

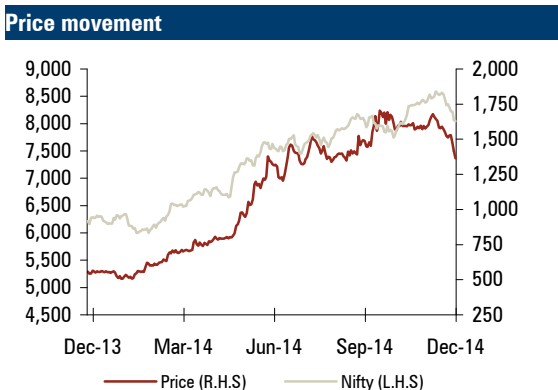
| Rating matrix    |           |
|------------------|-----------|
| Rating           | Buy       |
| Target           | ₹ 1,725   |
| Target Period    | 12 months |
| Potential Upside | 19%       |

| Financial summary |       |       |       |       |
|-------------------|-------|-------|-------|-------|
| ₹ Crore           | FY14  | FY15E | FY16E | FY17E |
| Net Sales         | 2,239 | 2,696 | 2,998 | 3,452 |
| EBITDA            | 209   | 259   | 300   | 352   |
| Net Profit        | 107   | 151   | 173   | 208   |
| EPS (₹)           | 40.3  | 56.6  | 65.2  | 78.4  |

| Valuation summary |      |       |       |       |
|-------------------|------|-------|-------|-------|
|                   | FY14 | FY15E | FY16E | FY17E |
| P/E               | 35.9 | 25.6  | 22.2  | 18.5  |
| Target P/E        | 42.7 | 30.5  | 26.4  | 22.0  |
| EV / EBITDA       | 8.7  | 13.9  | 11.6  | 9.6   |
| P/BV              | 4.6  | 4.0   | 3.5   | 3.1   |
| RoNW (%)          | 12.7 | 16.7  | 16.8  | 17.7  |
| RoCE (%)          | 17.8 | 18.5  | 18.7  | 19.6  |

| Stock data               |                 |
|--------------------------|-----------------|
| Particular (FY14)        | Amount          |
| Bloomberg/Reuters Code   | VATW IN/VATE.NS |
| Sensex / Nifty           | 27807/8311      |
| 30 Day Average Volume    | 50711           |
| Market Cap (₹ crore)     | 3,605.8         |
| 52 week H/L (₹)          | 1748/480        |
| Equity Capital (₹ crore) | 5.3             |
| Face value (₹)           | 2.0             |
| Promoter's Stake (%)     | 29.4            |
| FII Holding (%)          | 28.6            |
| DII Holding (%)          | 21.4            |

| Comparative return matrix (%) |        |       |        |       |
|-------------------------------|--------|-------|--------|-------|
|                               | 1M     | 3M    | 6M     | 12M   |
| VA Tech                       | (11.5) | (2.5) | 5.3    | 163.8 |
| L&T                           | (8.5)  | (2.2) | (10.1) | 40.2  |
| Thermax                       | (8.3)  | 14.5  | 3.1    | 40.6  |



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## VA Tech Wabag (VATWAB)

₹ 1,450

### Strong opportunity in the offing...

VA Tech Wabag (Wabag) is a leading MNC in the water treatment space with a global presence and access to over 100 patents. The company operates on an asset light EPC model, thereby manifesting a lean balance sheet. With growing concern on access to clean water and urgent measures to solve the issue of depleting water resources, the investment in water treatment is likely to increase manifold globally. Accordingly, Wabag is expected to benefit significantly by leveraging its strong domestic presence and rising global footprint. The company's strong book-to-bill ratio of ~2.3x provides revenue visibility for two years. This coupled with a strong execution track record is expected to lead to 15.5% revenue CAGR in FY14-17E to ₹ 3,452 crore while margin is expected to expand 90 bps to 10.2% over FY14-17E. Hence, we initiate coverage on Wabag with a BUY recommendation and a target price of ₹ 1,725.

#### Significant opportunity expected in underinvested water treatment industry

Increasing population, economic development and urbanisation has increased the demand for fast depleting fresh water. Robust investment of ₹ 13.6 lakh crore alone is a business opportunity in India for water solution companies like Wabag. This is coupled with strong international prospects across the water treatment space (desalination, waste water treatment, industrial water treatment) to bridge the demand-supply deficit, which is estimated to reach 39% by 2020.

#### Robust order backlog, new order wins to drive revenue growth

Wabag's order backlog and revenue are expected to increase at a CAGR of 15.6% and 15.5%, respectively, over 2014-17E driven by the robust opportunity across the water treatment industry. We have pencilled in an order intake of ₹ 3,300, ₹ 3,800 and ₹ 4,500 crore for FY15E, FY16E and FY17E, respectively, thus leading to a robust book-to-bill ratio of ~2.5x.

#### Restructuring subsidiaries to lead to margin expansion, going ahead

Wabag has successfully restructured its global operation and turned many of its loss making subsidiaries profitable. Furthermore, the management expects to increase the revenue share of its high margin O&M business from the current 20% to 25% by FY17E. This would enhance its margin by 90 bps over FY14-17E to 10.2%.

#### Asset light business model offers comfort; initiate with BUY rating

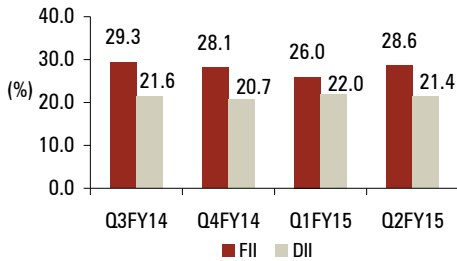
Wabag expects to maintain its low D/E ratio factoring its asset light business model that would continue to provide positive FCF (average FCF of ₹ 150 crore in FY15E-17E). Going ahead, strong revenue growth driven by robust order intake and improvement in margin are expected to lead to an RoE improvement of ~500 bps in FY14-17E. This is expected to lead to a rerating of multiples. Hence, we initiate coverage on Wabag by ascribing a PEG of 0.9x and ascertain target P/E of 22x on FY17E EPS.

#### Exhibit 1: Financial performance

| Particulars          | FY13    | FY14    | FY15E   | FY16E   | FY17E   |
|----------------------|---------|---------|---------|---------|---------|
| Net Sales (₹ crore)  | 1,618.9 | 2,238.6 | 2,695.9 | 2,998.1 | 3,452.5 |
| EBITDA (₹ crore)     | 154.0   | 209.0   | 258.8   | 299.8   | 352.2   |
| Net Profit (₹ crore) | 89.6    | 107.2   | 150.6   | 173.4   | 208.5   |
| EPS (₹)              | 33.8    | 40.3    | 56.6    | 65.2    | 78.4    |
| P/E (x)              | 43.0    | 36.0    | 25.6    | 22.2    | 18.5    |
| RoCE (%)             | 19.6    | 17.8    | 18.5    | 18.7    | 19.6    |
| RoE (%)              | 12.5    | 12.7    | 16.7    | 16.8    | 17.7    |

Source: Company, ICICIdirect.com Research

### FII & DII holding trend (%)



### Shareholding pattern (Q2FY15)

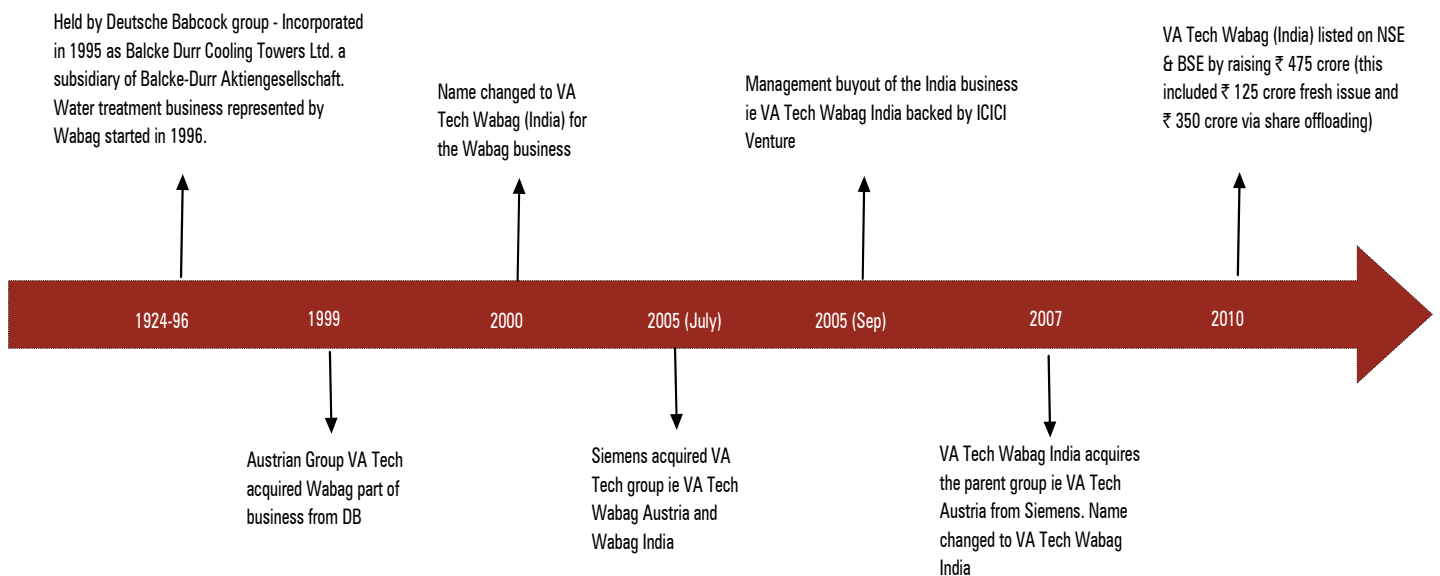
| Shareholder             | Holding (%) |
|-------------------------|-------------|
| Promoters               | 29.4        |
| Institutional investors | 49.9        |
| General public          | 20.6        |

## Company Background

VA Tech Wabag (Wabag) is a leading MNC in the water treatment space (water desalination, sewage water treatment, waste water treatment, etc), with a presence in India, Middle East, North Africa, Central & Eastern Europe, China and South East Asia. The company operates on an asset light-EPC led model in water treatment projects across municipal & industrial segments, where it focuses on design & engineering while outsourcing civil construction & erection jobs. Wabag has a global presence across 22 countries and access to about 100 patents that include both products & process patents. The company has R&D centres in India, Austria and Switzerland. Wabag has 18 subsidiaries globally.

Wabag was initially held by the Deutsche Babcock group and later acquired by Austrian Group VA Tech in 1999. In July 2005, the company was acquired by Siemens while in September 2005, its management bought out the India business backed by ICICI Ventures. In 2007, VA Tech Wabag India acquired its erstwhile Austrian parent. The company was listed on the BSE in October 2010.

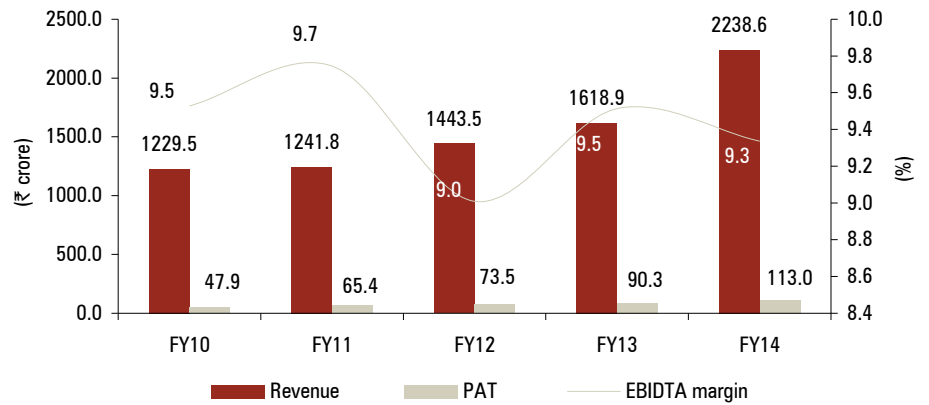
### Exhibit 2: Company's journey since 1924 – 2014



Source: Company, ICICIdirect.com Research

The company has executed over 2,250 projects in the last two decades. Wabag operates under three major segments viz. Wabag India, Wabag Austria and Wabag India International. The company garners a higher EBITDA margin of ~13-14% across its India business followed by 8-9% across the India international business and 5-6% across the Europe segment taking the overall EBITDA margin to ~9.3%. Wabag has registered strong growth in its order inflow over FY10-14, growing at a CAGR of 17.2%. This led to revenue and PAT CAGR of 16.2% and 22.3%, respectively, over the same period.

**Exhibit 3: Revenue, PAT and EBITDA margin trend**

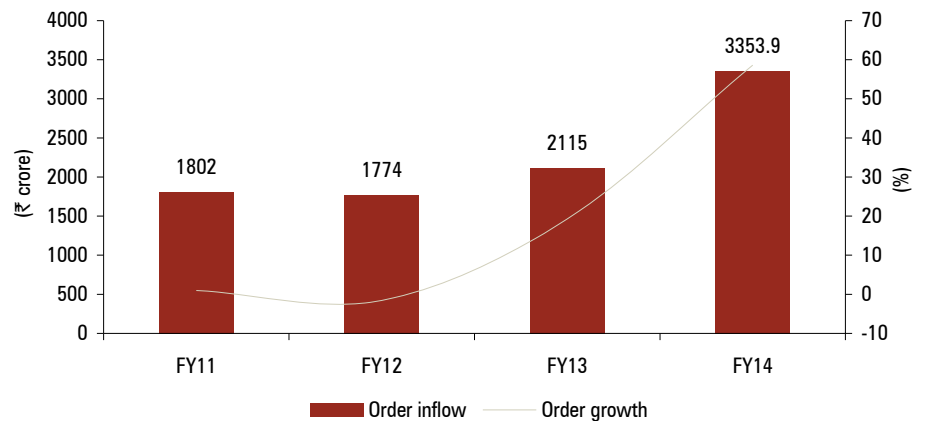


Source: Company, ICICIdirect.com Research

Order inflow stood at ₹ 3,354 crore in FY14, surpassing the management's initial target of ₹ 3,000 crore for the year

Wabag witnessed an order inflow of ₹ 3,354 crore, which was higher than the management's initial guidance of ₹ 3,000 crore. The order backlog as of H1FY15 stood at ₹ 5,240 crore (52% domestic, 37% Austria group, 12% - Oman, Nepal and Philippines), which is 2.3x TTM sales and provides strong revenue visibility over the next two years.

