

WABCO-TVS (INDIA) LTD.

Analyst Recommendation: Buy

Buy

Accrue

Hold

Ease

Sell

BSE Code: 533023

NSE Code:

WABCO-TVS

Reuters Code:

WABC.NS

Bloomberg Code:

WTVS:IN

CMP: ₹1,210.5
6 months target: ₹1,405
SL: ₹1,150

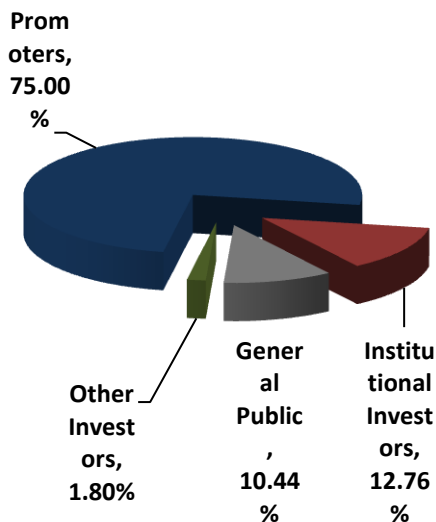
Investment Rationale

EPS (₹) 67.2
 P/E (x) 18.0
 Revenue (₹mn) 8,677.9
 Operating Profit (₹mn) 2,059.6
 Operating Margin (%) 22.9
 EV/Operating Income (x) 2.6

Market Cap (₹mn) 22,951.1
 Free Float Mar Cap (₹mn) 5,737.8
 52 week high/low 1316/823
 Total Debt (₹mn) 5.7
 Enterprise Value (₹mn) 22,828.2
 Book Value per Share (₹) 204.0
 P/BV (x) 5.9

- During FY11, the net profits of Wabco-TVS (India) Ltd (WTVS) stood at ₹1,274 million, registering an impressive growth of 63% from ₹782 million in the prior year, led by significant 47% growth in the net sales at ₹8,678 million from ₹5,913 million in FY10.
- To bank on the increasing demand for auto components, the company has earmarked a capital expenditure of ₹600 million for FY12. This will not only help the company to augment the total productive capacity but will also make significant addition to its revenue basket.
- The exports sales of WTVS has outpaced the industry by registering a CAGR growth of 61% in the past three years. The company is optimistic of enhancing its exports sales further with proposed two new lines of products to cater the growing requirement in the North American market.
- Leveraging on the parent company, WABCO's powerful technology portfolio and experience in Europe and other markets, the company is planning to come up with a series of new products for the domestic as well as international markets.
- Despite concerns over increasing raw material prices of steel, aluminium and rubber, WTVS is expected to sustain its growth momentum with strong EBITDA margin of 23.2% in FY12E, supported by increased contribution from the software export and R&D business.
- WTVS has significantly reduced its debt burden from ₹552.04 million in FY09 to ₹5.69 million in FY11. The low debt position coupled with expected strong operational performance is likely to help the company to grow its net profit at a CAGR of 33% to ₹2,242.8 million in FY13.

