

## RESULT UPDATE

**Sanjeev Zarbade**  
sanjeev.zarbade@kotak.com  
+91 22 6218 6424

## VA TECH WABAG

PRICE: RS.588  
TARGET PRICE: RS.711

RECOMMENDATION: BUY  
FY19E PE: 15.6X

VA Tech Wabag's (VAW) reported good set of numbers in the second quarter on an operational basis. Profit and EBITDA Numbers were ahead of our expectations. The stock has underperformed in recent quarters due to increasing working capital intensity which has raised net borrowings.

We have been positive on the stock in view strong order book of the company coupled with relative under-performance in stock price in H1FY18. Valuations are attractive relative to peers. Reiterate "BUY" with an unchanged price target of Rs 711.

## Summary table

(Rs mn)	FY17	FY18E	FY19E
Sales	32079.1	36180.0	40521.6
Growth %	26.1	12.8	12.0
EBITDA	2966.2	3359.2	3771.3
EBITDA margin %	9.2	9.3	9.3
PBT	2,361.6	2,745.4	3,102.8
PAT	1,024.0	1,807.0	2,042.8
EPS (Rs)	18.9	33.3	37.6
Growth %	16.7	76.5	13.1
CEPS	22.4	37.4	42.2
Book value (Rs/share)	196.9	225.5	258.4
Dividend per share (Rs)	4.0	4.0	4.0
ROE %	9.9	15.8	15.6
ROCE %	16.0	16.3	17.7
Net cash (debt)	-450.3	1619.7	1868.4
NW Capital (Days)	39.7	40.3	50.8
EV/Sales (x)	1.0	0.8	0.7
EV/EBITDA (x)	10.9	9.0	8.0
P/E (x)	31.2	17.7	15.6
P/Cash Earnings	26.3	15.7	13.9
P/BV (x)	3.0	2.6	2.3

Source: Company, Kotak Securities – Private Client Research

## Quarterly performance

(Rs mn)	Q2FY18	Q2FY17	YoY (%)	H1FY18	H1FY17	YoY (%)
<b>Net Sales</b>	<b>8865</b>	<b>7771</b>	<b>14.1</b>	<b>15551</b>	<b>13565</b>	<b>14.6</b>
Other operating income	0	6	-	0	14	-
Net Sales & Other Operating Income	8865	7776	14.0	15551	13579	14.5
Total Expenditure	8091	7196	12.4	14358	12723	12.8
(Increase) / Decrease In Stocks	-37	-330	-88.8	-52	-573	-91.0
Cost of Services & Raw Materials	7142	6626	7.8	12412	11502	7.9
Other Expenses	347	279	24.2	698	594	17.5
Employee Cost	639	621	2.9	1299	1200	8.3
<b>PBIDT</b>	<b>775</b>	<b>580</b>	<b>33.5</b>	<b>1194</b>	<b>855</b>	<b>39.6</b>
Other Income	2	0		22	0	
Operating Profit	777	580	33.9	1215	855	42.1
Depreciation	45	47	-5.7	90	93	-3.4
<b>EBIT</b>	<b>732.6</b>	<b>533.1</b>	<b>37.4</b>	<b>1126</b>	<b>762</b>	<b>47.7</b>
Interest	143	94	51.6	276	204	35.5
Forex gain/(loss)	0.0	4.5	-100.0	0	50	-100.0
<b>PBT</b>	<b>589.6</b>	<b>443.3</b>	<b>33.0</b>	<b>849</b>	<b>608</b>	<b>39.6</b>
Tax	220	186	18.3	380	296	28.7
Profit After Tax	369.3	257.1	43.6	469	313	50.0
Minority Interest	-42.1	-25.0	68.4	-60	-39	53.8
Shares of Associates	7.0	8.3	-15.7	9	19	-50.0
Consolidated Net Profit	334.2	240.4	39.0	418	292	43.1

Source: Company

## Estimates

(Rs mn)	Q2FY18	Q2FY17	Q2FY18Est	Comments
Revenue	8865	7776	8200	Higher than expected revenue aided by strong order book
EBITDA (%)	8.7	7.4	8.0	exceeded EBITDA margin forecast
PAT	334	240.4	289	Leading to profits beating our forecast

Source: Kotak Securities – Private Client Research

### Consolidated Performance – Healthy revenue growth, margins gains lead to higher than expected profits

Revenue - consolidated revenue stood at Rs 8.8 bn (+14% YoY) and ahead of our estimates due to robust execution of IIU (India International Units) projects like Petronas, Malaysia and AMAS, Bahrain.

EBITDA for the quarter stood at Rs 775 mn (33.5% YoY), which was higher than estimates due to strong growth in revenues and project management efficiencies.

