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Q1FY21 result review
and reco change

Capital Goods

Target price: Rs185

Earnings revision

(%)	FY21E	FY22E
Revenue	↑ 8.7	↑ 8.0
EBITDA	↑ 12.2	↑ 23.7
PAT	↑ 21.5	↑ 39.0

Target price revision

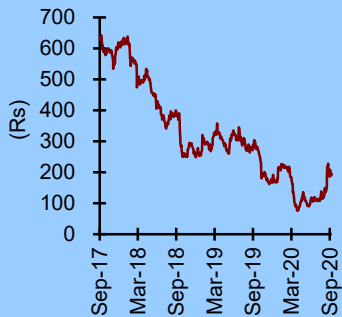
Rs185 from Rs121

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	24.7	24.7	24.7
Institutional investors	31.9	30.0	28.1
MFs and others	6.3	4.8	4.8
FIs/Ins Co	1.0	1.1	0.9
FIs	24.6	24.1	22.3
Others	43.4	45.3	47.2

Source: NSE

Price chart



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INDIA

ICICI Securities

VA Tech Wabag

REDUCE

Downgrade from HOLD

Rs216

Uphill task ahead; dilution at discount valuation

VA Tech Wabag has taken 13.7% dilution, valuing the company at a market cap of Rs8.7bn, which we believe is at a substantial discount. The company was rather compelled to take this step given the cashflow stress and liquidity requirement to resume large orders like Namami Ganga etc. Strong orderbook of Rs111bn (4.4x TTM sales) lends visibility; however, 30% of orderbook is O&M which restricts near-to medium-term growth. Balance sheet stress continues to drag the overall liquidity and we believe this may lead to more fund raising. Hence, the company has come out with a proposal to further raise Rs2.8bn. Factoring in the commencement of Namami Ganga and gradual easing out of the lockdown, we raise earnings by 21.5% and 39% for FY21E and FY22E, respectively, and downgrade the stock to REDUCE from HOLD with a revised target price of Rs185 (previously: Rs121).

- **Higher mix of O&M orders in orderbook does not aid near-term growth:** O&M orders' proportion in the overall book has grown from 10% in FY19 to 30% as of Jun'20. Ghaziabad and Agra O&M projects are expected to contribute Rs1.4bn to revenues from FY21 onwards. Given their richer margin profile, the company is targeting 25% of overall revenues from the segment in near future. However, this doesn't aid in near-term growth.
- **Delay in APGenco/TSGenco collection continues:** Although trade receivables have come down slightly to Rs13bn in Jun'20 from Rs13.5bn in Mar'20, status on Rs4.1bn worth of receivables from APGenco/TSGenco and Rs695mn from Tecpro remains unchanged. These attribute to 30% of overall receivables. Overall, the company has provided Rs1.5bn in provisions for genco projects till now (~Rs550mn in FY20). We believe this will continue to drag the overall operational margin in the near term.
- **Fund raising provides liquidity; however, discount in valuation fails to cheer:** The Rs1.2bn worth of fund raising from marquee investor reduces the risk of further elevation in debt levels and thus, reduces the impact on growth from increased interest expense. While net debt remained largely flat from Mar'20 at Rs1.8bn, gross debt reduced by Rs540mn in Q1FY21. However, the discount in valuation and risk of further fund raising will be an overhang on the stock.
- **Downgrade to REDUCE due to balance sheet stress:** Covid-19 related slowdown is likely to impact the execution and order intake in the near term. However, availability of funds raised will aid in execution of strong orderbook of Rs111bn (4.4X TTM sales), supporting the overall earnings growth. Factoring the same, we raise the target P/E multiple to 10x from 8x and raise earnings by 21.5% and 39% for FY21E and FY22E, respectively. Given working capital stretch from slow collections, and high equity dilution at 13.7%, we downgrade the stock to REDUCE from HOLD rating with a revised target price of Rs185 (previously: Rs121).