Shareholding pattern as on March 31, 2011



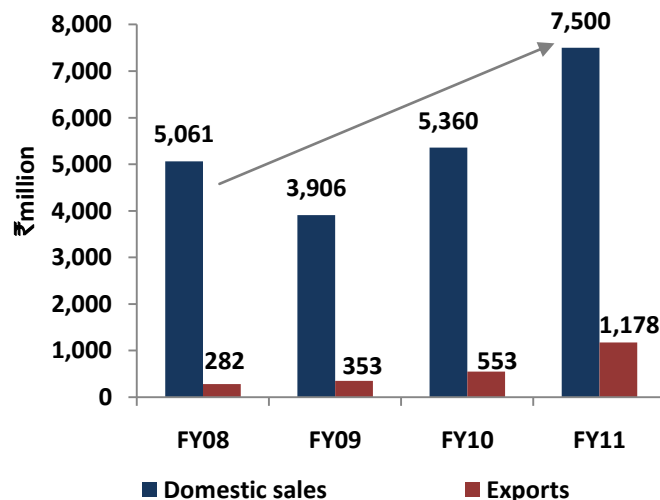
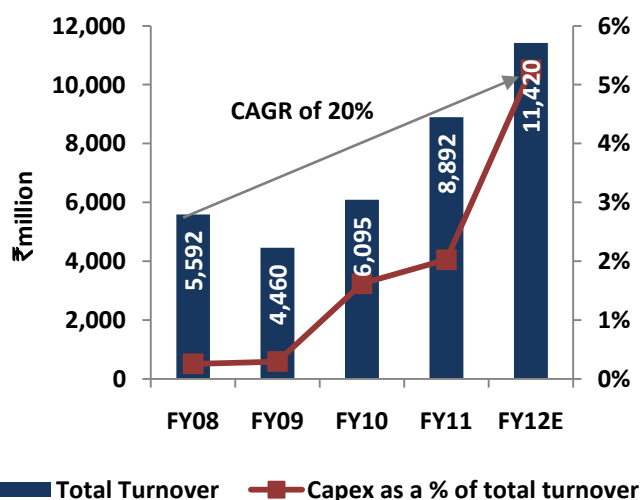
₹Million	FY10A	FY11A	FY12E	FY13E
Operating Income	5,912.6	8,677.9	11,021.0	14,106.8
Operating Profit	1,357.4	2,059.6	2,615.7	3,401.4
Net Profit	781.9	1,274.3	1,723.0	2,242.8
Share Capital	94.8	94.8	94.8	94.8
EPS (₹)	41.2	67.2	90.9	118.3
PE (x)	29.4	18.0	13.3	10.2
P/BV (x)	8.5	5.9	4.2	3.0
EV/Operating Income(x)	3.9	2.6	2.1	1.6
ROE (%)	28.9	33.0	31.4	29.3
ROA %	28.9	32.3	30.9	29.0

WTVS achieved all time high turnover in FY11 backed by growing demand from the overall CV industry

During FY11, the net profits of WTVS stood at ₹1,274 million, registering an impressive growth of 63% from ₹782 million in the prior year, led by significant 47% growth in the net sales at ₹8,678 million from ₹5,913 million in FY10. In addition to this, a 72% growth in other income at ₹314 million helped the company to record its all time high total turnover of ₹8,992 million. Growing demand from medium and heavy commercial vehicles (MHCV) and light commercial vehicles (LCV) sector due to improved economic growth coupled with increased sales from aftermarket and exports have helped the company to outperform a 30% growth in the overall commercial vehicle (CV) industry. Though operating expenses increased 46% to ₹6,933 million from ₹4,738 million, EBITDA improved 52% to ₹2,060 million, resulting in an EBITDA margin of 23%. After deducting a taxation charge of ₹639 million, profit before tax also recorded all time high at ₹1,914 million as against ₹1,183 million in the previous year, representing an increase of 62%. Finally, net profit margins came in at 14% due to a lower interest expenses.

Increasing Capital Infusion has fuelled up turnover growth

Export revenue grew more than two fold in FY11



New manufacturing facilities to augment productive capacity

New Product line to drive export revenues higher

WTVS has three manufacturing facilities in India, two in Chennai, Tamil Nadu, and one in Jamshedpur, Jharkhand. The company's first Chennai facility was set up in 2005 while its Jamshedpur unit was established in 2007, to supply various braking aggregate parts to Tata Motors. The other Chennai based manufacturing unit of WTVS is located in Mahindra World City and caters to the need of WABCO plants globally.

Over the past 3 years, the exports of the Indian auto component industry has registered a healthy growth of 9% (CAGR) and are expected to grow over six-fold to US\$ 22.8 billion by 2020.

The company is optimistic of achieving multi-fold business growth in its Mahindra World City unit and hence is working on its phase 2 expansions. To bank on the increasing demand for auto components, the company has earmarked a capital expenditure of ₹600 million for FY12, part of which will be used to set up a manufacturing facility near Lucknow, Uttar Pradesh in FY13. The ongoing expansion plan of WTVS will not only augment the total productive capacity of the company but will also add to its revenue generation.

