

VA TECH WABAG

ENGINEERING

BUY

Target Price: Rs 750

Earnings beat; outlook positive

VA Tech's (VATW) Q4FY17 reported PAT of Rs 757 mn was up 11% YoY and beat our/Street expectations. This was driven by better than expected execution during the quarter. Consolidated revenue grew 32% YoY to Rs 11.3 bn, driven by strong growth in international projects (up 41% YoY) as well as domestic revenue (up 27% YoY). EBITDA margin at 11.7% was down 280 bps YoY due to lower gross margin.

Order inflow in Q4 declined by 45% YoY to Rs 9 bn on higher base effect. During the quarter, VA Tech booked repeat order from Dangotere refinery, Nigeria worth Rs 6.5 bn and another order from refinery in Indonesia worth ~Rs 2 bn. Management provided its FY18 guidance for revenue of Rs 38-40 bn (up 18-25% YoY) and **order inflow of Rs 43-45 bn (up 20-25% YoY)**.

CMP : Rs 677
Potential Upside : 11%

MARKET DATA

No. of Shares : 55mn
Free Float : 75%
Market Cap : Rs 37 bn
52-week High / Low : Rs 737 / Rs 450
Avg. Daily vol. (6mth) : 178,821 shares
Bloomberg Code : VATW IB Equity
Promoters Holding : 25%
FII / DII : 26% / 22%

Working capital expected to improve further in FY18: Net working capital decreased to 68 days vs. 77 days YoY. Moreover, working capital is expected to improve further in FY18 on (a) increased focus on collections; (b) higher working capital projects moving towards closure; and (c) higher share of international orders (54% of order book), as debtor days are ~120 in international vs. ~300 in domestic.

Strong order pipeline: Management talked about strong order pipeline for the company both in the domestic as well as international market, driven by expansion and greenfield projects in oil & gas industry. Domestic order pipeline highlighted earlier: (a) desalination plants in Chennai (Rs 17-22 bn), (b) 7 sewage treatment plants in Mumbai worth ~Rs 50 bn, and (c) Namami Gange projects opportunity worth Rs 200-250 bn over next 2-3 years.

Maintain estimates, roll forward TP; BUY: We maintain our FY18E EPS at Rs 36. We roll forward our valuation to FY19 and our revised TP is Rs 750 (20x FY19E) vs. Rs 664 earlier.

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	25,421	32,014	35,507	40,415
EBITDA (Rs mn)	2,247	3,722	3,421	3,827
Adj PAT (Rs mn)	922	1,474	1,800	2,043
Con. EPS* (Rs)	-	-	32.5	38.9
EPS (Rs)	16.9	27.0	33.0	37.5
Change YOY (%)	(16.6)	59.8	22.1	13.5
P/E (x)	40.0	25.0	20.5	18.1
RoE (%)	9.7	14.9	16.9	16.8
EV/E (x)	16.5	10.0	11.0	9.8
DPS (Rs)	2.8	3.1	5.4	6.1

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(Rsbn)	FY17	FY18E	FY19E
Order inflow	36	44	51
Order backlog	72	81	92
EBITDA margin (%)	11.6	9.6	9.5

Price performance

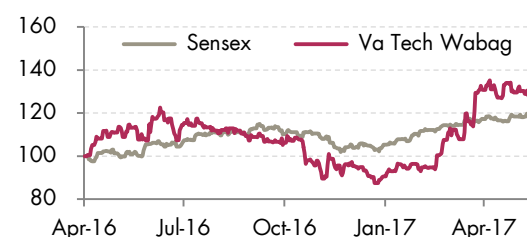


Exhibit 1: Results update

(Rs. mn)	Quarter ended					12 months ended		
	Mar-17	Mar-16	% Chg	Dec-16	% Chg	FY18E	FY17	% Chg
Net sales	11,317	8,588	31.8	7,183	57.6	35,507	32,014	10.9
EBITDA	1,320	1,213	8.8	816	61.7	3,421	3,722	(8.1)
PBIDT	1,320	1,213	8.8	816	61.7	3,421	3,722	(8.1)
Depreciation	52	51	1.2	46	11.4	200	191	4.5
Interest	161	142	12.7	124	29.0	519	526	(1.3)
PBT	1,108	1,020	8.7	645	71.6	2,702	3,005	(10.1)
Tax	326	328	(0.5)	45	631.8	892	860	3.7
Minority Interest	24	6	301.7	(17)	-	30	(474)	-
Adjusted PAT	757	685	10.5	618	22.6	1,800	1,474	22.1
Extra ordinary income/ (exp.)	0	0	-	(643)	-	0	(450)	-
Reported PAT	757	685	10.5	(26)	-	1,800	1,024	75.8
No. of shares (mn)	54	54	-	54	-	55	55	-
EBITDA margin (%)	11.7	14.1	-	11.4	-	9.5	11.5	-
PBIDT margin (%)	11.7	14.1	-	11.4	-	9.6	11.6	-
EPS - annualized (Rs)	55.7	50.4	10.5	45.4	22.6	33.0	27.0	22.1

