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India | Equity Research | Company Update

VA Tech Wabag

Capital Goods

A watershed moment

VA Tech Wabag (Wabag) bagged a mammoth order of INR 27bn (equivalent to its FY24 revenue) from the Middle East for a desalination plant – the entire order is for EPC. As a result, Wabag's EPC order book (OB) is now close to INR 79bn or >3x book to bill ratio. Order inflow (OI) has been a concern for the last 18 months – FY24/Q1FY25 OI undershot Street's expectations (lower than revenues). At the beginning of the fiscal, management had indicated a good bidding pipeline from Middle East. It had also pre-qualified to bid for Egyptian desalination contracts to bid up to 1000mld. Note – Middle East/Egypt have a strong pipeline of desalination contracts. Wabag has shed the flab, cleaned up its balance sheet and improved its margin over the last 24 months. Retain **BUY**; TP revised to **INR 1,541** (vs. INR 1,445).

A significant win; the wait is over

Wabag received an OI from the Middle East for a 300MLD desalination plant. The plant shall be developed on a greenfield site located in the west coast of the KSA, south of the Red Sea-facing city Yanbu al-Bahr. It is slated to be completed within a 30- month period. The total contract is worth INR 27bn (>FY24 EPC revenues of INR 23bn).

Book to bill ratio > 3x

As a result, we estimate Wabag's EPC OB to improve to INR 78bn; the book to bill ratio improves to 3.4x (of EPC revenues). In addition, the O&M OB is at INR 45bn, or 10x. We increase our revenues estimates for FY26E to be at 20% (vs. earlier growth of 15%).

Pipeline remains strong in middle east

Wabag earlier indicated that it has bid for USD 1bn worth of projects. It has also pre-qualified for a desalination project of up to 1000mld desalination plant. We note that Egypt and Middel East have a strong pipeline of desalination projects.

Maintain HOLD; TP revised to INR 1,541 (from INR 1,445)

Wabag is a pureplay on the water segment. We maintain **BUY** with a revised TP of **INR 1,541** per share (vs INR 1,445 per share earlier) valued at revised 25x FY26E earnings.

Financial Summary

| Y/E March (INR mn) | FY23A | FY24A | FY25E | FY26E |
|--------------------|--------|--------|--------|--------|
| Net Revenue | 29,605 | 28,564 | 32,912 | 40,595 |
| EBITDA | 3,178 | 3,757 | 4,415 | 5,886 |
| EBITDA Margin (%) | 10.7 | 13.2 | 13.4 | 14.5 |
| Net Profit | 2,299 | 2,456 | 2,827 | 3,822 |
| EPS (INR) | 28.2 | 39.6 | 45.6 | 61.6 |
| EPS % Chg YoY | 61.7 | 19.3 | 14.3 | 33.5 |
| P/E (x) | 37.4 | 31.3 | 27.4 | 20.5 |
| EV/EBITDA (x) | 18.5 | 15.1 | 12.8 | 9.7 |
| RoCE (%) | 13.8 | 15.1 | 15.1 | 17.7 |
| RoE (%) | 14.8 | 14.5 | 14.4 | 16.8 |

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Market Data

| | |
|---------------------|------------|
| Market Cap (INR) | 82bn |
| Market Cap (USD) | 973mn |
| Bloomberg Code | VATW IN |
| Reuters Code | VATE.BO |
| 52-week Range (INR) | 1,420 /435 |
| Free Float (%) | 81.0 |
| ADTV-3M (mn) (USD) | 11.5 |

| Price Performance (%) | 3m | 6m | 12m |
|-----------------------|------|------|-------|
| Absolute | 21.8 | 78.6 | 166.4 |
| Relative to Sensex | 15.9 | 69.1 | 144.5 |

| Earnings Revisions (%) | FY24E | FY25E |
|------------------------|-------|-------|
| Revenue | 0.0 | 2.5 |
| EBITDA | (3.9) | 1.3 |
| EPS | (4.5) | 1.0 |

Previous Reports

12-08-2024: [Q1FY25 results review](#)

27-05-2024: [Q4FY24 results review](#)

Outlook and valuation

Wabag is the only pureplay and sizeable player on the theme of rising investment in the water treatment space. The company, with its end-to-end solutions platform, strong brand, asset-light business model, reference list (in India and key overseas geographies) and healthy visibility, is in a sweet spot to capture the increasing capex in water segment – domestic and internationally. We believe VATW offers a structural long-term story.

We expect VATW to see revenues/earnings CAGRs of 15%/20%, and RoE expansion of 300bps between FY23–26 driven by OB accretion, improving execution and better margins. Note that management has guided for 15% revenue growth for FY25, and an EBITDA margin of 13–15%.

