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EARLy SIGNALs STOCk REVIEw

Stock Review of Techno Funda Research Product – Early Signals Buy Sept.11, 2009

Early Signals Call Information Data	Scrip Code	Grade	Face Value	Reco. Dt.	Reco. Price	CMP	Target	Stop Loss
WABCO-TVS India Ltd.	533023	D	5	7 Sept., 09	Rs.368	Rs. 344	Rs. 562	303

SHARE HOLDING (%)

Promoters	75.0
FII	0.6
FI / MF	5.9
Body Corporates	6.8
Public & Others	11.7

STOCK DATA

Reuters Code	**WABC.BO**
Bloomberg Code	**WTVS@IN**
NSE Symbol	**WABCO-TVS**
Mkt.Cap.	**Rs.6522.2 mn**
Shares Outstanding	**18.96 mn**
52 Weeks (H/L)	**Rs.385 / 100**
Avg. Daily Volume (6m)	**64971 Shares**

Price Performance (%)

1M	3M	6M
14	54	211

200 Days EMA Rs.235

- WABCO-TVS (India) Ltd. (WTIL) was set up as a Joint Venture between TVS Group and WABCO Holdings, a global technology leader and Tier-I supplier to the commercial vehicle industry. WABCO-TVS (India) has pioneered the manufacture of air-assisted and air brake systems for commercial vehicles in India.
- In terms of the Scheme of Arrangement between the Company and Sundaram-Clayton (SCL) in Feb'08, Clayton Dewandre Holdings (CDH) had acquired 35.83% of the paid up capital of the Company from the TVS group. With this acquisition, CDH's holding increased to 75%. The move will not only enhance WABCO's presence in India, but also increased its opportunities to connect with and grow in all emerging markets.
- **Strong Client Profile:** WABCO-TVS (India) supplies original equipment fitments for vehicles manufactured by Ashok Leyland, Tata Motors, Bharat Earthmovers, TAFE, Volvo, SUTLEJ, CATERPILLAR, Eicher Motors, Swaraj Mazda, Force Motors, M&M, Tata Cummins (Engines) and a host of other trailer manufacturers.
- WTIL has +85% market share in the Original Equipment Manufacturer (OEM) segment of the Commercial Vehicles Airbrakes systems business, while in the after-market segment, its market share is +75%. Being a leader in brakes, we believe that with the pick up in CV transport across India, WTIL has potential to grow multifold.
- The Government of India had introduced regulation for mandatory fitment of Anti-lock Braking Systems (ABS) for CVs carrying hazardous goods from Oct'06, tractor-trailers and buses with national permit and hilly terrains from Oct'07. This regulation gives a whole new avenue of business in store for WABCO-TVS (India) .
- Though the exports were just Rs.560 mn during FY09, it included products sold to Wabco group, tool development income and software services exports. On account of lower costs of manufacturing, product development and component manufacturing being undertaken in India to cater to the global requirement of WABCO, the management expects major growth in Exports in the coming years.
- At Rs. 344, the stock is available at an attractive valuation of 11.1x its FY11E EPS of Rs. 30.

Y/E Mar	Revenue (Rs.mn)	APAT (Rs.mn)	AEPS (Rs.)	AEPS (% chg)	P/E (x)	ROCE (%)	ROE (%)	P/BVPS (x)
FY09	4259.5	355.4	18.7	(49.1)	18.4	18.0	18.0	1.7
FY10E	4771.2	440.2	23.2	23.9	14.8	18.3	18.7	1.4
FY11E	5512.2	584.3	30.8	32.8	11.2	21.9	20.5	1.1

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Key Highlights

- Though in the recent past, various road projects initiated by National Highway Authority of India (NHAI) were not progressing due to slowdown in Indian economy, with the improved economic scenario, the activities have now picked up momentum. With renewed thrust on road infrastructure, the demand for faster vehicles, that carry higher payloads is increasing, which will give a boost to the CV industry and consequently to WTIL's business.
- WTIL has commissioned 125 authorized service centers and 125 certified workshops at strategic locations across the country, to provide quicker and better service on air brake aggregates which would result in improved service practices, availability of genuine parts and generate additional revenue for the Company.
- To meet the challenges of emerging competition and to serve the customers better, the Company had already set-up a manufacturing facility in Jamshedpur nearer to a major customer plant. During 2007-08, the Company made operational its new manufacturing facility in a Special Economic Zone (SEZ) at "Mahindra World City" near Chennai. During 2008-09, the Company had the full benefit of the plant and through this facility, the Company is expecting to generate additional revenue growth in the coming years.
- Though the income from software services division is less than 10% of total income & hence it is not recognised as a separate segment, the company has Software Design Centres in Chennai & had generated an income of Rs.104 mn from software services exports during FY09.
- One the Research & Development front, amongst other things, the Company has made a test track for brakes, the only test track of its kind in the country, now available for government agencies for certification and testing. The Company is earning a steady income from it as well.