Source: Company, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rsmn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	25,421	32,014	35,507	40,415
Other operating income	65	65	65	65
Total operating income	25,486	32,079	35,572	40,481
Cost of goods sold	(19,889)	(24,632)	(27,810)	(31,587)
Gross profit	5,597	7,447	7,762	8,894
<i>Gross margin (%)</i>	<i>22.0</i>	<i>23.3</i>	<i>21.9</i>	<i>22.0</i>
Total operating expenses	(3,350)	(3,725)	(4,341)	(5,067)
EBITDA	2,247	3,722	3,421	3,827
<i>EBITDA margin (%)</i>	<i>8.8</i>	<i>11.6</i>	<i>9.6</i>	<i>9.5</i>
Depreciation	(205)	(191)	(200)	(210)
EBIT	2,041	3,530	3,221	3,617
Net interest	(424)	(526)	(519)	(552)
Other income	-	-	-	-
Profit before tax	1,617	3,005	2,702	3,064
Total taxation	(689)	(860)	(892)	(1,011)
<i>Tax rate (%)</i>	<i>42.6</i>	<i>28.6</i>	<i>33.0</i>	<i>33.0</i>
Profit after tax	928	2,145	1,810	2,053
Minorities	(16)	(98)	(20)	(20)
Profit/ Loss associate co(s)	9	(573)	10	10
Adjusted net profit	922	1,474	1,800	2,043
<i>Adj. PAT margin (%)</i>	<i>3.6</i>	<i>4.6</i>	<i>5.1</i>	<i>5.1</i>
Net non-recurring items	-	450	-	-
Reported net profit	922	1,924	1,800	2,043

Balance sheet (Rsmn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	109	109	109	109
Reserves & surplus	9,809	9,822	11,257	12,889
Net worth	9,918	9,931	11,367	12,998
Borrowing	3,884	3,091	2,791	2,491
Other non-current liabilities	-	-	-	-
Total liabilities	13,884	13,195	14,350	15,701
Gross fixed assets	2,580	2,760	2,899	3,038
Less: Depreciation	(825)	(1,016)	(1,216)	(1,426)
Net fixed assets	1,755	1,744	1,684	1,612
Add: Capital WIP	24	-	-	-
Total fixed assets	1,779	1,744	1,684	1,612
Total Investment	177	225	225	225
Inventory	976	385	840	954
Debtors	20,430	25,115	25,779	29,343
Cash & bank	3,684	2,618	1,811	1,787
Loans & advances	1,254	1,010	1,946	2,215
Current liabilities	16,150	20,279	18,635	21,202
Net current assets	11,881	11,011	12,227	13,649
Other non-current assets	47	215	215	215
Total assets	13,884	13,195	14,350	15,701

Source: Company, Axis Capital

Cash flow (Rsmn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	1,617	3,005	2,702	3,064
Depreciation & Amortisation	205	191	200	210
<i>Chg in working capital</i>	<i>(2,921)</i>	<i>(196)</i>	<i>(2,023)</i>	<i>(1,447)</i>
Cash flow from operations	(1,794)	1,019	(23)	807
<i>Capital expenditure</i>	<i>(78)</i>	<i>(156)</i>	<i>(139)</i>	<i>(139)</i>
Cash flow from investing	(280)	(204)	(139)	(139)
<i>Equity raised/ (repaid)</i>	-	-	-	-
<i>Debt raised/ (repaid)</i>	<i>2,078</i>	<i>(794)</i>	<i>(300)</i>	<i>(300)</i>
<i>Dividend paid</i>	<i>(177)</i>	<i>(196)</i>	<i>(345)</i>	<i>(392)</i>
Cash flow from financing	2,283	(1,882)	(645)	(692)
Net chg in cash	209	(1,066)	(807)	(24)

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	16.9	27.0	33.0	37.5
CEPS (Rs)	20.7	38.8	36.7	41.3
DPS (Rs)	2.8	3.1	5.4	6.1
Dividend payout ratio (%)	16.4	8.7	16.4	16.4
GROWTH				
Net sales (%)	4.7	25.9	10.9	13.8
EBITDA (%)	7.2	65.7	(8.1)	11.9
Adj net profit (%)	(16.3)	59.9	22.1	13.5
FDEPS (%)	(16.6)	59.8	22.1	13.5
PERFORMANCE				
RoE (%)	9.7	14.9	16.9	16.8
RoCE (%)	16.5	26.1	23.4	24.1
EFFICIENCY				
Asset turnover (x)	3.0	3.1	3.1	3.1
Sales/ total assets (x)	0.9	1.0	1.1	1.2
Working capital/ sales (x)	0.3	0.3	0.3	0.3
Receivable days	293.3	286.3	265.0	265.0
Inventory days	15.3	5.0	9.5	9.5
Payable days	230.8	252.6	203.5	203.5
FINANCIAL STABILITY				
Total debt/ equity (x)	0.4	0.3	0.3	0.2
Net debt/ equity (x)	-	-	0.1	-
Current ratio (x)	1.7	1.5	1.7	1.6
Interest cover (x)	4.8	6.7	6.2	6.5
VALUATION				
PE (x)	40.0	25.0	20.5	18.1
EV/ EBITDA (x)	16.5	10.0	11.0	9.8
EV/ Net sales (x)	1.5	1.2	1.1	0.9
PB (x)	3.7	3.7	3.2	2.8
Dividend yield (%)	0.4	0.5	0.8	0.9
Free cash flow yield (%)	(5.1)	2.3	(0.4)	1.8

Source: Company, Axis Capital

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Ratings	Expected absolute returns over 12-18 months
BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%

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