

Va Tech Wabag

BSE SENSEX

37,389

S&P CNX

11,430

CMP:INR378
TP:INR450 (+18%)
Buy

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Bloomberg	VATW IN
Equity Shares (m)	55
M.Cap.(INRb)/(USDb)	20.3 / 0.3
52-Week Range (INR)	654 / 340
1, 6, 12 Rel. Per (%)	-8/-46/-59
12M Avg Val (INR M)	89
Free float (%)	75.3

Financials & Valuations (INR b)

Y/E Mar	2018	2019E	2020E
Net Sales	34.6	37.4	39.9
EBITDA	2.9	3.6	3.8
PAT	1.3	1.8	2.0
EPS (INR)	24.1	32.4	37.2
Gr. (%)	27.6	34.5	14.8
BV/Sh (INR)	206.5	228.3	258.3
RoE (%)	12.4	12.9	15.3
RoCE (%)	12.5	13.8	14.5
P/E (x)	15.7	11.6	10.1
P/BV (x)	1.8	1.7	1.5

Estimate change

TP change

Rating change



Exceeds expectations led by strong show by subs; guidance maintained

- **Beat estimates on strong show by overseas subsidiaries:** Consol. sales grew 3% YoY to INR6.9b (in-line). Standalone sales declined 4% YoY to INR3.4b, while subsidiary sales grew 11% YoY to INR3.5b. Consol. EBITDA rose 59% YoY to INR646m, with the margin of 9.4% (+330bp YoY) above our estimate of 7% due to a sharp jump in profitability of subsidiaries (where margin was 9.7% in 1QFY19 v/s 1.2% in the year-ago period). Margin improvement was driven by (a) better project mix and (b) higher margins in projects nearing completion (Dangote, Nigeria and Al Saad, Saudi Arabia). Recurring profit of INR364m was above our estimate of INR158m. A forex loss of INR234m was booked during the quarter, primarily relating to translation losses on MTM on loan outstanding in Turkey and Czech Republic.
- **Order backlog down 10% YoY:** Order intake was down 25% YoY to INR5.3b, while order backlog fell 10% YoY to INR66b in 1QFY19. VATW has also signed framework contracts worth INR7b, which will be converted into firm orders post receiving advances from customers. Key orders won during the quarter were (a) NMDC – ZLD project (INR1.7b), (b) Puro-lite (INR1.6b) and (c) Al Saad, Saudi Arabia (INR758m). Domestic tendering/orders are picking up for projects like Namami Ganga, Mumbai STP and the Chennai desalination plant.
- **Guidance for FY19 maintained:** Management maintained its FY19 guidance of revenue of INR40b-42b (+21% YoY, at the upper end of the guidance) and order inflow of INR53b-57b (+79% YoY, at the upper end of the guidance).
- **Valuation and view:** We marginally cut our estimates to build in lower orders in FY19/20 and maintain our **Buy** rating with a TP of INR450 (12x FY20E EPS, below its 10-year average P/E multiple of 15x given its deteriorating working capital cycle). We believe that from the medium- to long-term perspective, VATW is in a sweet spot to take advantage of a pick-up in domestic order inflows, led by state-driven municipal orders, and central government schemes.

Quarterly Performance (Consolidated)