**Exhibit 4: Order intake growth**



Source: Company, ICICIdirect.com Research

**Exhibit 5: Order book composition**

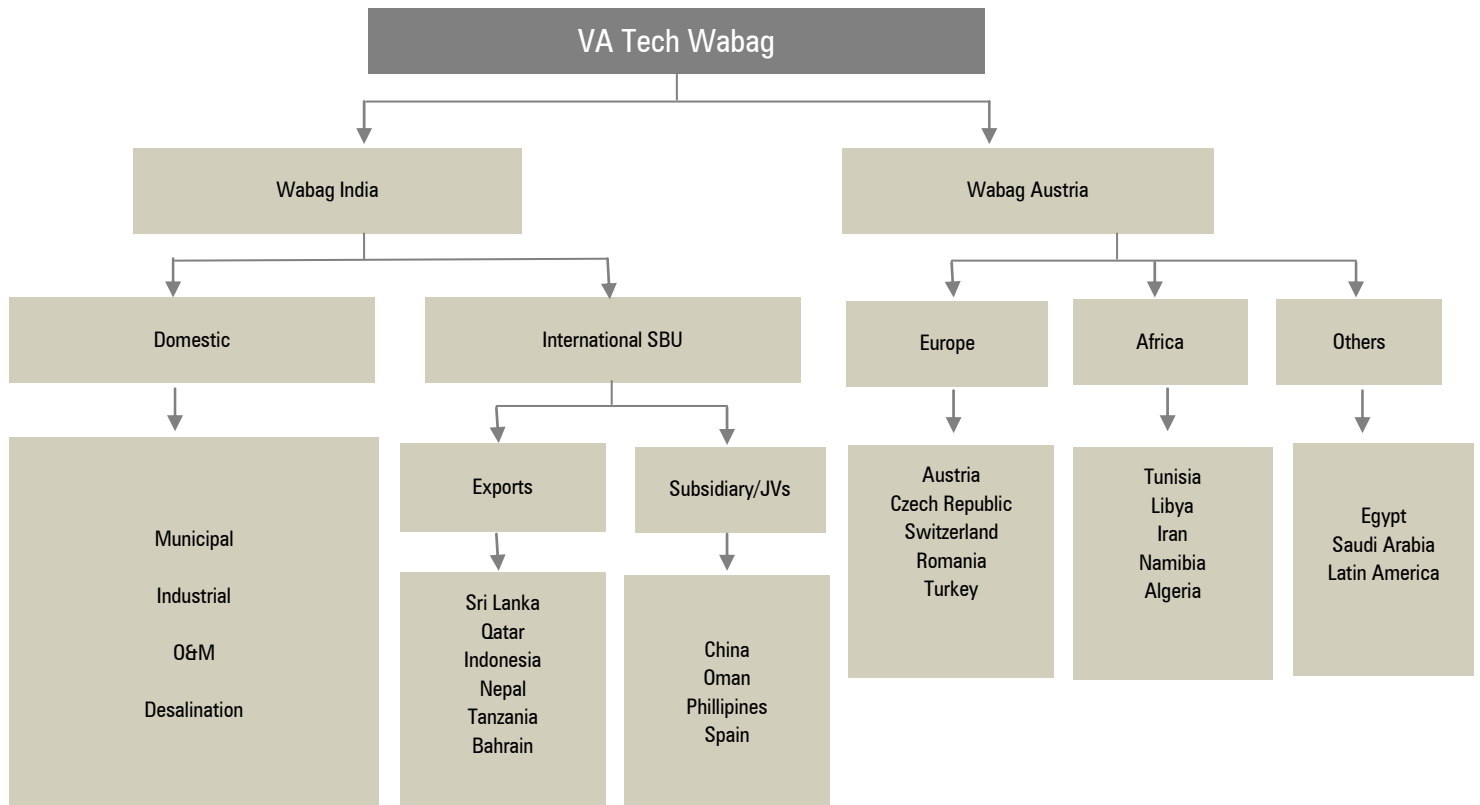
| (₹ Crore)      | EPC         |            | O&M         |            | Total       |
|----------------|-------------|------------|-------------|------------|-------------|
|                | Municipal   | Industrial | Municipal   | Industrial |             |
| Wabag India    | 966         | 463        | 1251        | 58         | 2738        |
| Wabag Overseas | 1815        | 250        | 380         | 58         | 2502        |
| <b>Total</b>   | <b>2781</b> | <b>713</b> | <b>1630</b> | <b>116</b> | <b>5240</b> |

Source: Company, ICICIdirect.com Research

## Business structure

Wabag has two broad divisions, namely Wabag India and Wabag Austria. While Wabag India controls the domestic and India international business (export), its Austria business controls most of the company's international subsidiaries. The company's overall operations are sub-divided into two strategic business units (SBUs) of the municipal and industry business, which is further bifurcated among the EPC and O&M businesses.

**Exhibit 6: Business structure**



Source: Company, ICICIdirect.com Research

## Municipal business group

The municipal SBU provides a variety of water and wastewater treatment solutions to municipal corporations across India and overseas. The services include treatment of both river as well as waste water. Water collected from various sources such as rivers, canals, etc. is treated through methods such as sedimentation, filtration and disinfection by chlorine, membrane separation, reverse osmosis (RO) treatment, etc. The waste water treatment services include handling effluents from the industry or domestic sewage by collecting, treating and discharging water depending on the quality of treatment. It ensures monitoring and distribution of filtered water to customers. These projects are funded by multilateral agencies and central government schemes. With continuous focus on new and improved technology, the company has also entered the desalination business, which involves purification of sea water that can be used for industrial and drinking purpose.

The municipal SBU income accounted for 64% of the company's overall revenue and 83% of the total order backlog as on FY14.

In FY14, the municipal segment accounted for 64% of the revenue and 83% of the total order backlog

In FY14, the industrial segment accounted for the balance 36% of revenue and 17% of the total order backlog

O&M segment generates higher margin in the range of 18-20%

**Major projects undertaken/won within municipal group**

- 100 MLD Nemmeli desalination plant in Chennai
- Sewage treatment plant (STP) at Kondli for Delhi JLD
- Water treatment plant in Nepal
- STP in Philippines, Egypt, Odisha, Cuttack, Bangalore and Bhubaneswar

**Industrial water business group**

This SBU works for industries by offering water management solutions for demineralisation plants and RO plants used by power companies (ash handling, boiler feed and water coolant), steel (as lubricant & coolant), petrochemical (for extraction), etc. The main objective of this segment is to make water fit for use/reuse for the above-mentioned purposes.

The industrial SBU income accounted for the balance 36% of the company's overall revenue and 17% of the total order backlog as on FY14. Wabag generates relatively lower margins across this segment.

**Major projects undertaken/won within industrial group:**

- Water treatment project for Reliance Industries at Dahej, Hazira and Jamnagar plants
- Won many projects for water treatment from international petrochemical and fertiliser industries

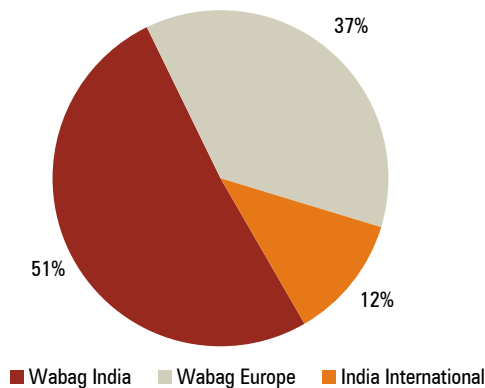
**Operations and maintenance business segment:**

The segment provides operations & maintenance (O&M) services to both municipal & industrial clients in India & abroad. The segment provides stable cash flows to Wabag that ranges from seven to 12 years depending on the contract period. The business caters to water management projects in Asean region and Middle East. Apart from Wabag plants, the segment also operates in and maintains plants built by its peers.

The segment comprises 20% of Wabag's overall annual income but generates higher margin of ~19%. Going ahead, the company plans to increase the proportion of the O&M business to ~25% as this segment not only provides stable cash flow but also ensures higher margin.

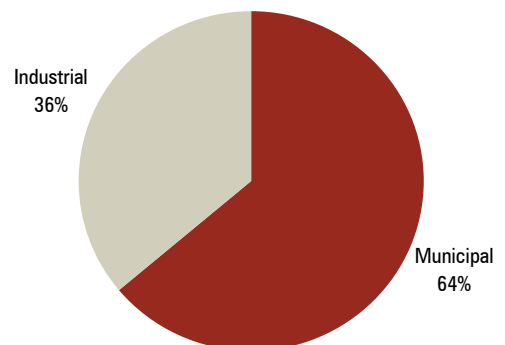
Overall, Wabag generates better margins across its Indian business compared to the overseas business. Within municipal segment, it generates operating margin of ~11% from EPC business and ~19% margin from the O&M business.

**Exhibit 7: Revenue break-up geography wise**



Source: Company, ICICIdirect.com Research

**Exhibit 8: Revenue break-up segment wise**



Source: Company, ICICIdirect.com Research

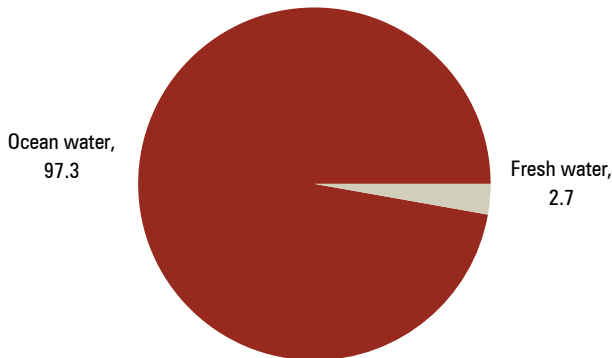
## Industry overview

Freshwater accounts for only 2.5-3.0% of the total water available on the planet

### Fresh water scarcity - major risk concern - but opportunity for water treatment industry

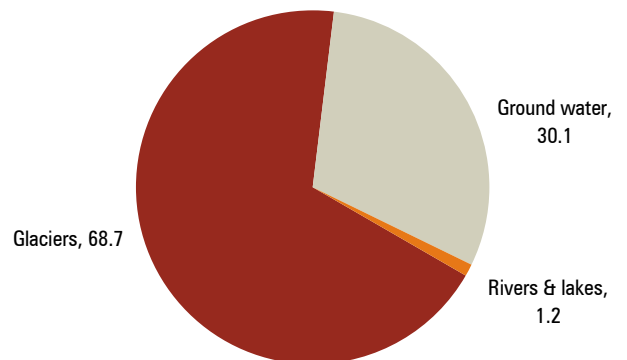
Freshwater accounts for 2.5-3% of the total water on the planet, most of which is locked in the Arctic and Antarctic regions. Ground water, a critical source of potable water for the world's major cities, makes up about 30% of freshwater resources. Lakes, rivers, wetlands and different soil types account for only 1.2% of freshwater. Nevertheless, humans rely on these sources more than any other.

**Exhibit 9: Fresh water accounts for ~2.7% of total water globally (%)**



Source: Office of the Director of National Intelligence (U.S.), ICICIdirect.com Research

**Exhibit 10: Composition of fresh water (%)**



Source: Office of the Director of National Intelligence (U.S.), ICICIdirect.com Research

Currently, 78 crore people globally lack access to fresh water i.e. one in every nine people

A growing population and economic development along with rapid urbanisation, especially in emerging countries, has increased the demand for fresh water. On the supply side, the world is facing a combination of insufficient freshwater, uneven distribution, widely varying quality, water losses and adverse impacts from climate change. On the demand side - agricultural, industrial and municipal/residential usage is set to grow rapidly over the next 20 years. There is growing evidence that the water issue may already have arrived at a tipping point given the rate of extraction of certain water systems. Currently, 78 crore people globally (i.e. one in every nine) lack access to clean water. According to Water 2030, demand will overshoot water supply by 40% in CY30 while close to 50% of the world's population will be living in water-stressed areas. The United Nations has already included water availability risk among the top three major concerns that the world is likely to face in the near future.

**Exhibit 11: Ten global risks of highest concern in 2014**

| Sr. no. | Global Risk   |
|---------|---|
| 1       | Fiscal crisis in key economies                      |
| 2       | Structurally high unemployment/underemployment      |
| 3       | Water crisis  |
| 4       | Severe income disparity                             |
| 5       | Failure of climate change mitigation and adaptation |
| 6       | Greater incidence of extreme weather events         |
| 7       | Global governance failure                           |
| 8       | Food crisis   |
| 9       | Failure of a major financial mechanism/institution  |
| 10      | Profound political and social instability           |

Source: UN, ICICIdirect.com Research

Freshwater availability has declined 37% since 1970

Thus, the availability of freshwater will be increasingly strained, going forward. There is clear evidence that groundwater supplies are diminishing, with an estimated 20% of the world's aquifers being over-exploited (*source: UN*). Deterioration of wetlands worldwide is also reducing the capacity of ecosystems to purify water. It is also estimated that freshwater ecosystems have declined 37% since 1970 – with certain segments such as tropical freshwater having declined 70%. As a result, an estimated 2.7 billion people are now living in water catchment areas (e.g. river basins) that experience water scarcity for at least a month per year (Source: World Wildlife fund - WWF).

### Uneven distribution, 10 countries have 60% of freshwater

In theory, there is enough water to satisfy all human needs on a sustainable basis. However, in practice, water is not distributed evenly across the globe. Ten countries possess close to 60% of the world's freshwater resources leading to a skewness of the water supply.

#### Exhibit 12: Ten countries account for 60% of total water availability

| Country                          | Total renewable water on a per capita basis (10m3) |
|----------------------------------|--|
| Brazil                           | 8233   |
| Russian Federation               | 4508   |
| United States of America         | 3069   |
| Canada                           | 2902   |
| China                            | 2840   |
| Colombia                         | 2132   |
| Indonesia                        | 2019   |
| Peru                             | 1913   |
| India                            | 1911   |
| Democratic Republic of the Congo | 1283   |

Source: Aquastat, ICICIdirect.com Research

Note: 1 m<sup>3</sup> = 1 cubic metre = 1000 litre.

