April 08, 2022

INITIATING REPORT | Sector: Infrastructure

VA Tech Wabag Ltd

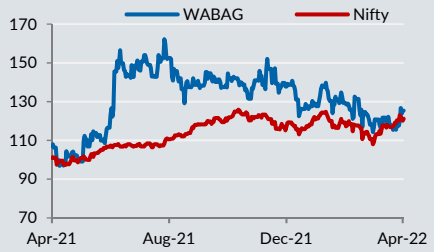
Leader bouncing back

Reco	:	**BUY**
CMP	:	Rs 304
Target Price	:	Rs 391
Potential Return	:	29%

Stock data (as on April 8, 2022)

Nifty	17,784
52 Week h/l (Rs)	404 / 229
Market cap (Rs/USD mn)	18928 / 249
Outstanding Shares (mn)	62
6m Avg t/o (Rs mn):	112
Div yield (%):	NA /NA
Bloomberg code:	VATW IN
NSE code:	WABAG

Stock performance



	1M	3M	1Y
Absolute return	7.4%	-1.8%	16.1%

Shareholding pattern (As of Dec'21 end)

Promoter	21.7%
FII+DII	21.7%
Others	56.6%

Financial Summary

(Rs mn)	FY22E	FY23E	FY24E
Revenues	30,545	34,059	38,526
Yoy growth (%)	7.8	11.5	13.1
OPM (%)	8.2	8.5	8.8
EPS (Rs)	20.0	23.0	27.9
EPS growth	13.2	15.0	21.1
P/E (x)	15.2	13.2	10.9
EV/EBITDA (x)	7.2	5.7	4.8
Debt/Equity (x)	0.3	0.3	0.3
RoE (%)	11.7	12.4	13.5
RoCE (%)	9.4	9.9	10.7

REASONS TO BUY THE STOCK

1. VA Tech Wabag (VATW) is one of the leading multinational companies into water and wastewater treatment space, largely focused on providing EPC and O&M solutions across the globe. Its vast project design, execution & operation experience, superior proprietary technology to provide customized solutions, & professional management team with proven competence have enabled it to command a healthy market share in water, sewage and waste management segments. We initiate coverage on VATW with a BUY recommendation for a price target of Rs391.

2. VATW is one of the leading companies in pure play water technology across the world offering complete range of value chain services with focus on conservation, optimization, recycle and reuse of water to the extent possible. It has achieved a healthy 30-35% bid-hit ratio globally as well as domestically on the strength of its whole range of competitive and customized value chain services. Having successfully executed 6000+ projects across the globe, it was ranked 4th globally by GWI in 2021 for ensuring safe drinking water and clean environment.

3. VATW has a proven track record of bagging large and complex projects; as on Dec'21, its order book stands at ~Rs100bn implying an order book-to-bill ratio of 3.3x trailing revenues, which provides revenue visibility for the next couple of years. All its major projects are covered with price variation clauses helping VATW maintain its profitability going forward.

4. The company's management commands a rich and varied experience of more than three decades in the water industry. The unique mix of talented professionals comprising engineers & water experts define company's technical competencies to keep pace with the evolving customer needs & market conditions, thereby fetching repeated orders from its existing clients.

5. The company's focus on innovation and R&D has helped register 10+ technologies and 90+ IP rights enabling to bid for projects at competitive rates with ensuring quality, efficiency and timely delivery. Further, VATW's ability to manage and execute large and complex projects on time through use of superior technology have helped improve its technical qualification and can bid for large project worth Rs10bn plus (only few players) on standalone basis giving an edge over most of its peers

6. Given the growing attention of the government and multi-lateral funding agencies towards an escalating water shortage crisis, the water treatment sector is well poised for a secular, long-term growth. In our view, VATW's robust order book thriving on strong market leadership, execution ramp up, operational efficiencies would help it capitalize on the forthcoming opportunities. At CMP, the stock trades at a P/E of 15.2x/ 13.2x/ 10.9x on FY22/23/24 earnings estimates.

