

Poor execution impacts topline...

VA Tech reported a fall in revenue by 34% YoY to ₹ 456.5 crore largely on account of poor execution from India international units (-37% YoY) and European cluster. Decent execution from domestic market arrested decline, to a certain extent. The India revenue was up 21% YoY to ₹ 229.5 crore. EBITDA margins expanded 220 bps YoY to 8.2% resulting in an EBITDA fall of 9% YoY to ₹ 37.5 crore. The improvement in operational performance was led by better margins from domestic market along with India international units. India business & India international units OPM remained at 7.3% & 7.1%, respectively, against operational loss in Q1FY19. PAT fell 80% YoY to ₹ 2.62 crore due to higher tax outgo (106% vs. 44% in Q1FY19) and interest expenses (up 83% YoY).

Strong order book bodes well for future growth

VA Tech has order book excluding framework orders to the tune of ₹ 11,000 crore on TTM revenues of ₹ 2550 crore. This represents book to bill of 4.3x. The management highlighted that majority of the international projects are at the designing phase, which is expected to get completed within the next two to three quarters. Hence, a ramp up in execution can be expected next year. Apart from this, O&M order book represents 30% of the overall order backlog. Hence, this augurs well in terms of sustainability of revenues along with a better operational performance given the O&M fetches 18-20% OPM vis-à-vis 8-10% for EPC work.

Strong order inflow continues...maintaining guidance for FY20

VA Tech received an order intake to the tune of ₹ 2790 crore, driven by strong order announcements from India municipalities. The management had given an order intake guidance of ₹ 5000-5400 crore earlier in the year, which they have maintained, going ahead. Major order flows are expected to come from one city one operator model. Further, we expect order announcement for Namami Gange to also provide relief to the backlog for Wabag, going ahead. The revenue guidance for the year remained unchanged at ₹ 3400-3700 crore.

Valuation & Outlook

Given majority of projects are in the designing phase, a ramp up of the execution post two to three quarters can meaningfully improve the topline performance of the company. Further, O&M being OPM accretive to the business, any increase in the revenue share can improve blended OPM for the business. The management highlighted that net receivable from GENCO & Techpro remains at ₹ 410 crore & ₹ 69 crore, respectively, of which Techpro receivables have been persuaded by NCLT, while settlement of about ₹ 140 crore receivables from GENCO is expected to get approved in next board meeting. We believe any progress in realising legacy receivables can reduce leverage of the company and thereby interest outgo. We value the company at 11x PER of FY21E earnings and arrive a target price of ₹ 260. We maintain **HOLD** rating on the stock.



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	1,477
Total Debt (FY19) (₹ Crore)	584
Cash and Inv (FY19) (₹ Crore)	179
EV (FY19) (₹ Crore)	1,882
52 week H/L (₹)	413 / 243
Equity capital (₹ crore)	10.94
Face value	₹ 2

Key Highlights

- Strong order book bodes well for future growth
- Strong order inflow continues, maintaining guidance for FY20
- Maintain HOLD rating on stock

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Key Financial Summary

Key Financials	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Revenue	3,208	3,457	2,781	3,332	4,020	20.2%
EBITDA	297	292	194	263	321	28.6%
EBITDA Margins (%)	9.2	8.4	7.0	7.9	8.0	
Net Profit	91	132	105	103	130	11.3%
EPS (₹)	16.7	24.1	19.2	18.8	23.8	
P/E	16.3	11.3	14.2	14.5	11.4	
RONW (%)	9.4	12.3	9.5	9.2	10.8	
ROCE (%)	24.8	22.0	14.6	17.7	20.1	