#### Exhibit 13: Countries suffering from water stress, water scarcity and absolute water scarcity (Per Capita – m3)

| Countries             | Per capita (m3) | Countries            | Per capita (m3) | Countries               | Per capita (m3) |
|-----------------------|-----------------|----------------------|-----------------|-------------------------|-----------------|
| Water stress          |                 | Water Scarcity       |                 | Absolute Water Scarcity |                 |
| Poland                | 1608            | Morocco              | 890             | Oman                    | 482             |
| Comoros               | 1552            | Rwanda               | 843             | Saint Kitts and Nevis   | 444             |
| India                 | 1545            | Syrian Arab Republic | 796             | Tunisia                 | 429             |
| Zimbabwe              | 1537            | Kenya                | 718             | Djibouti                | 325             |
| Somalia               | 1500            | Burkina Faso         | 715             | Algeria                 | 320             |
| Republic of Korea     | 1435            | Cyprus               | 691             | Barbados                | 291             |
| Burundi               | 1433            | Egypt                | 683             | Jordan                  | 145             |
| Sudan and South Sudan | 1411            | Cape Verde           | 594             | Malta                   | 121             |
| Ethiopia              | 1410            | Antigua and Barbuda  | 571             | Singapore               | 114             |
| Pakistan              | 1371            |                      |                 | Libya                   | 108             |
| Haiti                 | 1368            |                      |                 | Maldives                | 93              |
| Lesotho               | 1363            |                      |                 | Bahrain                 | 85              |
| Czech Republic        | 1245            |                      |                 | Saudi Arabia            | 84              |
| Eritrea               | 1129            |                      |                 | Yemen                   | 82              |
| Malawi                | 1088            |                      |                 | Bahamas                 | 57              |
| Denmark               | 1073            |                      |                 | Qatar                   | 30              |
| Lebanon               | 1049            |                      |                 | United Arab Emirates    | 19              |
| South Africa          | 1013            |                      |                 | Kuwait                  | 7               |

Source: Aquastat, ICICIdirect.com Research

Scalability: Water Stress < 1800 m<sup>3</sup>, Water Scarcity < 1000 and Absolute Water Scarcity < 500

## Demand supply challenges

The necessity for water is such that all individuals and industries are water dependent. Approximately 3,800 cubic km (3.8 trillion m<sup>3</sup>) of freshwater is extracted from aquatic ecosystems globally every year (Source: InterAction Council).

**Exhibit 14: Sources of global freshwater use (%)**

|                     | Surface water | Ground water | Drainage water returns | Waste water reuse | De-salination | Ground water (non renewable) | Total |
|---------------------|---------------|--------------|------------------------|-------------------|---------------|------------------------------|-------|
| All uses            | 73.0          | 18.0         | 5.0                    | 2.0               | 0.3           | 1.0                          | 100.0 |
| Drinking water      | 48.0          | 46.0         | 0.0                    | 0.0               | 4.0           | 3.0                          | 100.0 |
| Irrigation          | 71.0          | 17.0         | 7.0                    | 4.0               | 0.0           | 1.0                          | 100.0 |
| Energy and industry | 87.0          | 12.0         | 0.0                    | 0.0               | 0.0           | 0.3                          | 100.0 |

Source: Aquastat, ICICIdirect.com Research

Agriculture is the largest single user of freshwater in globally, accounting for 69% of total water use. Industry & energy are the second-largest users accounting for 21% while domestic users make up the rest 10%.

**Exhibit 15: Fresh water use on earth**

|                             | tn m <sup>3</sup> /year | % renewable water | % water withdrawals |
|-----------------------------|-------------------------|-------------------|---------------------|
| Renewable freshwater        | 43.6                    | 100               |                     |
| Total water withdrawal      | 3.8                     | 9                 | 100                 |
| Of this:                    |                         |                   |                     |
| Irrigated agriculture       | 2.7                     | 6                 | 69                  |
| Industry (including energy) | 0.8                     | 2                 | 21                  |
| Domestic (urban)            | 0.4                     | 1                 | 10                  |

Source: OECD based on WWAP, ICICIdirect.com Research

The daily drinking water requirement per person is 2-4 litre but it takes 2,000-5,000 litre to produce one person's daily food requirements (Source: Food & Agriculture Organisation of UN - FAO). Hence, this takes the average daily water requirement in the range of 2002 – 5004 litres (Direct and indirect consumption).

## Demand for water likely to increase manifold, going ahead

Water demand is expected to continue to increase due to a rise in activity across agriculture, industrial and municipal segments. As per a study by McKinsey, global water demand is likely to witness 2% CAGR between 2010 and 2030 to reach 6.2 trillion cubic metre (m<sup>3</sup>) from the current level of 3.8 trillion m<sup>3</sup>, leading to a gap of 2.4 trillion m<sup>3</sup>.

### Agriculture

With the world population likely to grow to ~900 crore by 2050 from the current ~700 crore, demand for food is likely to grow by 50% by 2025-2030. This would require a further 1 trillion m<sup>3</sup> of portable water per year with resources remaining more or less stable (current agriculture requirement - 2.7 trillion m<sup>3</sup> of fresh water).

### Industry

In developed nations, the demand for water for industrial purposes comprises ~59% of the total need followed by agriculture – 30% and domestic – 11%. With economies in emerging countries likely to move ahead with the development of industries, demand for water across industries is likely to increase significantly, going ahead, as mentioned in the table. With water resources likely to remain stagnant, the growing water demand across the industrial zone is expected to widen the demand supply deficit that could impact economic activity in these regions. Thus, the need for water treatment plants would continue to see an uptrend to manage water deficits globally.

Agriculture accounts for 69% of the total water use globally

Water demand across agriculture is expected to increase by 1 trillion m<sup>3</sup> by 2030 from current level of 2.7 trillion m<sup>3</sup>

The fresh leg of water demand in emerging markets will be driven by industrial activity

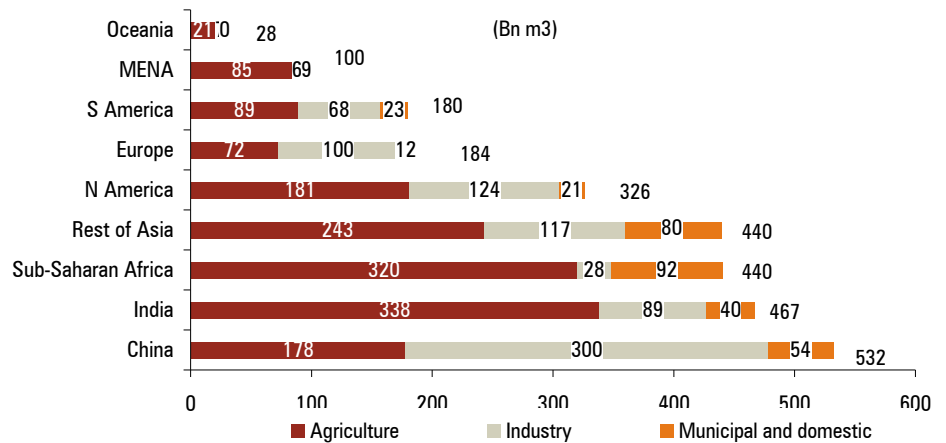


The UN estimates ~450 crore of the world population will be living in urban areas by 2025

### Municipal

Global population growth is also expected to drive demand for municipal water supply. Furthermore, the rate of urbanisation, especially in emerging economies, is likely to increase significantly over the same period. As per UN estimates, ~ 450 crore of the world population will be living in urban areas by 2025 (currently 390 crore people lives in the urban areas) while by 2050 ~630 crore people i.e. 66% of the then population is expected to live in urban areas, which will drive the use of municipal and residential water across the globe. Furthermore, the rapid growth of urban areas is expected to drive the demand for fresh water, which would further spur the need for water treatment plants.

**Exhibit 16: Expected increase in global water demand across various countries**



Source: Company, ICICIdirect.com Research

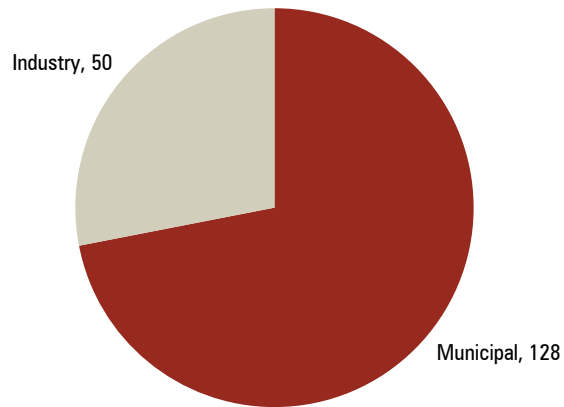
### Water treatment industry

Population growth, economic activity and urbanisation have led to a water demand-supply mismatch, which is spurring the need for efficient water management solutions, including water treatment. Moreover, a revival in the global manufacturing sector is increasing water demand, as expanding production in various industries like oil & gas, power, mining, etc. promotes the need for water and wastewater treatment, need for water conservation and tightening environmental regulations. This provides a fillip to the requirement to seek water treatment.

Water treatment involves cleaning/filtering waste water for reuse, saline water for drinking & industrial use, sewage water to lower the contamination content before getting disposed into sea, rivers, etc. It involves removal of contaminants from untreated water (suspended solids, bacteria, algae, viruses, fungi, minerals such as iron, manganese and sulphur, and other chemical pollutants such as fertilisers) to produce potable water and its post-treatment conveyance and distribution.

The growing need for high quality potable water, especially in urban areas, has made the municipal segment a leading user of the water treatment equipment such as activated carbon systems, membrane systems and disinfection equipment. These equipment enhance the quality of water both for usage as well as disposal purposes.

**Exhibit 17: Water and waste water treatment market size - \$178 billion**



Source: GWI, ICICIdirect.com Research

The municipal & industrial water & waste water treatment market currently stands at \$178 billion globally

According to the Global Water Industry (GWI), the municipal and industrial water & wastewater treatment market has been estimated at \$178 billion globally in 2013. Of this, the market size of the industrial segment is estimated at \$50 billion. On the municipal side, the increasing burden of environmental regulations and the need to extract more value from the water cycle is driving the market. Growth in spending is being driven by the Asia Pacific market, with China overtaking the US as the world's largest spender.

Currently, waste water reuse stands at only 2.4% of all water withdrawal globally

The water treatment equipment market for the industrial segment is gaining momentum from surging activity in the thermal power sector (4000 m<sup>3</sup>/hr for 1000 MW plant - CEA) as water is required for ash handling and cooling water. Growing interest in the production of shale gas and oil & gas around the world is also expected to fuel the demand for water treatment equipment as a huge proportion of water is extracted while digging wells (1 barrel of oil extraction is accompanied by ~6 – 8 barrels of water which contain residual hydro carbon).

We believe the global dynamics of water supply and demand mean the water sector offers numerous growth opportunities for those with exposure to the value chain. Currently, wastewater reuse stands at only 2.41% of all water withdrawals globally (Source: FAO Aquastat).

**Indian water Industry**

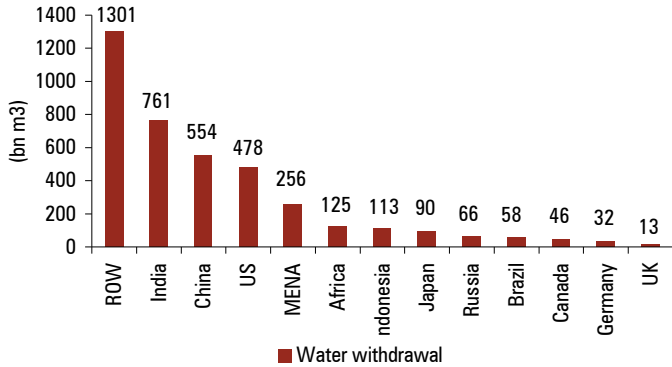
India's WTR ratio stands at 53%, which is highest in the world

With 16% of world population and ~4% of total water resources (water resources in India – 1,446 billion m<sup>3</sup>) India faces a severe problem of water scarcity as ground water resources are getting depleted due to high withdrawal-to-resources (WTR) ratio, rapid population growth, vast agriculture and growing urbanisation leading to more usage of water. India's population is expected to grow to 160 crore in 2030 that would further drive freshwater demand. This could make India a water scarce nation from current water stress nation. India annually withdraws ~761 billion m<sup>3</sup> of fresh water leading to ~53% WTR ratio that is the highest in the world. Growth in urbanisation is likely to witness another 22.5 crore people living in Indian cities by 2031 from the current urban population of 37.7 crore in 2011 (Source: New Climate Economy Report - UN). Today, India's cities require ~640 billion m<sup>3</sup> of water per annum. However, by 2030, this number is expected to grow to 1500 billion m<sup>3</sup> per annum.

Also, per capita water availability in India has declined from 5,177 m<sup>3</sup> in 1951 to 1,545 m<sup>3</sup> in 2011, which is much below the global average of

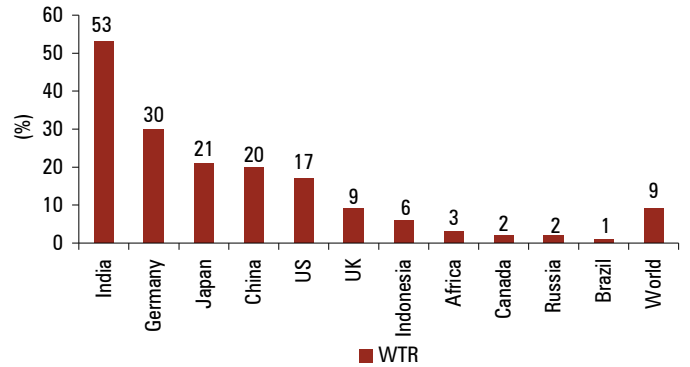
~6,000 m3. The per capita water availability is expected to further drop to 1,140 m3 by 2050 as demand is expected to increase consistently, going ahead. Furthermore, India treats only ~29% of its waste water compared to 60-70% in the US, China Japan and Saudi region. India generates ~ 38.3 billion m3 of waste water annually & treats only ~11.8 billion m3 of this capacity (Source: Central Pollution Control Board).