Key Risks: 1) Change in government policy given that a major chunk of the order book are municipal clients, 2) industrial slowdown could impact new order inflow, and 3) foreign exchange volatility.

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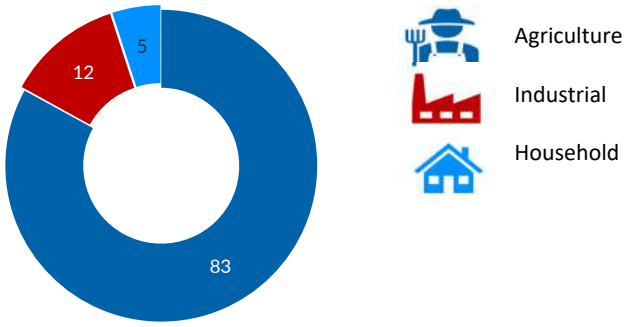
WATER CRISIS IN INDIA

India is the world's largest extractor of groundwater consuming 124% more groundwater than China or US

As per various industry research findings, India's water balance continues to remain adversely affected; as in India's case, only 4% of the world's freshwater resources is available for 18% of world's population. Further, owing to pervading lack of access to freshwater through rivers, lakes and ponds across the country, groundwater is the major source of freshwater. This over-reliance and unsustainable consumption have made India the world's largest extractor of groundwater consuming 124% more groundwater than China or US. By 2030, as per Niti Aayog, India's water demand is projected to be twice the available supply, implying severe water scarcity for hundreds of millions of people, and an eventual 6% loss in the country's GDP. Moreover, climatic change, propelled by a rapidly growing population and industrialization is another threat which points to an imminent water crisis in India. ***To sum it up, in our view scarcity of water remains high in India calling for a quick redressal.***

Exhibit 1: Agri dominant use age of water across the country



Source: Company, YES Sec

Agriculture which accounts for ~17% of GDP has been the major water consumption sector as its produces high water consumption crops such as rice, wheat and sugarcane (~91% of India's crop production) which absorbs water 2-4x more as compared to China or Brazil. Lack of use of modern irrigation techniques and poor infrastructure has been the major reason in loss of water in the sector. Further industrial water demand had been increasing with the pace of industrial development which is witnessed with the growth in some of the water intensive industries such as pulp and paper, textile, steel, automobile, sugar, fertilizers. Rampant increase in disposal of wastewater without proper treatment is putting further pressure on the availability of fresh water. Poor water pricing is one of the main reasons that industries are not motivated to reuse the wastewater post treatment. ***Owing to increasing demand for wastewater treatment of municipal and sewage water, there are tremendous opportunities for wastewater treatment facilities in India.***

In India, only 30% of the water released back in rivers is treated, and currently around 18% of river stretches in India are highly polluted

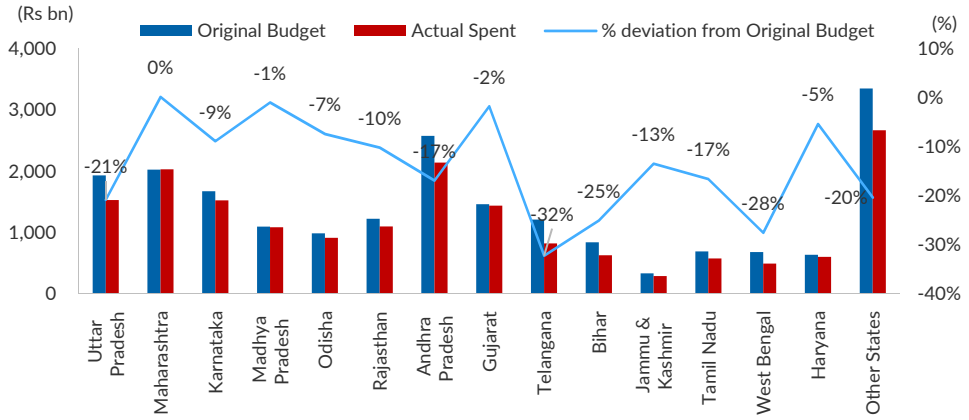
In 2018, NITI Aayog in one of its report stated that nearly 600 million people, or nearly half of India's population, is facing extreme water crisis. Three-fourths of India's rural households do not have piped, potable water and rely on sources that pose a serious health risk. Most urban and non-urban areas are not connected with proper sewage system resulting in wastewater being released without any treatment. ***In India, only 30% of the water released back in rivers is treated, and currently around 18% of river stretches in India are highly polluted, while 14% are mildly polluted rendering about third of the water in these rivers unfit for humans.***

