23rd November, 2021

Q2FY22 RESULT UPDATE

Retail Equity Research (South India Focus)

VA Tech Wabag Ltd

Capital Goods

BSE CODE : 533269 NSE CODE: WABAG

BLOOMBERG CODE: VATW:IN SENSEX : 58,466

Accumulate

12 Months Investment Period | Rating as per Small Cap

CMP Rs. 339 TARGET Rs. 385 RETURN 14%

(Closing: 22-11-21)

KEY CHANGES: *TARGET* *RATING* *EARNINGS*

Order book provides visibility...

VA Tech Wabag Ltd is a Chennai based Multinational, providing solutions on water recycling and reuse for municipal and corporate clients.

- **Q2FY22 revenue grew by 12% YoY aided by strong execution in domestic EPC and international O&M operations.**
- **Despite higher RM costs, EBITDA margin improved by 116bps YoY to 8.3% due to pick up in execution & project mix.**
- **The management maintained its FY22 EBITDA margin of 10% to 11% as most of the projects have a price escalation clause.**
- **Order book remain strong at Rs.10,040cr (3.2x TTM revenue) which provides strong visibility for the next two to three years.**
- **The company expects H2FY22 performance will be better with a pick up in order inflows and execution.**
- **Given the healthy order book and increasing demand for water related projects we maintain our Accumulate rating and value the stock at a PE of 13x on FY23E earnings with a target price of Rs.385.**

Execution to pick up

The revenue during Q2FY22 increased by 12.4% YoY to Rs684cr supported by strong execution in domestic EPC business and international O&M operations. In FY22, the company expects two of its HAM projects namely KMDA-Kolkata and BUIDCO to pick up and start contributing to revenue. In H1FY22, the company has deployed more than Rs200cr additional working capital to counter the commodity price and increase the execution. EBITDA margins in Q2FY22 improved by 116bps YoY to 8.3%. Further, a fall in depreciation and higher other income supported the earnings to grow by 86% YoY to Rs259cr. The management highlighted that H2FY22 performance will be higher than H1FY22 due to better execution and order inflows. We expect a revamp in revenue generation going forward and expect revenue to grow at a CAGR of 16% over FY21-23 due to an increase in order pipeline.

Healthy order book provides visibility...

Order backlog of the company stands at Rs.10,040cr as on Q2FY2 which is 3.2x TTM revenue, provides strong revenue visibility for the next two to three years. The company has received a total order inflow of Rs1,867cr, which includes orders from Russia integrated industrial ETP of Rs1,213cr. The EPC order book currently contributes 65% to the current order book, whereas, O&M contributes 35%. Management refrained from giving order inflow guidance for FY22. However, it expects to increase international EPC orders to further increase the cash flows and margins (margins remain 1 to 2% better in the international orders).

Key highlights.

- The company is one of the four technically qualified players for 400MLD Chennai Desalination project, which is likely to be awarded by Q4FY22.
- Targeting to increase export business to 50% (current 35%) in the next 3 to 5 years.

Valuations

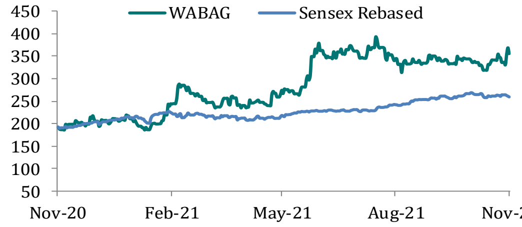
Acceleration in execution and improving order pipeline will lead to earnings recovery. We therefore, maintain our Accumulate rating and value the stock at PE of 13x on FY23E earnings with a target price of Rs.385.

Company Data	
Market Cap (cr)	₹ 1,838
Enterprise Value (cr)	₹2,120
Outstanding Shares (cr)	6.2
Free Float (%)	78.3
Dividend Yield (%)	-
52 week high	₹ 404
52 week low	₹ 183
6m average volume (cr)	0.08
Beta	1.34
Face value	₹ 2

Shareholding (%)	Q4FY21	Q1FY22	Q2FY22
Promoters	21.7	21.7	21.7
FII's	14.6	15.9	17.2
MFs/Institutions	3.3	3.1	3.4
Public	60.5	59.3	57.7
Total	100	100	100
Promoter pledge	0.00	0.00	0.00

Price Performance	3 month	6 Month	1 Year
Absolute Return	7%	29%	85%
Absolute Sensex	8%	18%	35%
Relative Return*	-1%	11%	50%

*over or under performance to benchmark index



Consolidated (cr)	FY21A	FY22E	FY23E
Sales	2,834	3,273	3,792
Growth (%)	*10.8*	*15.5*	*15.9*
EBITDA	219	265	326
EBITDA Margin(%)	*7.7*	*8.1*	*8.6*
PAT Adj.	101	148	184
Growth (%)	*20.1*	*46.6*	*24.6*
Adj.EPS	16	24	30
Growth (%)	*5.6*	*46.6*	*24.6*
P/E	21	15	11
P/B	1.5	1.4	1.2
EV/EBITDA	10.0	8.1	6.4
ROE (%)	*7.8*	*10.0*	*11.3*
D/E	0.2	0.2	0.1

