

VA Tech Wabag

CMP : Rs. 196

India's Leading Company in Water Treatment Space

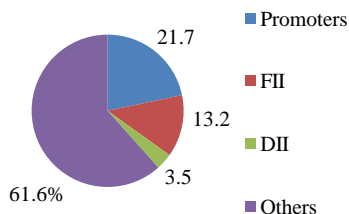
ROBUST PERFORMANCE AND AN ALL TIME HIGH ORDER BOOK IS JUST A PRECURSOR TO A STRONGER AND SUSTAINABLE FUTURE OUTLOOK.

| | |
|-----------|--------|
| Nifty | 13,099 |
| Sensex | 44,621 |
| Nifty PE | 38.67 |
| Sensex PE | 38.71 |

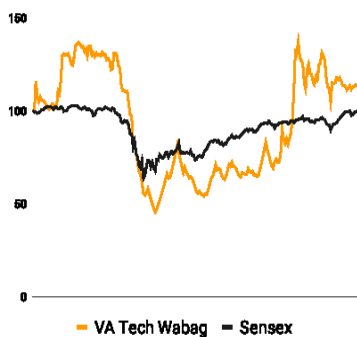
Stock Data

| | |
|------------------|--------|
| BSE Code | 533269 |
| NSE Code | WABAG |
| CMP (Rs.) | 196 |
| Face Value | 2 |
| 52 Week High | 236 |
| 52 Week Low | 73 |
| Market Cap (Cr.) | 1,273 |
| Equity Cap (Cr.) | 10.94 |

Shareholding Pattern (%) as on September 2020



Sensex and Stock Movement



VTW – INVESTMENT TRIGGERS

- ❖ **VA Tech Wabag (VTW)** is one of the **Global Leaders in Water and Waste Water Treatment Solutions**. VTW's International presence spans 20 countries across South East Asia, Middle East, Europe and Latin America.
- ❖ **VTW** currently holds its highest ever **Order Book of Rs. 11,050 Crs.** which includes mega projects under the National Mission for Clean Ganga Scheme (NMCG) to develop Sewage Treatment Plants (STP) of **150 MLD Capacity** along with sewerage network of over 450 Kms, Atal Mission for Rejuvenation and Urban Transformation (AMRUT) Scheme to set up a **178 MLD drinking water treatment plant in Coimbatore, Tamil Nadu**. VTW secured a **USD 48 Million Contract** for sewage treatment plant at New Jeddah Airport, Kingdom of Saudi Arabia.
- ❖ **VTW** in August 2020 **raised funds to the tune of Rs. 120 Crs.** from marquee investors such as Rekha Rakesh Jhunjhunwala and Anand Jaikumar Jain amongst others at a price of Rs.160/- per Equity Share (including a Premium of Rs. 158/- per Equity Share). We believe this marquee fund raising sets a benchmark pricing for shares of the company.
- ❖ For the past few quarters VTW has been showing a negative trend in financial performance because of slower execution and working capital issues. Finance cost kept increasing during the period because of higher debt and receivables. During FY20, VTW has shown a significant improvement in cash position with a **Cash & Cash Equivalent balance of Rs. 249 Crs.** The company has posted a subdued performance due to severe lockdowns; however we expect an excellent improvement in the Company's financials in the coming quarters.
- ❖ The net receivables from GENCOs are as follows: Rs. 138 Crs. from TSGENCO, Rs. 69.50 Crs. from TECPRO and Rs. 253 Crs. from APGENCO. VTW is vigorously pursuing legal action against TECPRO and expects receivables and retentions relating to APGENCO project to be recovered progressively upon satisfactory completion of the contractual milestones.
- ❖ The Government spending through various schemes and policies to meet the **ever growing demand for water presents a huge opportunity for VA Tech Wabag for future business.**
- ❖ We expect VTW to be back in the growth trajectory in the ensuing quarters. An all time high order book, substantial reduction in debt levels resulting in improved working capital cycle and massive investments expected in the water treatment space by the Government of India in the next 5 years make VTW a buy at **CMP Rs. 196 at 24x FY21 earnings.**

VTW – All Time High Order Book of Rs. 11,050 Crs.