**Exhibit 18: Water withdrawal highest by India globally**



Source: Company, ICICIdirect.com Research

**Exhibit 19: India has highest water withdrawal to resource (WTR) ratio**



Source: Company, ICICIdirect.com Research

India treats only 30% of its total waste water, compared to global practice of ~60-70%

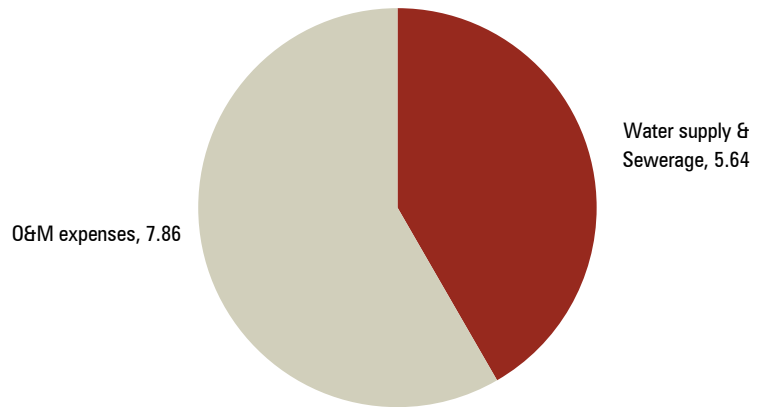
### Indian market offer robust growth opportunity

A McKinsey study expects agriculture to contribute 80% to India's water demand by 2030 (currently 83% contribution). However, industrial segment water demand growth is likely to be the highest with the segment's contribution increasing to 13% by 2030 from the current 11%. Government bodies also expect the industrial segment to post ~4% CAGR until 2025 vs. 1-2% CAGR in total water demand (Source: National Commission on Integrated Water Resources and Ministry of Water Resources).

As a trend of increasing urbanisation and industrialisation would increase the stress on demand for fresh water, it would also necessitate a significant investment in wastewater management by local municipal bodies. Currently, India has a water treatment capacity of 42,321 MLD that is capable of treating only 30% of its sewage-generated.

An investment of ₹ 5.64 lakh crore is estimated to be required for water supply and sewage treatment over 2011-31 while another ₹ 8 lakh crore is estimated to be needed for O&M services (source: India infrastructure report by High Powered Expert Committee – HPEC). Accordingly, we believe such a huge investment provides robust growth opportunity for water/waste water treatment companies like Wabag, which generate ~50% of its revenue from domestic market while contribution towards operating profit is much higher due to better domestic business margin (margin: EPC - 11.5%, O&M - 18%). Wabag has ~14% market share in the highly fragmented water and wastewater treatment industry in India.

**Exhibit 20: Total ₹ 13.5 lakh crore opportunity in Indian urban water treatment market up to 2031**



Source: Indian Infrastructure report, ICICIdirect.com Research

**Desalination market also offers strong opportunities**

Desalination of sea water removes the saline content and other harmful contents from sea water to make it suitable for drinking and industrial purposes. Factoring in the growing concerns for water stress, there has been a rapid increase in installation of new seawater desalination plants, with growth accelerating since 2000 (particularly in the Middle East) as economic growth there has taken off. Currently, only 1% of the world’s population is serviced with desalinated water and the desalination is currently practised in 150 countries. Globally, contracted desalination capacity has been growing at a CAGR of 16.8% since 1997 (Source: Ministry for Water & Electricity, Saudi Arabia) to reach a capacity of around 80.9 million m3/day (Source: GWI). Furthermore, 3800 old plants with capacity of ~6.4 mn m3/day have been taken offline or decommissioned, thus providing an opportunity for to the replacement market, which may have much higher capacity.

The largest desalination markets are Saudi Arabia, China, UAE, US, Israel, Spain, Libya, Algeria, India, Australia and Qatar.

**Exhibit 21: Desalination market by capacity**

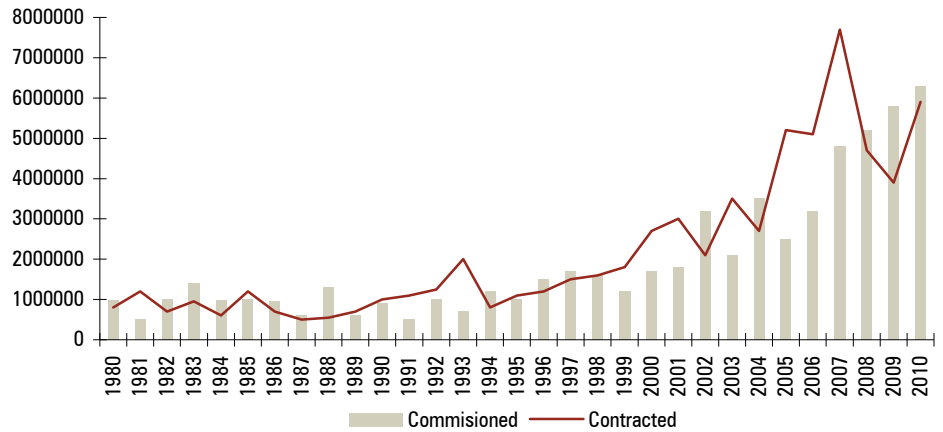
| Country      | Commissioned seawater desalination capacity m3/d |
|--------------|--|
| Saudi Arabia | 9,170,391  |
| UAE          | 8,381,299  |
| Spain        | 3,781,314  |
| Kuwait       | 2,586,761  |
| Algeria      | 2,364,055  |
| Australia    | 1,823,154  |
| Qatar        | 1,780,708  |
| Israel       | 1,532,723  |
| China        | 1,532,723  |
| Libya        | 1,048,424  |

Source: International Desalination Association, ICICIdirect.com Research

Currently, only 1% of the global population is serviced with desalinated water

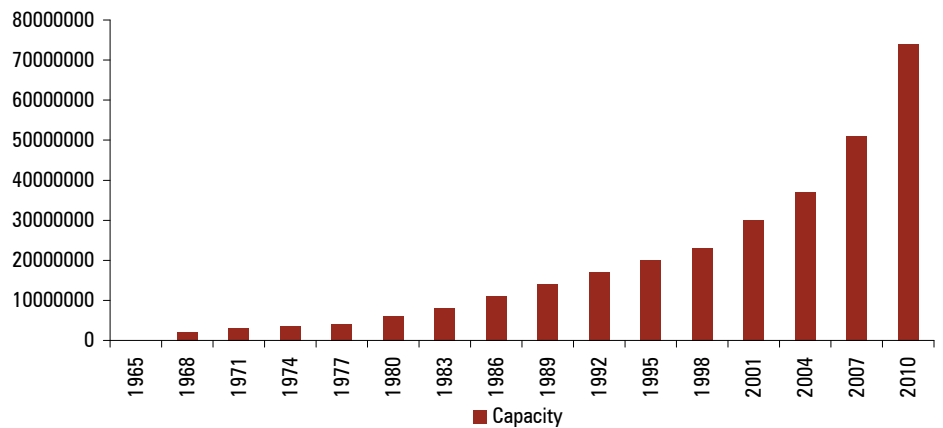
Saudi Arabia has the highest desalination capacity in the world, followed by the UAE and Kuwait

**Exhibit 22: Global desalination plants' capacity (m3/d) - new seawater desalination plant**



Source: Torishima Pump Mfg, ICICIdirect.com Research

**Exhibit 23: Global desalination plants' capacity (m3/d) - global installed desalination capacity**



Source: Torishima pump mfg, ICICIdirect.com Research

Reverse osmosis methodology is used on a mass scale in desalination plant due to its cost effectiveness

The two major desalination methods are reverse osmosis (RO) and multi-stage flash distillation (MSF) of which the RO method is used on a mass scale due to its lower energy consumption, lower construction cost and greater scalability due to the use of modular units. RO involves passing feedwater through a semi-permeable membrane (semi-permeable barrier sheets) at pressure so that salt remains on one side and allows pure water to pass to the other.

**Opportunity across desalination market - overseas and domestic**

Total 14% of the world's population will be serviced with desalination water in 2025 from the current 1%

As per UN, by 2025, 14% of the world's population will be serviced with desalinated water compared to only 1-3% as of today. Accordingly, the market for seawater and brackish desalination market is expected to grow at a CAGR of 11.9% over 2013-18 to reach \$7.2 billion. The cost of setting up a desalination project with a capacity of 10 mld (mn litre/day) comes to around ~₹50-55 crore.

With the focus on tapping the opportunity across the global desalination market, Wabag has opened a subsidiary – Wabag Spain – in FY13 that is likely to act as a growth engine for the company's desalination segment. Wabag has completed the EPC part of its flagship Nemmeli desalination plant in Chennai (₹ 533 crore) that has a capacity of 100 million litre per day (mld) while its seven year O&M contract worth ₹ 500 crore has started

The Tamil Nadu government plans to award two more desalination plant with a combined capacity of 550 mld near Chennai

fetching revenue from FY14. The Nemmeli project is Wabag's largest desalination project, which was completed in 2012. The plant sees intake of 164 mld of sea water while processed output is 104 mld to be supplied to South Chennai via L&T's distribution network. Furthermore, its 191 mld desalination plant at Al-Ghubra, Oman, is expected to be completed by FY15-16. During FY14, Wabag was included among the top 10 global desalination treatment companies by the global water industry (GWI).

According to Wabag, there are two additional upcoming desalination projects in Chennai - 150 mld plant in Nemmeli, adjoining the current 100 mld plant and another 400 mld desalination plant at Pattipulam, Chennai. The two projects could provide an opportunity of ~₹ 5000-5500 crore desalination order. Also, Gujarat, Karnataka, Seemandhra and West Bengal are working on a few desalination projects that are in the planning stage and could provide robust opportunity. With successful execution of the Nemmeli project, we believe Wabag has proved its credential in desalination projects and, thus has a bright chance of winning future upcoming orders.

## Investment Rationale

### Wabag well poised to benefit from investment across water treatment sector both in domestic and overseas market

With a presence across the entire value chain of water treatment, superior project execution skills with a track record of ~90 years, strong brand, 100+ patents and access to superior technology, we believe Wabag is well poised to benefit from expected investments across the water treatment industry. The company has till date successfully executed more than 2250 projects worldwide. Wabag is a market leader in the Indian water treatment industry and commands ~14% market share. Furthermore, the company is making its presence felt across other European and Middle East countries by successfully executing and bagging new order abroad, thus reflecting Wabag's consistent strong performance over the slow economic cycle as well. The company generates ~49% of its revenue and 50% of its orders from the overseas market. Currently, Wabag has an order backlog of ₹ 5,240 crore representing an order/sales ratio of 2.3x giving clarity over the next two years of which the high margin domestic order comprises 52%. As per the Wabag management, the \$6 billion Indian water treatment market (₹ 36,000 crore) is likely to grow 12-14%, going ahead, factoring in recent initiatives adopted by the government to build 100 smart cities, river linking projects, improved water supply and Swachh Bharat Abhiyan.

We believe the strong growth in the water treatment industry across various geographies will provide robust growth opportunities for Wabag, going ahead.

Wabag is strengthening its position across high growing markets

**Exhibit 24: Wabag building strong presence across high growing market**

| Countries    | Market (₹ crore) | CAGR (2007-2016) | Countries | Market (₹ crore) | CAGR (2007-2016) |
|--------------|------------------|------------------|-----------|------------------|------------------|
| US           | 642000           | 10-15%           | Algeria   | 24000            | 6-10%            |
| China        | 282000           | 6-10%            | Iran      | 22800            | 10-15%           |
| Italy        | 96000            | 10-15%           | Egypt     | 21000            | 6-10%            |
| Brazil       | 90000            | 10-15%           | Indonesia | 15000            | 10-15%           |
| Spain        | 66000            | 15%+             | Hungary   | 10800            | 15%+             |
| Saudi Arabia | 51000            | 6-10%            | Malaysia  | 10200            | 10-15%           |
| Mexico       | 43800            | 6-10%            | Morocco   | 9600             | 10-15%           |
| South Africa | 36600            | 6-10%            | Argentina | 7800             | 15%+             |
| India        | 35400            | 10-15%           | Romania   | 5400             | 15%+             |
| UAE          | 26400            | 10-15%           | Tunisia   | 4800             | 10-15%           |

Source: Company, ICICIdirect.com Research

Wabag's order-to-bill ratio stands at 2.3x, with domestic orders comprising 52% of the total order backlog

### Strong, diversified order book...

Wabag has a strong order backlog of ₹ 5,240 crore representing an order/sales ratio of 2.3x, thus providing strong visibility over the next two years. Furthermore, another ₹ 1,666 crore order is under the framework contract, which is likely to be finalised shortly. Wabag's current order backlog comprises 52% of high margin domestic orders (₹ 2,738 crore) where the company earns a margin of ~11% over EPC business (₹ 1,430 crore order backlog) and ~20% across its domestic O&M business (₹ 1,309 crore). Of the balance order backlog of ₹ 2,502 crore, overseas EPC order accounts for 39% (₹ 2,064 crore) while overseas O&M segment accounts for only 8% of the total order book (₹ 438 crore). The company's order intake in FY14 increased 56% YoY to ₹ 3,354 crore, driven by 66% YoY increase across overseas intake. Domestic order intake growth was moderate at 5% YoY in FY14, due to postponement or slow capex by the industrial segment resulting in 45% YoY decline across order intake. This was, however, partially offset by 79% YoY growth across order intake in

the municipal segment. The order intake growth across the overseas segment was driven by significant growth across both municipal and industrial activity overseas.

**Exhibit 25: Key contracts in order book including framework orders**

| Project details                             | ₹ crore |
|---|---------|
| Nemmeli, Chennai - 100 MLD Desalination O&M | 468.4   |
| Ulhasnagar, Mumbai - 195 MLD WTP with O&M   | 330.0   |
| OWSSB, Orissa - 100 MLD STP                 | 275.5   |
| DAWASA, Tanzania – 130 MLD WTP              | 237.7   |
| Al Ghubrah, Oman - 191MLD SWRO              | 146.5   |
| BWSSB, Belandur - 90 MLD WWTP               | 224.8   |
| Melamchi, Nepal – 85 MLD WTP                | 151.8   |
| Izmir, Turkey – 360 MLD WTP                 | 107.2   |
| Ilugin, Phillipines–100 MLD STP             | 125.4   |
| Madinaty, Egypt – 40 MLD WWTP               | 108.0   |

Source: Company, ICICIdirect.com Research

Key contracts account for ~40-45% of the total order backlog and contribute a similar portion across the revenue recognition annually.