Market Cap	Rs11.9bn/US\$161mn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	VATE.BO/VATW IN	Revenue (Rs mn)	27,810	25,572	22,098	27,483
Shares Outstanding (mn)	54.7	Rec. Net Income (Rs mn)	1,050	910	305	1,153
52-week Range (Rs)	296/75	EPS (Rs)	19.2	16.6	4.9	18.5
Free Float (%)	75.3	% Chg YoY	(20.1)	(13.4)	(66.5)	278.1
FII (%)	25.5	P/E (x)	11.2	13.0	44.0	11.6
Daily Volume (US\$/'000)	1,197	CEPS (Rs)	22.3	19.4	7.7	21.3
Absolute Return 3m (%)	108.0	EV/E (x) (Incl. Indus)	8.2	6.2	11.5	5.0
Absolute Return 12m (%)	(26.5)	Dividend Yield (%)	1.9	-	-	0.9
Sensex Return 3m (%)	17.6	RoCE (%)	9.0	8.9	4.7	10.3
Sensex Return 12m (%)	7.1	RoE (%)	9.6	8.1	2.4	8.4

Please refer to important disclosures at the end of this report

Outlook and valuation

VA Tech Wabag currently trades at 11.6x FY22E earnings of Rs18.5 per share. High receivable days impacting overall cashflow continues and is expected to keep RoEs at lower levels despite the company being asset-light. Likely financial closure of HAM projects under Namami Ganga with a financial partner who will fund majority stake will provide relief to balance sheet. The tight liquidity scenario will remain an impediment to growth given the EPC nature of execution.

With healthy outlook due to improved liquidity from fund raising, we raise the target P/E multiple to 10x from 8x. Given the resultant support to earnings from improved execution, we raise earnings by 21.5% and 39% for FY21E and FY22E, respectively. Due to working capital stretch from slow collections, 13.7% dilution at a discount valuation and likelihood of further fund raising resulting in additional dilution, we downgrade the stock to REDUCE from HOLD rating with a revised target price of Rs185 (previously: Rs121).

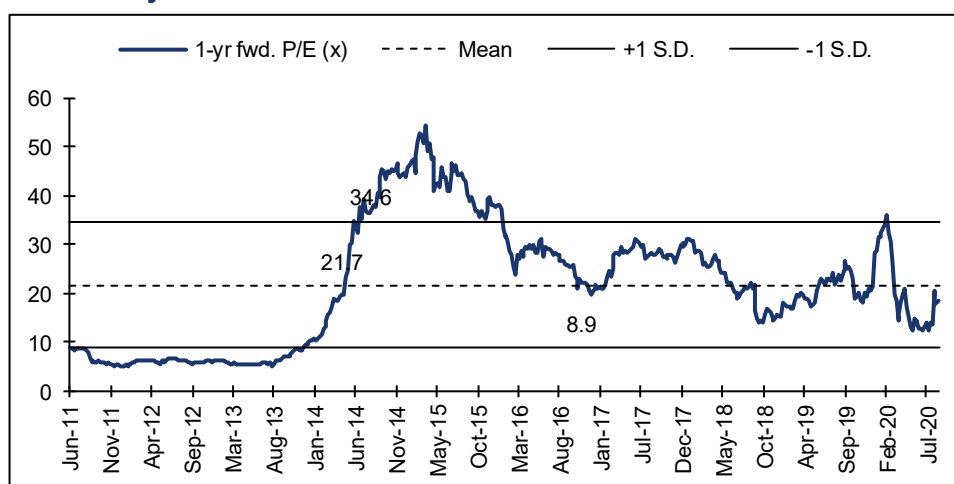
Table 1: Equity dilution calculation

	(mn)
Number of shares (pre- issuance) (A)	54.7
Shares issued (B)	7.5
Number of shares (post- issuance)	62.2
Share Dilution (%) (B/A)	13.7

Source: Company Data, I-Sec research

The issue of 7.5mn preferential shares has been approved at Rs160 per share for cash of Rs1.2bn to Mrs Rekha Jhunhunwala (5mn shares), M/s. Basera Home Finance Private (1.5mn shares) and Mrs. Sushma Anand Jain, Mr. Anand Jaikumar Jain (joint holding, 1mn shares). After the approval for Rs1.2bn fund raising, the company has revised its fund raising proposal from Rs4bn earlier to Rs2.8bn now.

