



Farsight

## MORNING FARSIGHT

Friday, August 17, 2018

**ZF STEERING GEAR**

**CMP:RS 1106**

**TRGT:RS 1325**

**TIME HORIZON: 1 YEAR**

ZF Steering Gear, after a prolonged gap of no earnings growth and weak operating performance, has risen again with strong Q1FY19 earnings, led by robust demand environment from company's key user industries viz., Trucks / Buses / Tractors / CVs and hence, we expect the earnings momentum now having picked up is pretty much sustainable. For Q1FY19, ZF Steering Gear reported EBITDA of Rs. 26 cr against Rs. 11cr YoY, a growth of more than 136%, with healthy EBITDA margin of 21.9%. Segment wise, Auto Components Division reported EBIT of Rs. 17cr against Rs. 15.4 cr QoQ and Rs. 10cr YoY, with EBIT margin of 14.6%, which is quite attractive. PAT was placed at Rs. 17.4 cr against Rs. 14.8 cr QoQ and Rs. 9.2 cr YoY, leading to an EPS of Rs. 19.19 for Q1FY19, which was at Rs. 51.82 for FY18. ZF Steering Gear is promoted by Munot Family (holding —48%stake) and Robert Bosch Automotive Steering GmbH (holding 25.79% stake under MNC Promoter category), which manufactures, assembles and deals in steering gears with an installed capacity of 2 lakh units of Mechanical Steering Gears and 3.75 lakh units of Hydraulic Power Steering Gears per annum. The company has its manufacturing plant at Pune. Steering gear market in India is largely dominated by three major players viz Sona Koyo Steering System, Rane Madras and ZF Steering Gears. While Sona Koyo is primarily present in passenger vehicle segment, ZFI and Rane are largely in CV and tractor segment. Overall domestic CV / Bus / Tractor steering system market is largely duopolistic in nature with ZF Steering and Rane accounting for —90% market share and command good relationship with OEMs. ZF Steering Gears key clients include Tractors (M&M, Captain Tractors, Escorts, TAFE, Same Deutz-Fahr India, Preet Tractors Punjab, Intemational Tractors), Trucks / Buses / CVs (Ashok Leyland, VECV, Volvo, Force Motors, SML Isuzu, Tata, Man Trucks, AMW Motors etc), 2W (Bajaj Auto, Piaggio) and for construction equipments (ACE, Universal Construction Machinery). Company's consolidated earnings are tad lower as compared to standalone earnings, RBAS and ZFI have set up Robert Bosch Automotive Steering Private Limited, in which ZFI holds 26% stake. Till December 2017, ZFI infused Rs 125 cr as its 26% equity share in the company. The JV has been incurring losses and would continue to incur losses in the near to medium term, given sub-optimal capacity utilization and will need additional capital to fund its losses. Despite this, on conservatively estimated Consolidate EPS of Rs. 75 for FY19 and EBITDA of Rs. 110 cr, stock is trading at PE of 14.4x and EV/EBITDA of 8.9x (M Cap Rs. 983 crores, Debt free balance-sheet on net basis), which are quite attractive. Given stock has remained large under performer in last year and trading at Rs. 1,083, which is 42% away from its 52 week high, the re-rating is bound to happen and any correction due to global jitters must be used to buy this stock with full conviction. Share ruling at Rs. 1106 can move to Rs. 1,325 in 1 year. Buy as an investor

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**Disclosure of interest statement – • Analyst interest of the stock /Instrument(s): - No. • Firm interest of the stock / Instrument (s): - No.**