

March 26, 2025

Driving Growth with regulatory tailwinds...

About the stock: ZF Commercial Vehicle Control Systems India (ZFCV) (erstwhile Wabco India), now part of the ZF Group, is the market leader in CV braking space and a technology-focused complete solutions provider.

- FY24 sales channel mix – OEM ~49%, Aftermarket ~12%, exports ~39%
- FY24 Product mix: Sale of products ~89%, Services ~11%

Q3FY25 Results: On standalone basis, revenues for the quarter came in at ₹956 crore, up 8% YoY. EBITDA in Q3FY25 stood at ₹175 crore with EBITDA margins at 18.3% (up 290 bps QoQ). PAT in Q3FY25 came in at ₹125 crore (up 25% YoY).

Investment Rationale

- Regulatory tailwinds to accelerate ADAS adoption, boost for ZFCV:** ZFCV has demonstrated strong leadership in supplying braking solutions to the domestic M&HCV space with regulatory safety led persistent content per vehicle increase. The company has also in the past showcased its capability in providing ADAS solutions to domestic OEMs with partial adoption of the same by some players. Now, as we understand govt. wants to further upgrade commercial vehicles and hence proposes that all new passenger vehicles designed to carry more than eight individuals, as well as buses and trucks, will be required to be fitted with Advanced Emergency Braking Systems (AEBS), Driver Drowsiness and Attention Warning Systems (DDAWS), and Lane Departure Warning Systems (LDWS). These advanced driver assistance systems (ADAS) are intended to minimize accidents by automatically engaging the brakes in the event of a potential collision, alerting drivers to drowsiness or unintentional lane changes, and improving overall driver awareness. They propose to implement the same starting April 2026. We see this as a big positive for ZF CV as it can potentially double its existing content per vehicle from US\$ 600 to over US\$ 1,000 in times to come. The company's current ADAS offerings, directly address these mandates, providing a competitive edge.
- Global focus to support export growth in near to medium term:** Exports is a significant growth driver for ZFCV contributing ~40% of 9MFY25 sales. The company is a reliable global supplier of advanced automotive components with strategic focus on high-value product lines, particularly air compressors and actuators, catering to the sophisticated demand of European OEMs. With ZF group intent to substantially increase sourcing from India and ZFCV recently commissioning a new plant down South, export growth is seen robust going forward (healthy double digit CAGR).

Rating and Target Price

- ZFCV has maintained its leadership position in domestic M&HCV space, supported by its wide product portfolio, deep OEM relationships, and increasing aftermarket penetration. With long run way of content increase and healthy cash positive B/S, we have a positive view on the company and assign a BUY rating valuing ZFCV at ₹ 16,300 i.e. 50x PE on FY27E



Commercial Vehicle Solutions

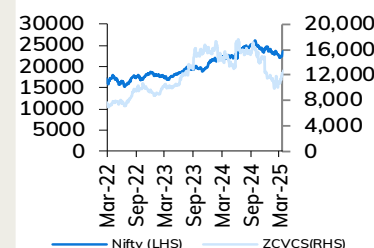
Particulars

| Particular | Amount |
|-----------------------|----------------|
| Market Capitalization | ₹ 23994 |
| Total Debt (FY24) | ₹ 0 |
| Cash & Inv. (FY24) | ₹ 1315 |
| EV | ₹ 22679 |
| 52 week H/L (₹) | 18,250 / 9,561 |
| Equity capital | ₹ 9.5 |
| Face value | ₹ 5 |

Shareholding pattern

| | Mar-24 | Jun-24 | Sep-24 | Dec-24 |
|----------|--------|--------|--------|--------|
| Promoter | 75.0 | 67.5 | 67.5 | 63.2 |
| FII | 2.2 | 3.7 | 4.1 | 5.1 |
| DII | 15.8 | 21.2 | 21.0 | 23.9 |
| Other | 7.0 | 7.6 | 7.4 | 7.9 |

Price Chart



Recent event & key risks

- Reported highest ever EBITDA margins at 18.3%.
- Key Risk: (i) Slower than anticipated content per vehicle increase (regulatory, technology led), (ii) volatile commodity prices impacting margins