We revise our earnings estimates due to strong accretion in YTD order book.

We reiterate Wabag at **BUY** with a revised TP of **INR 1,541** (INR 1,445 earlier) based on 25x FY26E (vs 20x FY26E earlier).

Risks: 1) lower EPC order inflows in FY25; and 2) increased operating costs.

Exhibit 1: Earnings revision

| INR mn | FY25E | | | FY26E | | |
|----------|----------|---------|-------|----------|---------|-------|
| | Previous | Revised | % chg | Previous | Revised | % chg |
| Revenues | 32,905 | 32,912 | 0.0 | 37,968 | 40,959 | 7.9 |
| EBITDA | 4,593 | 4,415 | -3.9 | 5,423 | 5,286 | -2.5 |
| PAT | 2,960 | 2,827 | -4.5 | 3,524 | 3,822 | 8.4 |

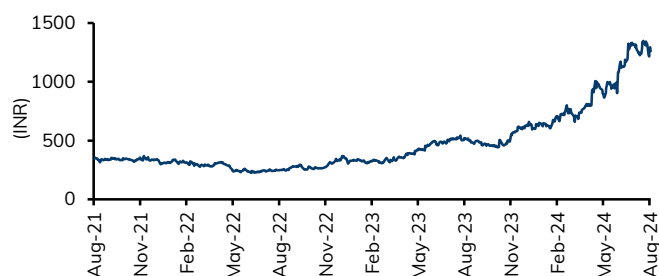
Source: I-Sec research

Exhibit 2: Shareholding pattern

| % | Dec'23 | Mar'24 | Jun'24 |
|-------------------------|--------|--------|--------|
| Promoters | 19.1 | 19.1 | 19.1 |
| Institutional investors | 19.0 | 18.1 | 16.2 |
| MFs and others | 4.7 | 4.7 | 4.0 |
| FIs/Banks | - | - | - |
| Insurance | 0.9 | 0.8 | 0.7 |
| FIIIs | 13.4 | 12.6 | 11.5 |
| Others | 61.9 | 62.8 | 64.7 |

Source: Bloomberg

Exhibit 3: Price chart



Source: Bloomberg

Financial Summary

Exhibit 4: Profit & Loss

(INR mn, year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|--|---------------|---------------|---------------|---------------|
| Net Sales | 29,605 | 28,564 | 32,912 | 40,595 |
| Operating Expenses | 3,732 | 3,140 | 3,352 | 3,613 |
| EBITDA | 3,178 | 3,757 | 4,415 | 5,886 |
| EBITDA Margin (%) | 10.7 | 13.2 | 13.4 | 14.5 |
| Depreciation & Amortization | 88 | 84 | 110 | 110 |
| EBIT | 3,090 | 3,673 | 4,305 | 5,776 |
| Interest expenditure | 658 | 711 | 823 | 1,015 |
| Other Non-operating Income | 536 | 434 | 477 | 525 |
| Recurring PBT | 2,968 | 3,396 | 3,960 | 5,286 |
| Profit / (Loss) from Associates | 93 | (95) | (95) | (95) |
| Less: Taxes | 782 | 797 | 990 | 1,322 |
| PAT | 2,186 | 2,599 | 2,970 | 3,965 |
| Less: Minority Interest | (20) | 48 | 48 | 48 |
| Extraordinaries (Net) | (2,169) | - | - | - |
| Net Income (Reported) | 130 | 2,456 | 2,827 | 3,822 |
| Net Income (Adjusted) | 1,757 | 2,456 | 2,827 | 3,822 |

Source Company data, I-Sec research

Exhibit 5: Balance sheet

(INR mn, year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|--|---------------|---------------|---------------|---------------|
| Total Current Assets | 30,717 | 36,253 | 41,072 | 48,514 |
| of which cash & cash eqv. | 2,754 | 5,097 | 5,174 | 4,235 |
| Total Current Liabilities & Provisions | 21,401 | 20,595 | 23,730 | 29,270 |
| Net Current Assets | 9,316 | 15,658 | 17,342 | 19,245 |
| Investments | 458 | 671 | 671 | 671 |
| Net Fixed Assets | 718 | 689 | 719 | 749 |
| ROU Assets | - | - | - | - |
| Capital Work-in-Progress | - | - | - | - |
| Total Intangible Assets | 36 | 36 | - | - |
| Other assets | 6,897 | 5,304 | 6,111 | 7,538 |
| Deferred Tax Assets | 1,205 | 799 | 992 | 1,325 |
| Total Assets | 19,491 | 25,150 | 27,829 | 31,521 |
| Liabilities | | | | |
| Borrowings | 3,534 | 4,185 | 4,024 | 3,870 |
| Deferred Tax Liability | 11 | - | - | - |
| provisions | 130 | 128 | 128 | 128 |
| other Liabilities | 70 | 2,598 | 2,728 | 2,864 |
| Equity Share Capital | 124 | 124 | 124 | 124 |
| Reserves & Surplus | 15,625 | 18,062 | 20,765 | 24,463 |
| Total Net Worth | 15,749 | 18,186 | 20,889 | 24,587 |
| Minority Interest | (3) | 53 | 61 | 72 |
| Total Liabilities | 19,491 | 25,150 | 27,829 | 31,521 |

