCE (%)	57	50	44

KEY FINANCIALS

Shares Outstanding (cr)	1.9
Market Cap. (₹cr)	2939
Market Cap. (US\$ m)	544
Past 3 yrs Sales Growth (%)	17%
Past 3 yrs NP Growth (%)	22%

STOCK DATA

52-W High/Low Range (₹)	1797/964
Major Shareholders (as of March 2012)	
Promoter	75.0
Institutions	12.0
Public & Others	13.0
Average Daily Turnover(6 months)	
Volume	9292
Value (₹ mn)	1.34
1/6/12 Month Rel. Performance (%)	3/19/64
1/6/12 Month Abs. Performance (%)	-2/14/51

Maximum Buy Price : ₹1650

We recommend to Accumulate Wabco India Ltd. with a price target of ₹2000- valuing the company at 11x FY13 EV/EBITDA.

- Wabco's parent is a global leader in pneumatic components
- Wabco's products are integrated in CVs of Industry leaders
- Rising value share per vehicle augurs well
- A export hub for the parent
- Strong financials in addition to growth

GROWTH DRIVERS

Wabco's parent is a global leader in pneumatic components for CVs: Wabco Holdings Inc. is a leading global supplier of electronic, mechanical and mechatronic braking, stability and transmission automation systems to world's leading commercial truck, trailer and bus manufacturers. WBC derived its sales of \$2.8 bn in 2011 globally from 18 manufacturing locations in 10 countries. Wabco India at 7% of global sales is a significant growth driver for the parent company.

Strong customers in a core segment of the economy : Wabco India supplies pneumatic components for braking and clutch actuation to OEM customers such as Tata Motors, Volvo-Eicher, Ashok Leyland, BEML, etc. OEMs are 70% of revenues with the rest from exports and servicing\spares. To meet requirements of customers operating from Uttaranchal, Wabco is putting up a plant in Northern India. Given its supplies to industry leaders, Wabco India stand to benefit from the 10-15% volume growth likely over FY11-FY14E.

Rising value per vehicle augurs well : Domestic sales of Wabco India risen from ₹17,400 per per M&HCV produced in India to ₹21,800 through (a) introduction of new products such as the clutch actuation systems and high-end compressors and (b) upgradation of clients to higher end technologies. With R&D driven new component introduction should take revenue per M&HCV to ₹24,000 in FY14.

An export hub for the parent : Wabco India's exports have risen from ₹28 cr in FY08 to ₹118 cr in FY11. The second EOU at Chennai that will cater to the needs of the parent globally and new products for North-American OEMs should double exports upto FY14.

Strong financials in addition to growth: Wabco India is nearly zero debt with net cash on its books as of Sep-11. A ROE of 30%+ and Free cash flows augur well for investors.

Valuations & View: Wabco trades at 9x FY13E EV/EBITDA multiple. We value the company at 11x EV/EBITDA multiple on FY13E EBITDA in line 3-year historical average giving us a target of ₹2000. Recommend to **Accumulate**.

CONCERNS

Slowdown in CV industry: Wabco India derives 70% of its revenues from the OEM CV manufacturers as a OEM supplier to all leading commercial vehicle manufacturers. A slowdown in the CV segment on account of high interest rates, rise in excise duty and general slowdown in the economy could impact revenues. However, Wabco derives close to 17% of its revenues from the service\spares business which deals with end-customers. This business is likely to grow at 20%+ over the next 5 years given increasing penetration. Further, the service business has higher margins and should cushion the company from any slowdown in the CV industry.

Low dividend payout : Dividend payout has dropped from 35% in FY08 to 9% in FY11. While this can be partly explained by the need to conserve cash during and post the Lehman crisis times, a higher dividend outgo would have been warranted in FY11 where profits have risen 82% from FY08. A higher payout is essential for higher valuations.

Delisting possibly factored in: MNC stocks with management holding close to or above 75% have been rerated continuously over the past years. The rerating in some cases such as in Wabco has also been warranted by performance. This will continue to remain a trigger to watch for investors, on both the positive as well as negative sides.

BACKGROUND

Wabco India was a Joint venture between the TVS group and Wabco Holding Inc until Wabco took complete management control in early 2009. Wabco India supplies valves and other control equipment for braking and clutch actuation purposes to Indian commercial vehicle manufacturers including Tata Motors, Ashok Leyland, Eicher-Volvo, SML Isuzu, etc. The company has more than 250 customer service centres across India and exports its output to its \$2.8bn turnover parent company.

FINANCIALS AND RECENT RESULTS

Revenues, EBITDA and net income in the quarter-ended Dec 2011 grew 17%, 16% and 17% respectively y/y. Revenue share per vehicle continues to rise while margins have taken a hit on higher input costs and a rising rupee on account of imports which accounted for 15% of its raw material requirements.

Quarterly Performance

₹ CRORES	QE DEC-10	QE SEP-11	QE DEC-11	% Y/Y	% Q/Q
Revenue	212.1	255.3	248.1	17%	-3%
Expenditure	169.1	202.5	198.4	17%	-2%
EBITDA (excl. Other income)	43.0	52.8	49.7	16%	-6%
Other Income	8.0	10.0	9.0	19%	-11%
Interest	0.0	0.0	0.1		
Depreciation	3.5	3.8	3.8	9%	1%
Profit before tax	47.2	59.3	55.0	17%	-7%
Tax	3.5	3.8	3.8	9%	1%
RPAT	43.7	55.5	51.2	17%	-8%
EBIDTA (%)	20.3	20.7	20.0		
Tax rate (%)	7.5	6.4	7.0		