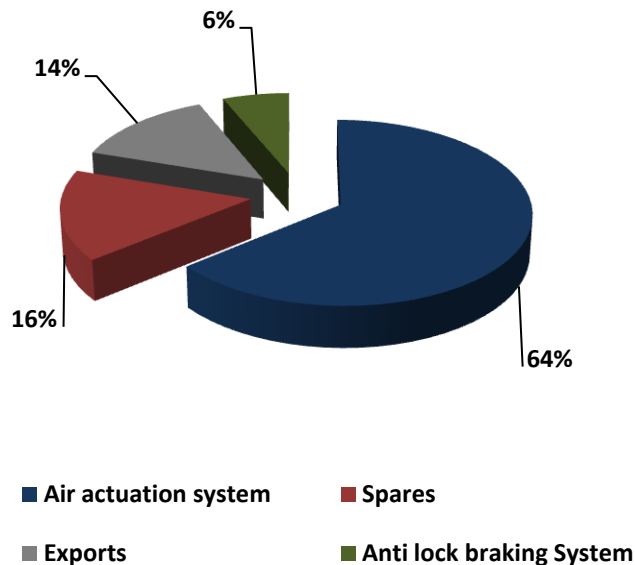
The exports sales of WTVS has outpaced the industry growth by registering a CAGR growth of 61% in the past three years. With its strategy to work on the design and development of Hydraulic Brake Booster and Park Brake Module followed by series production of valve devices for North American Original Equipment Manufacturers (OEM), the company is optimistic of enhancing its exports sales further. Beside, almost 90% of WTVS' exports are outsourced to its parent company WABCO. With the completion of the phase 2 expansions at Mahindra World City unit, the company will be well placed to cater the growing requirement in the overseas markets.

WTVS to diversify product portfolio with series of new products

WTVS is a leading manufacturer of air brakes actuation systems for the Medium & Heavy Vehicles segment and derives ~64% of its revenue from the sale of Air Actuation systems. Meanwhile, spares, exports and anti-lock braking system are other components of its revenue basket, contributing 16%, 14% and 6% of revenue respectively.

The company, leveraging on the parent company, WABCO's powerful technology portfolio and experience in Europe and other markets, is planning to come up with a series of new products for the domestic as well as international markets. In the proposed line of new product, the company intends to develop and launch lift axle control system as well as value engineered foot brake valve with integrated switch for Indian customers. Meanwhile, it will come up with design and development of hydraulic brake booster, park brake module and series production of valve devices for North American OEMs. This move of WTVS will not only diversify its product portfolio but will also add the benefits of an additional high profile clientele, powering its ability to earn high revenues future.

Product-wise revenue contribution in FY11

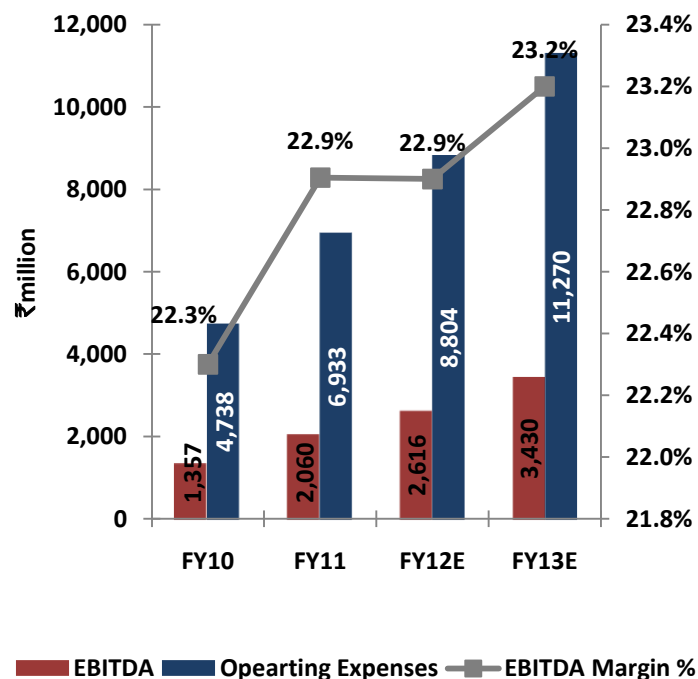


Increased contribution across the segment to overshadow rising raw material cost

During 2010, the total operating expenses of WTVS, which is an aggregate of raw material expenses, personnel expenses and other expenses increased 46% to ₹6,933 million from ₹4,738 million on y-o-y basis. The prices of basic raw materials of the company like Steel sheets, bar materials & tubes witnessed a sharp rise of 439% in FY11 from ₹2 million in FY10 to ₹11 million as natural calamities like floods and strong demand worldwide resulted in heavy supply constraints. Meanwhile expenses for Castings and forgings activities during the period rose 92% to ₹1,316 million on y-o-y basis.

