



## Va Tech Wabag

Reco: Buy

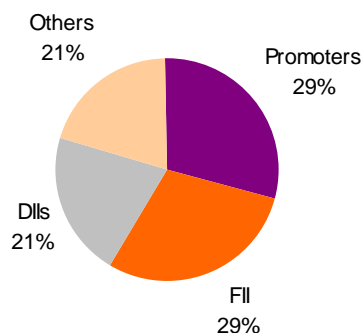
Gallons of opportunity, take a sip of it

CMP: Rs1,488

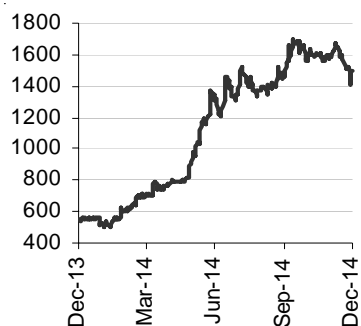
### Company details

Price target:	Rs1,900
Market cap:	Rs3,957 cr
52-week high/low:	Rs1,748/504
NSE volume: (No of shares)	51,665
BSE code:	533269
NSE code:	WABAG
Sharekhan code:	WABAG
Free float: (No of shares)	1.9 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	-5.3	2.9	12.9	182.8
Relative to Sensex	-0.2	2.4	7.2	114.8

### Key points

- Increasing fresh water scarcity + niche expertise = Gallons of opportunity to flow:** Globally, fresh water supplies are relatively static and with a rising population and urbanisation, the intensity of fresh water scarcity is on the rise. Therefore, investment in these areas like recycling and water treatment, water conditioning and desalination is likely to flow in significantly in coming days. The global water market is estimated at around ~\$425-500 billion and is expected to grow at a 6% CAGR till 2030, and a large chunk is expected to be in the developing world. On this backdrop, VA Tech Wabag (VTW) is well placed having niche technical expertise and an impressive track record as its strength.
- Domestic demand outlook to improve significantly over the next two years:** With rising urbanisation and industrialisation in India, the demand for usable water, sewerage and solid waste management is going to rise; consequently, we expect significant spending in these spaces. In the last few years (2005-12), the government's allocation to water supply and sanitation has been about Rs45,000 crore cumulatively and under Jawaharlal Nehru National Urban Renewal Mission (JNNURM), the government plans to spend around Rs7-8 lakh crore in the next 20 years. Now, with the pro-reform BJP-led government at the center; the water segment is expected to get substantial focus and budgetary allocation including the clean Ganga project; moreover, we expect acceleration in project ordering and execution in FY2016 and FY2017.
- View—Buy niche growth story:** Given the large opportunity ahead and inherent strengths of VTW like professional management, niche technical expertise and global presence, the company will be one of the preferred investment opportunities in the water segment. We expect the earnings to grow by 23% (CAGR) during FY2014-17, backed by an 18% revenue growth and inch up in margins with increasing share of O&M business and cost rationalisation efforts by the management in international operations (subsidiaries). The company is poised to generate RoCE and RoE in the range of 22-25% and 16-17% respectively in the coming few years and with healthy cash generation from operations, the net cash is likely to remain positive. We initiate our coverage with a Buy recommendation on VTW and set a price target of Rs1,900 (based on 25x FY2017E earnings) for the stock.

### Valuations (consolidated)

Particulars	FY2013	FY2014	FY2015E	FY2016E	FY2017E
Net sales (Rs cr)	1,618.9	2,239.0	2,619.9	3,100.1	3,716.9
Growth (YoY) %	12.1	38.3	17.0	18.3	19.9
OPM (%)	9.6	8.7	8.6	8.8	9.2
Net profit (Rs cr)	90.3	108.7	125.5	157.3	202.3
Adjusted EPS (Rs)	34.0	40.9	47.3	59.2	76.2
EPS Growth (YoY) %	22.2	20.3	15.5	25.3	28.6
PER (x)	43.7	36.3	31.5	25.1	19.5
P/B (x)	5.5	4.7	4.2	3.7	3.3
EV/EBIDTA (x)	22.3	18.0	15.3	12.4	9.7
RoCE (%)	20.1	21.3	21.0	22.9	25.5
RoE (%)	13.3	14.0	14.1	15.8	17.8
RoIC (%)	33.6	34.3	34.9	39.2	45.1

- ♦ **Working capital intensive business, but well managed by VTW:** Though the business model of VTW is asset light, it is highly working capital intensive. Majority of its revenues come from EPC in nature and municipalities are the major clients; hence, traditionally, receivable days are high (200-250 days). However, the company has also managed well high payable days in the range of 200-250 days. Hence, the net working capital days should not be a matter of concern unless any specific receivable account turns sticky. Further, we expect a share of industrial order book to rise, where receivable days are relatively lower compared with municipalities.

**Investment arguments**

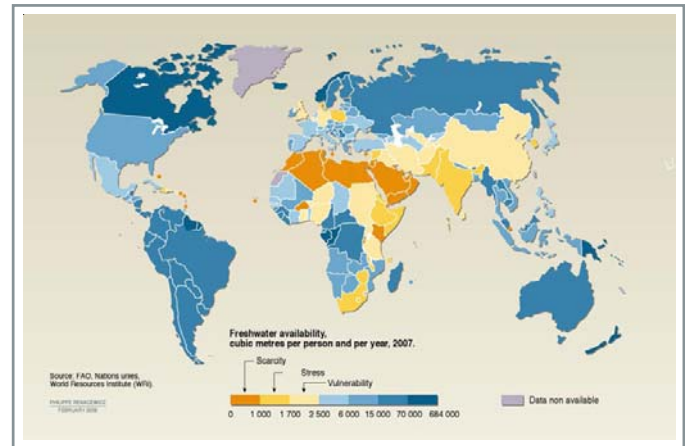
**Increasing water scarcity + Expertise in niche segment = Gallons of opportunity to flow**

**Sustainable water scarcity throws gallons of opportunity:** It's a well know fact that water is one of the scare resource of the world now. Industry reports suggest that out of the total water reserve available on Earth only 2.5% of that is considered as 'fresh', and less than 1% of that is accessible as surface water. While fresh water supplies are relatively static, population is on the rise (now around 7 billion and adding 1 billion in each 12-13 years currently) and it is likely to grow continuously on an average rate of 1-3% annually, intensifying water scarcity. A report published by the Water Resource Group suggests that by 2030 if no efficiency gains are assumed, the global demand for accessible and reliable water could outstrip supply by 40% (which is around 2,800 billion m3).

Such an alarming situation throws huge opportunity for the water industry as across the globe there will be a significant emphasis to ensure adequate drinkable and usable water for the society. The global water market today stands at a massive ~\$450-500 billion as estimated by various agencies and it is expected to grow at a 6% compounded annual growth rate (CAGR) till 2030. This implies a \$25-30 billion of opportunity being added every year globally. A large chunk of the incremental demand should come from the developing nations, where demand is expected to grow by 8-10% annually. Growing urbanisation and industrialisation are going to pull the water demand (power generation is one of the highest

water users) in emerging countries like India, China and Brazil. Further, due to a huge agriculture base, India and China both are likely to witness severe water shortage in 10-15 years. Industry sources indicate that major part of the Middle East and Africa would be in the zone of extreme scarcity by the year 2025. We believe such situation would eventually drive investment in water segment to find solution and players like VTW would be beneficial.