Y/E March	FY18				FY19				(INR m)			
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q	FY18	FY19	FY19	Var.
Sales	6,686	8,865	8,647	10,375	6,879	9,090	9,450	11,976	34,573	37,395	6,730	2.2%
Change (%)	15.2	14.0	20.4	-8.3	2.9	2.5	9.3	15.4	7.8	8.2	0.7	
EBITDA	405	775	777	948	646	836	858	1,213	2,918	3,551	471	37.0%
Change (%)	47.5	32.5	-2.2	-28.0	59.3	7.8	10.4	27.9	-1.6	21.7	12.6	
As of % Sales	6.1	8.7	9.0	9.1	9.4	9.2	9.1	10.1	8.4	9.5	7.0	
Depreciation	45	45	43	45	43	55	55	68	178	222	55	
Interest	133	143	142	158	148	140	142	132	577	562	140	
Other Income	20	2	8	26	7	5	10	26	57	48	15	
PBT	246	590	599	770	461	645	670	1,039	2,219	2,815	291	58.6%
Tax	160	220	248	145	101	232	241	428	774	1,002	120	
Effective Tax Rate (%)	64.9	37.4	41.4	18.9	21.9	36.0	36.0	41.2	34.9	35.6	41.3	
Minority Int	15.6	35.7	50.5	28.6	(3.9)	20.0	5.0	23.3	130	44.4	13.0	
Adj PAT	71	334	301	596	364	393	424	588	1,315	1,769	158	130.9%
Change (%)	36.4	36.5	(1,274.2)	(21.2)	414.1	17.8	41.0	(1.4)	27.8	34.5	88.1	
Extra-ordinary Items	-13.0	0.0	0.0	0.0	234.0	0.0	0.0	0.0	-13.0	234.0	0.0	
Reported PAT	84	334	301	596	130	393	424	588	1,328	1,535	158	-17.5%
Change (%)	61.5	36.2	NM	-21.2	414.1	17.8	41.0	-1.4	29.6	15.6	88.1	

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1QFY19 operating performance above estimates; guidance maintained

- Consol. sales grew 3% YoY to INR6.9b (in-line). Standalone sales declined 4% YoY to INR3.4b, while subsidiary sales grew 11% YoY to INR3.5b..
- Consol. EBITDA rose 59% YoY to INR646m, with the margin of 9.4% (+330bp YoY) above our estimate of 7%. The beat of the margin was primarily driven by a sharp jump in subsidiary profitability, with margin at 9.7% (v/s 1.2% in 1QFY18). Recurring profit of INR364m was above our estimate of INR158m. A forex loss of INR234m was booked during the quarter primarily relating to translation losses.

Exhibit 1: Standalone P/L for VA Tech Wabag

(Standalone) Y/E March	FY18				FY19
	1Q	2Q	3Q	4Q	1Q
Sales	3,545	5,063	4,609	5,346	3,402
Change (%)	36.2	11.6	21.0	-24.0	-4.0
EBITDA	369	618	516	465	309
As of % Sales	10.4	12.2	11.2	8.7	9.1
Depreciation	23	23	22	23	22
Interest	71	76	78	84	86
Other Income	2	16	185	23	1
PBT	276	536	601	381	202
Tax	96	169	190	116	66
Effective Tax Rate (%)	34.6	31.6	31.5	30.5	32.5
Adj. PAT	181	367	411	265	136
Change (%)	3.2	29.2	(36.5)	(7.5)	(24.4)
Extra-ordinary Items	0.0	52.0	0.0	0.0	15.0
Reported PAT	181	315	411	265	121
Change (%)	-34.6	11.3	8,128.0	-7.5	-32.7

Source: Company

Exhibit 2: Subsidiary P/L for VA Tech Wabag

Y/E March	FY18				FY19
	1Q	2Q	3Q	4Q	1Q
Sales	3,140	3,802	4,038	5,029	3,476
Change (%)	-1.9	17.3	19.6	17.5	10.7
EBITDA	37	157	261	483	337
Change (%)	-3.9	107.4	301.1	-37.4	816.9
As of % Sales	1.2	4.1	6.5	9.6	9.7
Depreciation	22	22	21	23	21
Interest	62	67	65	74	63
Other Income	18	-14	-177	3	6
PBT	-30	54	-1	389	259
Tax	64	51	59	29	35
Effective Tax Rate (%)	(215.8)	95.0	(3,920.0)	7.4	13.6
Adj PAT	(109.7)	(33.0)	(110.8)	331.7	227.6
Change (%)	-11	-15	-84	-30	NA
Extra-ordinary Items	13.0	52.0	-	-	(219.0)
Reported PAT	-96.7	19.0	-110.8	331.7	NA