Source: Company, ICICI Direct Research

Exhibit 1: Variance analysis

	Q1FY20	Q1FY20E	Q1FY19	YoY (%)	Q4FY19	QoQ (%)	Comments
Revenue	456.5	733.0	687.9	-33.6	679.3	(32.8)	Revenue growth impacted by majority of the project at beginning stage resulting in poor execution
Cost of sales & Services	328.5	553.4	515.9	(36.3)	502.1	(34.6)	
Employees Remuneration & Benefits	61.8	70.0	65.8	(6.1)	53.5	15.6	
Other Expenses & Forex loss/(gain)	30.6	69.0	65.9	(53.5)	82.3	(62.8)	
Total operating expenses	419.0	691.9	646.7	(35.2)	638.4	(34.4)	
EBITDA	37.5	41.0	41.2	(8.8)	40.9	(8.2)	Better operational performance led by India and India international units
EBITDA Margin (%)	8.2	5.6	6.0	223 bps	6.0	220 bps	Improvement led by better margins from India and India international units
Depreciation	3.5	4.5	4.3	(18.0)	4.2	(17.1)	
Finance charges	27.2	16.0	14.8	83.1	24.0	13.0	Interest cost to the tune of ₹ 14 crore during Q1FY20 while rest is guarantee charges
PBT	8.0	22.0	22.7	(64.6)	15.4	(47.6)	
Tax	8.5	8.8	10.1		-18.6	(145.9)	Major revenues from India along with PBT loss at subsidiary level shows higher tax rate compared to Q1FY19
PAT	-0.5	13.2	12.6	(104.0)	34.0	(101.5)	
Minority Interest	-2.0	0.4	1.2		-6.3	(68.8)	
Share of profit in associate	1.1	0.4	1.6		0.5		
Adjusted PAT	2.6	13.3	13.0	(79.8)	40.8	(93.6)	
Key Metrics							
India revenue	229.5		189.8	20.9	255.0	(10.0)	Decent execution from India projects led better growth
RoW revenue	248		515	(51.9)	445	(44.3)	Poor execution due to majority of international projects are at initial stage

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

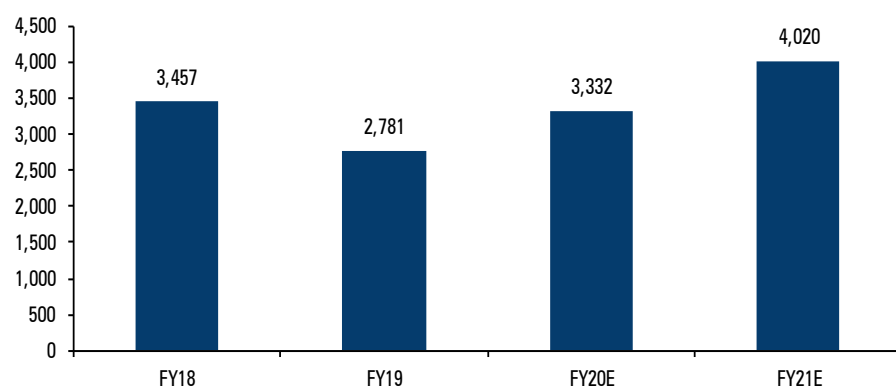
	FY19	FY20E			FY21E			Comment
(₹ Crore)	Actual	Old	New	% Change	Old	New	% Change	
Revenue	2,781.0	3,331.7	3,331.7	0.0	4,020.3	4,020.3	0.0	Lower margins marginally
EBITDA	194.1	262.6	262.6	0.0	325.0	320.9	(1.3)	
EBITDA Margin (%)	7.0	7.9	7.9	0 bps	8.1	8.0	-12 bps	
PAT	105.0	102.8	102.8	0.0	145.0	130.1	(10.3)	
EPS (₹)	19.2	18.8	18.8	0.0	24.3	23.8	(2.1)	