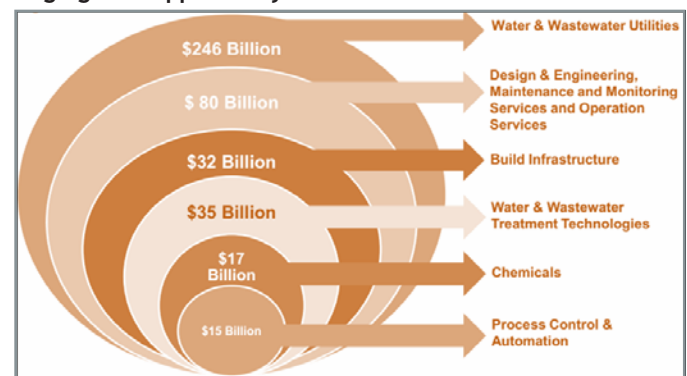
**Intensifying usable water scarcity**



Source: UN.org

Water scarcity already affects every continent. Around 1.2 billion people, or almost one-fifth of the world's population, live in areas of physical scarcity, and 500 million people are approaching this situation. Another 1.6 billion people, or almost one quarter of the world's population, face economic water shortage (where countries lack the necessary infrastructure to take water from rivers and aquifers) as per UN report

**Huge global opportunity**



Source: Frost & Sullivan Global Smart Water Market

**Deep expertise in a niche area-a unique offering from VTW:** We believe the water treatment business is a niche area and it is technology driven. Hence, expertise in this area is an inherent strength for VTW, which will continue to put the company in advantageous position and help in grabbing sizeable share of the upcoming opportunities in this space, both in domestic as well as global markets.

VTW offers technical know-how of the niche area of water treatment with superior project management capabilities. The company designs and plans the entire project judiciously, selecting the most suitable equipments and process; and with rich experience in planning and designing it could manage to deliver cost effective and efficient solutions to customers. Moreover, off late they have gained significant traction in grabbing operational and management projects from various customers and many of them are projects build by competitors, which also boasts about their operations and maintenance (O&M) service credibility. The company has a long history (its previous promoter, Austrian company, VA Tech acquired

Wabag name since 1999) and rich pedigree which helps them to retain businesses globally. We believe, given the positives and increasing opportunities in India and other parts of the world, VTW should be a preferred bet to play the sunrise water industry.

**Indian opportunity promising; could be the new growth driver**

India is one of the major drivers of rising water demand along with China. We expect a significant spending in water infrastructure in coming days, given the rising urbanisation and industrialisation in India, which will derive demand for usable water, sewerage and solid waste management in future. The government has already initiated to focus on water space by investing through JNNURM. More so now, with the pro-reform BJP-led government at the center; the water segment is expected to get substantial focus and budgetary allocation including the clean Ganga project; moreover, we expect acceleration in project ordering and execution in FY2016 and FY2017.

**A complete range of solutions in water space...from VTW**

The company offers water treatment solutions across segments of water, sewer, industrial water, industrial effluents, desalination and recycling of water.

Sewage Water Treatment	<ul style="list-style-type: none"> <li>Activated Sludge Process ("ASP")</li> <li>Sequential Batch Reactors ("SBR")</li> <li>Membrane Bio Reactor ("MBR")</li> <li>Membrane Bed Bio Reactor ("MBBR")</li> </ul>	<ul style="list-style-type: none"> <li>Upflow Anaerobic Sludge Blanket Reactor ("UASB")</li> <li>Bio Active Fixed Film Technology ("BAFF")</li> <li>Submerged Membrane System</li> <li>Stabilization Pond</li> </ul>
Drinking Water Treatment	<ul style="list-style-type: none"> <li>Aeration</li> <li>Sedimentation</li> <li>Filtration</li> </ul>	<ul style="list-style-type: none"> <li>Disinfection</li> <li>Sludge Dewatering</li> </ul>
Industrial Water Treatment	<ul style="list-style-type: none"> <li>Raw water pre treatment</li> <li>Filtration Plants</li> <li>Nano Filtration/ Ultra filtration</li> <li>Softening Plants</li> </ul>	<ul style="list-style-type: none"> <li>Thermal Desalination of sea water treatment</li> <li>Demineralization</li> <li>Zero Liquid Discharge</li> <li>Tertiary Treatment System/ Effluent Recycling</li> </ul>
Industrial Wastewater Treatment	<ul style="list-style-type: none"> <li>Physico Chemical Treatment – Oil Removal system using DAF/ API/ CPI seperators</li> <li>Neutralization and primary sedimentation and grit removal</li> <li>Biological anaerobic treatment – UASB</li> <li>Tertiary Treatment – activated carbon/ sand filtration, disinfection</li> </ul>	
Desalination	<ul style="list-style-type: none"> <li>Multi Stage Flash</li> <li>Multi-effect Distillation</li> <li>Thermal Vapor Compression</li> </ul>	<ul style="list-style-type: none"> <li>Mechanical Vapor Compression</li> <li>Reverse Osmosis and Electro dialysis</li> </ul>
Recycling	<ul style="list-style-type: none"> <li>Micro filtration</li> <li>Membrane Bio Reactors</li> </ul>	

Source: Company

Under the JNNURM scheme, during 2006-12, the government had approved total projects to the tune of Rs70,000 crore and allocated Rs45,000 crore in water, sewerage and drainage segment. As per the High Powered Expert Committee (HPEC), the new improved JNNURM proposes a capital expenditure of Rs39 lakh crore over the next 20 years and around 20% of that would be towards water and sewerage. Hence, even the domestic market is huge and likely to witness a healthy growth.

We believe with abnormal rise of water in intensive energy sector in the recent past, opportunities from the industries are expected to jump substantially. Apart from expanding opportunities in engineering, procurement and construction (EPC) projects, the opportunity pie for O&M projects is going to grow substantially in the domestic market with an increasing requirement of water related facilities of several industries, with environmental regulations getting stringent gradually. This could be a budding and recurring opportunity.

We believe among other social infrastructures, water sector is one of the key focus areas of the new government in India. Hence, we expect substantial focus and budgetary allocation including the clean Ganga project in coming days. Moreover, we expect acceleration in project ordering and execution in FY2016 and FY2017. VTW has a ~15% market share in the highly fragmented water and wastewater treatment industry in India.

**Professional management talks about management quality**

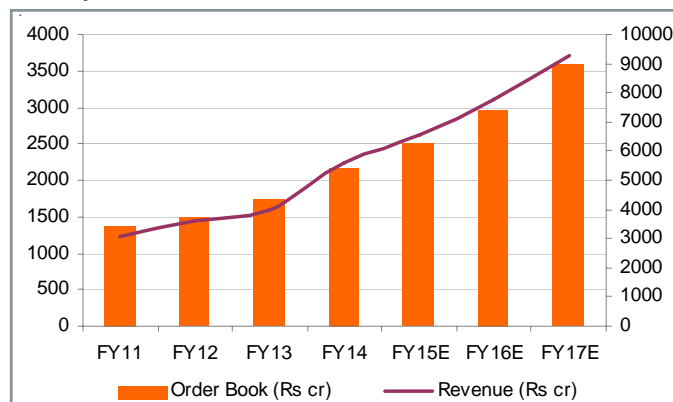
After management buyout in 2005, the company is managed professionally by the promoters who are holding nearly 30% stake in the company. The current management of the company is highly professional with rich experience in water industry, with an average experience of 25 years in the field.

**Financial**

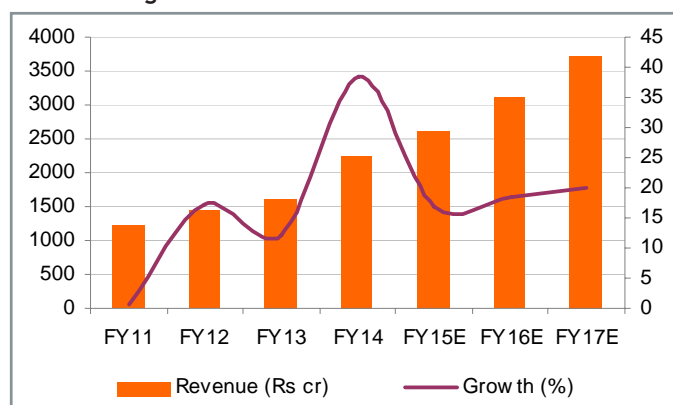
**Healthy order book with fine execution to percolate into an 18% sales growth**

Currently, the company is having a healthy order book of Rs5,240 crore (2.3x its FY2014 revenue) and there are frame work contracts (which have a high potential to convert into order book) of Rs1,670 crore. The management expects order inflow of around Rs3,200-Rs3,400 crore in FY2015. Going forward we expect the order inflow growth momentum could remain in 15-20% during the next three years, given the expected acceleration in domestic ordering. We also expect a built-in order inflow of around Rs4,000-Rs5,000 crore over FY2016-17E. Based on the historical average execution cycle (which factors in book to bill ratio of 2.4x) and expect a revenue growth of 18% CAGR for FY2014-17E.