Chart 1: 1-year forward P/E chart



Source: Bloomberg, I-Sec research

Table 2: Earnings revision

(Rs mn)

Rs mn	FY21E			FY22E		
	Earlier	Revised	YoY (%)	Earlier	Revised	YoY (%)
Revenue	20,338	22,098	8.7	25,437	27,483	8.0
EBIDTA	1,100	1,234	12.2	2,168	2,682	23.7
PAT	251	305	21.5	829	1,153	39.0

Source: I-Sec research

Table 3: Quarterly financial trend (consolidated)

(Rs mn)

	Q1FY20	Q1FY21	YoY(%)	Q4FY20	QoQ(%)
Total Revenues	4,565	4,309	(5.6)	7,851	(45.1)
EBITDA	375	289	(23.0)	508	(43.1)
Margin	8.2	6.7	-151bps	6.5	24bps
Depreciation	35	29	(17.4)	40	(27.9)
Finance Cost	272	215	(20.9)	273	(21.2)
Other Income	12	13	10.2	257	(94.9)
Extraordinary income	-	-	-	-	-
PBT	80	58	(27.4)	452	(87.1)
Tax	85	23	(73.1)	141	(83.7)
Tax rate	106.2	39.4		31.2	821bps
PAT	(5)	35		311	(88.6)
Share of profit in					
Associates and JV	11	15		1	
Reported PAT	6	50	687.5	312	(83.8)
Adjusted PAT	6	50	687.5	312	(83.8)
Margin(%)	0.1	1.2	103bps	4.0	-280bps
EPS	0.1	0.9		5.5	
Orderbook	1,17,020	1,11,178	(5.0)	1,10,452	0.7
Order inflow	27,981	4,424	(84.2)	3,049	45.1

Source: Company data, I-Sec research

Table 4: Quarterly segmental revenue trend (consolidated)

(Rs mn)

	Q1FY20	Q1FY21	YoY(%)	Q4FY20	QoQ(%)
Revenues					
EPC	3,621	3,243	(10.4)	6,534	(50.4)
Municipal	2,290	2,128	(7.1)	4,662	(54.4)
Industrial	1,331	1,115	(16.2)	1,872	(40.4)
O&M	807	971	20.3	1,190	(18.4)
Municipal	616	859	39.4	1,089	(21.1)
Industrial	191	112	(41.4)	101	10.9
Total revenues	4,428	4,214	(4.8)	7,724	(45.4)

Source: Company data, I-Sec research

Table 5: EPC projects currently under execution by VA Tech Wabag

Project	Value (Rs mn)
UPJN, O&M of Agra & Ghaziabad	14,125
BUIDCO, Digha & Kankarbagh – STP Network	11,878
Expansion SWTP 9, Jubail, KSA – STP	5,899
KMDA, Howrah – STP	5,748
50 MLD Zarat, Tunisia – Desal	5,053
JAJMAU, Kanpur – CETP	3,911
Jeddah Airport, KSA – STP	3,614
South Doha, Qatar – STP	2,644
MRPL, Karnataka – Desal	2,642
Water Supply System, Bhagalpur, India – WTP & Network	2,446
Total	57,960

Source: Company Data, I-Sec research

Table 6: Quarterly financial trend (standalone)