**Exhibit 26: Key orders received in FY14**

| Project details   | ₹ crore       |
|---|---------------|
| OWSSB, Odisha - 100 MLD STP   | 325.0         |
| Reliance Industries, Jamnagar - Industrial TP   | 295.0         |
| BWSSB, Belandur - 90 MLD WWTP   | 250.0         |
| DAWASA, Tanzania – 130 MLD WTP  | 245.0         |
| Melamchi, Nepal - 85 MLD WTP  | 243.3         |
| Ilugin, Phillipines–100 MLD STP   | 148.0         |
| Izmir, Turkey – 360 MLD WTP   | 146.8         |
| Madinaty, Egypt – 40 MLD WWTP   | 132.0         |
| WTP, Aurangabad - 192 MLD WTP   | 135.0         |
| GECOL, Libya - Demineralisation & electro chlorination plants                         | 119.5         |
| CMWSSB, Chennai - pumping station & pipeline works for water supply & sewerage scheme | 114.8         |
| <b>Total</b>  | <b>2154.4</b> |

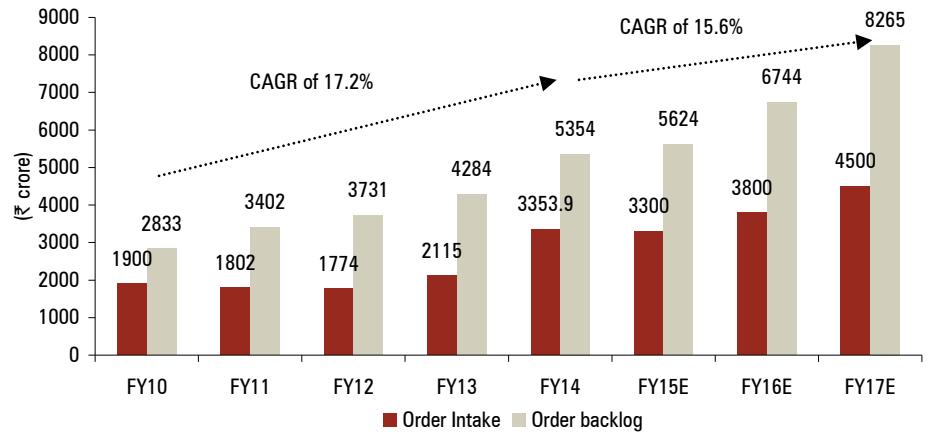
Historically, Wabag's order inflow and order backlog have increased at a CAGR of 15.3% and 17.2%, respectively, over FY11-14 while the order intake for any given year has surpassed the management guidance. For FY15, the management expects an order intake of ₹ 3,300 crore mainly driven by growth across overseas business. While the management expects a moderate order intake across its domestic business in FY15, the same is likely to see robust growth in FY16E and FY17E driven by the new government's initiatives to build 100 smart cities, Ganga cleaning project and river linking projects. Maharashtra is likely to float seven or eight tenders for sewage water treatment projects totalling ~₹ 2000-2,500 crore over the next year. Furthermore, as discussed above, another 550 mld desalination project is likely to get awarded over the next six to 12 months, which could provide a business opportunity of ~₹ 5,500 crore.

With 14% market share in the domestic segment, Wabag is likely to benefit from the expected investment across the water treatment industry. Thus, we believe the order intake for FY15E is likely to be ₹ 3,300 crore while in FY16 and FY17 the order intake are expected at ₹ 3,800 crore and ₹ 4,500 crore, respectively.

Maharashtra is likely to award ₹ 2500 crore STP award while Tamil Nadu is expected to award ₹ 5,500 crore desalination orders over the next six to 12 months



**Exhibit 27: Order intake and backlog**



Source: Company, ICICIdirect.com Research

**De-risked, asset light business model**

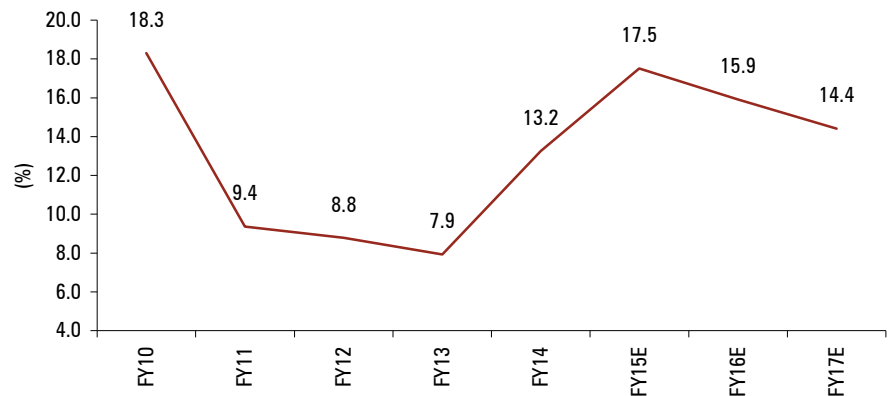
Wabag bids for projects that are funded by the government or multi level agencies

The company has a widespread geographical presence in over 22 countries, thus minimising the risk of excessive dependence on a particular country. Furthermore, while bidding in the domestic market the company select projects that are funded either by governments or various multilateral and bilateral agencies. In contrast, Wabag’s overseas projects are backed by letters of credit (LC) from premier European banks, which ensures smooth project execution and revenue recognition.

Wabag has a gross fixed asset-to-capital employed ratio of ~13%

Furthermore, Wabag focuses only on the design, engineering, project management and O&M elements (20-30% of the overall order size) while it outsources civil construction and erection jobs (70-75% of the order scope), thus adopting an asset-light EPC model. As a result, the company’s gross fixed assets have been only 13.2% (FY14) of its total capital employed. This trend is expected to continue as Wabag is likely to continue to operate on its asset light model, barring a few BOOT projects where it is expected to own only 5-10% of equity. By refraining from following a capital intensive model and focusing more on technical aspects of projects, the company has been able to maintain a debt-free balance sheet and also generate reasonable return of 17.8% - RoCE and 12.7% RoE in FY14.

**Exhibit 28: Gross block to capital employed ratio**

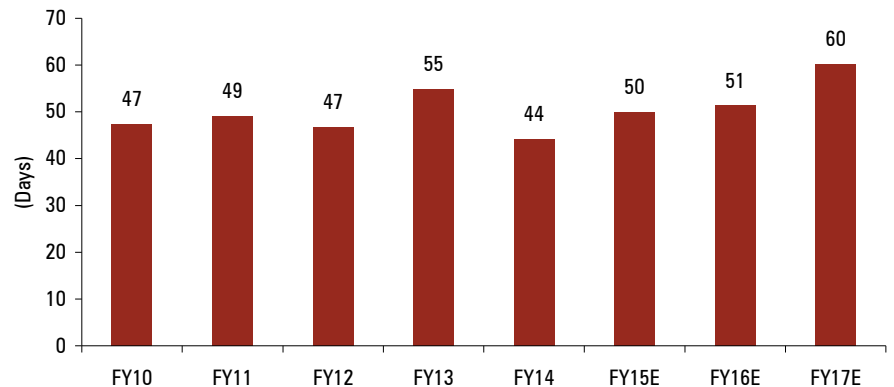


Source: Company, ICICIdirect.com Research

Working capital days has been maintained at 45–50 days over FY10-14

Furthermore, the company enters into back-to-back contracts with vendors, which enables it to maintain a reasonable working capital cycle of ~50 days. The FCF was impacted in FY12 with a negative ₹ 115 crore owing to an increase in higher receivables from the Chennai desalination project, which was, however, subsequently settled by the company in later years. Wabag's net working capital days reduced to 44 days in FY14 from 55 days in FY13 due to project mix and better recovery efficiency. Going ahead, we expect the company to maintain its working capital cycle in the range of 50-60 days as guided by the management.

**Exhibit 29: Working capital days**



Source: Company, ICICIdirect.com Research

### Growth aided by strategic technical collaborations and JVs

Wabag has consistently looked for strategic collaborations either in technical or joint ventures to grab upcoming opportunities in the water sector. The company entered into a JV with Sumitomo Japan, a leading asset developer, in 2011 to participate in larger PPP/BOOT projects. Sumitomo will bring in the cheaper Japanese fund and would own ~85-90% stake in the BOOT/PPP project while the EPC part of the project would be executed by Wabag along with the balance equity stake. The collaboration has bagged a 191 MLD desalination plant in Al-Ghubra, Oman in FY13 where Wabag owns a 10% equity stake along with a project execution for a significant part (along with other players - Cadagua of Spain and Galfar of Oman). As a long term commitment, Sumitomo own a 5% equity stake in Wabag. The company has also entered into a similar kind of collaboration with Zuwawi, Oman to tap O&M services in the Oman region.

Furthermore, in November 2014, Wabag entered into a long term agreement with Royal HaskoningDHV of Netherlands for technology cooperation. This agreement provides for use of Nereda waste water treatment technology, which is an innovative technology that is chemical free, consumes less energy with less footprint and offers more cost effective solutions in waste water. Initially, Wabag intends to use this new technology to address the Indian and Swiss markets. Over time, the geographical scope is likely to be enlarged.

We believe that such a strategic collaboration will not only strengthen Wabag's existing technical expertise but also help in winning project in new areas, which would enhance its global market share.

### Wabag continues to deliver robust performance despite operating across competitive and fragmented market

The Indian water treatment Industry is highly competitive and fragmented with over 250 odd players operating in the Indian market (both organised as well as unorganised). Wabag is the largest pure player in the water treatment industry whereas other large companies like L&T and Thermax have a few of its subsidiaries involved in this segment. The company faces stiff competition from Degremont India - a subsidiary of Suez Environment, Veolia Water, L&T, Thermax, Pratibha Industries, ION Exchange, Hindustan Dorr Oliver, Voltas, Siemens Water, etc. Furthermore, many construction companies like IVRCL have also formed JVs with foreign player like Befesa Agua to enter the water treatment market of India. However, Wabag's technical capability, execution track record, management integrity and strong balance sheet strength have enabled it to win and successfully execute large water treatment and desalination projects.

#### Exhibit 30: Peer presence across various segment

| Company               | Industrial water | Municipal water | Desalination | Drinking water |
|-----------------------|------------------|-----------------|--------------|----------------|
| Va Tech Wabag         | ✓                | ✓               | ✓            | ✓              |
| Suez Envi             | ✓                | ✓               | ✓            | ✓              |
| Veolia Environment    | ✓                | ✓               | ✓            | ✓              |
| Ion Exchange          | ✓                | ✓               | ✓            | ✓              |
| Hindustan Dorr Oliver | ✓                | ✓               | ✓            | ✓              |
| L&T                   | ✓                | ✓               |              |                |
| Pratibha Ind.         |                  | ✓               |              | ✓              |
| Thermax               | ✓                | ✓               | ✓            | ✓              |
| Voltas                | ✓                |                 |              |                |
| IVRCL                 | ✓                | ✓               | ✓            | ✓              |

Source: Company, ICICIdirect.com Research

Unlike Wabag, its' peers operate with a diversified business model having a presence across road, construction and other infra projects. Consequently, the peers have a higher D/E ratio compared to Wabag.

#### Exhibit 31: Peer comparison

| Company (FY14)      | Mkt Cap | Revenue | EBITDA% | PAT    | D/E |
|---------------------|---------|---------|---------|--------|-----|
| Va Tech Wabag       | 3606    | 2239    | 9.3     | 107    | 0.2 |
| Suez Envi*          | 59707   | 114292  | 14.4    | 2749   | 2.1 |
| Veolia Environment* | 64575   | 174163  | 8.5     | (1056) | 1.5 |
| Waste Management *  | 133282  | 82061   | 17.2    | 575    | 1.8 |
| Ion Exchange        | 331     | 793     | 4.3     | 5      | 0.6 |
| L&T                 | 151876  | 66580   | 10.9    | 5247   | 1.5 |
| Thermax             | 12660   | 4302    | 10.2    | 303    | 0.1 |
| Voltas              | 8977    | 5244    | 5.1     | 245    | 0.1 |

Source: Company, ICICIdirect.com Research  
 Figures in Crore, \* CY 13 figures

Wabag's peer has a presence across various infra segments like road, construction, etc. leading to high D/E ratio

### Decentralisation of operation leads to turnaround in international units like Philippines, Turkey

Considering the higher cost of operation in Austria, the company started shifting its operation centre from Austria to local markets where projects have been awarded. As per the management, the employee cost in Turkey was a fourth of that in Austria. As the company outsources the civil construction work and undertakes designing, technical, O&M and consultancy, employee cost accounts for a major portion of its expenses. By shifting its operation base to the low cost Indian and East European local markets, Wabag has managed to bring about a turnaround in its Turkey, Philippines, Romania and Macao units. We believe the company's effort to decentralise its operation from a high cost economy to a low cost emerging market will not only continue to bring in cost efficiency but also get it closer to its customers. We expect VA Tech's subsidiaries' EBITDA margin to improve 80-90 bps by FY16 from the current 4.3%.

Decentralisation of operation is likely to improve subsidiary's margin by 80-90 bps over the next two years

#### Exhibit 32: Subsidiary's performance improves over the years

| Name of the Subsidiary                                | PAT In ₹ lakhs |         |         |        |                  |
|---|----------------|---------|---------|--------|------------------|
|   | FY2011         | FY2012  | FY2013  | FY2014 | % change in FY14 |
| VA Tech Wabag (Singapore) Pte. Ltd                    | (13.5)         | 89.0    | 37.7    | 452.7  | 1101.9           |
| VA Tech Wabag (Hongkong) Ltd.                         | (30.0)         | (98.5)  | (38.9)  | (11.8) | 69.8             |
| VA Tech Wabag GmbH, Vienna                            | (727.5)        | 556.1   | 32.8    | 40.4   | 23.0             |
| VA Tech Wabag Deutschland, GmbH                       | 2.0            | 15.5    | (622.1) | (45.7) | 92.7             |
| Wabag water services (Macao)ltd., Macao               | 21.6           | 68.6    | 64.8    | 128.6  | 98.3             |
| WABAG Water Services S.R.L., Romania                  | 463.8          | 399.8   | 558.0   | 976.2  | 74.9             |
| VA Tech Wabag Teknolojisi ve Ticaret Ltd, Turkey      | (91.9)         | (321.7) | (387.7) | 25.4   | 106.5            |
| VA Tech Wabag Muscat LLC, Oman                        |                | 103.7   | 9.9     | 151.8  | 1440.0           |
| VA Tech Wabag (Philippines) Inc.                      |                | 203.8   | 26.6    | 513.0  | 1830.2           |
| Ujams Wastewater Treatment Company (Pty) Ltd, Namibia |                |         | (7.0)   | 247.2  | 3652.3           |

Source: Company, ICICIdirect.com Research

### Shift of operation to developing nations will lead to margin improvement

Wabag generates EBITDA margins at ~9.5% on a consolidated basis. While margins across its O&M segment are almost double (i.e. ~19-20%) the margin across its EPC segment (~8.5%), proportion of O&M revenues in total sales constitutes only 20%. Currently, Wabag provides O&M services in only a few geographies like India, Switzerland and Turkey. The company currently undertakes O&M activity for more than 60 plants in India. Going ahead, the management expects to expand this service to other geographies as well and expects to increase the share proportion of O&M revenue to 25% of its total sales over the next two or three years.