**Healthy order book and revenue traction**



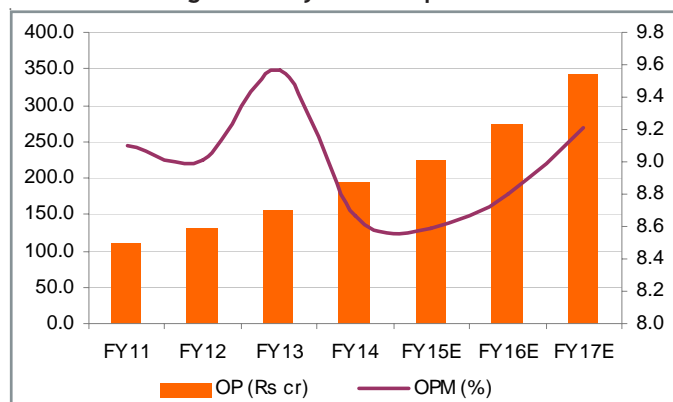
**Revenue to grow at 18% CAGR**



**Multiple levers to sustain margin; potential to inch up rather**

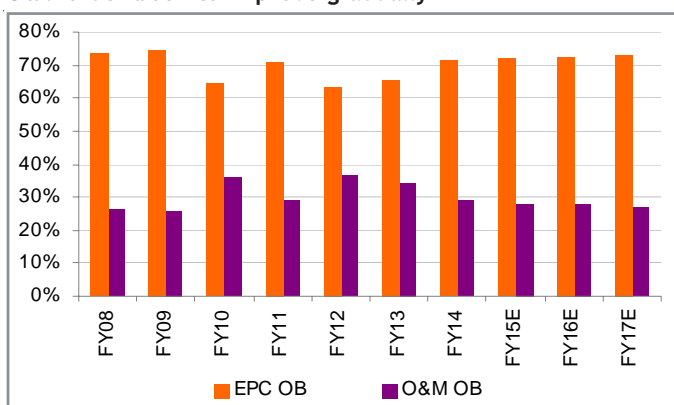
The company is currently having an operating margin of around 8.6% and the management expects to improve their margin gradually in the next two to three years, with an increasing share of O&M business and efforts to rationalise the cost in international (subsidiaries) operations. We have factored in the marginal step up in operating profit margin (OPM) during FY2015-17.

**Sustainable margin ....likely to inch up**



Looking at lucrative opportunities, the competition is obvious from global players; however, we believe VTW has got some levers which could be supportive to improve the overall margin. The levers that could play favourably for VTW are; (1) consciously increasing share of O&M businesses which are relatively better in terms of margin and recurring in nature, and (2) ongoing efforts by the management to rationalise the cost through higher localisation and consolidation of overhead centers globally. Moreover, being a veteran in the niche area, backed by deep expertise and well supportive track record, there is a fair chance to stand out.

**O&M order book to improve gradually**



**Decentralise international operations and localise resources to improve margin:** VTW’s international business is currently having lower margin, which is dragging the overall margin to some extent. In cognisance of the same, the management of VTW is taking some measures to improve the margin of its international business, like decentralise operations and localise resources to bring down the overhead cost.

Currently, most of the international operations are controlled and monitored from Austria where the overheads are significantly high and burdensome. Hence, the management plans to cut down overheads in Austria. As part of this exercise, they plan to allocate Indian resources especially in the regions having growth potential. We believe most part of the European market is matured so they want to allocate resources only on selective countries or regions having growth potential. Moreover, they plan to allocate local resources in the other parts of the world, especially in the Middle East, Asia Pacific, China and Africa, which are having higher growth potential. As a result of decentralising international operations and localising resources across the globe, the margins of international business would start rising.

Hence, the same would reflect positively on the overall margin of the company in future.

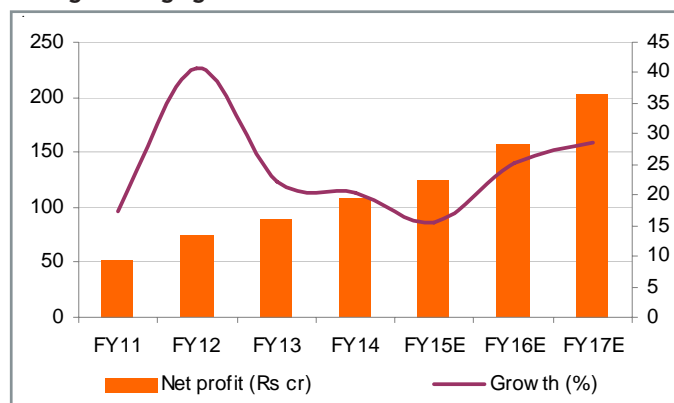
**Marging composition**

OPM	FY12	FY13	FY14	FY15E	FY16E	FY17E
Domestic	11.5	13.1	12.2	12.3	12.5	12.6
Overseas	2.9	2.8	5.9	5.3	5.4	6.2
Blended	9.0	9.6	8.7	8.6	8.8	9.2

**Earnings to deliver 23% CAGR over the next three years**

As the company is asset light and net cash positive, most of the benefit from operating level percolates to net profit level. We expect the earnings to record a CAGR of 23% during FY2014-17E, backed by an 18% revenue traction and margin improvement in OPM. We estimate profit after tax (PAT) of Rs126 crore for FY2015, Rs157 crore for FY2016 and Rs202 crore for FY2017.

**Strong earnings growth...**



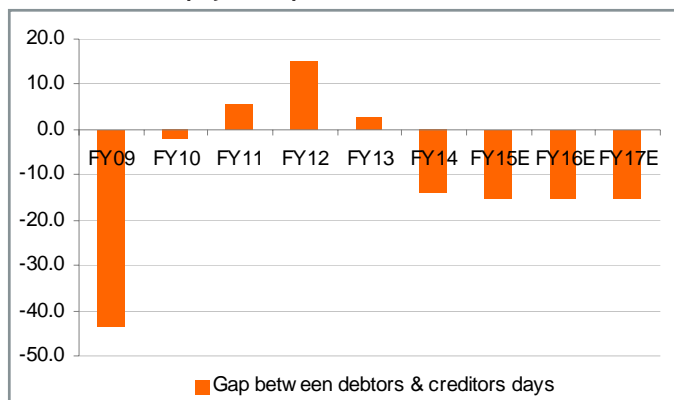
**Working capital intensive business, but well managed by VTW**

Though the business model of VTW is asset light, yet it is highly working capital intensive. Bulk (~60-70%) of the total capital employed by the company is deployed in working capital only. Majority of its revenues come from EPC in nature and municipalities are the major clients; hence, traditionally, receivable days are high (200-250 days). However, the company has also managed well high payable days in the range of 200-250 days. Hence, the net working capital days should not be a matter of concern unless any specific receivable turns sticky.

The management seems confident to manage the working capital requirement gap in the future too, as they believe its inherent nature of the business and the payable and receivable cycle is managed in synergy. We believe it’s quite challenging to maintain judiciously the spread of

receivable and payable; hence, the ability of the company to maintain the same is commendable. Further, we expect a share of industrial order book to rise, where receivable days are relatively lower compared with municipalities.