- ❖ The Company's **Order Book of Rs. 11,050 Crs.** comprising of almost 4.5x of the Topline.
- ❖ Order Book has grown at an impressive CAGR of 14% over the last decade. Namani Gange order for Rs. 1,187 Crs. represents the largest order backed by the Company.
- ❖ Order book composition of 70% orders from Municipal Corporations, 30% from Industrial Sector. The Industrial Sector Order Book has further breakup of 85% orders from engineering procurement construction (EPC) and 15% from Operations and Maintenance (O&M).
- ❖ VTW would focus on bringing down the working capital in future as the criteria for undertaking new orders would be based on a strong technology platform. VTW had secured a **USD 48 Million order in Saudi Arabia for Jeddah Airport**. This order was executed on the basis of the latest technology resulting in an overall reduction of the plant's carbon footprint.
- ❖ Rajnesh Chopra, Global Head of VTW stated that for EPC business, **95% orders were backed by multilateral funding or sovereign funding and for most of the orders, payment has been already secured and not much investment will take place for completing these orders and the receivables would not boil up, on the contrary, receivables are expected to go down in the coming future.**

01st December 2020

I. Key Contracts in Order Book

| Project Details | Amount (Rs Crs.) |
|---|------------------|
| UPJN, O&M of Agra & Ghaziabad | 1,387 |
| BUIDCO, Digha & Kankarbagh – STP & Network | 1,188 |
| Expansion SWTP 9, Jubail, KSA – STP | 492 |
| KMDA, Howrah – STP | 575 |
| 50 MLD Zarat, Tunisia – Desal | 443 |
| JAJMAU, Kanpur – CETP (FV Rs. 10) | 388 |
| Jeddah Airport, KSA – STP | 341 |
| South Doha, Qatar – STP | 215 |
| MRPL, Karnataka – Desal | 251 |
| Water Supply System, Bhagalpur, India – WTP & Network | 243 |

Source: Q2 FY2021 Investor Presentation

II. Recent Fund Raising at a Glance

- ❖ In August 2020, Va Tech Wabag, raised around Rs. 120 Crs. through marquee investors such as Rekha Rakesh Jhunjhunwala, Basera Home Finance Private Limited and Sushma Anand Jain, Anand Jaikumar Jain (Joint Holding).
- ❖ The company Issued 75,00,000 Equity Shares at a price of INR 160/- per Equity Share (including a Premium of INR 158/- per Equity Share).

| Sr. No. | Name of the Proposed Investor | Maximum Number of Equity Shares proposed to be issued | Money Raised from the Investors |
|---------|--|---|---------------------------------|
| 1. | Mrs. Rekha Rakesh Jhunjhunwala | 50,00,000 | 80,00,00,000 |
| 2. | M/ s. Basera Home Finance Private Limited | 15,00,000 | 24,00,00,000 |
| 3. | Mrs. Sushma Anand Jain and Mr. Anand Jaikumar Jain (Joint Holding) | 10,00,000 | 16,00,00,000 |
| | Total | 75,00,000 | 1,20,00,00,000 |

Range of Solutions offered in Water Space

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

Source: Q2 FY2021 Investor Presentation

Complete Water Treatment Solution Provider...

... With complete portfolio of Water Solutions with technological and operational expertise . .