We believe over last years; India has been consistently working towards improving access to water and improve wastewater treatment in order to safeguard the existing fresh-water resources.

Capex in water infra - predominantly under State Govt.

Despite there has been a sizeable budget allocation to create world class infrastructure for irrigation and drinking water supply by the Center, execution of the same have been predominantly handled at the state level. We understand most of the project announcement has been delayed in the sector at state level as actual budgets allocation have largely been deviated towards other welfare schemes. Our analysis of over last 15 years suggest that allocation Vs actual spending in water infra has a significant deviation of ~12%.

Exhibit 2: State wise budget and spending on water infra over last 15years



Source: RBI, YES Sec

Exhibit 3: Budget vs actual spending on water infra over FY07-21

States (Rs bn)	Original budget (Rs bn)	Revised budget (Rs bn)	Actual spent (Rs bn)	% deviation from original budget	% deviation from revised budget
Uttar Pradesh	1,932	1,887	1,531	-21%	-19%
Maharashtra	2,028	2,279	2,031	0%	-11%
Karnataka	1,676	1,577	1,527	-9%	-3%
Madhya Pradesh	1,099	1,091	1,088	-1%	0%
Odisha	989	980	916	-7%	-7%
Rajasthan	1,226	1,185	1,102	-10%	-7%
Andhra Pradesh	2,577	2,366	2,142	-17%	-9%
Gujarat	1,465	1,532	1,439	-2%	-6%
Telangana	1,214	985	823	-32%	-16%
Bihar	843	916	632	-25%	-31%
Jammu and Kashmir	336	327	291	-13%	-11%
Tamil Nadu	694	630	579	-17%	-8%
West Bengal	684	569	496	-28%	-13%
Haryana	638	645	604	-5%	-6%
Other States	3,350	3,387	2,669	-20%	-21%
Grand Total	**20,751**	**20,357**	**17,870**	**-14%**	**-12%**

Source: RBI, YES Sec

From the above data, we can observe that development of water infra has been slow not only because of lower budget allocations but also due to sluggish execution and delay in clearance. Several large states ended up spending way below their original budget over past 15 years with the deviation exceeding over 14% in Telangana (32%), West Bengal (28%), Bihar (25%), Uttar Pradesh (21%) and Andhra Pradesh (17%).

In May 2019, a dedicated ministry for water was setup at the Centre: "Ministry of Jal Shakti" which primarily operates through two departments: "Department of drinking water and sanitation" and "Department of water resources and ganga rejuvenation". In 2019, the government announced a massive project to provide piped water to all Indian households by 2024 under Jal Jeevan Mission (JJM) (rural & urban), giving visibility on enhanced capital outlay in water supply space.

Massive opportunities as outlined by National Infrastructure Pipeline and Union budget 2022-23

National Infrastructure Pipeline (NIP), (launched in Dec'2019), aims to spend Rs111trn on capital outlay till FY25E across the entire gamut of infrastructure sector. Along with sectors like transportation (roads, railways, ports and airports), energy, urban & rural infrastructure, a large emphasis is also placed on building a massive and sustainable water infrastructure in the country.