**Receivable and payable spread**



**Sensitivity analysis**

Particulars	Base case					
	FY12	FY13	FY14	FY15E	FY16E	FY17E
Receivable days	276	250	226	230	230	230
Payable days	261	247	240	245	245	245
Net WC days	31	13	-8	-5	-5	-5
Net cash (Rs cr)	213	204	212	248	315	392
EPS (Rs)	28	34	41	47	59	76
RoE (%)	12	13	14	14	16	18

Particulars	Bull case					
	FY12	FY13	FY14	FY15E	FY16E	FY17E
Receivable days	276	250	226	210	200	190
Payable days	261	247	240	250	245	240
Net WC days	31	13	-8	-30	-35	-40
Net cash (Rs cr)	213	204	212	422	570	756
EPS (Rs)	28	34	41	52	64	85
RoE (%)	12	13	14	15	17	19

Particulars	Bear case					
	FY12	FY13	FY14	FY15E	FY16E	FY17E
Receivable days	276	250	226	240	250	260
Payable days	261	247	240	235	230	225
Net WC days	31	13	-8	15	30	45
Net cash (Rs cr)	213	204	212	112	29	-104
EPS (Rs)	28	34	41	46	57	71
RoE (%)	12	13	14	14	15	17

**Adequate cushion from existing cash on books:** We have maintained the current spread of receivable days and payable days in our estimates. Moreover, the existing high

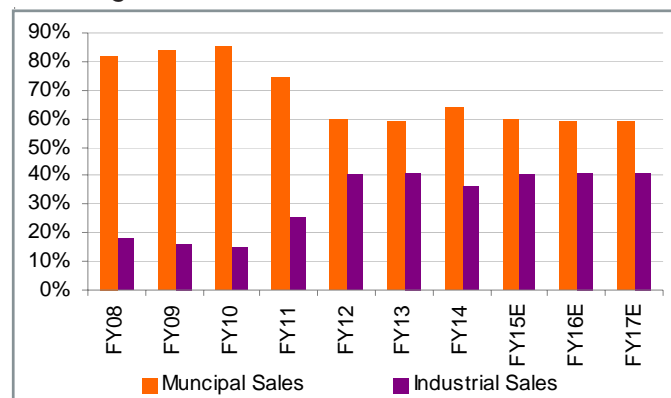
cash balance in the company’s books above Rs370 crore would give enough cushion for the gap of net working capital requirement if at all any. We ran a sensitivity analysis and found that even if the spread is widened with higher receivable days and lower payable days, the existing high cash in its books would give adequate support and the net working capital requirement are unlikely to cross that of cash in the books even in an extreme condition.

**Working capital is quasi capex for VTW; concern could rise only if receivable turns sticky:** In a way we can look at the company which is funding its growth by funding its working capital requirement as there is hardly any capital expenditure (capex) requirement in the company. So, we opine that high working capital days are visible on the face of it but it should not be a matter of concern unless any receivable turns sticky. Till date the company has not experienced any sticky receivable issue. We have learned from the management that delay in receivable days is not a usual pattern in the industry in contrasts to other utilities like power, as normally the average bill of water utilities are significantly low compared with power utilities, hence municipalities are comfortable to pay off. Moreover it’s a very basic utility, which would be delayed or avoided.

**Higher share of industrial revenue could turn favourable on the receivable days front:** The share of industrial order book is rising in the total order book of the company. Going forward we expect the share to go up further with an enhanced focus from the management and by default rising industrialisation and environmental norms getting stringent.

We believe the trend will also mirror on sales pattern, which has already moved from 25% kind of share in FY2011 to 36% in FY2014 and is expected to go up to 42% by FY2017. Higher share of industrial revenue would be favourable as receivable days are relatively lower in industrial business compared with that of municipalities.

**Increasing share of industrial revenue**

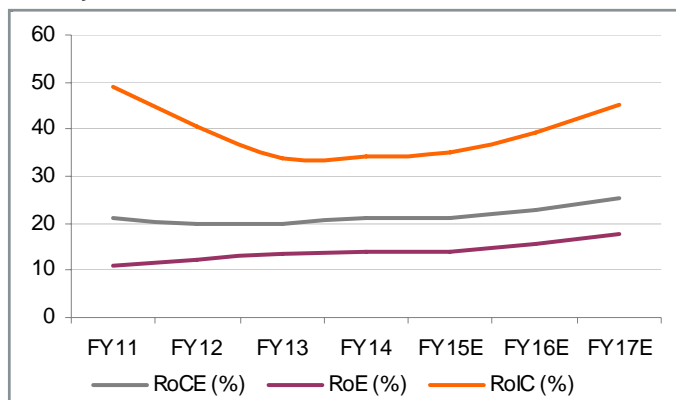


**Eyeing to improve share of O&M business; beneficial for margin as well as working capital:** We believe the company has enhanced its focus towards O&M service which is a better margin and low working capital intensive segment. Moreover, O&M service gives better visibility of the future earnings as usually they are recurring in nature, hence the payments are regular that eventually translate into lower receivable days. Therefore, we believe with increasing share of O&M order in the total order book of the company will be helpful.

**Healthy returns ratio sustainable**

The company is expected to generate a healthy return on capital employed (RoCE) in the range of 20-21%, which is likely to move up to 22-24%. Also, on the return on equity (RoE) front, it is expected to generate returns in the range of 15-16% on a sustainable basis. Due to its asset light model and net cash position, the return on invested capital (RoIC) should continue to be impressive at 35-40%.

**Healthy returns ratio**



**Net cash positive-balance sheet with a healthy free cash flow; sustainable dividend**

VTW is having a very healthy balance sheet with a net cash position of around Rs212 crore (gross cash of Rs370 crore and debt of Rs158 crore). The surplus cash of the company would be a big advantage to manage the high working capital intensive business. In the meanwhile the company has started generating healthy cash from operations of around Rs50 and Rs115 crore in FY2013 and FY2014 respectively, which should remain intact in the coming years. We expect operating cash flow of around Rs300 crore in the next three years. Further, being an asset-light business model (with hardly any requirement of capex in the future), almost all cash generated from operations, flows down to free cash for the firm. Further, having professional management at the top, the dividend payout ratio should remain healthy and consistent in future too.

**View-Buy niche growth story**

We believe the company is having a huge growth potential being a technology driven niche player in a highly unserved market, water. Increasing spending in water space across the globe and especially in developing nations would continue to expand opportunities. The domestic opportunities could add growth lever with higher focus of the new government in clean water related area. Given the large opportunity ahead and inherent strengths of VTW like professional management, niche technical expertise and global presence, the company will be one of the preferred investment opportunities in the water segment. We expect the earnings to grow by 23% (CAGR) during FY2014-17, backed by an 18% revenue growth and inch up in margin with increasing share of O&M business and cost rationalisation efforts by the management in international operations (subsidiaries). We expect its RoCE to be around 21-24% and RoE to be in the range of 15-17% for the next two to three years. Moreover, with a healthy cash generation from operations, the net is likely to remain positive in future too. We initiate our coverage with a Buy recommendation on VTW and set a price target of Rs1,900 (based on 25x FY2017E earnings) for the stock.

**Investment concerns**

**Balancing working capital spread remains as a major challenge**

As discussed above, VTW’s business model is highly working capital intensive. The company has been managing in the past judiciously the gap between receivable and payable. However, due to any reason if receivable and payable days could not be managed and any specific receivable turns sticky in future, it could adversely affect the cash flow, balance sheet and earnings of the company. We have built-in our model receivable and payable days conservatively.

**International presence puts currency and competition as challenge**

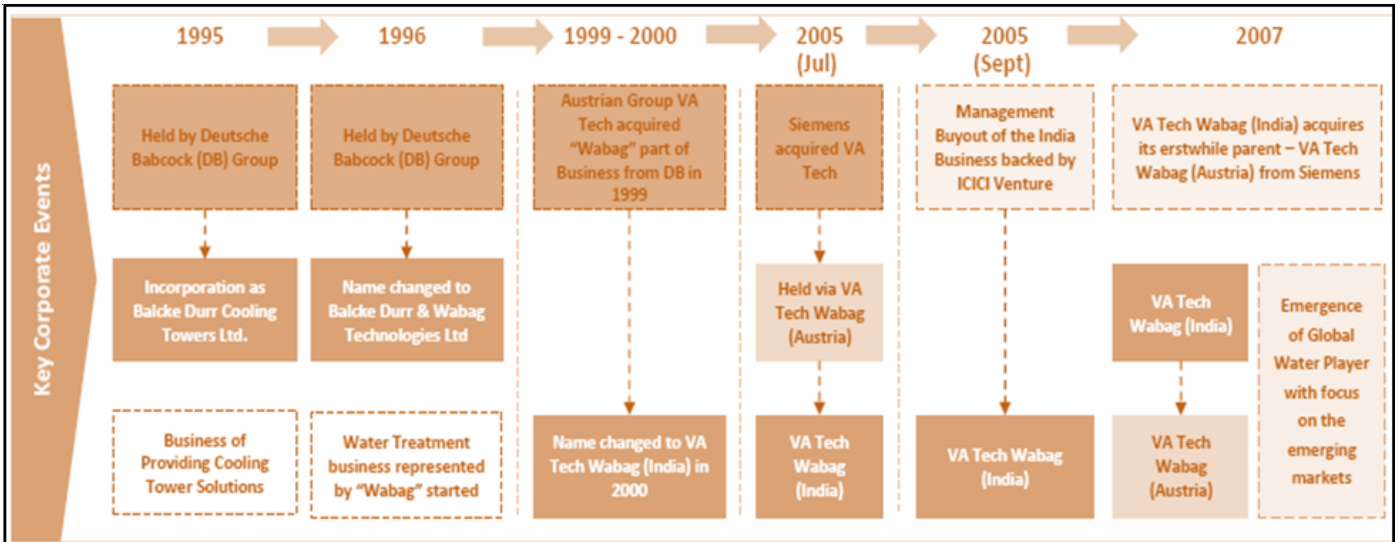
VTW has a wide exposure to multiple currencies which could bear some exchange rate volatility affecting its earnings. We believe while the opportunity pie of water business is growing globally, it would inherently attract competition from the global players. However, the technical expertise and resource management skill (localisation) set of the company should help to face the competition.