Financial Highlights

- The Company has reported revenues of Rs. 1,001 mn in Q1FY10, as compared to Rs. 1,542 mn in Q1FY09 while its has posted a net profit of Rs. 80.9 mn, as against Rs. 193.1 mn in the year-ago quarter. The drop in the Revenues & APAT was primarily on account of lower volumes of CV in the industry.
- WTIL has reported an EBIDTA of Rs. 164.7 mn in Q1FY10, as against Rs. 278 mn in the year-ago quarter and EBIDTA margins stood at 16.4% in the quarter under review, as against 18.1% in Q1FY09. Though currently operating at lower volumes & hence lower margins, going forward, with improvement in Volumes, we expect its operating margins to improve further.
- Its other income has gone up substantially in FY09 over FY08, mainly contributed by Software Export Services and providing Test Track Services, which can further add to the bottom line substantially in the years to come.

Key Risk

- The input materials are subject to high volatility in international as well as domestic markets. Since the Company uses imported materials as well as is exporting its products, there is an exposure to foreign exchange risk.

BALANCE SHEET STATEMENT (Rs.mn)

As on 31st March	FY08	FY09	FY10E	FY11E
Share Capital	94.8	94.8	94.8	94.8
Share Warrant	-	-	-	-
Reserves	1,582.0	1,881.8	2,258.0	2,762.5
Shareholders Funds	**1,676.8**	**1,976.6**	**2,352.9**	**2,857.4**
Total Debt	202.3	602.0	200.0	50.0
Total Liabilities	**1,879.2**	**2,578.6**	**2,552.9**	**2,907.4**
Fixed Assets	**1,740.7**	**1,952.8**	**1,900.7**	**1,882.1**
Investments	**86.6**	**90.1**	**26.7**	**26.7**
Sundry Debtors	757.8	702.6	787.0	909.3
Cash and Bank	116.3	12.8	33.9	307.1
Loans and Advances	153.6	109.2	122.3	141.4
Inventory	310.3	463.0	518.7	599.2
Other Current Assets	1.7	0.9	1.0	1.1
Current Assets	**1,339.7**	**1,288.5**	**1,463.0**	**1,958.1**
Current Liabilities	983.9	535.8	599.4	691.2
Provisions	271.6	177.0	198.1	228.4
Current Liabilities	**1,255.4**	**712.8**	**797.5**	**919.5**
Net Current Assets	**84.3**	**575.8**	**665.5**	**1,038.6**
Deferred Tax Assets (Net)	(32.4)	(40.0)	(40.0)	(40.0)
Misc.Expenditure	-	-	-	-
Total Assets	**1,879.2**	**2,578.6**	**2,552.9**	**2,907.4**

Source: Company, Sushil Finance Research Estimates

PROFIT & LOSS STATEMENT (Rs.mn)

Y/E March	FY08	FY09	FY10E	FY11E
Revenue	**5,452.7**	**4,436.6**	**4,983.7**	**5,767.3**
RM Consumption	3,062.2	2,461.8	2,750.9	3,170.8
Staff costs	451.3	502.5	577.9	650.1
Other Expenditure	774.2	760.0	828.4	927.8
Total Expenditure	**4,287.8**	**3,724.3**	**4,157.2**	**4,748.8**
EBITDA	**1,164.9**	**712.2**	**826.5**	**1,018.5**
Interest	32.9	68.5	45.0	20.0
EBDT	**1,132.1**	**643.7**	**781.5**	**998.5**
Depreciation	101.2	139.3	153.3	168.6
PBT excl. OI	**1,030.9**	**504.4**	**628.2**	**829.9**
Other Income	12.8	21.3	23.9	35.8
PBT incl OI	**1,043.7**	**525.7**	**652.1**	**865.7**
Tax	345.3	170.3	211.9	281.4
APAT	**698.4**	**355.4**	**440.2**	**584.3**
Extraordinary Exp./ (Income)	-	-	-	-
RPAT	**698.4**	**355.4**	**440.2**	**584.3**
EPS (Rs)	36.8	18.7	23.2	30.8
EBIDTA Margin (%)	21.4	16.1	16.6	17.7
EBDTA Margin (%)	20.8	14.5	15.7	17.3
Net Profit Margin (%)	12.8	8.0	8.8	10.1
Tax/PBT (%)	33.1	32.4	32.5	32.5

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