Source: Company

Order backlog at INR66b (-10% YoY); 1.9x BTB on trailing sales

- Order intake during Q119 was down 25% YoY to INR5.3b while order backlog fell 10% YoY at INR66b. VATW has also signed framework contracts worth INR7b, which will be converted into firm orders post receiving advances from customers. Key orders won during the quarter are (a) NMDC – ZLD project INR1.7b, (b) Purolite INR1.6b and (c) Al Saad, Saudi Arabia INR758m. Domestic tendering/orders are picking up for projects like Namami Ganga, Mumbai STP and the Chennai desalination plant. Domestic tendering/orders are picking up for projects like Namami Ganga, Mumbai STP and Chennai desalination plant.
- Management expects order inflow traction to remain strong from the domestic market, given the likelihood of finalization of the strong pipeline of orders under the Namami Gange scheme, Nemelli desalination and Mumbai STP.
- Management has guided for orders in FY19 at INR53b-57b (+79% YoY, at the upper end of the guidance).

Valuations and view

- We marginally cut our estimates to build in lower orders in FY19/20 and maintain our Buy rating with a TP of INR450 (12x FY20E EPS, below its 10-year average P/E multiple of 15x given its deteriorating working capital cycle.
- We believe that from the medium- to long-term perspective, VATW is in a sweet spot to take advantage of a pick-up in domestic order inflows, led by state-driven municipal orders, and central government schemes. Finalization of orders could lead to a re-rating in the stock.

Exhibit 3: Change in estimate table

Description	New Estimates			Old Estimates		% Change	
	2018	2019e	2020e	2019e	2020e	2019e	2020e
Sales	34,573	37,395	39,928	36,377	38,503	3%	4%
EBITDA	2,918	3,551	3,825	3,547	3,791	0%	1%
Margins(%)	8.4%	9.5%	9.6%	9.8%	9.8%	-0.3%	-0.3%
PAT	1,315	1,769	2,031	1,825	2,089	-3%	-3%
EPS	24.1	32.4	37.2	33.4	38.2	-3%	-3%

Source: MOSL, Industry

**Concall Highlights****Overall business environment**

- 98 days net working capital as of Mar18 and in 1QFY19 it largely remains the same.
- INR1-1.5b is expected from APGENCO by Q219.
- Forex loss of INR234m - translation loss on MTM basis driven by the Turkish Lira on a loan outstanding in Turkey which has increased the liability (Lira down 10% in Q119). Also, a loss from Czech subsidiary.
- Overseas margins driven by improved project mix and especially projects in advanced stages of execution helped improve overall margin, Both Dangote and Saudi Arabia are in advanced stage and seeing better margins in both.

Orders

- Namami Gange, Mumbai STP, Chennai Desalination are also on track for FY19 - confident to achieve our guidance.
- Delhi, Bangalore projects are coming up which are large multi-lateral funded projects and size of each is INR2-3b.
- Integrated city projects with 7-8 plants to be awarded for Kolkata, Patna, Allahabad and Kanpur with 15 year O&M; submitted bids for 2 and more two to be submitted, Each INR10-15b on HAM basis and 15% equity requirement, Orders in CY18.
- Chennai desalination - bids have been submitted and is expected to be finalized in one more quarter.
- Mumbai STP – company has been waiting for last 5-6 years for these orders and can see some more delays here, Expect to order all 6 projects in this fiscal, Pre bid queries done and waiting for final bid submission and the award in 3 months
- Rajasthan and Bihar also have a few large projects up for bidding which are INR2-3b.

Execution

- Chennai - civil works and pipeline are progressing well
- Petronas -Engineering and procurement done and civil works are almost done; 95% project is complete and focus on pre commissioning and project is expected to complete by Nov18.
- Polghawela - detailed engineering and equipment order placement is underway.
- AP Genco order - Rayalseema COD is being done in Mar18 and all peripheral work and punch list is expected to be completed soon.
- Kakatiya - all punch list items and boiler testing also done and final settlement being done with client. INR6b receivable and 60% to come in FY19.
- Howrah, West Bengal - on track for completion, Substantially collected payment and all in this quarter.
- Turkey and Austria were lower margin earlier - have bought these down by restructuring and not bidding for projects. Have cut losses in Turkey and Austria is doing better.