... through various business/ delivery model



- Engineering, Procurement, Construction (EPC)
- Operation & Maintenance (O&M)
- Design Build Operate (DBO)
- Build Own Operate Transfer (BOOT)
- Hybrid Annuity Model (HAM)

Source: Q2 FY2021 Investor Presentation

III. Growth Drivers



IV. Government Policies and Schemes- A Massive Opportunity for VA Tech Wabag

| | |
|--|---|
| Atal Bhujal Yojana (ABHY) – National Groundwater Management Improvement Program | The Government of India and the World Bank signed a USD 450 million loan agreement to support the national program to preserve the country's depleting groundwater levels and strengthen groundwater institutions. |
| Atal Mission for Rejuvenation and Urban Transformation (AMRUT) | AMRUT aims at providing water supply, sewerage and drainage amenities to the poor and disadvantaged. The Government has committed an investment of USD 1.25 billion across states citing 111 opportunities. |
| National River Conservation Plan and River Basin Management | The Government has allocated INR 840 crore in the budget 2020-21 towards conservation of other major rivers along with the Namami Gange project. |
| Jal Shakti Ministry | The Government's water conservation campaign to cover 256 districts across India. Launched to focus on seven aspects - water conservation, and rainwater harvesting, renovation of traditional and other water bodies, reuse of water, recharging of structures, watershed development, and intensive afforestation. |
| Jal Jeevan Mission | Government's ambitious programme to provide tap water to all households in the country by 2024. A sum of INR 3.6 lakh crore is allotted to the scheme over a period of 5 years, with INR 11,500 crore allotted in the latest budget. To support the mission, the Government plans to tap local water sources, recharge existing sources and promote water harvesting and desalination. It also proposes comprehensive measures for one hundred water stressed districts Nal se JAI A part of the Jal Jeevan Mission, this scheme aims at providing potable water to 18 lakh rural households by 2024. It is based on a unique model where villagers themselves will decide the amount they would pay, based on their personal water consumption. Under the scheme, the Government plans to provide a minimum of 55 litres of water per person per day |
| National Infrastructure Pipeline | It plans to invest INR 111 lakh crore by 2025. The investments will be made in areas of energy, social and commercial infrastructure, communication, water and sanitation. |

V. Impact of Covid-19

- ❖ In light of the outbreak of COVID – 19 pandemic, VA Tech Wabag has successfully been performing the O&M business at 100% of its capacity.
- ❖ VTW continued to operate its EPC business at 70-80% capacity levels through lockdown.
- ❖ The construction business of the company was affected as the company lost 2 months operations due to severe lockdown. However in overseas markets the impact of the lockdown was limited for a few days only as the construction business resumed thereafter.
- ❖ The impact of COVID 19 on the company was contained to a great extent due to the robust order book on hand.

VI. The GENCO Issue

- ❖ The net receivables from GENCOs are as follows: Rs. 138 Crs. from TSGENCO, Rs. 69.50 Crs. from Tecpro and Rs. 253 Crs. from APGENCO.
- ❖ Tecpro is endeavoring to initiate arbitration with TSGENCO.
- ❖ VTW and TSGENCO have challenged the same in Supreme Court and obtained an interim injunction order and expect quashing in the next hearing.
- ❖ VTW is vigorously pursuing legal action to recover dues from Tecpro held under trust.
- ❖ The company expects to recover these dues through National Company Law Tribunal post the ruling in National Company Law Appellate Tribunal.

- ❖ The company expects receivables and retentions relating to APGENCO project are recoverable progressively upon satisfactory completion of the contractual milestones.
- ❖ The COVID-19 pandemic and the lockdown imposed by the Governments, resulted in delays in NCLT & legal proceedings and also impacted the project progress and collection.