Source: Company, ICICI Direct Research

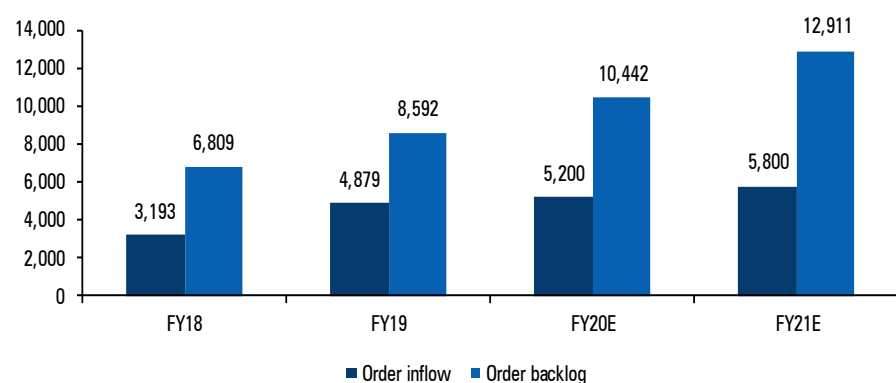
Conference call highlights

- Revenue from the international market was impacted by majority of the project being at the initial design stage and ramp up in execution is expected after two to three quarters
- O&M constitutes ~13% of overall revenue, which is expected to contribute ~20%, going ahead. This translates into better operating margin visibility at group level
- Revenues in FY20 will be driven by execution of key projects such as UPJN, Marapic, KMDA, Doha, Zarat, etc
- The company received order to the tune of ₹ 1187 crore under Namami Gange of which ₹ 247 crore for sewage treatment on hybrid annuity model (HAM) and ₹ 940 crore on design, build and operate (DBO) model
- Another large order to the tune of ₹ 1477 crore is secured under one city, operator model for UP
- UPJN project is O&M project for which 10% of revenue has been booked ever year for next 10 years. The company has received 10% of the full year revenue as advance, which is at ₹ 15 crore
- Net receivable from GENCO is at ₹ 410 crore while the same from Techpro remains at ₹ 69 crore. Techpro receivables are persuaded by company through NCLT
- Out of ₹ 410 crore, GENCO receivables from TSGENCO, settlement of about ₹ 140 crore is expected to be approved in TSGENCO upcoming board meeting
- Working capital days remains at 130 days. The management expects to get it down to 100 days by year end
- The gross debt is at ₹ 550 crore while cash remains at ₹ 150 crore. Majority of the finance cost during the quarter is due to higher financial charges rather than interest cost. Interest cost remains at ₹ 14 crore while the rest is financial charges for Q1FY20

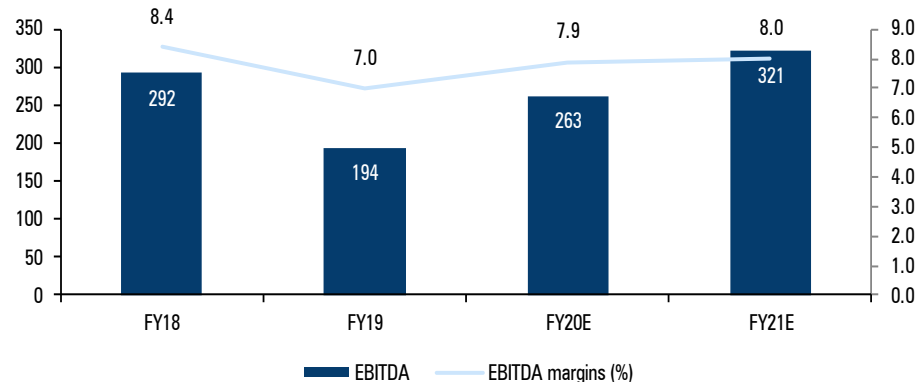
Financial story in charts

Exhibit 3: Revenue trend (consolidated in ₹ Crores)


Source: Company, ICICI Direct Research

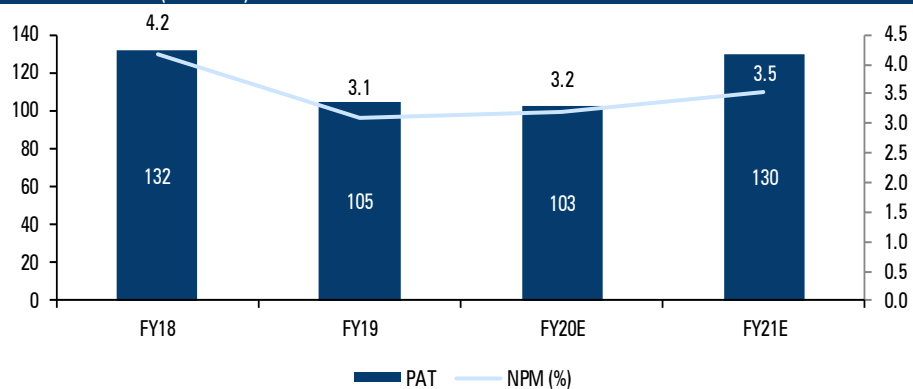
Exhibit 4: Order inflow and backlog trend (in ₹ crore)


Source: Company, ICICI Direct Research

Exhibit 5: EBITDA (₹ crore) and EBITDA margin (%)