<i>(Rs mn)</i>					
	1QFY20	1QFY21	YoY(%)	Q4FY20	QoQ(%)
Total Revenues	3,240	2,817	(13.1)	4,914	(42.7)
EBITDA	462	237	(48.7)	179	32.1
Margin	14.3	8.4	-585bps	3.6	476bps
Depreciation	17	16	(7.1)	16	(2.5)
Finance Cost	181	181	(0.2)	170	6.5
Other Income	8	15	88.3	122	(88.1)
Extraordinary income	-	-		-	
PBT	271	55	(79.9)	115	(52.7)
Tax	73	14	(81.0)	102	(86.4)
Tax rate	26.7	25.3	-142bps	88.1	-6281bps
PAT	199	41	(79.5)	14	197.0
Reported PAT	199	41	(79.5)	14	197.0
Adjusted PAT	199	41	(79.5)	14	197.0
Margin(%)	6.1	1.4	-469bps	0.3	117bps
EPS	3.7	0.7		0.3	
Orderbook	90,306	84,442	(6.5)	83,529	1.1
Order Inflow	27,096	3,729	(86.2)	896	316.2

Source: Company data, I-Sec research

Table 7: Financial assumptions (consolidated)

<i>(Rs mn)</i>									
	FY 14	FY 15	FY 16	FY 17	FY 18	FY 19	FY 20	FY 21E	FY 22E
Order Inflow									
Municipal EPC	20,411	9,588	25,839	14,757	17,463	30,764	21,239	15,481	17,030
Growth(%)	190.3	-53.0	169.5	-42.9	18.3	76.2	-31.0	-27.1	10.0
Industrial EPC	7,981	10,603	19,717	15,765	8,537	13,279	1,917	1,975	2,432
Growth(%)	-26.0	32.9	86.0	-20.0	-45.8	55.5	-85.6	3.0	23.1
O&M	5,147	9,576	5,845	5,676	5,931	4,742	20,348	3,864	4,517
Growth(%)	38.0	86.1	-39.0	-2.9	4.5	-20.0	329.1	-81.0	16.9
Total	33,539	29,767	51,401	36,198	31,931	48,785	43,504	21,321	23,979
Growth(%)	55.6	-11.2	72.7	-29.6	-11.8	52.8	-10.8	-51.0	12.5
Orderbook									
Municipal EPC	30,388	25,741	39,857	37,632	36,090	52,616	59,472	62,739	63,332
Growth(%)	79.2	-15.3	54.8	-5.6	-4.1	45.8	13.0	5.5	0.9
Industrial EPC	7,891	11,301	21,026	22,495	17,029	18,657	13,275	9,782	6,743
Growth(%)	-29.6	43.2	86.1	7.0	-24.3	9.6	-28.8	-26.3	-31.1
O&M	15,261	17,344	12,199	13,157	14,967	14,650	31,441	31,246	30,579
Growth(%)	4.0	13.6	-29.7	7.9	13.8	-2.1	114.6	-0.6	-2.1
Total	53,540	54,386	73,082	73,284	68,086	85,923	1,04,188	1,03,767	1,00,654
Growth(%)	25.0	1.6	34.4	0.3	-7.1	26.2	21.3	-0.4	-3.0
Revenues									
Municipal EPC	11,152	12,961	10,178	12,782	14,460	11,892	14,383	12,214	16,437
Growth(%)	43.7	16.2	-21.5	25.6	13.1	-17.8	20.9	-15.1	34.6
Industrial EPC	6,790	6,534	10,050	14,210	15,727	11,794	7,299	5,469	5,471
Growth(%)	21.4	-3.8	53.8	41.4	10.7	-25.0	-38.1	-25.1	0.1
O&M	4,359	4,789	5,193	5,072	4,103	3,545	3,557	4,059	5,184
Growth(%)	63.5	9.9	8.4	-2.3	-19.1	-13.6	0.3	14.1	27.7
Total	22,386	24,352	25,486	32,162	34,573	27,810	25,572	22,098	27,483
Growth(%)	38.3	8.8	4.7	26.2	7.5	-19.6	-8.0	-13.6	24.4