Working capital

- INR1.5-2b is expected to be received from APGENCO by Q219 – and total of INR4b to be got from APGENCO.
- Debtors is INR26b and payables is INR14b.

Operating Matrix

(INR million)	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Order Intake	21,550	33,539	29,767	51,401	36,198	31,931	43,386	52,546
% YoY	21.5%	55.6%	-11%	72.7%	-29.6%	-11.8%	35.9%	21.1%
Standalone	11,028	17,150	16,461	28,044	30,382	21,953	29,018	33,149
Overseas	10,522	16,389	13,306	23,357	5,816	9,978	14,368	19,397
Revenues	16,022	22,301	24,284	25,083	32,079	34,573	37,395	39,928
% YoY	11.4%	39.2%	8.9%	3.3%	27.9%	7.8%	8.2%	6.8%
Standalone	10,411	11,400	12,201	15,134	17,984	18,563	22,982	25,492
Overseas	5,611	10,901	12,083	9,948	14,095	16,010	14,412	14,436
EBIDTA Margins (Adjusted)	8.5%	9.0%	8.4%	9.3%	9.2%	8.4%	9.5%	9.6%
Standalone	11.8%	12.3%	11.5%	12.5%	11.2%	10.3%	10.6%	10.6%
Overseas	2.5%	5.5%	5.3%	4.4%	6.7%	5.6%	7.8%	7.7%
EPS (INR/sh)								
Standalone	15.5	18.4	17.5	20.9	25.5	21.4	25.8	29.4
Subsidiaries	0.8	5.4	3.1	-4.6	-6.7	0.8	6.6	7.7
Consolidated	16.3	23.7	20.6	16.3	18.9	24.1	32.4	37.2
NWC (Days)	69	68	79	101	95	132	82	82
Standalone	80	123	132	164	140	194	149	149
Net Cash / (Debt) (INR M)								
Standalone	2,127	674	657	(832)	(252)	(2,145)	(550)	(282)
Consolidated	3,003	2,119	1,305	13	(473)	(2,872)	2,343	3,354
ROE(%)	13.3	14.6	12.6	10.1	10.8	12.4	12.9	15.3
ROCE(%)	13.1	16.4	13.3	11.4	15.9	12.5	13.8	14.5

Financials and valuations

Income statement - Consolidated

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Net Sales	16,022	22,301	24,284	25,083	32,079	34,573	37,395	39,928
Change (%)	11	39	8.9	3.3	27.9	7.8	8.2	6.8
Raw Materials	11,747	16,979	19,098	19,402	25,388	27,336	29,472	31,586
Staff Cost	2,088	2,217	2,006	2,113	2,440	2,637	2,670	2,787
Other Mfg. Expenses	821	1,099	1,136	1,237	1,286	1,682	1,701	1,730
EBITDA	1,366	2,005	2,044	2,330	2,966	2,918	3,551	3,825
% of Net Sales	8.5	9.0	8.4	9.3	9.2	8.4	9.5	9.6
Depreciation	109	150	109	205	191	178	222	244
Interest	220	252	392	457	526	577	562	504
Other Income	299	214	146	79	112	57	48	140
PBT	1,336	1,816	1,688	1,747	2,362	2,219	2,815	3,218
Tax	456	526	566	668	667	774	1,002	1,143
Rate (%)	34	29	34	38	28	35	36	36
Minority Int	(7)	3	4	191	666	130	44	44
Adjusted PAT	887	1,288	1,118	887	1,029	1,315	1,769	2,031
Extra-ordinary Inc.(net)	16	(154)	-17	33	-5	0	-234	1
Reported PAT	903	1,134	1,101	921	1,024	1,315	1,535	2,032
Change (%)	22	25	-3	-16	11	28	17	32