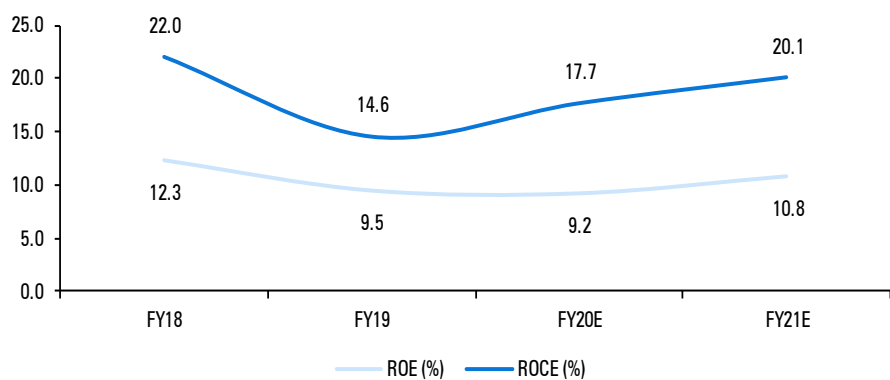
Source: Company, ICICI Direct Research

Exhibit 6: PAT (₹ crore) and NPM trend

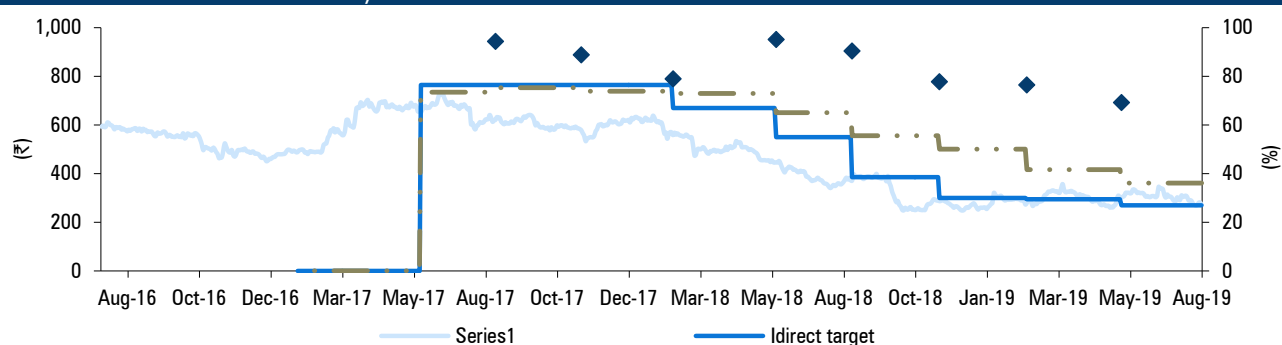


Source: Company, ICICI Direct Research

Exhibit 7: RoE and RoCE trend



Source: Company, ICICI Direct Research

Exhibit 8: Recommendation History vs. Consensus


Source: Bloomberg, Company, ICICI Direct Research

Exhibit 9: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Mittal (Rajiv)	30-06-2019	17.75%	9.71M	0
2	SBI Funds Management Pvt. Ltd.	30-06-2019	4.96%	2.71M	0
3	Sumitomo Corp	30-06-2019	4.49%	2.46M	0
4	UTI Asset Management Co. Ltd.	30-06-2019	4.31%	2.36M	+0.05M
5	Varadarajan (S)	30-06-2019	4.00%	2.19M	0
6	Norges Bank Investment Management (NBIM)	30-06-2019	3.11%	1.70M	+0.07M
7	Old Bridge Capital Management Pvt Ltd	30-06-2019	3.08%	1.69M	0
8	Saraf (Shiv Narayan)	30-06-2019	2.93%	1.60M	0
9	MIT Investment Management Company	30-06-2019	2.87%	1.57M	+0.02M
10	KBI Global Investors Ltd	30-06-2019	2.80%	1.53M	-0.02M

Source: Reuters, ICICI Direct Research

Exhibit 10: Recent Activity

Buy			Sell		
Investor name	Value	Shares	Investor name	Value	Shares
Norges Bank Investment Management (NBIM)	+0.31M	+0.07M	BlackRock Institutional Trust Company, N.A.	-2.02M	-0.48M
UTI Asset Management Co. Ltd.	+0.22M	+0.05M	Calvert Research and Management	-0.79M	-0.19M
Raiffeisen Kapitalanlage-Gesellschaft mbH	+0.14M	+0.03M	Aditya Birla Sun Life AMC Limited	-0.63M	-0.14M
MIT Investment Management Company	+0.10M	+0.02M	Schroder Investment Management Ltd. (SIM)	-0.55M	-0.13M
Sundaram Asset Management Company Limited	+0.04M	+0.01M	Sattva Investment Advisors Limited	-0.52M	-0.11M

Source: Company, ICICI Direct Research

Exhibit 11: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	24.7	24.7	24.7	24.7	24.7
FII	21.3	20.8	20.5	23.5	25.1
DII	23.5	12.9	9.1	8.9	8.9
Others	30.5	41.6	45.7	42.9	41.3

Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Total operating Income	3,457.3	2,781.0	3,331.7	4,020.3
Growth (%)	7.8	(19.6)	19.8	20.7
Cost of sales	2,733.0	2,118.6	2,622.0	3,163.9
Decrease in inventory	0.6	2.7	0.6	0.7
Employees Remuneration	263.7	253.8	276.5	313.6
Other expenses	168.2	211.7	169.9	221.1
Total Operating Expenditure	3,165.5	2,586.8	3,069.1	3,699.4
EBITDA	291.8	194.1	262.6	320.9
Growth (%)	(1.6)	(33.5)	35.3	22.2
Depreciation	17.8	16.8	25.0	29.0
Interest	57.7	75.3	79.2	81.3
Other Income	5.7	4.4	6.0	8.0
PBT	221.9	106.4	164.4	218.6
Total Tax	77.4	20.5	57.5	76.5
PAT	144.5	85.9	106.8	142.1
Growth (%)	(8.7)	(40.6)	24.4	33.0
Share of profit in associate	2.6	3.3	6.0	6.0
Adjusted PAT	131.5	105.0	102.8	130.1
EPS (₹)	24.1	19.2	18.8	23.8

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit before Tax	221.9	106.4	164.4	218.6
Add: Depreciation	17.8	16.8	25.0	29.0
(Inc)/dec in Current Assets	(425.4)	(13.2)	124.9	(435.2)
Inc/(dec) in CL and Provisions	41.3	46.8	(191.9)	374.5
Others	(25.4)	50.5	15.7	(3.2)
CF from operating activities	(169.7)	207.2	138.1	183.8
(Inc)/dec in Investments	(8.4)	(4.3)	0.0	0.0
(Inc)/dec in Fixed Assets	(8.0)	59.6	(35.0)	(35.0)
Others	0.0	0.0	0.0	0.0
CF from investing activities	(16.4)	55.3	(35.0)	(35.0)
Issue/(Buy back) of Equity	0.0	0.0	0.0	0.0
Inc/(dec) in loan funds	168.2	106.4	25.9	16.0
Dividend paid & dividend tax	(21.9)	(21.9)	(24.6)	(27.3)
Inc/(dec) in Sec. premium	0.0	0.0	0.0	0.0
Others	(57.7)	(75.3)	(79.2)	(81.3)
CF from financing activities	88.7	9.2	(78.0)	(92.7)
Net Cash flow	(91.8)	276.1	31.2	64.1
Opening Cash	363.1	271.3	547.3	578.5
Closing Cash	271.3	134.5	165.7	229.8

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Equity Capital	10.9	10.9	10.9	10.9
Reserve and Surplus	1,128.7	1,068.9	1,143.4	1,246.2
Total Shareholders funds	1,139.6	1,079.8	1,154.4	1,257.1
Total Debt	477.3	583.7	609.6	625.6
Deferred Tax Liability	12.9	12.8	12.8	12.8
Others LT liabilities	68.8	50.7	109.2	121.8
Long term provision	13.9	13.0	13.0	13.0
Minority interest	33.8	16.7	16.7	16.7
Total Liabilities	1,394	1,262	1,402	1,531
Gross Block	216.3	156.7	191.7	226.7
Less: Acc Depreciation	51.7	68.5	93.5	122.5
Net Block	164.6	88.2	98.2	104.2
Capital WIP	0.0	0.0	0.0	0.0
Total Fixed Assets	172.4	157.0	167.0	173.0
Deferred Tax asset	102.9	155.2	155.2	155.2
Investments	15.0	16.6	16.6	16.6
Inventory	38.2	15.4	37.5	45.2
Debtors	2,456.1	1,351.1	2,221.1	2,512.7
Loans and Advances	34.8	44.9	34.1	41.1
Other Current Assets	305.4	1,499.8	333.2	402.0
Cash	222.7	134.6	165.7	229.8
Bank Balance	48.6	44.5	44.5	44.5
Total Current Assets	3,105.9	3,090.2	2,836.0	3,275.3
Creditors	1,617.6	1,688.5	1,456.7	1,757.7
Provisions	55.4	40.3	53.3	64.3
Total Current Liabilities	2,422.4	2,516.8	2,292.3	2,670.3
Net Current Assets	683.5	573.3	543.7	605.0
Others Assets	420.3	359.7	520.0	580.0
Application of Funds	1,394	1,262	1,402	1,531

