

VA TECH WABAG

ENGINEERING

17 AUG 2017

Quarterly Update

BUY

Target Price: Rs 740

Improving domestic outlook

Q1FY18 order inflow at ~Rs 7 bn was down ~13% YoY (vs. Rs 8 bn YoY). Order backlog at Rs 74 bn was down 1% YoY (India up 23%, International subsidiaries down 35%). Wabag booked one large repeat order from Bangalore Water Supply and Sewerage Board (BWSSB) for 150 MLD Sewage Treatment Plant (STP) worth Rs 3.86 bn.

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.

CMP : Rs 611
Potential Upside : 21%

MARKET DATA

No. of Shares : 55 mn
Free Float : 75%
Market Cap : Rs 33 bn
52-week High / Low : Rs 749 / Rs 450
Avg. Daily vol. (6mth) : 225,232 shares
Bloomberg Code : VATW IB Equity
Promoters Holding : 25%
FII / DII : 27% / 23%

Earnings growth driven by higher margin India revenue: Q1FY18 consolidated revenue grew 15% YoY, driven by strong growth in Wabag India revenue (up 36% YoY); international subsidiaries revenue was almost flat (down 2% YoY). EBITDA margin at 6.5% was up 100 bps YoY, driven by higher share of India revenue. Interest cost increased 37% YoY to Rs 133 mn. Tax rate was at 62% due to losses in international subsidiaries. Consolidated PAT at Rs 84 mn was up 62% YoY.

Maintain guidance with positive outlook: VA Tech maintained its FY18 guidance for revenue at Rs 38-40 bn (up 18-25%) and order inflow at Rs 43-45 bn (up 20-25%). Management commentary was positive: "Execution on all projects are happening at a good pace and we look forward to another good year in terms of overall growth". Management highlighted pick up in domestic ordering activity and opportunities in Saudi Arabia, Sri Lanka, Philippines and Vietnam.

Maintain estimates, TP and BUY: We maintain our FY18 and FY19 EPS at Rs 33 and Rs 37. Our TP stands at Rs 740 (20x FY19E).

Financial summary (Consolidated)

Y/E March	FY16	FY17	FY18E	FY19E
Sales (Rs mn)	25,421	32,014	35,369	40,341
EBITDA (Rs mn)	2,247	3,079	3,417	3,881
Adj PAT (Rs mn)	922	1,667	1,796	2,013
Con. EPS* (Rs)	-	-	32.4	39.6
EPS (Rs)	16.9	30.6	32.9	36.9
Change YOY (%)	(16.6)	80.7	7.7	12.1
P/E (x)	36.1	20.0	18.5	16.5
RoE (%)	9.7	16.8	16.9	16.5
EV/E (x)	14.9	11.0	10.0	8.8
DPS (Rs)	2.8	3.1	5.4	6.0

Source: *Consensus broker estimates, Company, Axis Capital

Key drivers

(Rs bn)	FY17	FY18E	FY19E
Order inflow	36	46	51
Order backlog	73	84	95
EBITDA margin (%)	9.6	9.6	9.6

Price performance

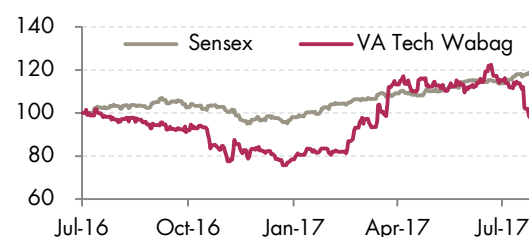


Exhibit 1: Results update

(Rs. mn)	Quarter ended					12 months ended		
	Jun-17	Jun-16	% Chg	Mar-17	% Chg	FY18E	FY17	% Chg
Net sales	6,686	5,803	15.2	11,317	(40.9)	35,369	32,014	10.5
EBITDA	438	320	36.7	1,320	(66.8)	3,417	3,079	11.0
PBIDT	438	320	36.7	1,320	(66.8)	3,417	3,079	11.0
Depreciation	45	46	(1.1)	52	(12.6)	219	191	14.4
Interest	133	110	21.5	161	(17.0)	538	526	2.3
PBT	259	165	57.2	1,108	(76.6)	2,660	2,362	12.6
Tax	160	109	46.3	326	(51.0)	854	667	28.2
Minority Interest	16	4	321.6	24	(35.3)	30	169	(82.2)
Adjusted PAT	84	52	61.5	757	(88.9)	1,796	1,667	7.7
Extra ordinary income/ (exp.)	0	0	-	0	-	0	(643)	-
Reported PAT	84	52	61.5	757	(88.9)	1,796	1,024	75.4
No. of shares (mn)	54	54	-	54	-	55	55	-
EBITDA margin (%)	6.5	5.5	-	11.7	-	9.6	9.5	-
PBIDT margin (%)	6.5	5.5	-	11.7	-	9.7	9.6	-
EPS - annualized (Rs.)	6.2	3.8	61.5	55.7	(88.9)	32.9	30.6	7.7