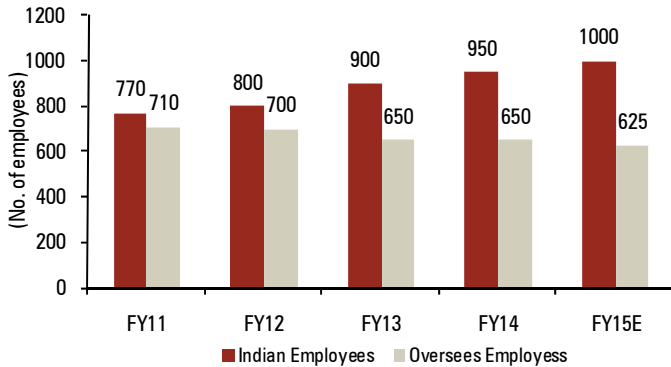
Furthermore, by shifting the base of its European operations from Austria to low cost local markets across East European countries and India, the company seeks to make significant cost saving, thus making its international industrial units viable. Furthermore, Wabag's total permanent employees have more or less remained constant at ~1,600 in the past three or four years but the composition has changed. The share of Indian employees has increased from 51% in FY10 to ~63% in FY14 (950 Indian employees of the total 1600). Also, the company plans to increase its employee strength by only ~40-50 people to support its 15.5% CAGR of domestic revenue over FY14-17E. Accordingly, the management expects a margin improvement of ~70 bps over the next two years, with an aim to achieve over double digit margin (i.e. +10%) by FY17E. Factoring in the same, we expect EBITDA margins to improve to 9.6% in FY15E, 10.0% in FY16E and 10.2% in FY17E from 9.3% in FY14.

Wabag plans to increase its share of O&M revenue to 25% from the current 20% of its total sales

Composition of low cost Indian employees increased from 51% in FY10 to 63% in FY14

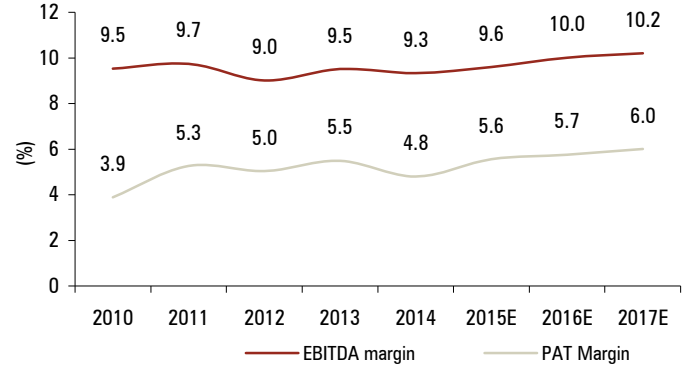
The company, however, has hired 800 locals in Istanbul as contract labourers for executing its €38 million STP project (~₹ 300 crore) for the entire city. The project execution period is about two to three years.

**Exhibit 33: Share of Indian employees increases over the years**



Source: Company, ICICIdirect.com Research

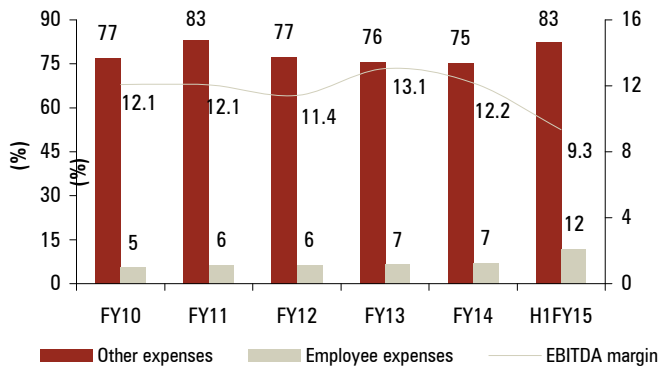
**Exhibit 34: Margin trend**



Source: Company, ICICIdirect.com Research

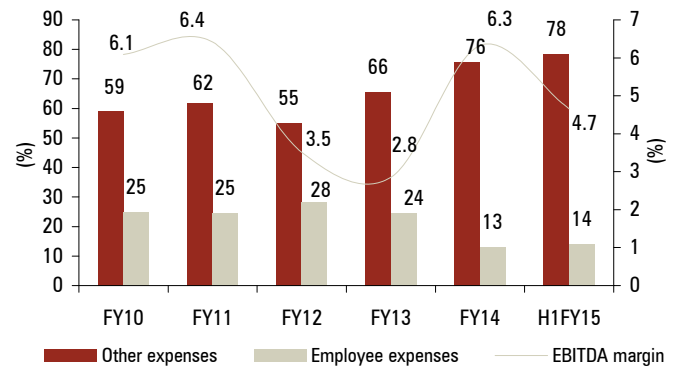
Wabag's employee cost in the domestic business accounts for 12-13% of revenues compared to ~25% of revenues across its overseas business. Consequently, the shift of operation to a low cost economy would lead to an improvement in margins, going ahead.

**Exhibit 35: Standalone operating performance**



Source: Company, ICICIdirect.com Research

**Exhibit 36: Overseas business operating performance**



Source: Company, ICICIdirect.com Research

### **Government's new initiative like Ganga cleaning, Swachh Bharat to invite more investment in sector...**

Ganga Namami project may provide a business opportunity of ₹ 50,000 crore over 5 to 7 years

The NDA government's recent initiative related to water and river treatment like Namami Ganga – Ganga cleaning project, Swachh Bharat Abhiyan – related to proper sanitation, etc. could provide robust growth opportunity for water treatment industries. In order to achieve the same, the government is expected to spend significantly on the sector over the next few years. For the Twelfth Plan, a total outlay of ~₹ 2.72-3.03 lakh crore has been envisaged for rural water supply across India. Furthermore, the government has provided ₹ 3,600 crore for the National Rural Drinking Water programme in the FY15 Budget and envisaged another ₹ 2,000 crore for the Integrated Ganga Conservation Mission that is to be used for conservation of the river, restricting the discharge of sewerage water directly into the river, ghat development and beautification of the surrounding area. As per the expert committee, additional treatment capacity of ~10,000 mld for cleaning the Ganga and its tributaries is required. This would entail an incremental capex of nearly ₹ 50,000 crore over the next five to seven years.

### **Delhi Jal Board drafts ₹ 19,500 crore Sewage Master Plan**

The Delhi government has drafted a ₹ 19,500 crore master plan that aims to treat the capital's waste water sewerage system and reduce pollution in Yamuna. Delhi currently has 35 WWTPs which can at best deal with only 40% of the total sewage generated every day i.e. 1,580 MLD is treated of the total 3,800 MLD. The rest of the discharge flows directly into the Yamuna through rainwater drains. The proposed blueprint plans to set up a 10,000 km pipe network, 75 WWTPs and integration of various ongoing sewerage projects. The government plans to spend the entire ₹ 19,500 crore tender over next three to four years to ensure 100% WWT and no raw waste flows into the river Yamuna.

We believe such a massive investment on the Ganga Namami and Yamuna project alone can provide a huge market opportunity for a company like Wabag, which has 14% market share in the domestic industry. However, as these initiatives are at a very nascent stage, we have not considered the same in our future assumption.

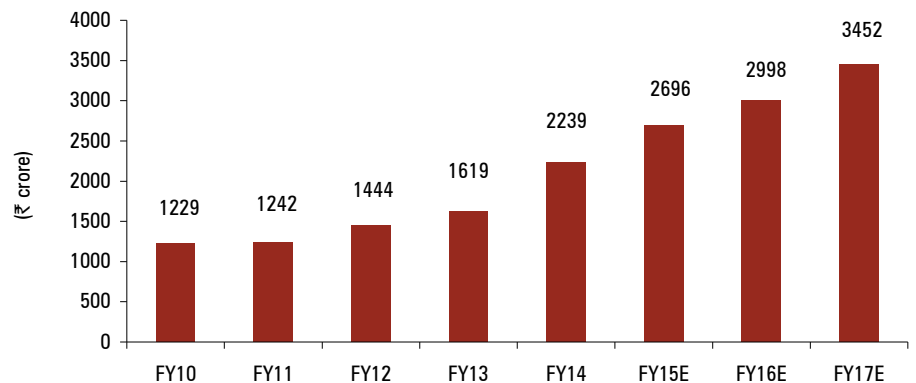
## Financial Overview

### Revenue will be driven by robust order backlog and industry opportunity....

We expect revenues to witness a robust 15.5% CAGR during FY14-17E to reach ₹ 3,452 crore

Wabag's revenue has increased at a CAGR of 16.2% over FY10-14 driven by consistent growth in order intake and the company's strong execution capability. Its order backlog has increased at a CAGR of 17.2% in FY10-14 driven by the company's strong domestic and increasing global presence. In FY14, revenues increased 38.3% YoY to ₹ 2,239 crore, which surpassed the management's initial target for the year. Furthermore, in spite of strong revenue growth over the years, the company has consistently maintained a book-to-bill ratio of over 2.3x, thus providing healthy visibility for the next two years. Going ahead, the management expects an order intake of ₹ 3,200-3,400 crore for FY15E. While the order intake from international market is likely to increase 17% YoY to ₹ 2,728 crore, domestic orders intake is likely to decline 4% YoY to 2,897 crore due to a delay in capex plan by domestic industries and municipal segment. The same is expected to pick up only after H2FY15. Considering the same, we expect Wabag to report an order intake of ₹ 3,300 crore in FY15E vs. ₹ 3,354 crore in FY14. However, for FY16E and FY17E, we expect a strong intake of 3,800 crore (up 15.2% YoY) and ₹ 4,500 crore (up 18.4% YoY), respectively, to reach an order backlog of ₹ 8,265 crore in FY17E. Factoring in the same, we expect revenues to witness a strong CAGR of 15.5% over FY14-17E to ₹ 3,452 crore.

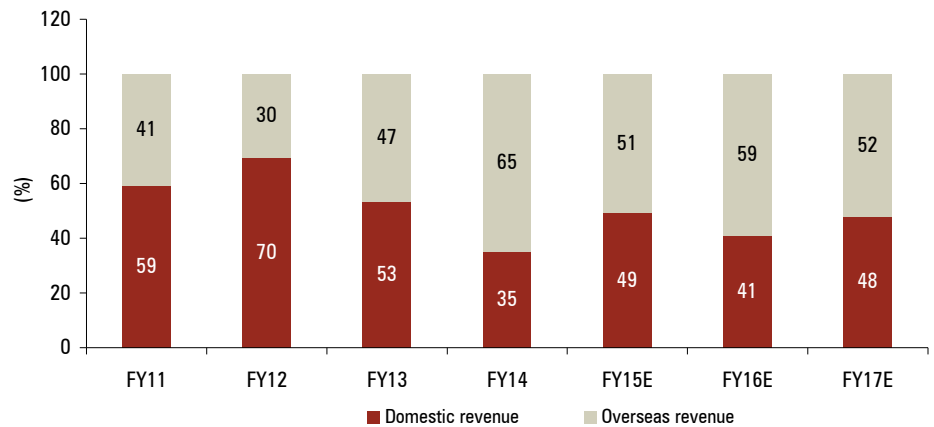
#### Exhibit 37: Revenue growth to be driven by strong order intake, going ahead...



Source: Company, ICICIdirect.com Research

Overseas revenues are expected to continue to account for more than 50% of the total revenue, going ahead, due to lower ordering in the domestic market.

**Exhibit 38: Revenue composition**



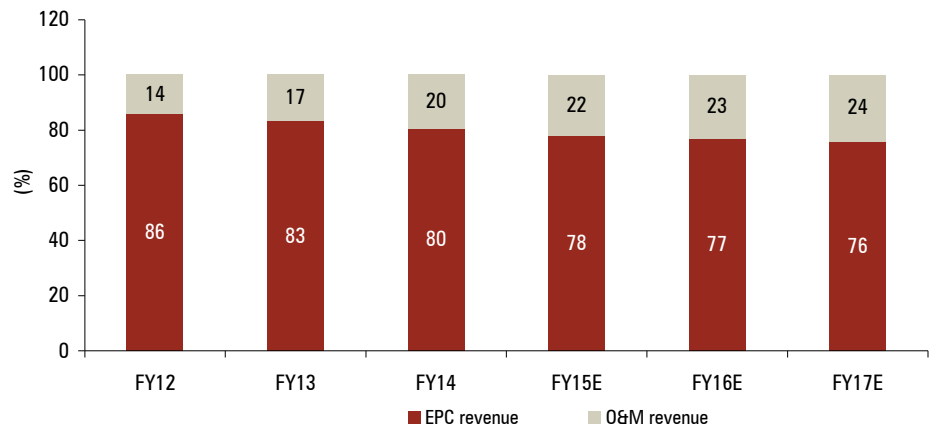
Source: Company, ICICIdirect.com Research

**Margin likely to improve 70 bps over next two years...**

We expect an EBITDA margin expansion of 90 bps to 10.2% over FY14-17E. Consequently, EBITDA is expected to grow at 19.0% CAGR to ₹ 352.2 crore during FY14-17E

Wabag has maintained an EBITDA margin of ~9.5% in FY10-14. Going ahead, margins are likely to improve on the back of shifting of its operations base from high cost countries to low cost local markets. This would be further aided by increasing the contribution of O&M revenue from the current 20% to ~25% of total revenue over the next two or three years. Accordingly, we expect EBITDA margins to improve to 9.6% in FY15E from 9.3% in FY14. We expect margins to improve further by 40 bps and 20 bps in FY16E and FY17E, respectively, to 10.0% and 10.2%, respectively. Overall, EBITDA is expected to grow at a CAGR of 19.0% to ₹ 352.2 crore during FY14-17E.