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios ₹ crore				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	24.1	19.2	18.8	23.8
Cash EPS	27.3	22.3	23.4	29.1
BV	208.5	197.5	211.2	230.0
DPS	4.0	4.0	4.5	5.0
Cash Per Share	40.7	24.6	30.3	42.0
Operating Ratios (%)				
EBITDA Margin	8.4	7.0	7.9	8.0
PAT Margin	4.2	3.1	3.2	3.5
Inventory days	5.1	5.2	5.2	5.2
Debtor days	241.8	243.3	243.3	228.1
Creditor days	201.5	202.8	202.8	202.8
Return Ratios (%)				
RoE	12.3	9.5	9.2	10.8
RoCE	22.0	14.6	17.7	20.1
Valuation Ratios (x)				
P/E	11.3	14.2	14.5	11.4
EV / EBITDA	6.0	10.0	7.4	5.9
EV / Net Sales	0.5	0.7	0.6	0.5
Market Cap / Sales	0.4	0.5	0.4	0.4
Price to adjusted Book Value	1.3	1.4	1.3	1.2
Solvency Ratios				
Debt/EBITDA	1.6	3.0	2.3	1.9
Debt / Equity	0.4	0.5	0.5	0.5
Current Ratio	1.3	1.2	1.2	1.2
Debt servicing coverage ratio	3.6	2.6	2.6	3.0

Source: Company, ICICI Direct Research

Exhibit 16: ICICI Direct Coverage Universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
L&T (LARTOU)	1333	1,675	Buy	184934	48.1	56.0	61.1	28.9	24.8	22.8	11.8	11.5	12.2	12.7	13.5	13.6
Bhel (BHEL)	51	60	Hold	17759	3.5	3.2	3.8	17.2	19.0	15.7	6.9	6.0	7.0	3.9	3.5	4.2
AIA Engineering (AIAENG)	1699	1,785	Hold	16025	54.4	57.8	63.8	31.2	29.4	26.6	18.8	18.3	18.8	14.6	13.9	13.9
Thermax (THERMA)	1077	1,170	Hold	12833	23.1	28.3	34.1	47.3	38.6	32.0	18.0	17.0	18.7	11.2	11.3	12.3
KEC International (KECIN)	288	330	Hold	7404	19.2	22.8	27.3	15.1	12.7	10.6	24.8	25.2	25.6	20.1	20.2	20.2
Kalpataru Power(KALPOW)	485	570	Buy	7443	26.1	30.7	36.4	17.8	15.2	12.8	19.6	19.3	20.1	12.7	12.7	13.2
Greaves Cotton (GREAVE)	116	145	Buy	2833	6.9	8.0	8.8	17.0	14.8	13.5	27.4	27.7	29.5	18.7	19.1	20.4
Elgi Equipment (ELGEQU)	242	300	Buy	3835	6.1	6.5	7.2	38.1	36.0	32.4	14.3	13.8	15.1	14.1	13.4	13.6
Bharat Electronics (BHAELE)	95	135	Buy	23148	7.9	7.4	8.2	12.6	13.5	12.2	30.0	26.2	27.0	21.4	18.1	18.3
Engineers India (ENGIND)	103	105	Hold	6509	5.9	6.7	7.7	17.6	15.4	13.4	21.3	23.4	23.9	16.3	18.1	19.8
VaTech Wabag (VATWAB)	272	260	Hold	1477	19.2	18.8	23.8	14.2	14.5	11.4	14.6	17.7	20.1	9.5	9.2	10.8
Cochin Shipyard (COCSHI)	349	440	Buy	4,591	36.3	37.0	40.1	9.6	9.4	8.7	18.8	17.0	16.4	14.4	13.7	13.7
SKF (SKFIND)	1840	1,565	Reduce	9446	65.4	62.6	65.3	29.0	30.3	29.0	29.4	24.9	23.4	19.8	16.6	15.4
Timken India (TIMIND)	706	830	Buy	5310	19.8	24.1	27.7	34.9	28.6	24.9	15.7	17.0	17.3	11.1	12.0	12.3
NRB Bearing (NRBBEA)	87	85	Hold	843	11.2	6.1	7.1	7.4	13.7	11.7	21.0	13.8	15.2	19.5	11.9	13.2
Grindwell Norton (GRINOR)	542	635	Buy	6001	15.1	16.7	19.3	35.0	31.7	27.5	23.3	23.4	24.7	15.2	15.6	16.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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