Source: Company data, I-Sec research

Key concall highlights

- Utilisation pick up has been inconsistent at the sites. There are sites which have reached 90% pre-Covid utilisation, while some sites are operating at 70% utilisation.
- The company targets core EBITDA margin in the range of 10-11% for long term.
- Interest cost reduced 21% YoY to Rs215mn as gross debt reduced by Rs540mn. Net debt remained largely flat from Mar'20 at Rs1.8bn.
- Core working capital, which includes impact from non-core business (largely including gencos), stands at 78 days. The company foresees 80-90 days as the ideal working capital days after removal of impact from gencos
- The recently raised Rs1.2bn from marquee investor will be deployed in execution of backlog. For now, the company doesn't see the need to raise more funds and will wait before raising second tranche.

Orderbook / projects

- Order intake for Q1FY21 was Rs4.4bn, of which, major order was a 300MLD STP at Jeddah Airport, Saudi Arabia worth US\$48. With this 15% of the current order book is from the Middle East.
- Nearly 30% of the current orderbook is O&M and the company targets 25% of overall revenues from high-margin O&M in near future.
- HAM projects, which require financial closure, are yet to start execution. 1) On Kolkata HAM project, financing agreement is in place and as soon as condition precedence is met, the company expects financial closure. This is likely in the next 2-3 weeks, 2) Bihar project execution is taking time as the project is a unique combination of HAM (Rs2bn) and DBO (Rs10bn) and the management expects to do the financial closure in three months. DBO portion of work, however, has started and revenues can be expected from next quarter.
- The Chennai 400MLD Chennai project has been approved by JICA and has been assigned a Japanese consultant. Pre-qualification document can be expected soon. Average value of 100MLD plant ranges Rs7-8bn.
- Management wants to focus on execution given a comfortable orderbook and will be selective on projects preferring those where funding is not an issue.

Receivables

- Status remains unchanged for Rs4.7bn receivables from Tecpro and gencos. Net receivables were Rs695mn for Tecpro, Rs1.39bn for TSGENCO and Rs2.67bn for APGENCO. These receivable attribute 30% of overall receivables.
- Trade receivables have come down slightly to Rs13bn in Jun'20 from Rs13.5bn in Mar'20.
- For genco projects, overall Rs1.5bn of provisions have been done since the start, of which, Rs500-550mn was done in FY20. Provision for Q1FY21 was Rs90mn vs Rs50-60mn in Q1FY20. Hence, the total project value of genco projects is Rs6bn, of which, Rs1.5bn has been provided for provisions.
- APGENCO project is under litigation in the Supreme Court and Tecpro is under NCLT. For TSGENCO, the company is awaiting payment from the client after which it expects to complete the pending peripheral work in the next ~10 months and collect retention money in two equal tranches subsequently in the next two years.

Financial summary (consolidated)

Table 8: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Total Income	27,810	25,572	22,098	27,483
Operating Expenses	25,868	23,402	20,864	24,801
EBITDA	1,941	2,170	1,234	2,682
% margins	7.0	8.5	5.6	9.8
Depreciation & Amortisation	168	154	175	175
EBIT	1,774	2,016	1,059	2,507
Gross Interest	753	1,090	782	1,099
Other Income	44	352	30	50
PBT before exceptional	1,064	1,277	307	1,457
Add: Extraordinary /Exceptionals	-	-	-	-
Add: Share in associates	33	48	25	30
PBT	1,097	1,325	332	1,487
Less: Taxes	205	486	77	364
Less: Minority Interests	(158)	(70)	(50)	(30)
Net Income (Reported)	1,050	910	305	1,153
Adjusted Net Income	1,050	910	305	1,153