Source: Company, Axis Capital

Financial summary (Consolidated)

Profit & loss (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Net sales	25,421	32,014	35,369	40,341
Other operating income	65	65	65	65
Total operating income	25,486	32,079	35,434	40,406
Cost of goods sold	(19,889)	(25,275)	(27,843)	(31,646)
Gross profit	5,597	6,804	7,591	8,760
<i>Gross margin (%)</i>	<i>22.0</i>	<i>21.3</i>	<i>21.5</i>	<i>21.7</i>
Total operating expenses	(3,350)	(3,725)	(4,174)	(4,879)
EBITDA	2,247	3,079	3,417	3,881
<i>EBITDA margin (%)</i>	<i>8.8</i>	<i>9.6</i>	<i>9.7</i>	<i>9.6</i>
Depreciation	(205)	(191)	(219)	(233)
EBIT	2,041	2,887	3,198	3,649
Net interest	(424)	(526)	(538)	(553)
Other income	-	-	-	-
Profit before tax	1,617	2,362	2,660	3,095
Total taxation	(689)	(667)	(854)	(1,072)
<i>Tax rate (%)</i>	<i>42.6</i>	<i>28.2</i>	<i>32.1</i>	<i>34.6</i>
Profit after tax	928	1,695	1,806	2,023
Minorities	(16)	(98)	(20)	(20)
Profit/ Loss associate co(s)	9	70	10	10
Adjusted net profit	922	1,667	1,796	2,013
<i>Adj. PAT margin (%)</i>	<i>3.6</i>	<i>5.2</i>	<i>5.1</i>	<i>5.0</i>
Net non-recurring items	-	643	-	-
Reported net profit	922	2,310	1,796	2,013

Balance sheet (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Paid-up capital	109	109	109	109
Reserves & surplus	9,809	9,822	11,254	12,861
Net worth	9,918	9,931	11,363	12,970
Borrowing	3,884	3,091	2,791	2,491
Other non-current liabilities	-	-	-	-
Total liabilities	13,884	13,195	14,346	15,674
Gross fixed assets	2,580	2,760	2,899	3,038
Less: Depreciation	(825)	(1,016)	(1,234)	(1,467)
Net fixed assets	1,755	1,744	1,665	1,571
Add: Capital WIP	24	-	-	-
Total fixed assets	1,779	1,744	1,665	1,571
Total Investment	177	225	225	225
Inventory	976	385	837	952
Debtors	20,430	25,115	25,679	29,288
Cash & bank	3,684	2,618	1,875	1,822
Loans & advances	1,254	1,010	1,938	2,210
Current liabilities	16,150	20,279	18,571	21,163
Net current assets	11,881	11,011	12,242	13,663
Other non-current assets	47	215	215	215
Total assets	13,884	13,195	14,346	15,674

Source: Company, Axis Capital

Cash flow (Rs mn)

Y/E March	FY16	FY17	FY18E	FY19E
Profit before tax	1,617	2,362	2,660	3,095
Depreciation & Amortisation	205	191	219	233
<i>Chg in working capital</i>	<i>(2,921)</i>	<i>(196)</i>	<i>(1,974)</i>	<i>(1,474)</i>
Cash flow from operations	(1,794)	1,019	41	772
<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>-</i>	<i>-</i>	<i>-</i>	<i>-</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>(344)</i>	<i>(386)</i>
Cash flow from financing	2,283	(1,882)	(644)	(686)
Net chg in cash	209	(1,066)	(742)	(53)

Key ratios

Y/E March	FY16	FY17	FY18E	FY19E
OPERATIONAL				
FDEPS (Rs)	16.9	30.6	32.9	36.9
CEPS (Rs)	20.7	45.8	36.9	41.2
DPS (Rs)	2.8	3.1	5.4	6.0
Dividend payout ratio (%)	16.4	7.3	16.4	16.4
GROWTH				
Net sales (%)	4.7	25.9	10.5	14.1
EBITDA (%)	7.2	37.0	11.0	13.6
Adj net profit (%)	(16.3)	80.8	7.7	12.1
FDEPS (%)	(16.6)	80.7	7.7	12.1
PERFORMANCE				
RoE (%)	9.7	16.8	16.9	16.5
RoCE (%)	16.5	21.3	23.2	24.3
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	4.8	9.5	9.5
Payable days	230.8	247.0	203.6	203.8
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	5.5	5.9	6.6
VALUATION				
PE (x)	36.1	20.0	18.5	16.5
EV/ EBITDA (x)	14.9	11.0	10.0	8.8
EV/ Net sales (x)	1.3	1.1	1.0	0.8
PB (x)	3.4	3.4	2.9	2.6
Dividend yield (%)	0.5	0.5	0.9	1.0
Free cash flow yield (%)	(0.1)	-	-	-

Source: Company, Axis Capital

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HOLD	Between 10% and -10%
SELL	Less than -10%

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