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Key Financial Summary

| Key Financials | FY20 | FY21 | FY22 | FY23 | FY24 | 5 year CAGR (FY19-24) | FY25E | FY26E | FY27E | 3 year CAGR (FY24-27E) |
|--------------------|---------|---------|---------|---------|---------|-----------------------|---------|---------|---------|------------------------|
| Net Sales | 1,929.6 | 1,863.5 | 2,543.3 | 3,444.6 | 3,783.7 | 5.8% | 3,838.5 | 4,238.3 | 4,866.1 | 8.7% |
| EBITDA | 251.5 | 205.8 | 252.6 | 470.3 | 563.0 | 6.6% | 639.7 | 720.5 | 851.6 | 14.8% |
| EBITDA Margins (%) | 13.0 | 11.0 | 9.9 | 13.7 | 14.9 | | 16.7 | 17.0 | 17.5 | |
| Net Profit | 158.8 | 103.8 | 142.1 | 317.7 | 404.7 | 7.5% | 460.4 | 518.6 | 618.7 | 15.2% |
| EPS (₹) | 83.7 | 54.7 | 74.9 | 167.5 | 213.3 | | 242.7 | 273.4 | 326.2 | |
| P/E | 151.1 | 231.2 | 168.9 | 75.5 | 59.3 | | 52.1 | 46.3 | 38.8 | |
| RoCE (%) | 8.5 | 5.8 | 7.6 | 14.8 | 15.9 | | 15.8 | 15.6 | 16.4 | |
| RoIC (%) | 18.6 | 13.6 | 15.6 | 32.5 | 31.2 | | 33.4 | 35.5 | 39.6 | |

Q3FY25 Earnings Conference Call Highlights

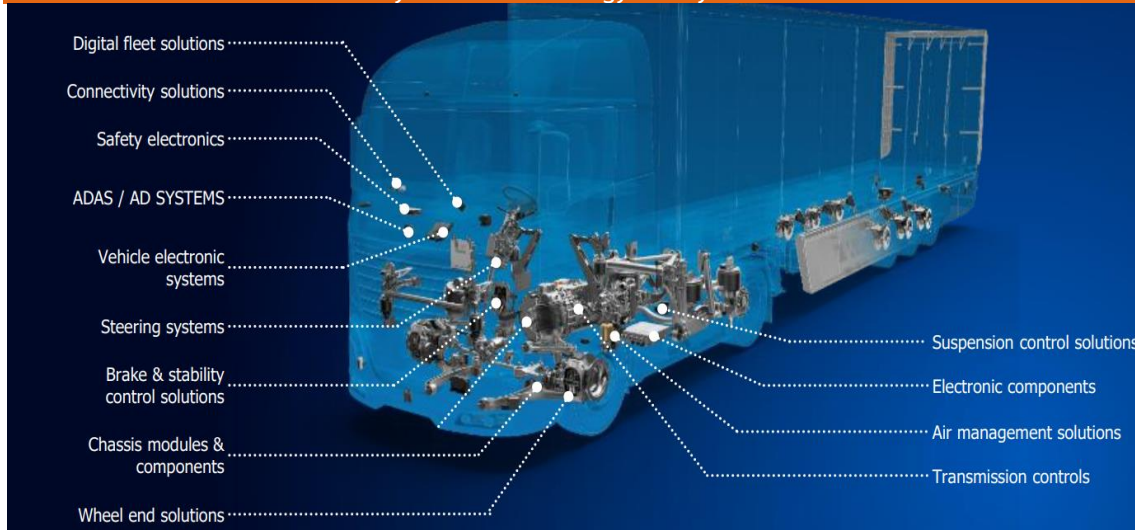
- Industry Overview:** The commercial vehicle (CV) industry saw sequential growth, driven by construction and mining activity, yet experienced a 9.5% YoY decline due to economic slowdown and delayed government capital expenditure. The commercial vehicle production (CV>6T) decreased from 105,025 in Q3 FY24 to 95,082 vehicles in Q3 FY25.
- Financial Performance:** Product sales grew 4.4% YoY to ₹832 crore, driven by strong aftermarket and export sales. For Q3FY25 the revenue mix was OEM – 49%, after-market – 16% & export -35%
- OEM Sales:** OEM sales declined 15.3% YoY to ₹409 crore due to lower CV production and an unfavourable product mix shift towards buses and ICV segments, resulting in lower content per vehicle. To offset this impact ZF introduced key product initiatives like - Electronically controlled air suspension for coaches and electric buses, Expansion of OptiDrive AMT across more vehicle platforms, and 5% increase in trailer ABS adoption, driven by safety regulations.
- Aftermarket Business:** Aftermarket revenue rose by 20.6% YoY to ₹132.4 crore, driven by: Retrofitting hydraulic ABS for LCVs targeting exports, Increased penetration of door control systems, and collaboration with petroleum firms to implement new safety specifications aimed at preventing rollover accidents. The initiative will begin with a pilot program in four states, where its effectiveness in reducing accidents will be assessed. However, sales to State Transport Undertakings (STUs) remained stagnant due to the replacement of aging buses with new vehicles, slower-than-expected adoption of electric vehicles (EVs), and state government policies that have affected payment collections.
- Exports:** Product exports grew to ₹290.6 crore, aided by expansion into air compressors and actuators with leading European OEMs. New business wins and capacity expansions for high-end twin-cylinder compressors (content value of EUR200) and actuators should drive further growth. The company has 4 product lines – compressor, actuators & brake chambers, electronic control system, and valves & component supply. ¼ of overall exports comes from compressor with a total of 3 customers. Service exports increased 18.5% YoY to ₹104.5 crore due to rising demand for engineering support.
- Digital Business:** Revenue grew by ~40% YoY to ₹9.5 crore, driven by Advanced Driver Assistance Systems (ADAS) and fleet connectivity solutions. Subscription-based revenue rose 17% YoY, with increasing adoption from fleet operators.
- Strategic Initiatives & Future Outlook:** Diversified portfolio expansion with new products in safety, digital, and electrification, including electric compressors. It also has a strong export momentum wherein high-end compressors and brake actuators are gaining traction with Daimler, Volvo, and DAF. Also, Government's infrastructure push and EV bus tenders expected to drive OEM recovery in coming quarters.
- Oragadam Subsidiary Performance & EV Business:** ZF produces 3 or 4 products here which includes electric compressor. Revenue from Oragadam plant remained flat but is expected to grow as EV production picks up. Another important thing they manufacture is cartridges. They started as the aftermarket supplies to India about 5,000 units a month but now, they have launched it for OEMs where demand is 10,000 units/ month