**Company background**

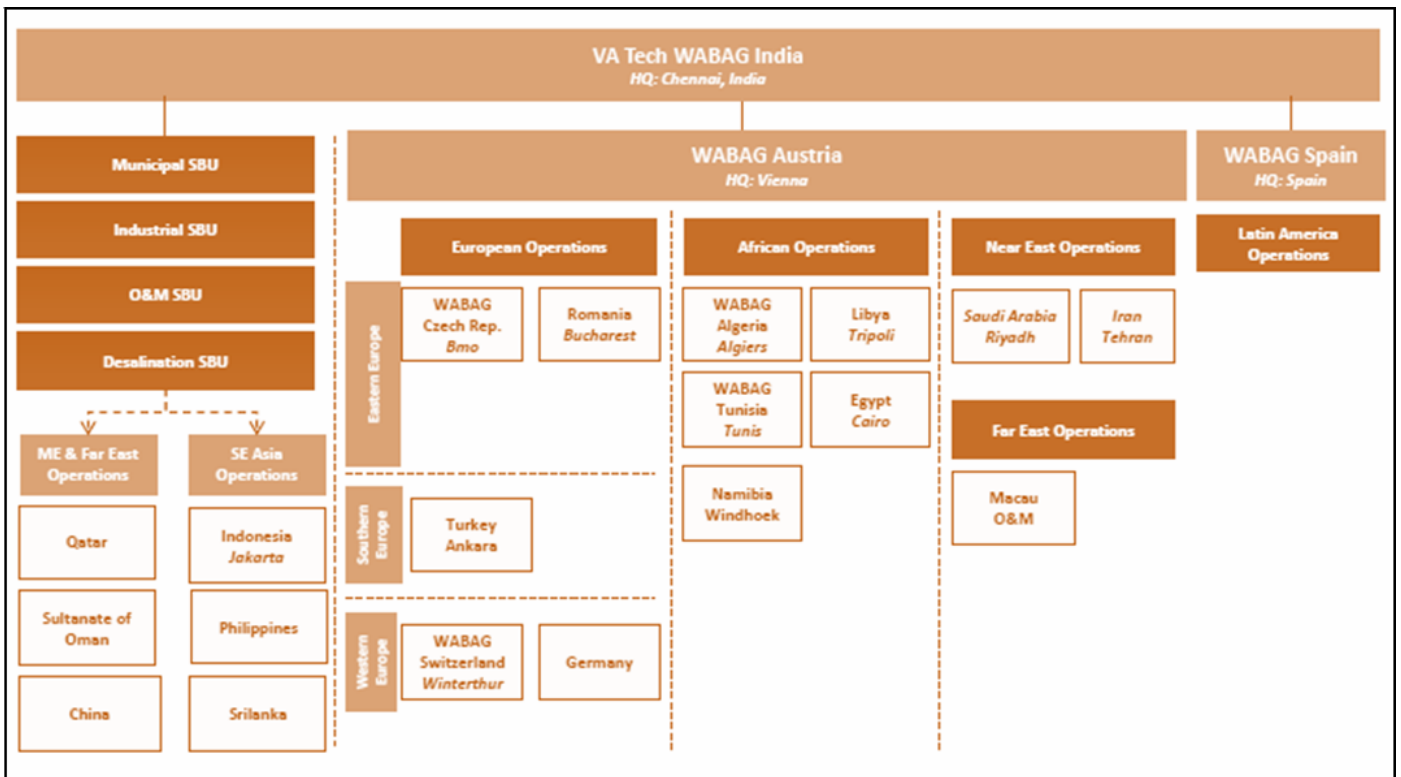
German company, WABAG, started as a water division of Deutsche Babcock in 1996 and was acquired by the Austrian group VA Tech in 1999. Subsequently, Siemens acquired VA Tech in July 2005, following in September 2005 a trustee of India Advantage Funds acquired a majority stake in India along with the current promoters, in effect of a management buyout. In November 2007, the company acquired 100% of WABAG Austria, its former parent company, from Siemens. The new company went public in October 2010.

**Management buyout**

In July 2005, VA Tech Wabag worldwide was acquired by Siemens. Soon after in September 2005, the company had a management buyout with 20% of the shares with the management team and 60% of the shares with ICICI Ventures and the rest with Siemens. In November 2007, VTW acquired 100% stake in its erstwhile parent company, VA Tech Wabag GmbH, Vienna through its wholly owned subsidiary VA Tech Wabag (Singapore) Pte Limited.



Source: Company



Source: Company



**Company snapshot**

Chennai based VA Tech Wabag is one of the world’s leading companies in the water treatment field. VTW has eight decades of plant building experience and its key competence lies in planning, completion and operation of drinking water and wastewater plants for both the municipal and industrial sectors. The company provides a wide variety of solutions for customers through a comprehensive range of services and innovative technologies. VTW’s plants facilitate environmentally compatible wastewater disposal and secure access to clean drinking water for an increasing number of people. This allows it to make an important contribution to environmental protection and enhanced quality of life. It is headquartered in Chennai and conducts its global operations through its subsidiaries and representative offices.

**Offering a complete range of solutions in water space:**

The company offers water treatment solutions across segments of water, sewer, industrial water, industrial effluents, desalination and recycling of water.

**Operates in many geographies across the world but is dominant in the domestic market:** Inherently, VTW being an international company its main area of operation remains in the Indian market. This can be observed by its

consolidated order backlog which is split between the domestic (66%) and international continents (34%).