VII. Financial Performance at a Glance

| Particulars (INR Crs.) | FY15 | FY16 | FY17 | FY18 | FY19 | FY20 | H1FY21 | H1FY20 |
|-----------------------------------|--------|-------|--------|--------|--------|--------|--------|--------|
| Order Book | 6,844 | 8,315 | 8,194 | 7,743 | 9,292 | 11,050 | | |
| Top Line | 2,443 | 2,557 | 3,219 | 3,463 | 2,785 | 2,592 | 1,042 | 1,099 |
| EBITDA | 217 | 229 | 251 | 223 | 202 | 256 | 77 | 107 |
| PBT | 167 | 162 | 179 | 224 | 110 | 132 | 26 | 46 |
| PAT | 112 | 94 | 112 | 147 | 89 | 84 | 19 | 25 |
| EPS | 20.4 | 16.9 | 18.8 | 24.1 | 19.2 | 16.6 | 3.9 | 5.4 |
| FV | 2 | 2 | 2 | 2 | 2 | 2 | 2 | 2 |
| Equity Share Capital | 10.86 | 10.9 | 10.9 | 10.93 | 10.94 | 10.94 | 12.44 | 10.94 |
| Net Worth | 686 | 781 | 1,010 | 1,162 | 1,086 | 1,172 | 1,317 | 1,108 |
| Debt | 63 | 239 | 309 | 477 | 584 | 482 | 392 | 572 |
| Cash & Cash Equivalent | 163 | 134 | 281 | 185 | 181 | 321 | 340 | 263 |
| BVPS | 126.34 | 143.3 | 185.32 | 212.63 | 198.54 | 214.26 | NA | NA |
| PB | 6.49 | 3.61 | 3.67 | 2.3 | 1.66 | 0.98 | NA | NA |
| P/E | 40 | 31 | 36 | 20 | 17 | 13 | 25 | 26 |
| ROE | 16% | 12% | 11% | 13% | 8% | 7% | NA | NA |
| ROCE | 23% | 18% | 16% | 16% | 10% | 16% | NA | NA |

VIII. Valuations and Recommendations

- ❖ VA Tech Wabag is currently trading at Rs. 196 per Share (1st December, 2020: Market Capitalization of Rs. 1,221 Crs.).
- ❖ VTW's order book grew at a CAGR of 10% over the last 6 years.
- ❖ In H1FY2021, Revenue from the operations stood at Rs. 1,042 Crs. against Rs. 1,099 Crs. in H1FY2020 down ~5% YoY, While EBITDA stood at Rs.77 Crs. against Rs. 107 Crs in H1FY2020 down ~28%, PBT stood at Rs. 26 Crs. against Rs. 46 Crs. in the same period in previous year, PAT stood at Rs. 19 Crs. against Rs. 25 Crs. in the same period in previous year.
- ❖ The performance was subdued in H1FY2021 was mainly because of country wide lockdown in first quarter of this fiscal year. However, the Company posted good set of numbers in Q2FY2021 in comparison to Q1FY2021. The quick resolution of the GENCO issue coupled with renewed momentum in order book flow makes VTW an attractive buy at CMP of Rs.196 at 24x FY21 earnings.

NVS Wealth Managers

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Method: We have not rated the stock.

Rating Scale: This is a guide to the rating system used by our team. Our rating system comprises six rating categories, with a corresponding risk rating.

| Risk Description | Predictability of earnings/ Dividends; Price volatility |
|-------------------------|--|
| Low risk | High predictability / low volatility |
| Medium risk | Moderate predictability / volatility |
| High risk | Low predictability / High volatility |

| <u>Rating</u> | <u>Low Risk</u> | <u>Medium Risk</u> | <u>High Risk</u> |
|----------------------|-------------------------|---------------------------|-------------------------|
| <u>Buy</u> | <u>Over 15%</u> | <u>Over 20%</u> | <u>Over 25%</u> |
| <u>Accumulate</u> | <u>10% - 15%</u> | <u>15% - 20%</u> | <u>20% - 25%</u> |
| <u>Hold</u> | <u>0% - 10%</u> | <u>0% - 15%</u> | <u>0% - 20%</u> |
| <u>Sell</u> | <u>Negative returns</u> | <u>Negative returns</u> | <u>Negative returns</u> |
| <u>Neutral</u> | <u>NA</u> | <u>NA</u> | <u>NA</u> |
| <u>Not Rated</u> | <u>NA</u> | <u>NA</u> | <u>NA</u> |

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