Manufacturing & Operations: New twin-cylinder compressors launched for European OEMs from the Mahindra City plant. Oragadam plant expanded actuator and automatic slack adjuster production. Optimization efforts included shifting actuator, brake chamber, and exhaust brake production from Ambattur to Jamshedpur, Lucknow, and Pantnagar for better customer proximity.

Forex Impact & Cost Optimization: The company faced forex headwinds, with a ₹9.3 crore FX loss in Q3 FY25 compared to a ₹15 crore gain in the same quarter last year. Cost savings came from lower warranty claims (₹6 crore provision release), better procurement strategies, and improved factory productivity.

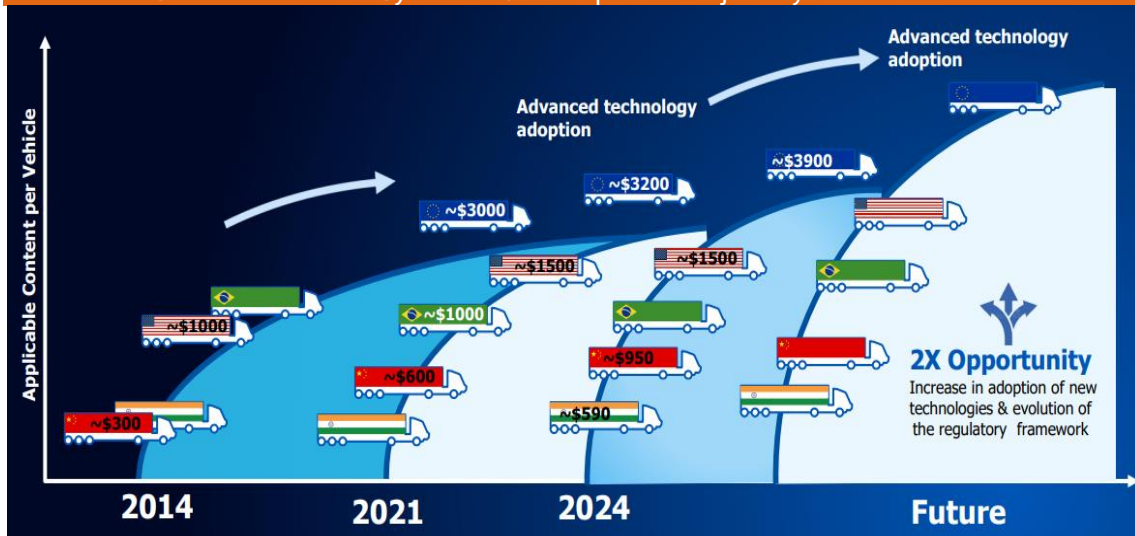
Key Tables and Charts

Exhibit 1: ZF Commercial Vehicle Systems – Technology and system solutions



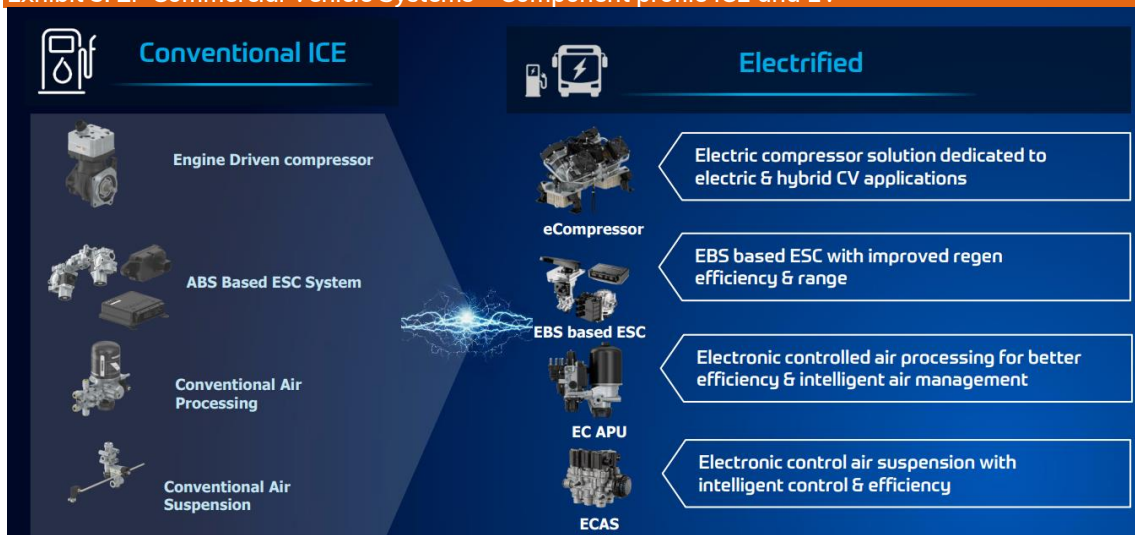
Source: Company, ICICI Direct Research

Exhibit 2: ZF Commercial Vehicle Systems – Content per vehicle journey



Source: Company, ICICI Direct Research

Exhibit 3: ZF Commercial Vehicle Systems – Component profile ICE and EV



Source: Company, ICICI Direct Research

Financial Summary

| Exhibit 4: Profit and loss statement | | | | |
|--------------------------------------|---------|-------|-------|-------|
| | ₹ crore | | | |
| (Year-end March) | FY24 | FY25E | FY26E | FY27E |
| Total operating Income | 3,784 | 3,839 | 4,238 | 4,866 |
| Growth (%) | 9.8 | 1.4 | 10.4 | 14.8 |
| Raw Material Expenses | 2,321 | 2,218 | 2,437 | 2,798 |
| Employee Expenses | 464 | 555 | 615 | 681 |
| Other Expenses | 436 | 426 | 466 | 535 |