The basic raw material index for the automobile value chain has touched a 6-year peak in the fourth quarter of FY11. Going forward, the prices of key raw materials are likely to remain at current level and will keep the basic raw material price index higher by 7-8% across the automobile value chain in FY12. Hence, the operating expenses of WTVS are likely to stay elevated in FY12, which in turn might pressurise the operating margins. However, being a preferred vendor for OEMs and having a dominant position in the market, the company is expected to affect price hike from its customers from time to time. Recovery in CV volume and increased contribution from the software export and R&D business are expected to overshadow raw material concern further.

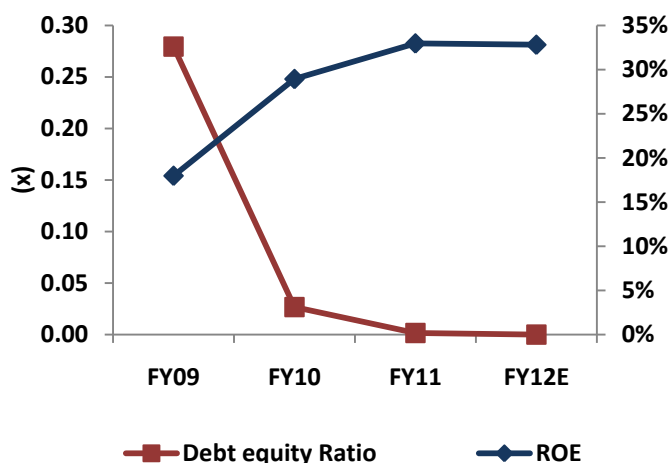
Operating margins likely to stay elevated despite rise in input cost



Growth Opportunities for FY12 and beyond

- In India, the Government has mandated the fitment of ABS for commercial vehicles carrying hazardous goods, tractor-trailers and buses with national permit and hilly terrains. The obligation is expected to be levied across all commercial vehicles including school buses and long distance buses in the next few years, which if materialised will serve as a revolutionary trigger for the WTVS.
- Growing innovation in the automotive sector has resulted in introduction of new systems and technologies like Automated Manual Transmission (AMT) and Electronically Controlled Air Suspension (ECAS) Clutch actuation systems etc., which provides huge business opportunities for auto-component major's through increase in content per vehicle.
- In the aftermarket side, the company has 162 authorized service centres at strategic locations across the country, to provide quicker and better service on air brake aggregates. Further, to penetrate into the rural areas, the company also commissioned 145 certified workshops. These initiatives are expected to go a long way in generating additional revenue for the company.
- Being the part of WABCO Inc, WTVS is also likely to reap the benefits of its parent company's powerful technology portfolio and experience in Europe and other markets. Besides, WABCO Inc's increasing outsourcing from India provides further scope for the company to manufacture advanced products for its overseas markets.

Strong Return Ratios



Debt free status to fuel up return in FY12

WTVS has significantly reduced its debt burden from ₹552.04 million in FY09 to ₹5.69 million in FY11. The low debt position of the company coupled with strong operational performance has helped the company to cut its interest expenses by ~98% in the past two years and thereby witnessed sharp come back in profitability. The debt equity ratio of the company has reduced from 0.279x in FY09 to 0.001x in FY11. As a result, the ROE of WTVS has grown two-fold from 18% in FY09 to 33% in FY11. Going forward, the ROE of WTVs is expected to sustain at a level of 30%, powered by recovery in supply to CV industry and increased contribution from the software export and R&D business.

Business Overview

WABCO- TVS (INDIA) Limited was incorporated originally as Auto (India) Engineering Limited on 18th November 2004. The Company is primarily engaged in the manufacture of air compressors, actuation systems, control valves, anti-lock brake systems and electronic brake systems for the CV industry. At present, the company has three manufacturing unit in the country, two in Chennai, Tamil Nadu, and one in Jamshedpur, Jharkhand. WTVS is a leader in the air brakes actuation systems for the Medium & Heavy Vehicles segment commanding close to 85% market in the OEM segment and 75% in the replacement market.