Quarterly Financials (Consolidated)

Profit & Loss

Rs cr)	Q2FY22	Q2FY21	YoY Growth %	Q1FY22	QoQ Growth %	H1FY22	H1FY21	YoY Growth %
Sales	**684**	**608**	12.4	**658**	3.9	**1,342**	**1,039**	29.1
EBITDA	**57**	**43**	30.7	**33**	73.1	**89**	**72**	23.7
EBITDA margins %	8.3	7.1	116bps	5.0	330bps	6.7	6.9	-29bps
Depreciation	3	4	-25.9	3	-2.3	5	6	-17.8
EBIT	**54**	**40**	35.7	**30**	79.8	**84**	**66**	27.7
Interest	22	24	-6.6	20	12.1	42	45	-7.2
Other Income	3	2	73.0	14	-78.9	17	3	468.8
Exceptional Items	-	-	0.0	-	0.0	-	-	-
PBT	**35**	**18**	95.9	**25**	41.9	**59**	**24**	151.4
Tax	9	4	110.0	6	63.3	15	7	122.5
Reported PAT	**26**	**14**	86.1	**15**	78.0	**41**	**19**	113.5
Adjustments	-	-	0.0	-	0.0	-	-	-
Adj PAT	**26**	**14**	86.1	**15**	78.0	**41**	**19**	113.5
No. of Shares	5.5	5.5		5.5		5.5	5.5	
EPS (Rs)	**4.2**	**2.2**	86.1	**2.3**	78.0	**6.5**	**3.1**	113.5

Change in Estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	**FY22E**	**FY23E**	**FY22E**	**FY23E**	**FY22E**	**FY23E**
Revenue	3,275	3,650	3,273	3,792	-0.1	2.9
EBITDA	269	305	265	326	-1.3	7.0
Margins (%)	8.2	8.4	8.1	8.6	-10bps	25bps
Adj. PAT	142	173	148	184	4.1	6.4
EPS	22.8	27.9	23.8	29.6	4.1	6.4

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenue	**2,781**	**2,557**	**2,834**	**3,273**	**3,792**
% change	-19.6	-8.0	10.8	15.5	15.9
EBITDA	**194**	**217**	**219**	**265**	**326**
% change	-33.5	11.8	0.8	21.3	22.9
Depreciation	17	15	12	11	16
EBIT	177	202	207	255	310
Interest	75	109	90	87	83
Other Income	4	35	8	23	11
PBT	**106**	**128**	**125**	**191**	**238**
% change	-52	20	-3	53	25
Tax	20	49	29	49	59
Tax Rate (%)	19.3	38.0	23.7	25.5	25.0
Reported PAT	**89**	**84**	**101**	**148**	**184**
Adj*	0	0	0	0	0
Adj PAT	**89**	**84**	**101**	**148**	**184**
% change	-39.3	-5.9	20.1	46.6	24.6
No. of shares (cr)	5	5	6	6	6
Adj EPS (Rs.)	16	15	16	24	30
% change	-39.4	-5.9	5.6	46.6	24.6
DPS (Rs.)	4	0	0	2	3

BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	135	249	371	232	253
Accounts Receivable	1,708	2,016	1,897	2,134	2,389
Inventories	15	26	30	32	37
Other Cur. Assets	1,589	1,466	1,554	1,734	1,834
Investments	8	20	24	26	27
Gross Fixed Assets	129	134	147	153	158
Net Fixed Assets	88	84	84	89	86
CWIP	-	-	-	-	-
Intangible Assets	61	2	3	3	3
Def. Tax (Net)	99	25	25	26	31
Other Assets	76	136	169	197	223
Total Assets	**3,779**	**4,024**	**4,157**	**4,473**	**4,884**
Current Liabilities	1,992	2,226	2,283	2,475	2,753
Provisions	53	58	62	65	73
Debt Funds	584	482	305	282	242
Other Liabilities	80	82	97	106	106
Equity Capital	11	11	12	12	12
Reserves & Surplus	1,058	1,164	1,397	1,533	1,698
Shareholder's Fund	1,069	1,174	1,410	1,545	1,711
Total Liabilities	**3,779**	**4,024**	**4,157**	**4,473**	**4,884**
BVPS (Rs.)	195	215	227	248	275