Balance Sheet - Consolidated

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	109	109	109	109	109	109	109	109
Reserves	7,048	8,305	8,919	9,094	9,822	11,177	12,368	14,005
Net Worth	7,156	8,414	9,028	9,203	9,931	11,287	12,477	14,115
Loans	822	1,583	1,806	3,773	3,091	4,773	3,273	3,473
Deferred Tax Liability	(112)	(70)	-199	-218	-216	-251	-176	-176
Minority Interest	19	28	49	82	173	338	268	198
Capital Employed	7,885	9,954	10,684	12,841	12,979	16,146	15,842	17,609
Net Fixed Assets	511	1,192	1,919	1,779	1,744	1,724	1,735	1,725
Capital WIP	478	692	6	0	-27	0	75	75
Investments	33	232	377	322	225	45	45	45
Curr. Assets	17,770	22,135	23,152	26,866	31,290	35,153	36,459	39,759
Inventory	405	350	470	976	385	382	413	441
Debtors	11,464	13,875	14,807	19,424	25,115	28,732	25,954	27,713
Cash & Bank Balance	3,825	3,702	3,112	3,786	2,617	1,902	5,616	6,827
Loans & Advances	1,156	1,004	1,158	139	51	0	0	0
Other Current Assets	921	3,204	3,606	2,540	3,122	4,138	4,476	4,779
Current Liab. & Prov.	10,909	14,298	14,765	16,126	20,253	20,777	22,473	23,995
Current Liabilities	9,320	12,564	12,876	15,485	19,596	20,085	21,724	23,196
Provisions	1,588	1,734	1,889	641	657	692	748	799
Net Current Assets	6,862	7,837	8,388	10,739	11,037	14,377	13,986	15,764
Application of Funds	7,885	9,954	10,684	12,841	12,979	16,146	15,842	17,609

Financials and valuations

Ratios - Consolidated

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Consolidated EPS	16.3	23.7	20.6	16.3	18.9	24.1	32.4	37.2
Growth (%)	20	45.1	-13.2	-20.9	15.8	27.6	34.5	14.8
Cash EPS	18	26.5	22.6	20.0	22.4	27.3	36.4	41.6
Book Value	132	155	166	169	182	207	228	258
DPS	7	4	4	4	4	4	5	6
Payout (incl. Div. Tax.)	43	16.5	19.4	24.6	21.2	16.6	19.2	16.6

Valuation (x)

P/E (consolidated)	23.1	15.9	18.3	23.2	20.0	15.7	11.6	10.1
Cash P/E	20.5	14.2	16.7	18.8	16.9	13.8	10.4	9.1
EV/EBITDA	12.8	9.2	9.4	8.8	7.1	8.0	5.1	4.5
EV/Sales	1.1	0.8	0.8	0.8	0.7	0.7	0.5	0.4
Price/Book Value	2.9	2.4	2.3	2.2	2.1	1.8	1.7	1.5
Dividend Yield (%)	1.9	1.1	1.1	1.1	1.1	1.1	1.4	1.6

Profitability Ratios (%)

RoE	13.3	14.6	12.6	10.1	10.8	12.4	12.9	15.3
RoCE	13.1	16.4	13.3	11.4	15.9	12.5	13.8	14.5
RoIC	23.2	29.0	20.0	16.0	20.6	14.3	17.4	21.8

Turnover Ratios

Debtors (Days)	261	227	223	283	286	303	253	253
Inventory (Days)	9	6	7	14	4	4	4	4
Creditors. (Days)	212	206	194	225	223	212	212	212

Leverage Ratio

Debt/Equity (x)	0	0.2	0.20	0.4	0.3	0.4	0.3	0.2
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Cash Flow Statement - Consolidated