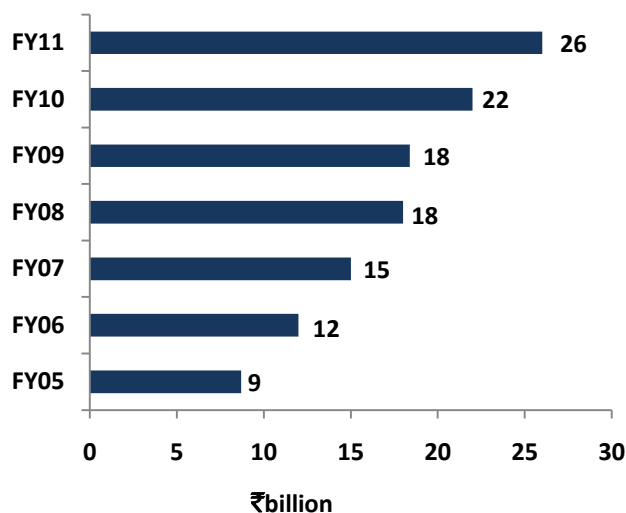
Improved product portfolio to leverage sluggish growth in domestic auto market

After reporting sluggish CV sales of 14.1% during first quarter of FY12, the Society of Indian Automobile Manufacturers (SIAM) has lowered its sales forecast for the segment from 14-16% to 12-14% in FY12, on interest rates and fuel prices hike concern. WTVS being a dominant supplier of airbrakes in the Medium & Heavy Vehicles segment might feel the heat of sluggish demand from its key user segment. However, increasing focus of the company in enhancing its export portfolio worldwide as well as aftermarket services can go a long way in leveraging the concern for a stagnant domestic sales growth.

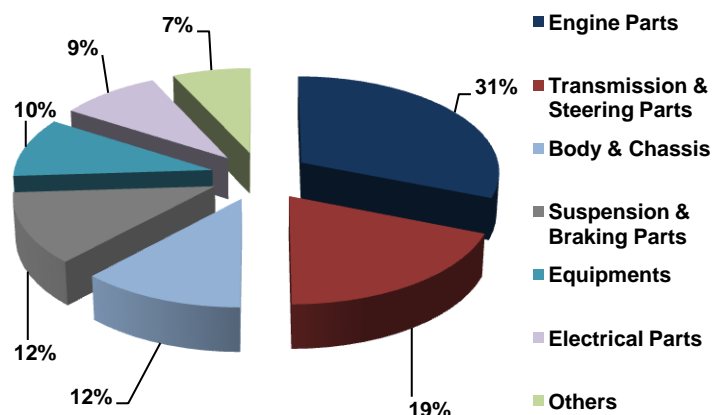
The Indian Auto Component Industry

The Indian Auto Component Industry has grown at a CAGR of 24% over the past seven years with a sales value of \$30 billion in FY11. The components industry has reported a 25% growth last financial year, riding on the record 30% growth in the automobile industry. The industry is likely to grow to over US\$ 110 billion by 2020 driven in tandem with the surge in vehicle production in the country. Out of the estimated turnover, domestic sector is expected to contribute about US\$ 80 billion while exports will stand at US\$ 29 billion. The targeted growth in the sector demands total investment of US\$ 35 billion. Investment in the sector has registered a CAGR growth of 18% in the past seven years. Indian auto component industry is emerging as a global manufacturing hub for auto component manufacture. Over the years, the industry has transformed into low cost sourcing to high value-added production driven by expansion plans of all major OEMs, new entrants across all segments, invasion of multinational players into India apart from surging demand on the export front. Meanwhile, the industry is confronting a series of challenges that includes raw material cost pressure and sluggish growth in the automobile industry as well as concerns over the withdrawal of Duty Exemption Passbook Scheme.

Turnover of the Auto Component Industry in past 5 years



Auto Component Industry- Product Range (FY10)



Sluggish domestic demand to fuel up export sales

Exports from the auto component industry are estimated to be worth US\$ 5 billion in 2010-11. Europe is likely to account for 36.9% of India's auto components exports in 2010-11, followed by Asia with 28.1% and North America with 24%. The industry has witnessed a shift in the composition of exports over the years. Investments in the auto component industry are estimated at US\$ 12 billion in 2010-11.