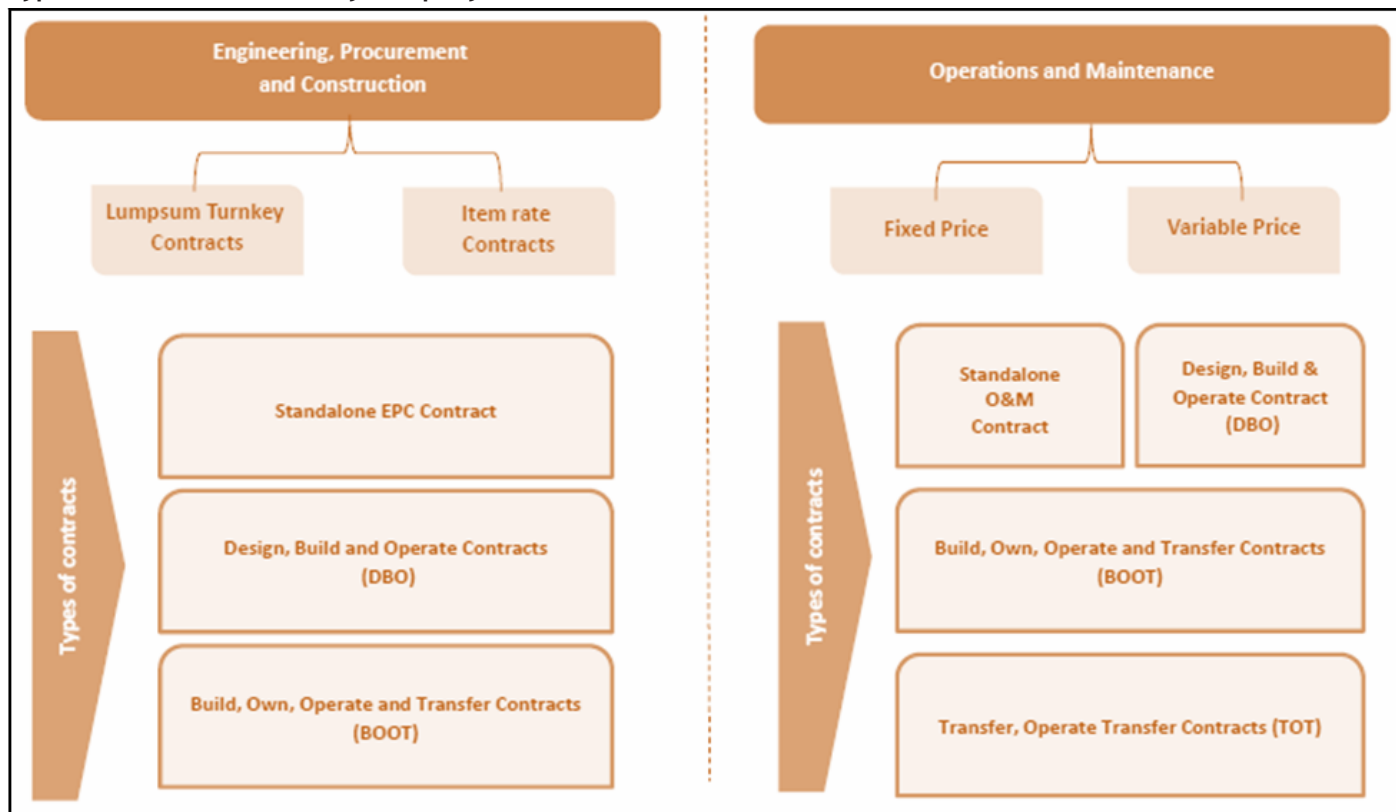
In the domestic market it caters to clients like municipal corporations and companies in the infrastructure sector such as power, steel, chemical and oil & gas companies. In the international market it extends majorly across the Middle East and North Africa (MENA), Central and Eastern Europe, and Near East countries. It is also focusing on growing markets such as Saudi, Qatar, Turkey and China.

**Projects under execution across geographies and segments**

Project Details	Rs cr
Nemmeli, Chennai - 100 MLD Desalination O&M	451
Ulhasnagar, Mumbai - 195 MLD WTP with O&M	330
Istanbul, Turkey O&M	283
OWSSB, Orissa - 100 MLD STP	276
DAWASA, Tanzania - 130 MLD WTP	200
BWSSB, Bellandur - 90 MLD WWTP	1,88
Melamchi, Nepal - 85 MLD WTP	136
Ilugin, Philippines-100 MLD STP	124
Al Ghubra, Oman - 191MLD SWRO	110
<b>Izmir, Turkey - 360 MLD WTP</b>	<b>87</b>

Source: Company

**Type of contracts offered by company**



Source: Company

**Strategic alliance to understand local market better:** VA Tech Wabag has entered into joint ventures and alliance in the past, both at strategic and project-specific level,

to gain prequalification for the bids and for technology references which will eventually help VTW to understand and enter the local markets better.

#### JV partner

Particular	Purpose
Sumitomo Corp	Alliance with Sumitomo Corp will help VA Tech Wabag to expand more into concession type business, where the projects are capital intensive and de-risk the company's balance sheet.
Tecpro and Gammon India	VTW has partnered with Tecpro Systems and Gammon India to bid for balance of plant (BOP) projects for power plants.
Zawawi	VTW has entered into a joint venture agreement with Zawawi Trading Company, a well known business group in Sultanate of Oman, to tap the operations and maintenance business in the water space in Oman.

Source: Company

#### Management profile

Name	Designation	Experience
Rajiv Mittal	Promoter - Managing Director	<ul style="list-style-type: none"> <li>+27 years of experience in the water industry</li> <li>Previously worked with Wabag Water Engineering Ltd, the UK, as a Deputy Director - International Sales</li> </ul>
Shiv Narayan Saraf	Promoter - Head of Operations	<ul style="list-style-type: none"> <li>+39 years experience in the water industry; worked previously with Ion Exchange India Ltd</li> <li>Responsible for construction management of all SBUs</li> </ul>
Amit Sengupta	Promoter - Executive Director - Corporate Strategy	<ul style="list-style-type: none"> <li>+33 years experience; worked previously with Kirloskar AAF</li> <li>Responsible for devising and implementing strategies for growth, technology acquisitions, licensing and synergising strengths</li> </ul>
S Varadarajan	Promoter - CFO	<ul style="list-style-type: none"> <li>+25 years experience; worked previously with PL Agro Technologies Ltd as Finance Manager and Company Secretary</li> <li>In charge of finance, commercial, legal, secretarial, IT, income tax and general administration functions</li> </ul>
Rahul Jaiswal	Head of International Business Group SBU	<ul style="list-style-type: none"> <li>+31 years experience in EPC industry including the last 20 years in water treatment in Australia</li> <li>Extensive experience in membrane technology</li> <li>Responsible for the Middle East, South Asia and Asia Pacific regions</li> </ul>
Erik P Gothlin	CEO, Wabag Austria	<ul style="list-style-type: none"> <li>+19 years experience</li> <li>Previously held various management positions in Westermo Teleindustri, Sweden, ABB and Chromalox Group as Managing Director - International for the UK, France and China</li> </ul>

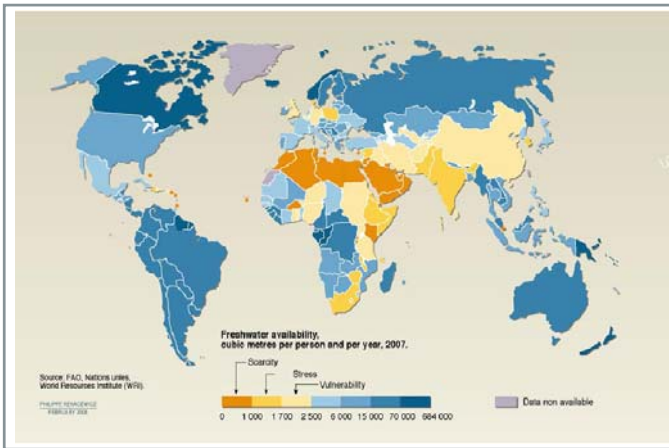
Source: Company

**Industry overview**

**Industry overview:** Of the total water available on Earth’s surface only ~3% water is fit for human consumption, while the rest being unfit as it is in oceans, saline lakes and saline ground water where the salt content is high. Most of the fresh water available on Earth is stored in glaciers and ice caps (~69%) difficult to utilise aptly. The only water source available for us is the ground water and surface water, which accounts to 31% of the total fresh water, effectively 0.8% of total global water which is usable by human beings.

**“A little water is a sea to an ant”-Anonymous:** This proverb should speak it all and it is crystal clear that water being a scarce resource should be used judiciously as there is already a scarcity problem visible across the globe.