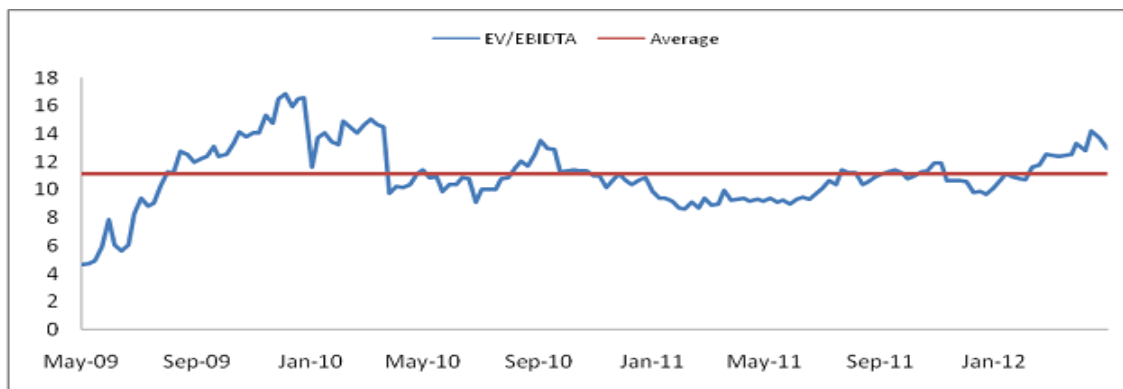
Wabco India Ltd. - Financials & Valuation

INCOME STATEMENT (Consolidated)						(₹CRORE)
Y/E MARCH	2009A	2010A	2011A	2012E	2013E	
Net Sales	426	591	868	1014	1165	
growth (%)	-20	39	47	17	15	
Other Income	20	18	31	40	45	
Total Income	446	610	899	1054	1210	
Staff Costs	49	54	71	79	87	
Raw material cost	246	330	495	579	661	
Other Expenses	77	90	127	147	168	
Total Expenditure	372	474	693	804	916	
EBITDA	74	136	206	250	294	
% of Net Sales	17.3	23.0	23.7	24.7	25.2	
Depreciation/Amortization	14	14	14	15	18	
Finance Charges	7	3	0	0	0	
PBT	53	118	191	235	275	
Tax	17	40	64	78	91	
PAT	36	78	127	157	184	
growth (%)	-49	120	63	24	17	
PAT MARGIN (%)	8.0	12.8	14.2	14.9	15.2	

BALANCE SHEET (Consolidated)						(₹CRORE)
Y/E MARCH	2009A	2010A	2011A	2012E	2013E	
Equity Share Capital	9	9	9	9	9	
Reserves	188	261	377	520	688	
Shareholders' Funds	198	270	387	530	698	
Debt	60	7	1	0	0	
Net deferred tax	4	3	8	14	21	
Source of Funds	262	281	395	544	719	
Gross Block	263	265	279	339	379	
Less : Accum. Depreciation	72	85	98	114	132	
Net Block	191	180	180	225	247	
Capital WIP	4	7	10	10	10	
Investments	9	2	12	42	92	
Current Assets	129	200	306	421	546	
Inventories	46	46	80	125	144	
Sundry Debtors	70	131	171	189	217	
Cash and Bank Balances	1	2	13	57	128	
Loans and Advances	11	20	42	49	57	
Current Liabilities & Provisions	71	108	113	154	176	
Net current assets	58	92	193	266	370	
Application of Funds	262	281	395	544	719	

RATIOS					
Y/E MARCH	2009A	2010A	2011A	2012E	2013E
Adjusted EPS	18.7	41.2	67.2	83.0	97.3
Growth (%)	-49	120	63	24	17
Cash EPS	26.1	48.9	74.8	91.0	107.0
Book Value	104.3	142.6	204.0	279.4	367.9
DPS	2.5	2.5	5.0	6.5	7.5
Payout (Incl. Div. Tax)(%)	16	7	9	9	9
Valuation (x)					
P/E	82.7	37.6	23.1	18.7	15.9
Cash P/E	59.4	31.7	20.7	17.0	14.5
Price/Book Value	14.9	10.9	7.6	5.5	4.2
EV/EBITDA	40.6	21.7	14.1	11.4	9.3
EV/Sales	7.0	5.0	3.4	2.8	2.3
Div. Yld	0.2	0.2	0.3	0.4	0.5
Return Ratios (%)					
RoE	19%	33%	39%	34%	30%
RoCE	26%	45%	57%	50%	44%
Leverage (x)					
Debt/Equity (x)	0.3	0.0	0.0	0.0	0.0

CASH FLOW STATEMENT (Consolidated)						(₹CRORE)
Y/E MARCH	2009A	2010A	2011A	2012E	2013E	
PBT before EO items	53	118	191	235	275	
Add : Depreciation	14	14	14	15	18	
Interest	7	3	0	0	0	
(Inc)/Dec in WC	-60	-33	-91	-29	-33	
Others	-11	-49	-66	-72	-84	
CF from Operating activities	3	53	49	150	177	
(Inc)/Dec in Fixed assets	-35	-10	-18	-60	-40	
Others	0	11	-8	-30	-50	
CF from Investing activities	-35	1	-26	-90	-90	
Inc/(Dec) in equity	0	0	0	0	0	
Inc/(Dec) in debt	25	-25	0	0	0	
Dividend paid	-19	0	-6	-11	-14	
Less: Interest paid	0	0	0	0	0	
Others	15	-28	-7	-4	-2	
CF from financing activities	21	-53	-12	-15	-16	
Inc/(Dec) in cash	-10	1	10	44	71	
Add: Beginning balance	12	1	2	13	57	
Closing Balance	1	2	13	57	128	

Wabco India Ltd. Valuation Chart (Historical EV/EBITDA)

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1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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