EBITDA margins for the quarter stood at 8.7% vs 7.4% on a y-o-y basis, mainly due to higher gross margins which could be due to change in project mix (some projects may not be reached at profit recognition stage).

Share of profits from associates stood at Rs 7.0 mn vs Rs 8.3 mn on a y-o-y basis. The company reported PAT of Rs 334.2 mn vs Rs 240.4 mn in corresponding quarter of the previous fiscal.

Consolidated gross debt stands at Rs 5.5 bn as compared to Rs 4.5 bn on a q-o-q basis. Cash levels stand at Rs 1.3 bn vs Rs 3.2 bn on a q-o-q basis. This is concerning as we are seeing in recent quarters that the debt has been trending higher while the cash has been depleting. In our view, this trend needs to reverse for the stock to trade higher.

Receivables have increased to Rs 28.5 bn in Q2FY18 vs Rs 25.1 bn at the end of FY17.

Consolidated Order backlog stands at Rs 79 bn (Rs 70 bn on a y-o-y basis). The revenue visibility provided by order book is adequate at 27 months of trailing four quarter revenues.

### **Maintained Guidance**

Revenue guidance of Rs 38-40 bn

Order intake guidance of Rs 43-45 bn

The company continue to remain positive on the EBITDA margins outlook.

### **Valuation – Maintain BUY**

VAW is trading at 17.7x and 15.6x, FY18 and FY19 earnings respectively. We have been positive on the stock in view strong order book of the company coupled with relative under-performance in stock price in H1FY18. We also have a favourable sector view on the water and sewage treatment sector on account long term drivers like urbanization, smart cities, water reclamation, industrial effluent treatment and Namami Gange. We maintain **“BUY”** with an unchanged price target of Rs 711 (19x FY19 earnings).

We maintain BUY on Va Tech  
Wabag with a price target of  
Rs.711

## RATING SCALE

### Definitions of ratings

- BUY** – We expect the stock to deliver more than 12% returns over the next 9 months
- ACCUMULATE** – We expect the stock to deliver 5% - 12% returns over the next 9 months
- REDUCE** – We expect the stock to deliver 0% - 5% returns over the next 9 months
- SELL** – We expect the stock to deliver negative returns over the next 9 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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- NOTE** – Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

## FUNDAMENTAL RESEARCH TEAM

<p><b>Sanjeev Zarbade</b> Capital Goods, Engineering sanjeev.zarbade@kotak.com +91 22 6218 6424</p>	<p><b>Ruchir Khare</b> Capital Goods, Engineering ruchir.khare@kotak.com +91 22 6218 6431</p>	<p><b>Amit Agarwal</b> Logistics, Paints, Transportation agarwal.amit@kotak.com +91 22 6218 6439</p>	<p><b>Nipun Gupta</b> Information Technology nipun.gupta@kotak.com +91 22 6218 6433</p>	<p><b>K. Kathirvelu</b> Production k.kathirvelu@kotak.com +91 22 6218 6427</p>
<p><b>Teena Virmani</b> Construction, Cement teena.virmani@kotak.com +91 22 6218 6432</p>	<p><b>Ritwik Rai</b> FMCG, Media ritwik.rai@kotak.com +91 22 6218 6426</p>	<p><b>Jatin Damania</b> Metals &amp; Mining jatin.damania@kotak.com +91 22 6218 6440</p>	<p><b>Jayesh Kumar</b> Economy kumar.jayesh@kotak.com +91 22 6218 5373</p>	
<p><b>Arun Agarwal</b> Auto &amp; Auto Ancillary arun.agarwal@kotak.com +91 22 6218 6443</p>	<p><b>Sumit Pokharna</b> Oil and Gas sumit.pokharna@kotak.com +91 22 6218 6438</p>	<p><b>Pankaj Kumar</b> Midcap pankajr.kumar@kotak.com +91 22 6218 6434</p>	<p><b>Ashini Shah</b> Midcap ashini.shah@kotak.com +91 22 6218 5438</p>	

## TECHNICAL RESEARCH TEAM

<p><b>Shrikant Chouhan</b> shrikant.chouhan@kotak.com 91 22 6218 5408</p>	<p><b>Amol Athawale</b> amol.athawale@kotak.com +91 20 6620 3350</p>
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## DERIVATIVES RESEARCH TEAM

<p><b>Sahaj Agrawal</b> sahaj.agrawal@kotak.com +91 79 6607 2231</p>	<p><b>Malay Gandhi</b> malay.gandhi@kotak.com +91 22 6218 6420</p>	<p><b>Prashanth Lalu</b> prashanth.lalu@kotak.com +91 22 6218 5497</p>	<p><b>Prasenjit Biswas, CMT</b> prasenjit.biswas@kotak.com +91 33 6625 9810</p>
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