

July 30, 2014

Management Meet Note

VA Tech Wabag (VATWAB)

₹ 1,423

Enticing opportunities in the offing...

We met the management of VA Tech Wabag (Wabag) to get an insight into the business model and future plans. Wabag is a leading MNC in the water treatment space (water desalination, sewage water treatment, waste water treatment, etc), which operates on an asset light-EPC led model in water treatment projects across municipal and industrial segments, where they focus on design and engineering while outsourcing civil construction and erection jobs. The company has a global presence and about 100 patents, which include both products and process patents. The company's reported revenue increased 39.2% YoY to ₹ 2,230 crore in FY14 (domestic – 51% & overseas – 49%) and PAT of ₹ 113 crore.

Asset light model with strong balance sheet and robust order backlog

Wabag operates on an asset light business model where it undertakes design, engineering, technology and O&M activity for an EPC contract while it outsources the civil construction and equipment. As a result, the company has a very marginal debt of ₹ 150 crore against cash of ₹ 467 crore and networth of ₹ 841 crore as of FY14. The company operates under three major segments viz. Wabag India, Wabag Austria and Wabag India International. The company garners higher EBITDA margin of ~13-14% across its India business followed by 8-9% across 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 past the past three years growing at a CAGR of 23% over 2011-14. Order inflow in FY14 has been ₹ 3,354 crore surpassing the management's initial target of ₹ 3,000 crore. The current order backlog stands at ₹ 5,354 crore (51% domestic, 37% Austria group, 12% - Oman, Nepal & Philippines), which is 2.4x TTM sales. Municipal EPC work constitutes 64% of the order backlog while industrial constitutes 36%.

Efforts on to improve margin, going ahead

The EBITDA margin stood at 9.3% in FY14 and the management's recent effort to shift from centralised high cost operations to decentralise low cost operations is likely to aid margin expansion by 50-70 bps by FY16E.

Comfortable debt-equity ratio

Wabag has a cash balance of ₹ 467 crore with comfortable D/E ratio of 0.2x. Their net working capital day has been reduced to 49 days in FY14 from 67 days YoY. Wabag generates an RoCE of 18% and offers dividend payout of ~21%. At the CMP, the stock trades at a P/E of 33x.

Exhibit 1: Financial Performance (Consolidated)

(₹ Crore)	FY10	FY11	FY12	FY13	FY14
Sales	1229.5	1241.8	1443.5	1618.9	2238.6
EBITDA	117.1	121.0	130.0	154.0	209.0
EBITDA margin (%)	9.5	9.7	9.0	9.5	9.3
Interest	25.7	14.8	25.5	21.2	25.2
Depreciation	13.9	10.0	8.6	10.9	15.0
PAT	47.9	65.4	73.5	90.3	113.0
EPS(₹)	18.1	24.7	27.7	34.1	42.6

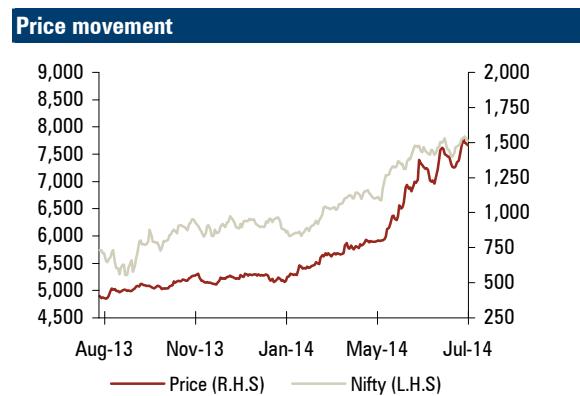
Source: Company, ICICIdirect.com Research

Rating matrix		
Rating	:	Unrated
Target	:	NA
Target Period	:	NA
Potential Upside	:	NA

Key Financials (Consolidated)				
₹ Crore	FY11	FY12	FY13	FY14
Net Sales	1,242	1,444	1,619	2,239
EBITDA	121	130	154	189
Net Profit	52	74	90	114
EPS (₹)	24.7	27.7	34.1	42.6

Valuation summary (Consolidated)				
	FY11	FY12	FY13	FY14
P/E	23.7	15.4	14.7	18.4
EV / EBITDA	9.3	7.0	7.3	11.3
P/BV	2.3	1.8	1.9	2.5
RoNW (%)	11.5	11.4	12.5	12.8
RoCE (%)	18.5	19.9	19.6	17.8

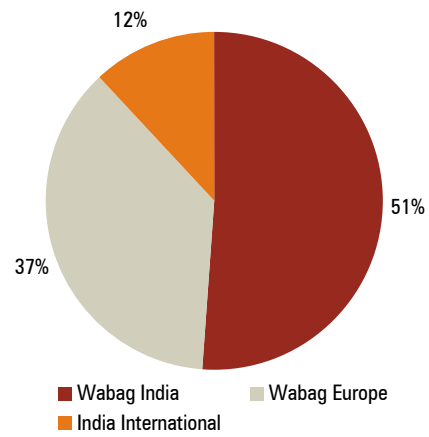
Stock data	
Particular (FY14)	Amount
Market Capitalization (₹ Crore)	3,947.5
Total Debt (₹ Crore)	158.0
Cash (₹ Crore)	467.0
EV (₹ Crore)	3,947.5
52 week H/L (₹)	1550 / 381
Equity capital (₹ Crore)	5.3
Face value	₹ 2