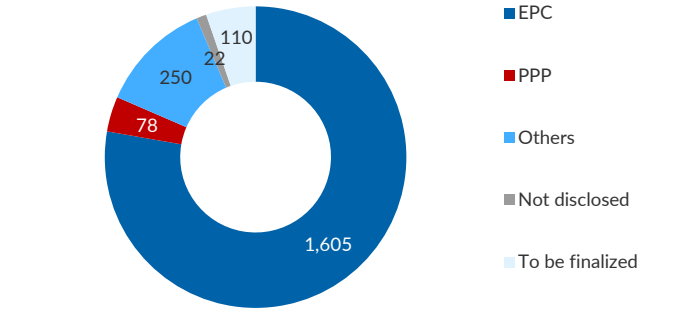
NIP targets to spend ~8% of the capital outlay on water infra projects like water supply in rural & urban areas (jal jeevan mission), irrigation and sanitation & wastewater treatment (AMRUT). Over the last ***15 years, the state governments have spent a cumulative ~Rs17.9trn while NIP targets to spend a similar over next 5 years itself.*** This accelerated capex plan in water infra would translate into massive opportunities for direct & indirect players in the entire value chain. NIP has till date launched 9,337 projects worth Rs142.5trn out of which 2,086 opportunities worth Rs22.8trn have been launched under water and sanitation.

Exhibit 4: Sector wise opportunities under NIP

Sector wise opportunities	No of Projects	Value (Rs trn)
Irrigation projects	821	13.2
Water treatment plants	581	8.4
Sewage collection, treatment & disposal	423	0.8
Storm water drainage system	135	0.2
Solid waste management	126	0.2
Total	**2,086**	**22.8**

Source: IIG, YES Sec

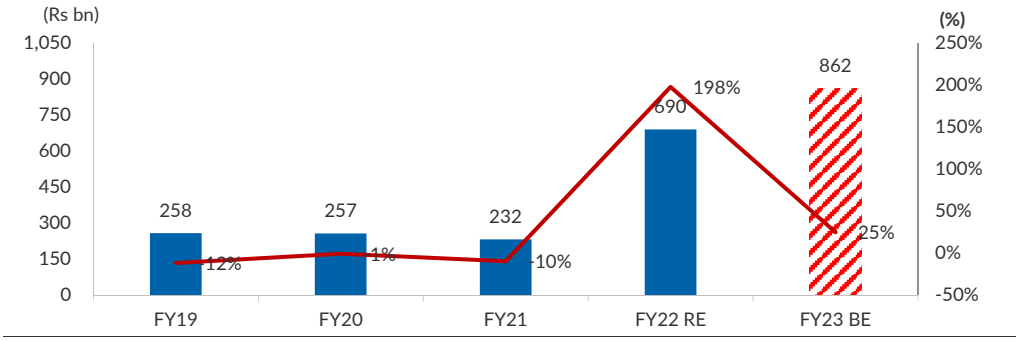
Exhibit 5: 1,605 projects implemented under EPC mode



Source: IIG, YES Sec

Further, the Union budget 2022-23 strengthens govt. impetus on capex for water & irrigation segments by 25% YoY raising budgetary allocation towards Ministry of Jal Shakti to Rs862bn.

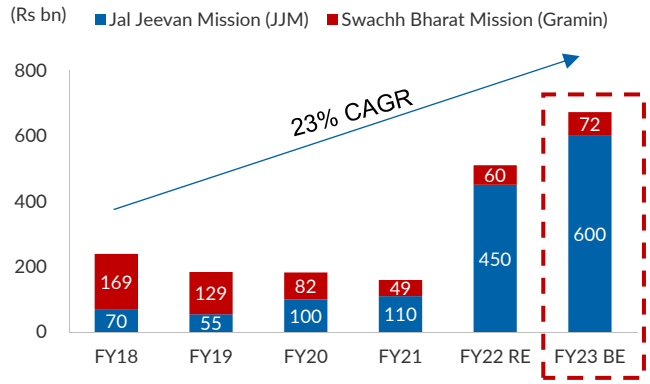
Exhibit 6: Massive Rs862bn allocation to Ministry of Jal Shakti in budget22- 23