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT before EO Items	1,352	1,611	1,671	1,780	2,357	2,219	2,581	3,219
Depreciation	109	150	109	205	191	178	222	244
Interest	(60)	68	148	-	-	-	-	-
Direct Taxes Paid	(343)	(566)	(550)	(668)	(667)	(774)	(1,002)	(1,143)
(Inc)/Dec in WC	(1,152)	(838)	(2,566)	(1,677)	(1,439)	(4,083)	4,104	(567)
Others	939	699	1,243	1	-	98	-	-
CF from Operations	845	1,124	56	(360)	442	(2,361)	5,905	1,753
(Inc)/Dec in FA	(419)	(1,033)	(287)	(186)	(186)	(233)	(233)	(233)
Free Cash Flow	425	91	(232)	(546)	256	(2,594)	5,672	1,520
(Pur)/Sale of Investments & Others	1,402	694	254	405	(9)	582	488	488
CF from Investments	983	(338)	(33)	219	(195)	349	255	255
(Inc)/Dec in Net Worth	32	15	196	(456)	49	461	(70)	(70)
(Inc)/Dec in Debt	(426)	761	224	1,967	(683)	1,682	(1,500)	200
Interest Paid	(73)	(82)	(148)	202	31	-	-	-
Dividend Paid	(187)	(217)	(250)	(255)	(255)	(256)	(344)	(395)
CF from Fin. Activity	(654)	477	21	1,459	(857)	1,887	(1,914)	(265)
Inc/Dec of Cash	1,173	1,262	44	1,318	(610)	(125)	4,246	1,743
Add: Beginning Balance	2,651	2,439	3,068	2,469	3,227	2,027	1,370	5,084
Closing Balance	3,824	3,701	3,112	3,786	2,617	1,902	5,616	6,827

Corporate profile

Company description

VA Tech Wabag (VATW) is one of the leading players in water treatment industry, having its base of operation globally operating from Chennai. VATW's operations are stretched across countries like Austria, Czech Republic, Algeria, Tunisia, Romania, Turkey and Philippines. Wabag has been operational in water treatment industry since last 90 years and its has specialization in treating municipal, industrial, sludge treatment and sea water desalination projects.

Exhibit 1: Sensex rebased

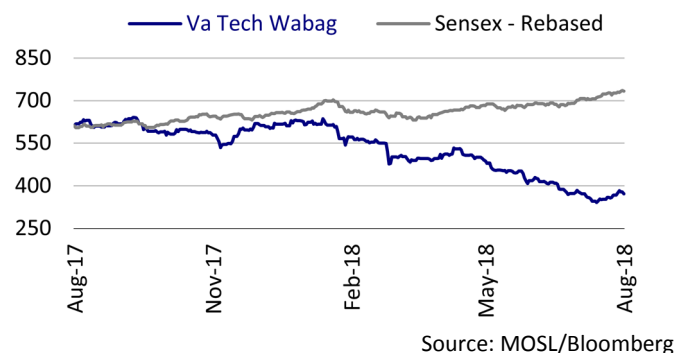


Exhibit 2: Shareholding pattern (%)

	Jun-18	Mar-18	Jun-17
Promoter	24.7	24.7	24.7
DII	20.1	20.1	24.6
FII	21.4	24.7	26.7
Others	33.8	30.5	24.0

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Sbi Mutual Fund	6.2
Idfc Mutual Fund	5.9
Sumitomo Corporation	4.5
Aditya Birla Sun Life Mutual Fund	2.1
Sundaram Mutual Fund	2.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Bhagwan Dass Narang	Chairman
Rajiv Mittal	Managing Director & Group CEO

Source: Capitaline

Exhibit 5: Directors

Name	Name
S Varadarajan	Jaithirth Rao
Malay Mukherjee	Revathi Kasturi
Sumit Chandwani	

*Independent

Exhibit 6: Auditors

Name	Type
K Suryanarayanan	Cost Auditor
M Damodaran & Associates	Secretarial Audit
PKF Sridhar & Santhanam LLP	Internal
Sharp & Tannan	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY19	32.4	31.4	3.2
FY20	37.2	37.7	-1.4

Source: Bloomberg

NOTES

Explanation of Investment Rating

Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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