Source: Company data, I-Sec research

Table 9: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	30,901	33,307	29,430	33,124
of which cash & cash eqv.	1,790	3,205	3,991	4,784
Total Current Liabilities & Provisions	20,964	23,670	17,353	21,374
Net Current Assets	8,147	6,432	8,085	6,966
Investments	82	153	153	153
Other Non-Current Assets	5,314	5,913	4,955	6,265
Net Fixed Assets	1,488	863	869	899
Goodwill	-	-	-	-
Total Assets	16,821	16,566	18,053	19,066
Liabilities				
Borrowings	5,837	4,825	4,810	4,796
Deferred Tax Liability	128	20	20	20
Minority Interest	167	(23)	(25)	(27)
Equity Share Capital	109	109	124	124
Face Value per share (Rs)	2.00	2.00	2.00	2.00
Reserves & Surplus	10,580	11,635	13,125	14,153
Net Worth	10,689	11,744	13,249	14,278
Total Liabilities	16,821	16,566	18,053	19,066

Source: Company data, I-Sec research

Table 10: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	1,125	2,321	1,364	2,172
Working Capital Changes	(82)	975	(1,764)	1,003
Capital Commitments	68	471	(180)	(205)
Free Cashflow	1,111	3,766	(581)	2,970
Cashflow from Investing				
Activities	44	(173)	781	(1,114)
Issue of Share Capital	7	-	1,200	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	1,064	(1,013)	(15)	(14)
Interest paid	(753)	(1,090)	(782)	(1,099)
Dividend paid	(219)	-	-	(124)
Extraordinary Items/Others	(1,315)	(75)	183	174
Chg. in Cash & Bank balance	(62)	1,415	786	792

Source: Company data, I-Sec research

Table 11: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (in Rs.)				
Diluted adjusted EPS	19.2	16.6	4.9	18.5
Recurring Cash EPS	22.3	19.4	7.7	21.3
Dividend per share (DPS)	4.0	-	-	2.0
Book Value per share (BV)	195.4	214.7	213.0	229.5
Growth Ratios (%)				
Operating Income	(19.6)	(8.0)	(13.6)	24.4
EBITDA	(33.5)	11.8	(43.1)	117.3
Recurring Net Income	(20.1)	(13.4)	(66.5)	278.1
Diluted adjusted EPS	(20.1)	(13.4)	(66.5)	278.1
Diluted Recurring CEPS	(18.4)	(12.7)	(54.9)	176.7
Valuation Ratios				
P/E	11.2	13.0	44.0	11.6
P/CEPS	9.7	11.1	27.9	10.1
P/BV	1.1	1.0	1.0	0.9
EV / EBITDA	8.2	6.2	11.5	5.0
EV / Operating Income	0.6	0.5	0.6	0.5
EV / Op. FCF (pre -Capex)	(21.0)	5.5	(35.5)	4.2
Operating Ratios				
Raw Material/Sales (%)	76.3	75.7	77.6	75.3
SG&A/Sales (%)	7.6	6.6	6.5	5.8
Other Income / PBT (%)	4.1	27.5	9.8	3.4
Effective Tax Rate (%)	19.3	38.0	25.0	25.0
NWC / Total Assets (%)	25.8	21.8	29.8	23.6
Inventory Turnover (days)	2.0	3.8	3.8	3.8
Receivables (days)	177.3	226.9	191.0	172.7
Payables (days)	224.5	253.8	216.5	226.5
Net D/E Ratio (x)	0.4	0.1	0.1	0.0
Return/Profitability Ratios (%)				
Recurring Net Income Margins	3.8	3.6	1.4	4.2
RoCE	9.0	8.9	4.7	10.3
RoNW	9.6	8.1	2.4	8.4
Dividend Payout Ratio	0.2	0.0	0.0	0.1
Dividend Yield (%)	1.9	0.0	0.0	0.9
EBITDA Margins	7.0	8.5	5.6	9.8

Source: Company data, I-Sec research

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