Source: Union budget, YES Sec

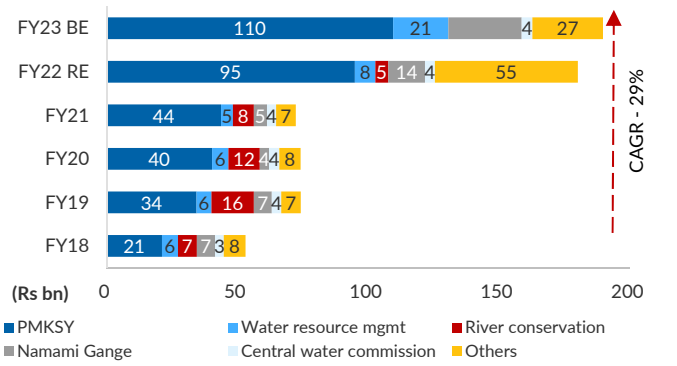
With the focus of govt. to provide tapped drinking water to all by 2024; Jal Jeevan Mission has been given a higher allocation of Rs600bn (vs Rs110bn in FY21). We have witnessed a strong awarding activity in states such as UP, AP & Telangana and we further anticipate other states to come up with fresh orders in water supply projects.

Exhibit 7: Budget allocations increased at 23% CAGR



Source: Budget22-23, YES Sec

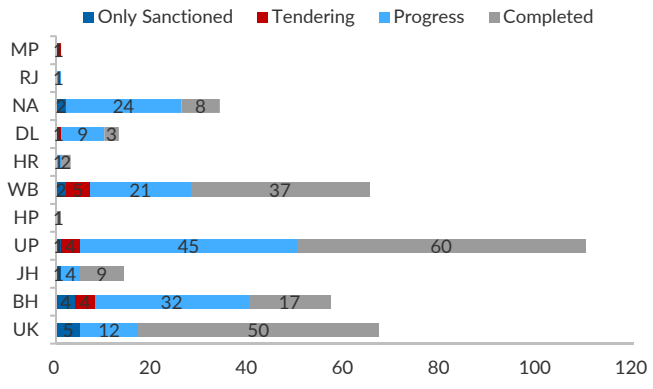
Exhibit 8: Department of ganga rejuvenation



Source: Budget22-23, YES Sec

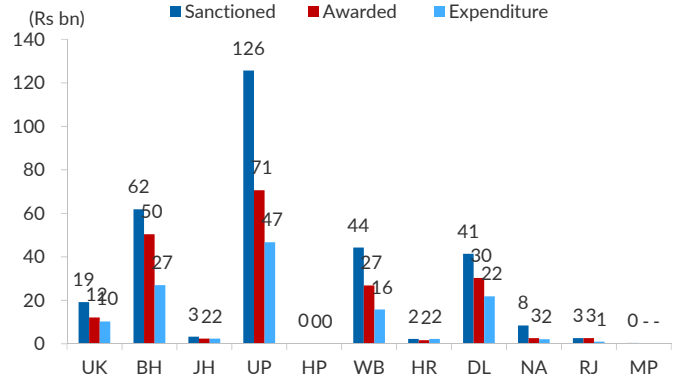
Along-with water supply, the budget has laid emphasis on enhancement of wastewater treatment infrastructure, which would result in higher spending under projects such as Namami Gange. As on Feb'22, a total of 366 projects worth Rs308bn have been sanctioned, out of which 177 projects have been completed and operational. Dominant companies in the wastewater treatment space like VATW are expected to be one of the biggest beneficiaries for the upcoming opportunities in this space.

