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Tuesday, September 18, 2018

ZF STEERING GEAR

CMP:RS 1127

TRGT:RS 1350

TIME HORIZON: 1 YEAR

ZF Steering Gear, is looking a good buy post recent correction, as earnings growth are seen reviving after a prolonged gap of no earnings growth, thanks to very strong set of Q1FY19 earnings, led by robust demand environment from company's key use industries viz., Trucks / Buses / Tractors/ CVs and hence, we expect the earnings momentum now having picked up is pretty much sustainable. For Q1FY19, company reported EBITDA of Rs. 26 cr against Rs. 11 cr YoY, a growth of more than 136%, with healthy EBITDA margin of 21.9%. Segment wise, Auto Components Division reported EBIT of Rs. 17 cr against Rs. 15.4 cr QoQ and Rs. 10 cr YoY, with EBIT margin of 14.6%, which is seen 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), manufacturing 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, with manufacturing plant at Pune, Maharashtra. Steering gear market in India is largely dominated by three major players viz JTEKT, Rane Madras and ZF Steering. While JTEKT is primarily present in passenger vehicle segment, ZFI and Rane are largely present 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, International 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 setup 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 crores, stock is trading at PE of 14.8x as compared to historical average of over 20x and EV/EBITDA of 9x, which are seen attractive. Given stock has remained large under performer in last 1 year and valuations are at discount to company's own historic valuations as well as peers JTEKT and Rane Madras, the re-rating is imminent and share ruling at Rs. 1,127 can move to Rs. 1350 in 1 year timeframe.

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