



COMPANY ANALYSIS

ZF Commercial Vehicle Control
System India Ltd



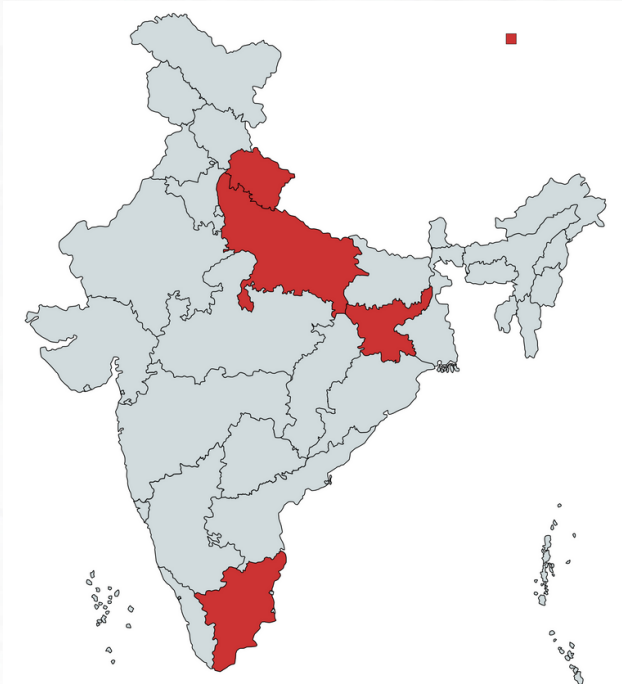
ZF Commercial Vehicle Control System India Ltd

The company strategically shapes the future of commercial transportation systems by delivering cutting-edge technologies and services that enhance efficiency, safety, connectivity, intelligence, and automation for commercial vehicles and fleets. Its integrated solutions, spanning Automated Driving, Electric Mobility, Shared Transportation, and Fleet Operations' Digitalization, profoundly impact the entire commercial vehicle lifecycle. With an extensive network of local teams and partners nationwide, the company ensures close customer proximity, fostering a dynamic environment for next-generation mobility solutions.

Area of Expertise: CV systems

Industry: Automotive Ancillary

ZF CVCS's presence in India



Current Market Capitalization
INR 30,217 Crore

Current P/E
76.4

Current Market Price
INR 15,917

Business Model

- Strategically positioned in commercial transportation, the company pioneers efficiency, safety, and automation. Offering a broad spectrum of solutions including Automated Driving and Electric Mobility. It influences the entire vehicle lifecycle. The "Next Generation Mobility" strategy aligns with industry shifts, emphasizing technological change and sustainability. Recognizing software and artificial intelligence as pivotal, the company stays resilient amid competition and margin pressures. Combining digital services with core competencies ensures proactive adaptation, securing a leading role in shaping the future of commercial transportation.
- **Transformation:** ZF navigates market upheavals, anticipating and embracing transformation in response to shifts in the automotive industry. With a focus on electric mobility, automated driving, and software-defined vehicles, ZF is actively shaping the future of mobility.
- **Standardization:** ZF's digitization strategy centers on the ZF cloud, consolidating data and production processes for AI-based analysis. Aiming for comprehensive standardization by 2030, they embrace SAP S/4HANA technology, enhance the human-machine interface, and foster employee skills through the "SkillsHub" platform.
- **Research & Development:** The automotive ancillary manufacturer propels forward through digital innovations and substantial investments in research and development, emerging as a prominent supplier of electronics and software. Focused on e-mobility, vehicle motion control, and autonomous driving, ZF develops high-performance computers and software, positioning itself as a leading provider in these dynamic fields.
- **Products and services:** ZF global caters to passenger cars, commercial vehicles, and industrial technology with a focus on original equipment and aftermarket offerings. The CV arm in India is focused on heavy applications. Prioritizing electric mobility, vehicle motion control, autonomous driving, integrated safety, and digitalization, ZF develops integrated solutions for seamless connectivity. ZF India business arm launched e mobility products like electric compressor, electronic braking system successfully.

SWOT

S Strengths

ZF CVCS India draws on global expertise, innovative technology, and a robust network through its association with the ZF Group, ensuring a competitive edge in control systems.

W Weakness

Reliance on the commercial vehicle market, intense competition, buyer power, and susceptibility to global supply chain disruptions pose challenges.

T Threats

Economic downturns impacting commercial vehicle demand, regulatory changes, and the need to keep pace with rapid technological advancements pose potential threats in this highly competitive space.

O Opportunities

Anticipated growth in India's commercial vehicle sector, technological advancements, and strategic partnerships create expansion and market leadership opportunities.

Recent Highlights

Akash Passey assumed the role of President at ZF Group in India on September 1, 2023, as announced by the leading global auto parts supplier ZF. With 30 years of diverse leadership experience at Volvo and Eicher, Passey brings valuable expertise.

The company's robust financial performance in Q2 FY 23-24, propelled by increased government spending and strong end-user sectors, positions it for growth. Anticipating sustained positive momentum in the market, the company focuses on the recovering commercial vehicle segment, strategic localization, cost reduction, and delivering value.

ZF CVCS India received recognition as the Best Technology Partner from Mahindra & Mahindra. The company foresees sustained profitability driven by ESC and ADAS adoption, favorable production shifts, and a positive outlook for India's auto sector. The investment in the Oragadam plant, targeted asset turnover, and strategies to mitigate commodity inflation underscore a forward-looking approach.