**Water scarcity as per UN report**

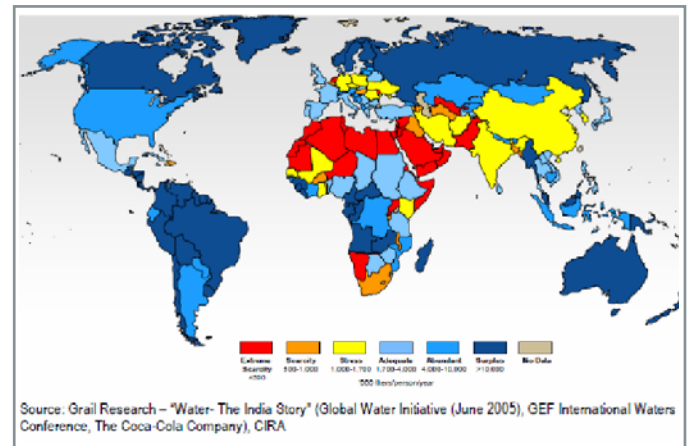


Source: UN.org

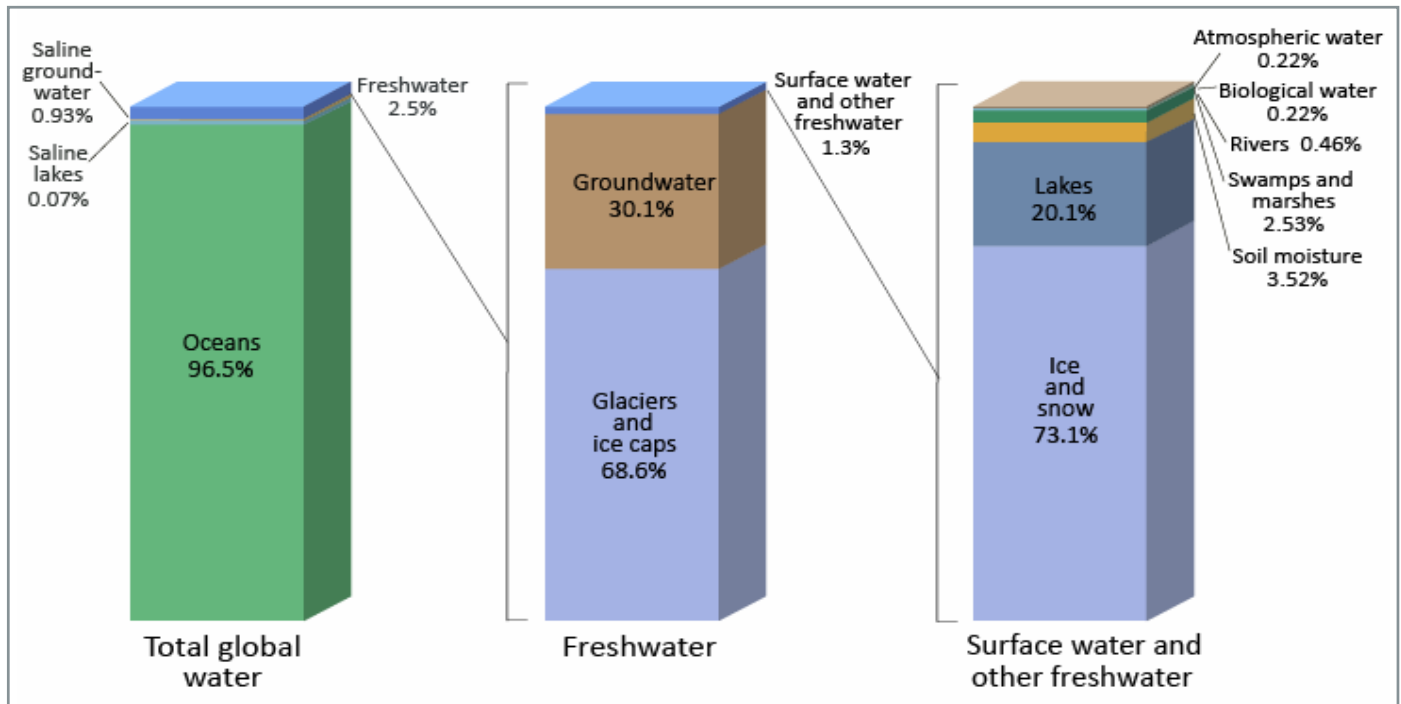
Water scarcity already affects every continent. Around 1.2 billion people or almost one-fifth of the world's population, live in areas of physical scarcity and 500 million people are approaching this situation. Another 1.6 billion people, or almost one quarter of the world's population, face economic water shortage (where countries lack the necessary infrastructure to take water from rivers and aquifers) as per the UN report.

As per Grail Research - “Water-The India Story”, India and China which were water scarce in the year 2000, by 2025 these countries would be more water scarce country. Major parts of the Middle East and Africa would be in the zone of extreme scarcity zone by the year 2025 providing huge opportunity for players in water business across the globe.

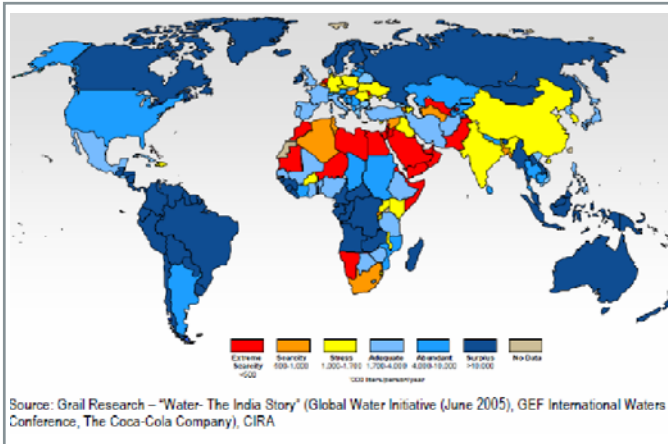
**Global Per Capita Water Availability (2000)**



**Distribution of Earth's water**



### Global Per Capita Water Availability (2025)



**Forces behind water scarcity:** Demographic growth, economic development, urbanisation and pollution are putting pressure on renewable water resources, especially in the semi-arid and arid regions. In addition, growth rate of population is higher than the growth rate in water availability leading to intense scarcity in the world. Climate change and bio-energy demands give a further bend to the already complex relationship between development and water demand.

#### Factors affecting the supply of water

- ♦ **Variability of rainfall:** Variability of rainfall translates into variability in river flow and groundwater recharge, the two main sources of water. But, due to erratic nature and change in rainfall pattern both these sources are turning unviable.
- ♦ **Water quality:** This is also relevant as increasing re-use and recirculation of water tends to deteriorate water quality. Natural contaminants such as fluoride and arsenic linked to groundwater also affect the quality of water in some regions.
- ♦ **Environmental balance:** It is essential to maintain the ecological balance in the current changing global environment where stringent policies are

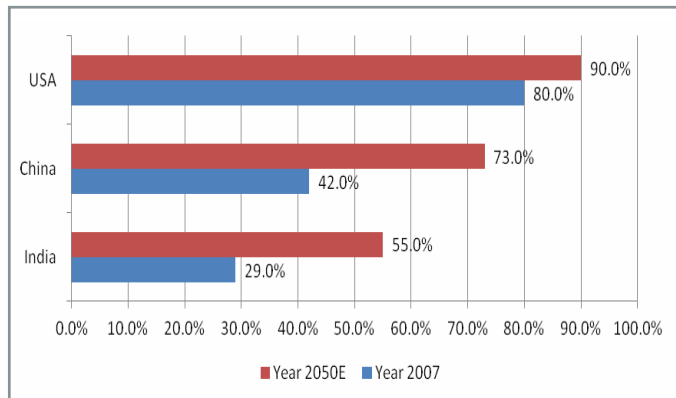
present to protect the aquatic ecosystem thus affecting the availability of fresh water supply.

- ♦ **Human intervention:** Interventions by human beings can increase the volume of water available for use like water storage development. It involves transferring water from high-precipitation regions to low-precipitation regions. In the past, the most obvious and most common response to this problem has been to store surface water behind dams, but underground water storage has been increasingly resorted to as a convenient alternative in recent decades.
- ♦ **Water control measure:** Water control through the construction of reservoirs, decreases exposure to seasonal or inter-annual variations of flows and increases the volume of water available on a regular basis.

#### Factors affecting demand of water

- ♦ **Increase in population:** During the 20th century the world population tripled—while water used for human purposes multiplied six fold. The demand for water in developing countries like India and China is expected to rise steadily, largely due to the increase in population.
- ♦ **Rise in income level affects water consumption:** As income rises, pressure on water consumption also rises. Household water demand as well as municipal demand increases, along with the growth in demand for industrial and agriculture products. Higher income leads to rise in per capita demand for food. People tend to eat more meat and dairy products, the production of which requires more water than a diet based on staple crop products.
- ♦ **Urbanisation:** The urban population in India is expected by the United Nations (UN) to grow from 29.2% of the total population in 2007 to 55.2% by 2050, while that of China is set to increase from 42% in 2007 to 73% in 2050.