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Outlook

India is well on its way to be among the top five vehicle producing countries in the world by 2020. The auto component industry is expected to grow almost four fold to over US\$ 110 billion from its current level of US\$ 26 billion. SIAM has lowered its auto sales growth forecast for the sector in the current financial year to 11-13%, from the earlier projection of 12-15%. And considering the auto component industry's dependency on the automotive industry, the former too is expected to witness similar growth rate in the coming fiscals. Beside, with the Indian economy poised to grow at a rate of 9-10% in the coming fiscals, the manufacturing base of India is likely to strengthen, which is likely to fuel huge demand for various auto components.

Balance Sheet

(₹ million)	FY10A	FY11A	FY12E	FY13E
Share Capital	94.8	94.8	94.8	94.8
Reserve and surplus	2,608.4	3,772.4	5400.6	7548.6
Net Worth	2,703.2	3,867.2	5,495.4	7643.4
Loan funds	71.9	5.7	0.0	0.0
Deferred Tax Liability	32.5	81.5	81.5	81.5
Capital Employed	2,807.6	3,954.5	5,577.0	7724.9
Gross fixed assets	2647.9	2788.8	3039.7	3313.3
Less: accumulated depreciation	846.3	984.8	1139.1	1336.6
Net Fixed assets	1801.6	1803.9	1900.6	1976.7
Capital Work in Progress	66.1	99.2	104.1	109.3
Total of Fixed Assets	1867.7	1903.1	2004.7	2086.0
Investments	22.0	122.0	122.0	122.0
Net Current Assets	917.8	1929.4	3450.2	5516.9
Capital Deployed	2,807.6	3,954.5	5,577.0	7725.0

Profit & Loss Account

(₹million)	FY10A	FY11A	FY12E	FY13E
Operating Income	5,912.6	8,677.9	11,021.0	14,106.8
Other Income	182.8	314.3	399.2	564.3
Total Income	6,095.3	8,992.2	11,420.1	14,671.1
Operating Expenses	4,738.0	6,932.6	8,804.4	11,269.7
EBITDA	1,357.4	2,059.6	2,615.7	3,401.4
EBITDA Margin (%)	22.3	22.9	22.9	23.2
Depreciation	144.4	144.2	154.3	197.5
EBIT	1,212.9	1,915.4	2,461.4	3,203.9
EBIT Margin (%)	19.9	21.3	21.6	21.8
Interest	29.6	1.7	0.0	0.0
PBT	1,183.3	1,913.7	2,461.4	3,203.9
Tax	401.4	639.4	738.4	961.2
Net Profit	781.9	1,274.3	1,723.0	2,242.8
Net Profit Margin (%)	12.8	14.2	15.1	15.3

Key Ratios & Valuations

	FY10A	FY11A	FY12E	FY13E
EBITDA Margin (%)	22.3	22.9	22.9	23.2
EBIT Margin (%)	19.9	21.3	21.6	21.8
NPM (%)	12.8	14.2	15.1	15.3
ROCE (%)	43.2	48.4	44.1	41.5
ROE (%)	28.9	33.0	31.4	29.3
ROA (%)	28.9	32.3	30.9	29.0
EPS (₹)	41.2	67.2	90.9	118.3
Cash EPS (₹)	50.4	74.9	99.0	128.7
P/E (x)	29.4	18.0	13.3	10.2
BVPS (₹)	142.5	204.0	289.8	403.1
P/BVPS (x)	8.5	5.9	4.2	3.0
EV/Operating Income (x)	3.8	2.5	2.0	1.6
EV/EBITDA (x)	16.4	10.7	8.4	6.5
EV/EBIT (x)	18.3	11.5	8.9	6.9

Valuation

WTVS has a long term strategy to capitalize on the prevailing strong and steady economic growth of India. The company's strategy to introduce a series of new products to cater to the domestic as well as international market stands in testimony to its consistent efforts to develop innovative products to improve competitive edge in the market. The company is also likely to strengthen its position in the overseas markets, leveraging powerful technology portfolio and experience in Europe and other markets. Considering the above aspects, we rate the stock as 'BUY' at the current market price of ₹1210.5. At the current market price, the stock is trading at PE of 18x on FY11 EPS of ₹67.2 and 13.3x on FY12E EPS of ₹90.9.



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