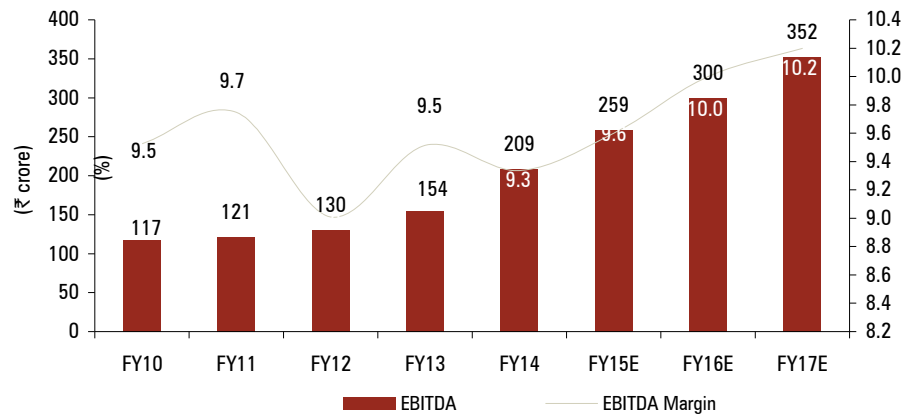
**Exhibit 39: Share of O&M revenue to improve, going ahead**



Source: Company, ICICIdirect.com Research



**Exhibit 40: EBITDA and EBITDA margin trend**



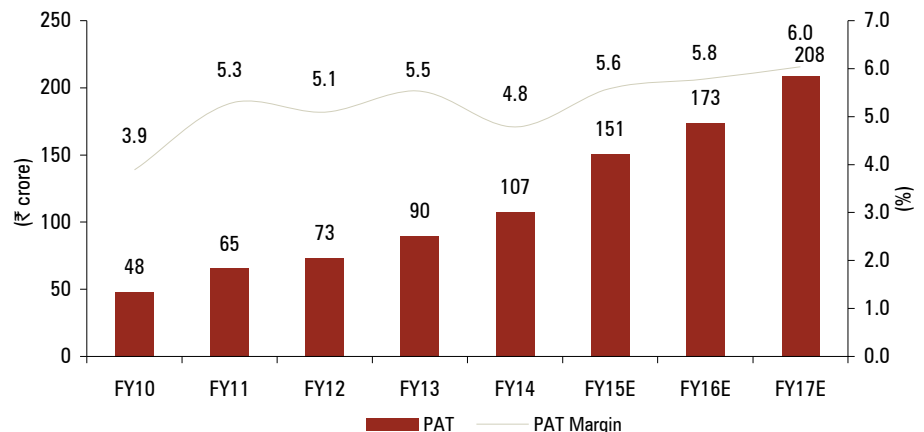
Source: Company, ICICIdirect.com Research

### PAT to grow at 25% CAGR during FY14-17E...

We expect PAT to post a healthy CAGR of 24.8% over FY14-17E to ₹ 208.5 crore

The PAT has increased at a CAGR of 22.3% over FY10-14 driven by healthy growth across its topline and debt free balance sheet (at the net level) leading to negligible interest expenses. Going ahead, we envisage PAT will grow at a CAGR of 24.8% during FY14-17E to ₹ 208.5 crore aided mainly by the strong topline and improved margin.

**Exhibit 41: PAT growth trend**

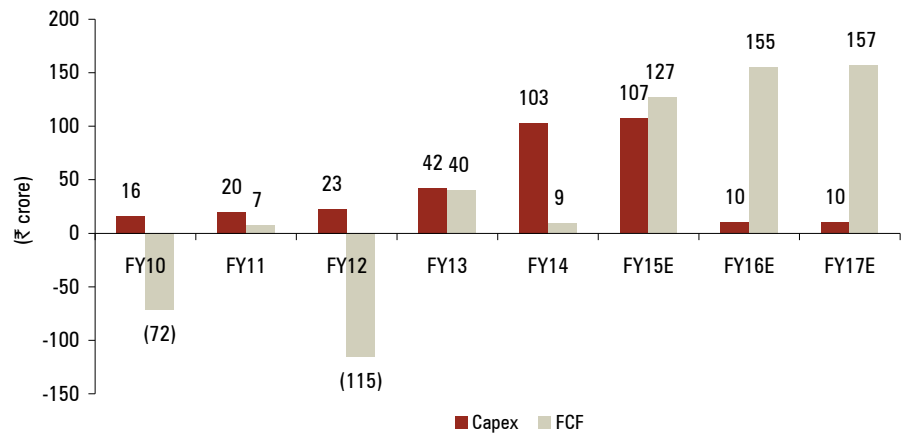


Source: Company, ICICIdirect.com Research

### Free cash flow to remain positive owing to asset light business model

Factoring in Wabag's asset light business model, we expect the company's free cash flow (FCF) to remain positive over FY15E-17E. The company is likely to incur a capex to the tune of ~₹ 130 crore over FY15E-17E of which ₹ 107 crore is likely to be incurred in FY15E owing to a BOOT project in Namibia, Oman. Post this, Wabag will incur a minor capex of ~₹ 10 crore per annum related to O&M activity. Accordingly, we expect working capital days to remain at ~50-60 days over FY15-17E. We expect Wabag to generate an FCF of ₹ 127 crore, ₹ 155 crore and ₹ 101 crore for FY15E, FY16E and FY17E, respectively.

**Exhibit 42: Capex & FCF trend**



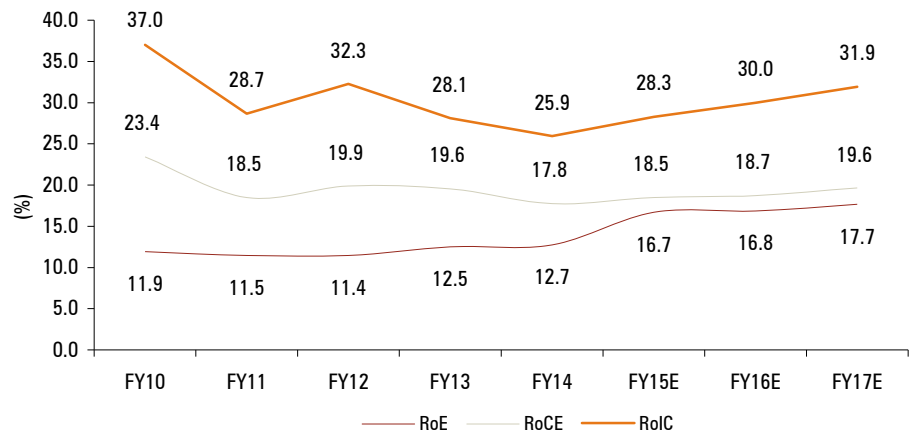
Source: Company, ICICIdirect.com Research

We anticipate an increase of 500 bps in RoE and 180 bps in RoCE over FY14-17E mainly driven by an improvement in margins

**Return ratios likely to improve over FY15E-17E**

With no major capex requirement over FY15E-17E, Wabag's D/E is likely to remain subdued at ~0.2x. Furthermore, with an improvement in margin over FY14-17E (driven by an increase in share of O&M contribution to overall revenues, turnaround at international industrial units and increased contribution from the domestic segment), the return ratios are likely to improve significantly. We expect Wabag's RoE and RoCE to improve from 12.7% and 17.8% in FY14 to 17.7% and 19.6%, respectively, in FY17E. The return on invested capital (RoIC) is expected to improve from 25.9% in FY14 to 30.3% in FY17E.

**Exhibit 43: RoE expected to increase on back of improved operational performances**



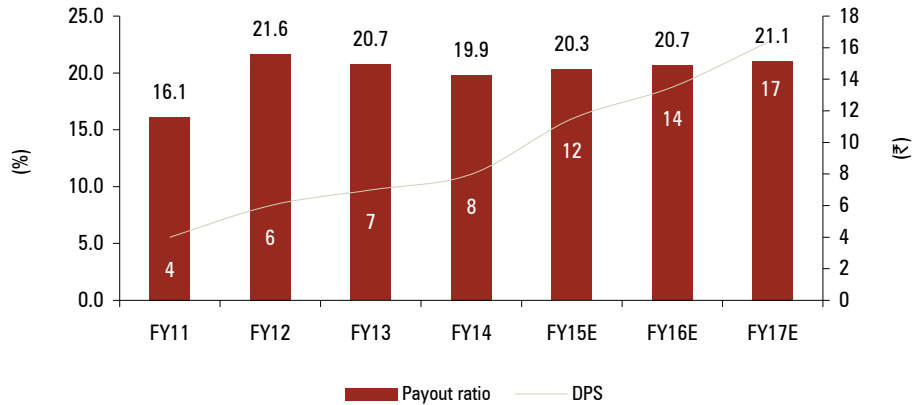
Source: Company, ICICIdirect.com Research

Wabag pays out ~20% of its earnings as dividends to investors. We expect a similar payout ratio, going ahead

**Consistency in dividend payout...**

Wabag pays out ~20% of its earnings as dividend to investors as reinvestment requirements are small given the asset-light nature of the business. The dividend yield for FY14 (dividend of ₹ 8/share) was 0.4%. With no major capex requirement ahead and the likely robust earning growth, we believe the management would continue to maintain a similar dividend payout ratio of ~20% over FY15E-17E. Accordingly, we expect dividend per share (DPS) to increase to ₹ 17/share in FY17E from ₹ 8/share in FY14.

**Exhibit 44: Dividend payout track record...**



Source: Company, ICICIdirect.com Research

## Risks & Concerns

### Diversion from asset light business model to capital intensive model...

Wabag's balance sheet strength lies in its asset light business approach. This has so far helped the company to generate positive cash flow and maintain a comfortable D/E of 0.2x. Historically, the company has collaborated with developers by taking a minor equity in a few BOOT projects. While the management has maintained that it would like to continue with this approach, any change in the company's stance to adopt a capital intensive model to grab projects is likely to impact the stock's key investment criteria.

### Consistent order sluggishness may impact our projections...

Wabag has consistently delivered strong performances globally in winning new orders. However, the order intake in H1FY15 remained sluggish, which was expected by the management as well. Any further delay or postponement of project awards would impact our order intake assumption of ~₹ 3,300 crore for FY15E and, thus, our future revenue projection. A 10% fall in order intake over FY15E-16E would lead to a subdued revenue and PAT CAGR of 12.0% and 19.4%, respectively, over FY14-17E vs. our assumption of 15.5% and 24.8% CAGR, respectively.

#### Exhibit 45: Total ~10% fall in order intake may impact FY17E EPS by 12%

|                         | Our assumption |       | ~10% fall in order intake |       |
|-------------------------|----------------|-------|---------------------------|-------|
|                         | FY15E          | FY16E | FY15E                     | FY16E |
| Order Intake (₹ crore)  | 3300           | 3800  | 3000                      | 3400  |
| Revenue CAGR FY14-FY17E | 15.5%          |       | 12.0%                     |       |
| PAT CAGR FY14 - FY17E   | 24.8%          |       | 19.4%                     |       |
| FY17E EPS               | 78.4           |       | 68.9                      |       |
| Downside (%)            |                |       | (12.0)                    |       |

Source: Company, ICICIdirect.com Research

### Political risk across various geographies...

The company operates and has ongoing projects across various geographies globally, which exposes the company to political risk. Any political uncertainty in regions where the company has ongoing operations could hamper its profitability. A point in case is the recent unrest in Libya due to which Wabag's projects over there were affected. Wabag has won a few framework contracts in Libya, which is likely to get cancelled. Any such prolonged political risk in any particular region could impact Wabag's project execution and, thus, financials, going ahead.

### Rise in working capital...

Wabag's clients make payments throughout the life of the project based on the level of work completed. The clients also need retention money. Any delay on part of clients in releasing this money may affect Wabag's working capital, as reflected in FY12 when debtors from Nemmeli project increased significantly. While the company managed to resettle the same in subsequent years, any such delay in payment realisation from project owners may impact Wabag's working capital cycle.

### Dependent on sub-contractors for execution of projects...

As the company outsources the civil construction and equipment orders to third party, it extensively relies on them for timely execution of projects. While Wabag has delivered strong project execution skills till date, going ahead, any delay or failure of the third party to deliver the equipments in a timely manner could lead to cost overruns. This could impact the project execution cycle and, hence, the revenue booking and profitability of the respective projects.

We initiate coverage on Wabag with a **BUY** recommendation with a target price of ₹ 1,646/share. Our target price implies 0.9x PEG over FY14-FY17E earning CAGR with a target P/E multiple of 21x for FY17E EPS.

## Valuation

Going ahead, we expect Wabag's growth to come from a revival in industrial capex across Indian and global markets. Wabag's revenue is expected to grow at a CAGR of 15.5% over FY14-17E while PAT is expected to grow at a CAGR of 22.7% over the same period coupled with a margin improvement of 90 bps over FY14-17E. The margin improvement is expected to be driven by the turnaround of its European subsidiary and a shift of its high cost international business operations to the low cost Indian territory. This, we believe, will lead to a healthy return ratio profile, going ahead, as RoE is expected to improve to 17.7% in FY17 from 12.7% in FY14. Hence, we believe Wabag will witness quality earning growth, which would lead to a re-rating of investment multiples. Hence, we ascribe 0.9x PEG over FY14-FY17E earning CAGR to arrive at a target multiple of 22x. Consequently, we arrive at a fair value of ₹ 1,725 and initiate coverage on the same with a **BUY** recommendation.

On a relative basis, Wabag operates as a pure water player unlike its peers that have a presence across various infra segments that have impacted their balance sheet strength. Accordingly, Wabag appears relatively attractive on an EV/EBITDA level as well, trading at 9.6x FY17E EBITDA compared to average EV/EBITDA of ~15x of domestic peers. Factoring in highest earning CAGR over FY14-17E and a relatively lower P/E multiple, we believe Wabag is attractively priced compared to its domestic and overseas peers.

**Exhibit 46: Relative analysis**

| Company             | FY14 - FY17E |               |               | D/E | FY17E     |
|---------------------|--------------|---------------|---------------|-----|-----------|
|                     | PAT CAGR (%) | FY17E P/E (x) | FY17E RoE (%) |     | EV/EBITDA |
| Va Tech Wabag       | 24.8         | 18.5          | 17.7          | 0.2 | 9.6       |
| Suez Envi*          | 17.1         | 15.2          | 7.9           | 2.1 | 6.1       |
| Veolia Environment* | NA           | 15.9          | 6.7           | 1.5 | 7.0       |
| Waste Management *  | 20.3         | 17.3          | 23.0          | 1.8 | 8.7       |
| Ion Exchange        | NA           | NA            | NA            | 0.6 | NA        |
| L&T                 | 7.2          | 23.6          | 15.0          | 1.5 | 15.7      |
| Thermax             | 16.8         | 23.4          | 18.0          | 0.1 | 16.0      |
| Voltas              | 23.0         | 19.8          | 17.0          | 0.1 | 13.5      |

Source: Company, ICICIdirect.com Research  
 Figures in Crore, \* CY 13 figures

## Sensitivity analysis

We have constructed a bull and bear-case scenario analysis around our financial projections and multiples for Wabag to better assess the risk-reward outcomes.

### Bull case scenario...

In the bull case, we assume more aggressive order intake and execution by the company over FY15E-17E. Assuming an order intake of ₹ 3,600 crore in FY15E (vs. ₹ 3,300 crore in base case) and ₹ 4,200 crore in FY16E (vs. ₹ 3,800 crore in base case) we expect revenues to grow at a CAGR of 19.4% over FY14-17E (vs. 15.5% in base case) to reach ₹ 3,808 crore. On the earnings front, we expect PAT to grow at a CAGR of 29.4% over the same period to reach ₹ 233 crore. The RoE is expected to improve ~640 bps to 19.2%. For the bull case, we ascribe 1.0x PEG over FY14-17E earning CAGR to arrive at a target multiple of 29x and derive a target price of ₹ 2,538 providing a robust upside potential of 75%.