Sector-wise Trend

01 THE ADOPTION OF EV AND ALTERNATIVE FUELED VEHICLES

This has increased due to the Government's FAME-II scheme and CESL tenders and the Government support for State Transport Undertakings in procuring buses with alternative fuels, such as CNG, Biofuel, electric FCEV, H-ICE, etc. This is expected to boost demand for commercial vehicles and automotive components.

02 THE PRODUCTION LINKED INCENTIVES (PLI) SCHEME

This aims to promote the domestic production of automotive components. Financial incentives are offered for the production of Advanced Automotive Products within the country, the scheme seeks to enhance domestic production and attract investments to the automotive value chain. It provides up to 18% incentives on eligible vehicle and component sales.

03 INDIA'S STRINGENT BS-VI EMISSION NORMS

They create a level playing field for automakers and parts suppliers aligned with global standards, opening doors for increased participation in export markets.

04 PM GATI SHAKTI

It integrates infrastructure across various modes, playing a crucial role in India's industrial development by linking infrastructure with business to stimulate economic growth. The scheme has set a target of establishing 11 industrial corridors, 38 electronics manufacturing clusters, etc., by 2024–2025.

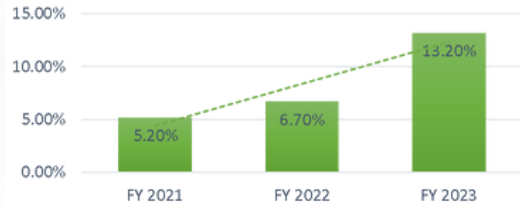
Financial Highlights

PARTICULARS	FY20-21	FY21-22	FY22-23	COMMENTS
Revenue (INR in Crores)	1864	2543	3445	Consistent growth in revenue Y-o-Y
Inventory Turnover (Avg. Inventory 3 years)	8.6	12.0	15.9	Increase in inventory efficiency
EBITDA Margin	13.1%	11.3%	15.6%	Minor dip in EBITDA Margin in FY-22, compared to FY-21. FY 23 EBITDA Margin crosses FY-21 numbers, showcasing substantial growth.
RoCE	7.7%	9.2%	17.4%	More than doubled from FY-21 to FY-23.
ROE	5.2%	6.7%	13.2%	More than doubled from FY-21 to FY-23

Ratio Analysis

REVENUE GROWTH

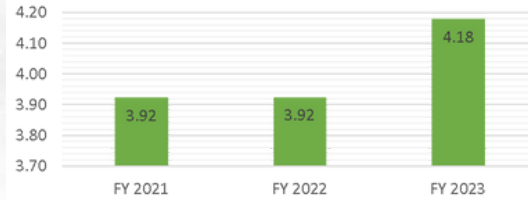
ROE



Return on equity increased year-on-year. This increase is despite a sluggish year with low EBITDA margins in FY22. The ROE has more than doubled from FY21 to FY 23 on the back of high sales growth in FY 22 and FY 23. This ratio showcases company growth and maximization of shareholder value.

PROFIT GROWTH

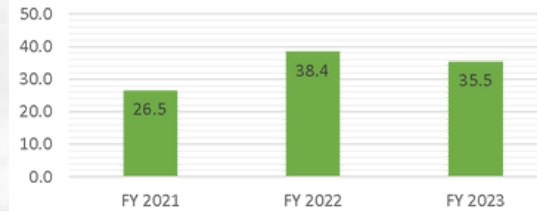
Current Ratio



Increase in Current ratio showcases an improvement in short term liquidity of the company. This improvement has been predominantly fueled by a substantial increase in the Cash reserves which puts the company in a favourable position to capitalize on new business opportunities.

CASH CONVERSION CYCLE

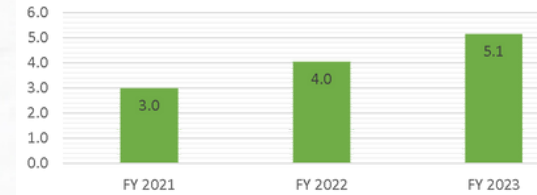
Cash Conversion Cycle



The cash conversion cycle increased from FY 21 to FY 23, with notable improvement in FY 23 compared to FY 22. Days Sales Outstanding and Days Inventory Outstanding decreased substantially, while Days Payable Outstanding saw a significant reduction during this period.

RETURN ON ASSETS

Accounts Receivable Turnover



An increasing Accounts Receivable Turnover ratio signifies acquiring high-quality customers who settle their debts in a timely manner. This enhances cash flow, bolsters liquidity, and reflects the efficacy of credit policies, contributing to overall financial strength.

Future Outlook

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FOR THE INDUSTRY

- Rising Private Final Consumption Expenditure along with favorable economic conditions and other supporting factors will lead to substantial growth of the automotive industry in the coming years along with India's GDP.
 - The PLI Scheme, FAME I and II Scheme, CESL Tenders, Vehicle Scrappage Policy and other favorable government policies support growth of the automotive industry.
 - The China +1 trend and government's focus on making India one of the leading manufacturing hubs of the world will also amplify the growth of the automotive industry in India.
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FOR THE COMPANY

In the latest earnings call, ZF Commercial Vehicle Control Systems showcased commendable resilience amid economic challenges. Management's forward-looking stance is evident in the strategic focus on capacity enhancement and export projects, aligning with the company's growth drivers. Recognizing the potential impact of global economic slowdown and deficient monsoons, the emphasis on global solutions for sales expansion demonstrates proactive risk mitigation. The commitment to margin expansion, currently at 20%, reflects a pragmatic approach to financial resilience and sustained profitability. Analysts are closely monitoring these strategic moves as ZF navigates through the complexities of the evolving market landscape.