| Total Operating Expenditure | 3,221 | 3,199 | 3,518 | 4,015 |
| EBITDA | 563 | 640 | 721 | 852 |
| Growth (%) | 19.7 | 13.6 | 12.6 | 18.2 |
| Depreciation | 109 | 123 | 136 | 146 |
| Interest | 5 | 6 | 5 | 4 |
| Other Income | 96 | 98 | 113 | 126 |
| PBT | 544 | 609 | 693 | 827 |
| Exceptional items | - | - | - | - |
| Total Tax | 140 | 149 | 175 | 208 |
| PAT | 405 | 460 | 519 | 619 |
| Growth (%) | 27.4 | 13.8 | 12.7 | 19.3 |
| EPS (₹) | 213 | 243 | 273 | 326 |

Source: Company, ICICI Direct Research

| Exhibit 5: Cash flow statement | | | | |
|--------------------------------|---------|-------|-------|-------|
| | ₹ crore | | | |
| (Year-end March) | FY24 | FY25E | FY26E | FY27E |
| Profit after Tax | 405 | 460 | 519 | 619 |
| Add: Depreciation | 109 | 123 | 136 | 146 |
| Sub: Other Income | 96 | 98 | 113 | 126 |
| (Inc)/dec in Current Assets | (185) | (56) | (126) | (198) |
| Inc/(dec) in CL and Provisions | (34) | 51 | 57 | 90 |
| CF from operating activities | 205 | 486 | 477 | 536 |
| (Inc)/dec in Investments | 75 | (300) | (350) | (400) |
| (Inc)/dec in Fixed Assets | (198) | (150) | (150) | (150) |
| Other Income & Misc | 72 | 97 | 107 | 116 |
| CF from investing activities | (52) | (353) | (401) | (447) |
| Issue/(Buy back) of Equity | - | - | - | - |
| Inc/(dec) in loan funds | - | - | - | - |
| Dividend paid & dividend tax | (32) | (38) | (47) | (57) |
| Others | 2 | (6) | (5) | (4) |
| CF from financing activities | (30) | (43) | (52) | (61) |
| Net Cash flow | 123 | 89 | 24 | 27 |
| Opening Cash | 1,169 | 1,292 | 1,381 | 1,405 |
| Closing Cash | 1,292 | 1,381 | 1,405 | 1,432 |