**Potential urbanisation**



- ◆ **Rapid industrial growth:** Emerging countries are expected to witness a period of rapid industrial growth over the next three to four decades. Rising industrialisation in the water-scarce surrounding areas of these countries is expected to pose increasing strain on their resources.

**Demand supply mismatch:** By 2030, if no efficiency gains are assumed, global water requirements would grow from 4,500 billion m3 today (or 4.5 thousand cubic kilometers) to 6,900 billion m3 under an average economic growth scenario (Source: Water 2030). Population explosion, pollution of water, degradation of ecosystem and adverse climate change, higher standard of living and excess exploitation of water will lead to an increased pressure on the use of fresh water in the near future.

**Water market:** The global water market today stands at a massive ~\$425-\$500 billion in size and is expected to grow multifold in the near future. The water market is expected to be around \$800 billion-\$1 trillion, growing at a 6% CAGR by 2030-35 (Source: BofAML Global Water Exposure & Global Water Intelligence). We expect as the pie to mature in the near future citing tremendous prospect for companies present in this sector to explore the opportunities under various segments of this chain.

**India to remain a significant market:** India, second most populous country in the world, is home to 16% of the world’s population and has only 2.5% of the world’s land area and 4% of its water resources. The Indian economy is growing at a steady pace with service sector contributing the most to the gross domestic product (GDP) followed by manufacturing and then by agriculture sectors. India depends primarily on agriculture which would elevate water demand in the region. Almost 70% of the people are involved in agricultural activities. Irrigated crops mainly responsible for the withdrawals include rice and wheat in India. The comparison between China and India is also informative to understand the underlying drivers of demand. In China, unlike in most other large economies, industrial demand for water dominates the overall demand growth. In contrast, municipal and domestic demand will grow significantly across all the emerging markets.

## Financials

## Profit &amp; Loss account (consolidated)

Rs cr

Particulars	FY13	FY14	FY15E	FY16E	FY17E
Net sales (Rs cr)	1,619	2,239	2,620	3,100	3,717
Y-o-Y growth (%)	12.1	38.3	17.0	18.3	19.9
Total cost	1,464	2,045	2,395	2,827	3,374
<b>Operating profit</b>	<b>155</b>	<b>194</b>	<b>225</b>	<b>273</b>	<b>342</b>
Total other income	13	13	16	19	22
EBITDA	168	207	241	292	365
Depreciation	11	15	18	19	21
Interest	22	25	35	40	44
PBT	135	167	188	233	300
Tax	46	53	62	77	99
PAT	90	114	126	156	201
<b>Reported PAT</b>	<b>90</b>	<b>114</b>	<b>126</b>	<b>157</b>	<b>202</b>
<b>Adjusted PAT</b>	<b>90</b>	<b>109</b>	<b>126</b>	<b>157</b>	<b>202</b>
Y-o-Y growth (%)	22.2	20.3	15.5	25.3	28.6
Effective tax rate (%)	33.7	31.6	33.0	33.0	33.0
EPS (Rs)	34.0	42.9	47.3	59.2	76.2
<b>Adjusted EPS</b>	<b>34.0</b>	<b>40.9</b>	<b>47.3</b>	<b>59.2</b>	<b>76.2</b>
Y-o-Y growth (%)	22.2	20.3	15.5	25.3	28.6

## Balance Sheet (consolidated)

Rs cr

Particulars	FY13	FY14	FY15E	FY16E	FY17E
Share capital	5	5	5	5	5
Reserves & surplus	710	836	932	1,053	1,209
<b>Total shareholder's funds</b>	<b>715</b>	<b>841</b>	<b>938</b>	<b>1,058</b>	<b>1,214</b>
Total debt	82	158	178	198	218
Minority interest	2	3	3	3	3
<b>Total Liabilities</b>	<b>799</b>	<b>1,002</b>	<b>1,119</b>	<b>1,259</b>	<b>1,435</b>
Gross block	114	175	195	210	230
Less: depreciation	63	56	74	92	113
<b>Net block</b>	<b>51</b>	<b>119</b>	<b>122</b>	<b>118</b>	<b>117</b>
CWIP	48	69	39	42	46
Investments	3	23	23	23	23
- Inventories	41	35	72	85	102
- Sundry debtors	1,109	1,387	1,651	1,953	2,342
- Cash and bank	287	370	426	513	610
- Loans and advances	116	100	183	217	260
Other current assets	92	123	157	186	223
<b>Current assets</b>	<b>1,644</b>	<b>2,016</b>	<b>2,489</b>	<b>2,955</b>	<b>3,537</b>
Current liabilities	932	1,256	1,497	1,773	2,121
Provisions	159	173	262	310	372
<b>Net current assets</b>	<b>553</b>	<b>586</b>	<b>731</b>	<b>872</b>	<b>1,045</b>
<b>Net deferred tax asset</b>	<b>11</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>
Other assets	133	197	197	197	197
<b>Total assets</b>	<b>799</b>	<b>1,002</b>	<b>1,119</b>	<b>1,259</b>	<b>1,435</b>

## Cash flow statement (consolidated)

Rs cr

Particulars	FY13	FY14	FY15E	FY16E	FY17E
<b>PAT</b>	<b>90.3</b>	<b>113.8</b>	<b>125.5</b>	<b>157.3</b>	<b>202.3</b>
Depreciation	10.9	15.0	17.6	18.9	20.7
Change in WC	(52.7)	(14.1)	(88.5)	(53.8)	(76.3)
<b>Operating CF</b>	<b>48.6</b>	<b>114.7</b>	<b>54.6</b>	<b>122.4</b>	<b>146.7</b>
Capex	(37.2)	(82.1)	9.9	(18.0)	(24.0)
Investments	0.3	(19.9)	-	-	-
Others	(0.9)	18.3	0.4	-	1.0
<b>Investing CF</b>	<b>(37.8)</b>	<b>(83.7)</b>	<b>10.3</b>	<b>(18.0)</b>	<b>(23.0)</b>
Dividends	(21.7)	(24.9)	(29.4)	(36.8)	(47.3)
Debt	(42.6)	76.1	20.0	20.0	20.0
Equity	1.9	1.3	0.0	0.0	0.0
<b>Financing CF</b>	<b>(62.4)</b>	<b>52.5</b>	<b>(9.4)</b>	<b>(16.8)</b>	<b>(27.3)</b>
<b>Net change</b>	<b>(51.6)</b>	<b>83.6</b>	<b>55.6</b>	<b>87.6</b>	<b>96.4</b>
Opening cash	338.3	286.7	370.2	425.8	513.4
Closing cash	286.7	370.2	425.8	513.4	609.8
<b>Closing cash &amp; bank</b>	<b>286.7</b>	<b>370.2</b>	<b>425.8</b>	<b>513.4</b>	<b>609.8</b>

## Key ratios (consolidated)

Particulars	FY13	FY14	FY15E	FY16E	FY17E
Sales growth	12.1%	38.3%	17.0%	18.3%	19.9%
Order book growth	14.7%	26.1%	15.1%	18.5%	21.1%
Operating margin (%)	9.6%	8.7%	8.6%	8.8%	9.2%
PAT Margin (%)	5.6%	5.1%	4.8%	5.1%	5.4%
Price/Earnings (x)	43.7	36.3	31.5	25.1	19.5
EV/EBITDA (x)	22.3	18.0	15.3	12.4	9.7
EV/sales (x)	2.3	1.7	1.4	1.2	1.0
Book value/share	269	317	353	399	457
Price/book value (x)	5.5	4.7	4.2	3.7	3.3
Net cash per share	77	80	93	119	147
CEPS	38.1	48.5	53.9	66.4	84.0
P/CEPS	39.0	30.7	27.6	22.4	17.7
Debt/equity (x)	0.1	0.2	0.2	0.2	0.2
Inventory days	10	6	10	10	10
Debtor days	250	226	230	230	230
Creditors days	247	240	245	245	245
Book to bill (x)	2.7	2.4	2.4	2.4	2.4

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