### Bear case scenario...

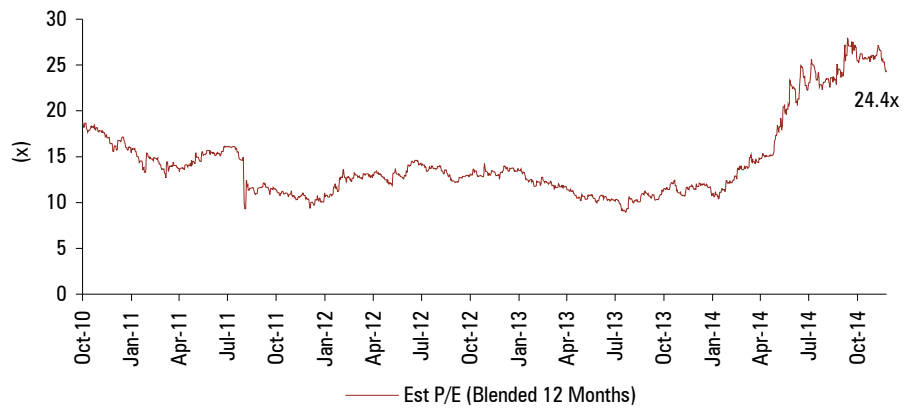
In our bear case valuation, we have factored in low order intake and execution over FY15E-17E taking into consideration a further delay in revival of industrial capex. Accordingly, we have assumed an order intake of ₹ 3,000 crore and ₹ 3,500 crore for FY15E and FY16E, respectively. Factoring in the same, we expect revenue and PAT to grow at a subdued CAGR of 12% and 19.4%, respectively, over FY14-17E. The RoE is expected to witness an improvement of 290 bps over the same period to 15.7%. For the bear case, we ascribe 0.7x PEG over FY14-17E earning CAGR to arrive at a target multiple of 13.6x and derive a target price of ₹ 937, implying a downside of 35% from the CMP.

**Exhibit 47: Bull-base-bear sensitivity**

|                                  | Base Case |       | Bull case |       | Bear Case |       |
|----------------------------------|-----------|-------|-----------|-------|-----------|-------|
|                                  | FY15E     | FY16E | FY15E     | FY16E | FY15E     | FY16E |
| Order Intake (₹ crore)           | 3300      | 3800  | 3600      | 4200  | 3000      | 3500  |
| Revenue CAGR FY14-FY17E          | 15.5%     |       | 19.4%     |       | 12.0%     |       |
| PAT CAGR FY14 - FY17E            | 24.8%     |       | 29.4%     |       | 19.4%     |       |
| Fwd PER FY17 (x)                 | 18.5      |       | 15.4      |       | 23.2      |       |
| PEG Ratio (x)                    | 0.9       |       | 1.0       |       | 0.7       |       |
| FY17E EPS                        | 78.4      |       | 87.5      |       | 68.9      |       |
| Target multiple (x) on FY17E EPS | 22.0      |       | 29.0      |       | 13.6      |       |
| Target Price (₹)                 | 1725      |       | 2538      |       | 937       |       |
| Upside/(Downside) %              | 19        |       | 75        |       | (35)      |       |

Source: Company, ICICIdirect.com Research

**Exhibit 48: Twelve month forward P/E**



Source: Company, ICICIdirect.com Research

## Financial Summary

### Exhibit 49: Profit & loss account (Consolidated)

| (Year-end March)            | FY13    | FY14    | FY15E   | FY16E   | FY17E   |
|-----------------------------|---------|---------|---------|---------|---------|
| Total operating Income      | 1,618.9 | 2,238.6 | 2,695.9 | 2,998.1 | 3,452.5 |
| Growth (%)                  | 12.1    | 38.3    | 20.4    | 11.2    | 15.2    |
| Cost of sales               | 1,167.0 | 1,688.8 | 2,030.0 | 2,254.6 | 2,592.8 |
| Decrease in inventory       | 9.7     | 9.2     | 10.8    | 12.0    | 13.8    |
| Employees Remuneration      | 205.8   | 221.7   | 261.5   | 281.8   | 317.6   |
| Other expenses              | 82.4    | 109.9   | 134.8   | 149.9   | 176.1   |
| Total Operating Expenditure | 1,464.8 | 2,029.6 | 2,437.1 | 2,698.3 | 3,100.3 |
| EBITDA                      | 154.0   | 209.0   | 258.8   | 299.8   | 352.2   |
| Growth (%)                  | 11.5    | 35.7    | 23.8    | 15.8    | 17.5    |
| Depreciation                | 10.9    | 15.0    | 22.0    | 30.0    | 29.0    |
| Interest                    | 21.2    | 25.2    | 27.0    | 29.0    | 32.0    |
| Other Income                | 13.2    | (8.2)   | 15.0    | 18.0    | 20.0    |
| PBT                         | 135.2   | 160.6   | 224.8   | 258.8   | 311.2   |
| Total Tax                   | 45.6    | 52.6    | 74.2    | 85.4    | 102.7   |
| PAT                         | 89.6    | 107.2   | 150.6   | 173.4   | 208.5   |
| Growth (%)                  | 21.9    | 19.6    | 40.6    | 15.1    | 20.2    |
| EPS (₹)                     | 33.8    | 40.3    | 56.6    | 65.2    | 78.4    |

Source: Company, ICICIdirect.com Research

### Exhibit 50: Balance sheet (Consolidated)

| (Year-end March)          | FY13    | FY14    | FY15E   | FY16E   | FY17E   |
|---------------------------|---------|---------|---------|---------|---------|
| <b>Liabilities</b>        |         |         |         |         |         |
| Equity Capital            | 5.3     | 5.3     | 5.3     | 5.3     | 5.3     |
| Reserve and Surplus       | 710.0   | 835.6   | 955.7   | 1,093.2 | 1,257.7 |
| Total Shareholders funds  | 715.4   | 841.0   | 961.0   | 1,098.5 | 1,263.1 |
| Total Debt                | 2.6     | 45.0    | 95.0    | 83.1    | 71.2    |
| Deferred Tax Liability    | 0.2     | 3.7     | 3.7     | 3.7     | 3.7     |
| Others LT liabilities     | 81.5    | 157.3   | 303.6   | 353.4   | 409.5   |
| Long term provision       | 30.3    | 21.4    | 21.4    | 21.4    | 21.4    |
| Minority interest         | 1.9     | 2.8     | 2.8     | 2.8     | 2.8     |
| Total Liabilities         | 831.9   | 1,071.2 | 1,387.5 | 1,562.9 | 1,771.7 |
| <b>Assets</b>             |         |         |         |         |         |
| Gross Block               | 63.4    | 138.7   | 238.7   | 244.7   | 251.7   |
| Less: Acc Depreciation    | 26.7    | 30.6    | 52.6    | 82.6    | 111.6   |
| Net Block                 | 36.7    | 108.1   | 186.1   | 162.1   | 140.1   |
| Capital WIP               | 32.4    | 0.7     | 8.0     | 12.0    | 15.0    |
| Total Fixed Assets        | 69.1    | 108.8   | 194.1   | 174.1   | 155.1   |
| Deferred Tax asset        | 11.5    | 10.7    | 10.7    | 10.7    | 10.7    |
| Investments               | 7.4     | 24.1    | 26.0    | 23.0    | 24.0    |
| Inventory                 | 40.5    | 35.0    | 50.7    | 64.4    | 81.0    |
| Debtors                   | 1,109.5 | 1,387.5 | 1,585.8 | 1,763.6 | 2,030.9 |
| Loans and Advances        | 111.5   | 99.5    | 142.1   | 169.1   | 207.4   |
| Other Current Assets      | 91.9    | 123.2   | 147.4   | 160.8   | 181.9   |
| Cash                      | 243.9   | 330.4   | 472.0   | 578.5   | 671.9   |
| Bank Balance              | 42.7    | 39.8    | 39.8    | 39.8    | 39.8    |
| Total Current Assets      | 1,640.1 | 2,015.3 | 2,437.9 | 2,776.3 | 3,212.9 |
| Creditors                 | 689.0   | 862.0   | 966.7   | 1,073.6 | 1,234.7 |
| Provisions                | 128.5   | 152.0   | 188.7   | 206.9   | 234.8   |
| Total Current Liabilities | 1,058.6 | 1,364.3 | 1,558.5 | 1,732.3 | 1,971.4 |
| Net Current Assets        | 581.4   | 650.9   | 879.3   | 1,044.0 | 1,241.6 |
| Others Assets             | 132.9   | 197.3   | 198.0   | 231.8   | 261.0   |
| Application of Funds      | 832.0   | 1,071.2 | 1,387.5 | 1,562.9 | 1,771.7 |

Source: Company, ICICIdirect.com Research

#### Exhibit 51: Cash flow statement (Consolidated)

| (Year-end March)                    | FY13          | FY14          | FY15E          | FY16E         | FY17E         |
|-------------------------------------|---------------|---------------|----------------|---------------|---------------|
| Profit before Tax                   | 135.2         | 161.1         | 224.8          | 258.8         | 311.2         |
| Add: Depreciation                   | 10.9          | 15.0          | 22.0           | 30.0          | 29.0          |
| (Inc)/dec in Current Assets         | (111.4)       | (383.7)       | (284.8)        | (266.6)       | (371.5)       |
| Inc/(dec) in CL and Provisions      | (3.7)         | 299.8         | 334.8          | 217.6         | 288.9         |
| Others                              | 50.8          | 20.1          | (62.2)         | (74.4)        | (90.7)        |
| <b>CF from operating activities</b> | <b>81.7</b>   | <b>112.4</b>  | <b>234.6</b>   | <b>165.4</b>  | <b>166.9</b>  |
| (Inc)/dec in Investments            | 1.2           | (18.7)        | 1.2            | 4.0           | (2.0)         |
| (Inc)/dec in Fixed Assets           | (41.3)        | (102.6)       | (107.3)        | (10.0)        | (10.0)        |
| Others                              | (0.1)         | 22.7          | 0.0            | 0.0           | 0.0           |
| <b>CF from investing activities</b> | <b>(40.3)</b> | <b>(98.6)</b> | <b>(106.1)</b> | <b>(6.0)</b>  | <b>(12.0)</b> |
| Issue/(Buy back) of Equity          | 3.2           | 1.5           | 0.0            | 0.0           | 0.0           |
| Inc/(dec) in loan funds             | (42.6)        | 76.1          | 55.7           | (5.9)         | (5.6)         |
| Dividend paid & dividend tax        | (2.9)         | (21.7)        | (30.6)         | (35.9)        | (43.9)        |
| Inc/(dec) in Sec. premium           | 0.0           | 0.0           | 0.0            | 0.0           | 0.0           |
| Others                              | (20.4)        | 15.4          | (27.0)         | (29.0)        | (32.0)        |
| <b>CF from financing activities</b> | <b>(62.7)</b> | <b>71.2</b>   | <b>(1.9)</b>   | <b>(70.8)</b> | <b>(81.5)</b> |
| Net Cash flow                       | (21.2)        | 86.4          | 141.6          | 106.6         | 93.4          |
| Opening Cash                        | 265.1         | 243.9         | 330.4          | 472.0         | 578.5         |
| Closing Cash                        | 243.9         | 330.4         | 472.0          | 578.5         | 671.9         |

Source: Company, ICICIdirect.com Research

#### Exhibit 52: Ratio analysis (Consolidated)

| (Year-end March)              | FY13  | FY14  | FY15E | FY16E | FY17E |
|-------------------------------|-------|-------|-------|-------|-------|
| <b>Per share data (₹)</b>     |       |       |       |       |       |
| EPS                           | 33.8  | 40.3  | 56.6  | 65.2  | 78.4  |
| Cash EPS                      | 37.8  | 45.9  | 64.9  | 76.5  | 89.3  |
| BV                            | 269.4 | 316.1 | 361.3 | 413.0 | 474.8 |
| DPS                           | 7.0   | 8.0   | 11.5  | 13.5  | 16.5  |
| Cash Per Share                | 91.9  | 124.2 | 177.4 | 217.5 | 252.6 |
| <b>Operating Ratios (%)</b>   |       |       |       |       |       |
| EBITDA Margin                 | 9.5   | 9.3   | 9.6   | 10.0  | 10.2  |
| PBT / Total Operating income  | 8.4   | 7.2   | 8.3   | 8.6   | 9.0   |
| PAT Margin                    | 5.5   | 4.8   | 5.6   | 5.8   | 6.0   |
| Inventory days                | 14.1  | 8.2   | 9.1   | 10.4  | 11.4  |
| Debtor days                   | 248.3 | 203.6 | 214.7 | 214.7 | 214.7 |
| Creditor days                 | 207.5 | 167.6 | 173.8 | 173.8 | 173.8 |
| <b>Return Ratios (%)</b>      |       |       |       |       |       |
| RoE                           | 12.5  | 12.7  | 16.7  | 16.8  | 17.7  |
| RoCE                          | 19.6  | 17.8  | 18.5  | 18.7  | 19.6  |
| RoIC                          | 28.1  | 25.9  | 28.3  | 30.0  | 31.9  |
| <b>Valuation Ratios (x)</b>   |       |       |       |       |       |
| P/E                           | 43.0  | 36.0  | 25.6  | 22.2  | 18.5  |
| EV / EBITDA                   | 7.5   | 8.7   | 13.9  | 11.6  | 9.6   |
| EV / Net Sales                | 0.7   | 0.8   | 1.3   | 1.2   | 1.0   |
| Market Cap / Sales            | 2.4   | 1.7   | 1.4   | 1.3   | 1.1   |
| Price to adjusted Book Value  | 5.4   | 4.6   | 4.0   | 3.5   | 3.1   |
| <b>Solvency Ratios</b>        |       |       |       |       |       |
| Debt/EBITDA                   | 0.0   | 0.2   | 0.4   | 0.3   | 0.2   |
| Debt / Equity                 | 0.1   | 0.2   | 0.2   | 0.2   | 0.2   |
| Current Ratio                 | 1.5   | 1.5   | 1.6   | 1.6   | 1.6   |
| Debt servicing coverage ratio | 5.8   | 5.8   | 7.4   | 8.0   | 8.4   |

Source: Company, ICICIdirect.com Research



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