Source Company data, I-Sec research

Exhibit 6: Cashflow statement

(INR mn, year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|--|----------------|--------------|--------------|--------------|
| Operating Cashflow | (193) | (644) | 1,624 | 1,391 |
| Working Capital Changes | 445 | (3,999) | (1,607) | (2,841) |
| Capital Commitments | (808) | (1,400) | (104) | (140) |
| Free Cashflow | 615 | 756 | 1,728 | 1,531 |
| Other investing cashflow | 2,310 | 2,027 | (330) | (902) |
| Cashflow from Investing Activities | 1,502 | 628 | (434) | (1,042) |
| Issue of Share Capital | - | (1) | - | - |
| Interest Cost | (658) | (711) | (823) | (1,015) |
| Inc (Dec) in Borrowings | (751) | 651 | (162) | (153) |
| Dividend paid | (124) | (124) | (124) | (124) |
| Others | (1,308) | 2,544 | (5) | 4 |
| Cash flow from Financing Activities | (2,841) | 2,359 | (1,114) | (1,288) |
| Chg. in Cash & Bank balance | (1,532) | 2,343 | 77 | (938) |
| Closing cash & balance | 2,754 | 5,097 | 5,174 | 4,235 |

Source Company data, I-Sec research

Exhibit 7: Key ratios

(Year ending March)

| | FY23A | FY24A | FY25E | FY26E |
|-----------------------------|-------|-------|-------|-------|
| Per Share Data (INR) | | | | |
| Reported EPS | 35.1 | 41.9 | 45.6 | 45.6 |
| Adjusted EPS (Diluted) | 28.2 | 39.6 | 45.6 | 45.6 |
| Cash EPS | 38.4 | 41.0 | 47.4 | 63.4 |
| Dividend per share (DPS) | 2.0 | 2.0 | 2.0 | 2.0 |
| Book Value per share (BV) | 253.2 | 293.3 | 336.9 | 396.6 |
| Dividend Payout (%) | 5.7 | 4.8 | 4.2 | 3.1 |
| Growth (%) | | | | |
| Net Sales | (0.6) | (3.5) | 15.2 | 23.3 |
| EBITDA | 34.1 | 18.2 | 17.5 | 33.3 |
| EPS (INR) | 61.7 | 19.3 | 14.3 | 33.5 |
| Valuation Ratios (x) | | | | |
| P/E | 37.4 | 31.3 | 27.4 | 20.5 |
| P/CEPS | 34.2 | 32.0 | 27.7 | 20.7 |
| P/BV | 5.2 | 4.5 | 3.9 | 3.3 |
| EV / EBITDA | 18.5 | 15.1 | 12.8 | 9.7 |
| P / Sales | 2.0 | 2.0 | 1.8 | 1.4 |
| Dividend Yield (%) | 0.2 | 0.2 | 0.2 | 0.2 |
| Operating Ratios | | | | |
| Gross Profit Margins (%) | 23.3 | 24.1 | 23.6 | 23.4 |
| EBITDA Margins (%) | 10.7 | 13.2 | 13.4 | 14.5 |
| Effective Tax Rate (%) | 26.3 | 23.5 | 25.0 | 25.0 |
| Net Profit Margins (%) | 7.4 | 9.1 | 9.0 | 9.8 |
| NWC / Total Assets (%) | 0.1 | 0.1 | 0.1 | - |
| Net Debt / Equity (x) | 0.0 | (0.1) | (0.1) | 0.0 |
| Net Debt / EBITDA (x) | 0.1 | (0.4) | (0.4) | (0.2) |
| Profitability Ratios | | | | |
| RoCE (%) | 13.8 | 15.1 | 15.1 | 17.7 |
| RoE (%) | 14.8 | 14.5 | 14.4 | 16.8 |
| RoC (%) | 13.8 | 15.1 | 15.1 | 17.7 |
| Fixed Asset Turnover (x) | 39.9 | 40.6 | 46.7 | 55.3 |
| Inventory Turnover Days | 5 | 5 | 5 | 5 |
| Receivables Days | 185 | 250 | 272 | 281 |
| Payables Days | 131 | 129 | 141 | 145 |

Source Company data, I-Sec research

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