Source: Company, ICICI Direct Research

| Exhibit 6: Balance Sheet | | | | |
|---------------------------|---------|-------|-------|-------|
| | ₹ crore | | | |
| (Year-end March) | FY24 | FY25E | FY26E | FY27E |
| Liabilities | | | | |
| Equity Capital | 9.5 | 9.5 | 9.5 | 9.5 |
| Reserve and Surplus | 2,779 | 3,202 | 3,673 | 4,235 |
| Total Shareholders funds | 2,789 | 3,211 | 3,682 | 4,244 |
| Total Debt | 0 | 0 | 0 | 0 |
| Deferred Tax Liability | 20 | 21 | 22 | 23 |
| Total Liabilities | 2,870 | 3,293 | 3,766 | 4,328 |
| Assets | | | | |
| Gross Block | 1,621 | 1,833 | 1,983 | 2,133 |
| Less: Acc Depreciation | 952 | 1,075 | 1,211 | 1,357 |
| Net Block | 669 | 758 | 773 | 777 |
| Capital WIP | 83 | 20 | 20 | 20 |
| Total Fixed Assets | 751 | 778 | 793 | 797 |
| Investments | 26 | 326 | 676 | 1,076 |
| Inventory | 167 | 210 | 232 | 267 |
| Debtors | 935 | 946 | 1,045 | 1,200 |
| Loans and Advances | 51 | 52 | 57 | 66 |
| Other current assets | 0 | 0 | 0 | 0 |
| Cash | 1,292 | 1,381 | 1,405 | 1,432 |
| Total Current Assets | 2,444 | 2,590 | 2,739 | 2,964 |
| Creditors | 374 | 421 | 464 | 533 |
| Provisions | 20 | 21 | 22 | 23 |
| Other Current Liabilities | 100 | 102 | 112 | 129 |
| Total Current Liabilities | 494 | 543 | 599 | 685 |
| Net Current Assets | 1,950 | 2,047 | 2,141 | 2,279 |
| Other non-current Assets | 85 | 86 | 95 | 109 |
| Application of Funds | 2,870 | 3,293 | 3,766 | 4,328 |

Source: Company, ICICI Direct Research

| Exhibit 7: Key ratios | | | | |
|-----------------------------|-------|-------|-------|-------|
| (Year-end March) | FY24 | FY25E | FY26E | FY27E |
| Per share data (₹) | | | | |
| EPS | 213 | 243 | 273 | 326 |
| Cash EPS | 271 | 307 | 345 | 403 |
| BV | 1,470 | 1,693 | 1,941 | 2,238 |
| DPS | 17 | 20 | 25 | 30 |
| Cash Per Share | 681 | 728 | 741 | 755 |
| Operating Ratios (%) | | | | |
| EBITDA Margin | 14.9 | 16.7 | 17.0 | 17.5 |
| EBIT / Net sales | 12.0 | 13.5 | 13.8 | 14.5 |
| PAT Margin | 10.7 | 12.0 | 12.2 | 12.7 |
| Inventory days | 16.1 | 20.0 | 20.0 | 20.0 |
| Debtor days | 90.2 | 90.0 | 90.0 | 90.0 |
| Creditor days | 36.1 | 40.0 | 40.0 | 40.0 |
| Return Ratios (%) | | | | |
| RoE | 14.5 | 14.3 | 14.1 | 14.6 |
| RoCE | 15.9 | 15.8 | 15.6 | 16.4 |
| RoIC | 31.2 | 33.4 | 35.5 | 39.6 |
| Valuation Ratios (x) | | | | |
| P/E | 59.3 | 52.1 | 46.3 | 38.8 |
| EV / EBITDA | 40.3 | 34.8 | 30.4 | 25.2 |
| EV / Net Sales | 6.0 | 5.8 | 5.2 | 4.4 |
| Market Cap / Sales | 6.3 | 6.3 | 5.7 | 4.9 |
| Price to Book Value | 8.6 | 7.5 | 6.5 | 5.7 |
| Solvency Ratios | | | | |
| Debt/Equity | 0.0 | 0.0 | 0.0 | 0.0 |
| Current Ratio | 2.9 | 2.7 | 2.7 | 2.7 |
| Quick Ratio | 2.5 | 2.2 | 2.2 | 2.2 |

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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