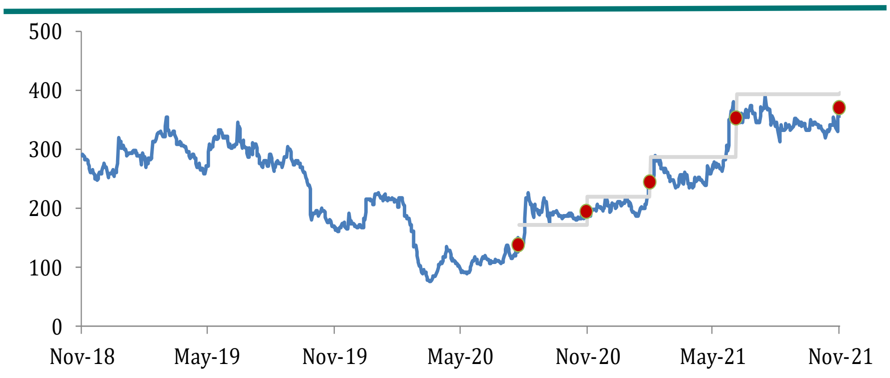
CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20E	FY21E	FY22E	FY23E
Net inc. + Depn.	**106**	**104**	**113**	**159**	**201**
Non-cash adj.	83	108	90	87	83
Changes in W.C	-266	37	81	-266	-101
C.F. Operation	**-76**	**249**	**284**	**-20**	**183**
Capital exp.	-2	65	-13	-6	-6
Change in inv.	0	0	-4	-1	-1
Other invest.CF	13	-35	0	0	0
C.F – Investment	**11**	**30**	**-18**	**-8**	**-12**
Issue of equity	1	0	120	0	0
Issue/repay debt	71	-136	-268	-110	-123
Dividends paid	-23	-2	0	-12	-19
Other finance.CF	0	0	-11	21	0
C.F – Finance	**49**	**-135**	**-143**	**-112**	**-149**
Chg. in cash	-17	143	122	-140	22
Closing cash	118	253	371	232	253

RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
Profitab. & Return					
EBITDA margin (%)	7.0	8.5	7.7	8.1	8.6
EBIT margin (%)	6.4	7.9	7.3	7.8	8.2
Net profit mgn.(%)	3.2	3.3	3.6	4.5	4.9
ROE (%)	8.1	7.5	7.8	10.0	11.3
ROCE (%)	6.4	9.1	8.1	9.9	11.0
W.C & Liquidity					
Receivables (days)	224.9	265.7	251.9	224.8	217.7
Inventory (days)	3.5	3.0	3.6	3.4	3.3
Payables (days)	284.3	325.4	290.3	273.8	273.0
Current ratio (x)	1.7	1.6	1.6	1.6	1.6
Quick ratio (x)	0.9	0.9	0.9	0.9	0.9
Turnover & Leverage					
Gross asset T.O (x)	21.4	19.4	20.2	21.8	24.4
Total asset T.O (x)	0.7	0.7	0.7	0.8	0.8
Int. coverage ratio (x)	2.4	1.8	2.3	2.9	3.7
Adj. debt/equity (x)	0.5	0.4	0.2	0.2	0.1
Valuation					
EV/Sales (x)	0.9	0.9	0.8	0.6	0.5
EV/EBITDA (x)	12.5	10.7	9.8	8.0	6.4
P/E (x)	20.8	22.1	20.9	14.2	11.4
P/BV (x)	1.7	1.6	1.5	1.4	1.2

Recommendation summary **(Last 3 Years)**



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
12 August 2020	Buy	172
18 November 2020	Accumulate	220
17 February 2021	Buy	288
22 June 2021	Accumulate	393
23 November 2021	Accumulate	385

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	**Upside is above 10%**	**Upside is above 15%**	**Upside is above 20%**
Accumulate	**-**	**Upside is between 10% - 15%**	**Upside is between 10% - 20%**
Hold	**Upside is between 0% - 10%**	**Upside is between 0% - 10%**	**Upside is between 0% - 10%**
Reduce/sell	**Downside is more than 0%**	**Downside is more than 0%**	**Downside is more than 0%**
Not rated		**-**	

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.
Accumulate: Partial buying or to accumulate as CMP dips in the future.
Hold: Hold the stock with the expected target mentioned in the note.
Reduce: Reduce your exposure to the stock due to limited upside.
Sell: Exit from the stock.
Not rated : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

General Disclosures and Disclaimers

CERTIFICATION

I, Sheen G, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit Financial Services Limited (hereinafter Geojit), a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. Geojit is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS

This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. Geojit will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION

The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE

Geojit and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document.

The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.

FUNDAMENTAL DISCLAIMER

We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by Geojit without any liability/undertaking/commitment on the part of itself or anyof its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

JURISDICTION

The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES:

Geojit's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) &Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units).In the context of the SEBI Regulations on Research Analysts (2014), Geojit affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership:

Geojit confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership of 1% or more in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

he, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

he, his associates and his relatives have no actual/beneficial ownership of 1% or more in the subject company covered.

2. Disclosures regarding Compensation:

During the past 12 months, Geojit or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company. (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by Geojit regarding the compensation paid to its Research Analyst:

Geojit hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Sheen G , Research Analyst(s) of Geojit have not served as an officer, director or employee of the subject company

SHEEN G Digitally signed by SHEEN G Date: 2021.11.23 13:40:00 +05'30'

5. Disclosure regarding Market Making activity:

Neither Geojit/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd., Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226.