Analyst's name

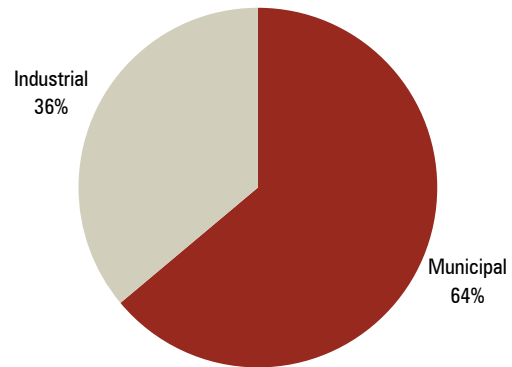
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Exhibit 2: Revenue break-up geography wise



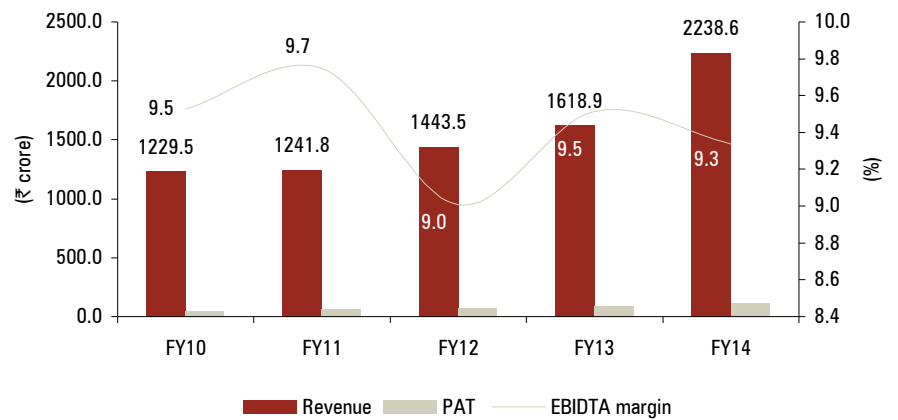
Source: Company, ICICIdirect.com Research

Exhibit 3: Sales break-up segment wise



Source: Company, ICICIdirect.com Research

Exhibit 4: Domestic sales and sales outside India



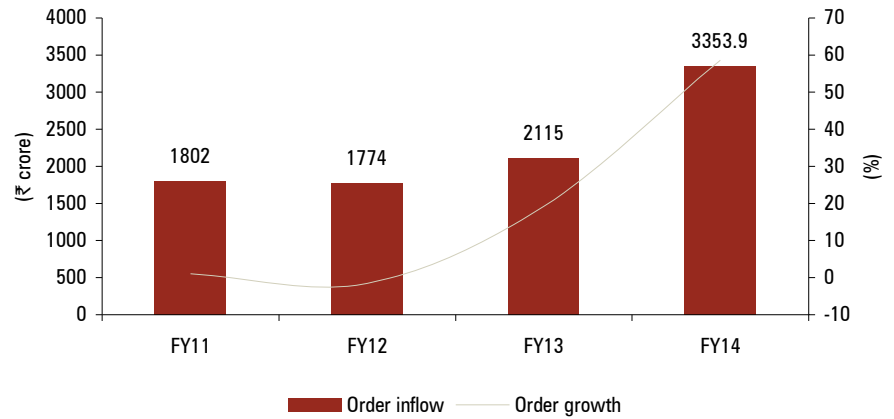
Source: Company, ICICIdirect.com Research

Exhibit 5: Order book composition

₹ Crore)	EPC		O&M		Total
	Municipal	Industrial	Municipal	Industrial	
Wabag India	1127.8	553.5	1268.6	73.8	3023.7
Wabag Overseas	1911.0	235.6	124.7	59.0	2330.3
Total	3038.8	789.1	1393.3	132.8	5354.0

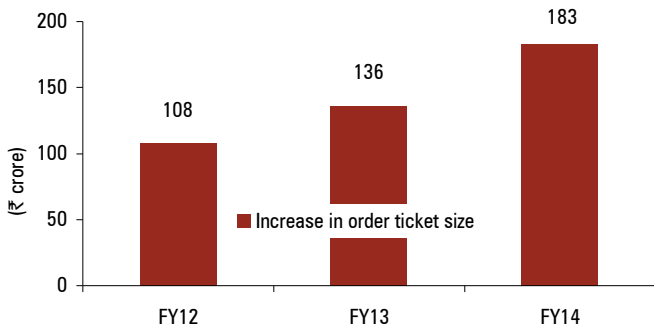
Source: Company, ICICIdirect.com Research

Exhibit 6: Order inflow trend and growth



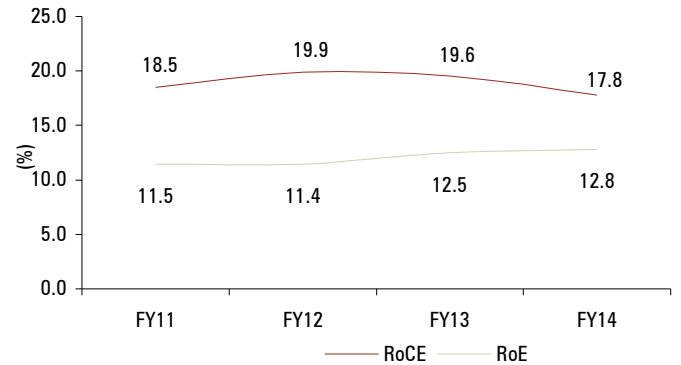
Source: Company, ICICIdirect.com Research

Exhibit 7: Average order ticket size increases 70% over past 3 years



Source: Company, ICICIdirect.com, Research

Exhibit 8: Healthy return ratios



Source: Company, ICICIdirect.com, Research

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Sell: -10% or more;



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