Exhibit 9: 110 projects have been sanctioned to UP



Source: National mission for clean ganga, YES Sec

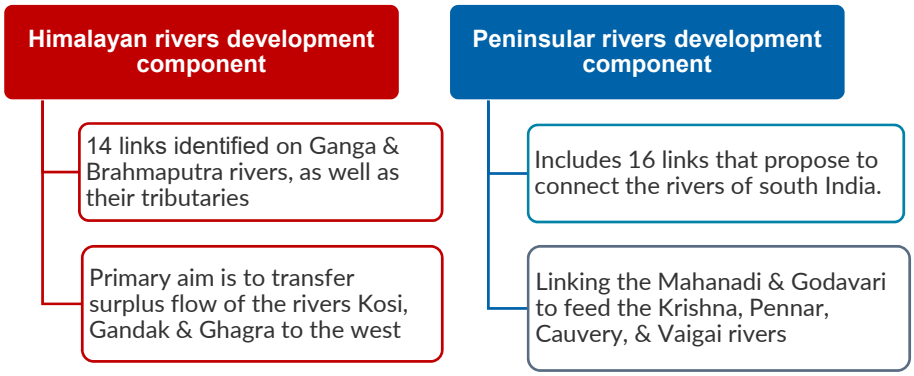
Exhibit 10: ~41% of sanctioned amount already spent



Source: National mission for clean ganga, YES Sec

River linking plans to offer huge opportunities

The National River Linking Project (NRLP) formally known as the National Perspective Plan, envisages the transfer of water from water 'surplus' basins where there is flooding to water 'deficit' basins where there is drought/scarcity, through inter-basin water transfer projects. The National River Interlinking Project will comprise of 30 links to connect 37 rivers across the nation through a network of nearly 3000 storage dams to form a gigantic South Asian water grid. Estimated expenditure for inter linking of river project (30 links) is estimated at Rs8.4trn



The completion of the identified 30 links will result in overall area under irrigation to increase by 35 MHa, supply of industrial and domestic water will increase by 14,000mn cubic meter (mcm) and these will also be used for hydropower generation of ~34 GW.

Four priority links (of the above 30 links) have been identified – Ken-Betwa link project (KBLP) Phase I and II, Damanganga – Pinjal link project, Par – Tapi – Narmada link project and Godavari - Cauvery link project.

The union cabinet approved the implementation of Ken-Betwa river with an estimated cost of Rs445bn to be completed in 8 years for which revised allocation of Rs43bn in FY22 and Rs14bn in FY23 has been done under budget 22-23. The project has two phases, with Ph-I involves one of the components — Daudhan Dam complex and its subsidiary units such as low level tunnel, high level tunnel, Ken-Betwa link canal and power houses while Ph-II will involve three components — lower orr dam, bina complex project and kotha barrage. This project will provide enormous benefits to the districts of Panna, Tikamgarh, Chhatarpur, Sagar, Damoh, Datia, Vidisha, Shivpuri and Raisen of Madhya Pradesh and Banda, Mahoba, Jhansi and Lalitpur of Uttar Pradesh and is expected to provide drinking water supply to ~62lakh people besides generating 103 MW of hydropower and 27 MW solar power.

Further, the draft DPR's (Detailed Project Report) of five more river links namely Damanganga-Pinjal, Par-Tapi-Narmada, Godavari-Krishna, Krishna-Pennar and Pennar-Cauvery have been finalized. Post the consensus being reach between the beneficiary states, the Centre will provide support for implementation.

Exhibit 11: Status of river linking under Himalayan and Peninsular river development component

S.No	Name	Rivers	States concerned	Status
Peninsular component				
1(a)	Mahanadi (Manibhadra) - Godavari (Dowlaiswaram) link	Mahanadiand Godavari	Jharkhand, Madhya Pradesh, Chhattisgarh, Telangana, Andhra Pradesh, Odisha, Karnataka and Maharashtra	FR completed.
1(b)	Mahanadi (Bermul) - Godavari (Dowlaiswaram) link	Mahanadi and Godavari	Jharkhand, Madhya Pradesh, Odisha, Chhattisgarh, Telangana, Andhra Pradesh, Karnataka and Maharashtra	FR completed - preparation of DPR under progress
2	Godavari (Inchampall)-Krishna (Pulichintala) link	Godavariand Krishna	Odisha, Madhya Pradesh, Chhattisgarh, Telangana, Andhra Pradesh, Maharashtra and Karnataka	FR completed
3	Godavari (Inchampalli)-Krishna (Nagarjunasagar) link	Godavariand Krishna	Odisha, Madhya Pradesh, Chhattisgarh, Telangana, Andhra Pradesh, Maharashtra and Karnataka	FR completed - DPR completed
4	Godavari (Polavaram – Krishna (Vijayawada) link	Godavari and Krishna	Odisha, Madhya Pradesh, Chhattisgarh, Telangana, Andhra Pradesh, Maharashtra and Karnataka	FR completed
5	Krishna (Almatti) - Pennar link	Krishna and Pennar	Telangana, Andhra Pradesh, Maharashtra and Karnataka	FR completed
6	Krishna (Srisailam)–Pennar link	Krishna and Pennar	Telangana, Andhra Pradesh, Maharashtra and Karnataka	FR completed
7	Krishna (Nagarjunasagar)-Pennar (Somasila) link	Krishna and Pennar	Telangana, Andhra Pradesh, Maharashtra and Karnataka	FR completed - DPR completed
8	Pennar (Somasila)–Cauvery (Grand Anicut) link	Pennar and Cauvery	Andhra Pradesh, Karnataka, Tamil Nadu, Kerala and Puducherry	FR completed - DPR completed
9	Cauvery (Kattalai)–Vaigai–Gundar link	Cauvery, Vaigai and Gundar	Karnataka, Tamil Nadu, Kerala and Puducherry	DPR completed
10	Ken–Betwa link	Ken and Betwa	Uttar Pradesh and Madhya Pradesh	DPR (Phase – I, II & comprehensive report) completed
11(i)	Parbati – Kalisindh –Chambal link	Parbati, Kalisindhand Chambal	Madhya Pradesh, Uttar Pradesh and Rajasthan	FR completed
11(ii)	Parbati-Kuno-Sindh link	Parbati, Kuno and Sindh	Madhya Pradesh and Rajasthan	PFR completed
12	Par-Tapi-Narmada link	Par, Tapi and Narmada	Maharashtra and Gujarat	DPR completed
13	Damanganga – Pinjal link	Damanganga and Pinjal	--do--	DPR completed.
14	Bedti-Varada link	Bedti and Varada	Maharashtra, Andhra Pradesh and Karnataka	PFR completed - Draft DPR completed
15	Netravati – Hemavati link	Netravati and Hemavati	Karnataka, Tamil Nadu and Kerala	PFR completed
16	Pamba - Achankovil –Vaippar link	Pamba, Achankovil and Vaippar	Kerala and Tamil Nadu	FR completed
Himalayan component				
1	Manas-Sankosh-Tista-Ganga(M-S-T-G) link	Manas,Sankosh, Tista and Ganga	Bhutan & India (Assam,West Bengal and Bihar)	FR completed - DPR in progress
2	Kosi-Ghaghra link	Kosi and Ghaghra	Nepal & India (Bihar and Uttar Pradesh)	PFR completed
3	Gandak-Ganga link	Gandak and Ganga	Nepal & India (Bihar and Uttar Pradesh)	FR completed (Indian portion)
4	Ghaghra-Yamuna link	Ghaghra and Yamuna	Nepal & India (Bihar and Uttar Pradesh)	FR completed (Indian portion)
5	Sarda-Yamuna link	Sarda and Yamuna	Nepal & India (Bihar, Uttar Pradesh, Uttarakhand, Haryana and Rajasthan)	FR completed (Indian portion)
6	Yamuna-Rajasthan link	Yamuna and Sukri	Gujarat, Rajasthan, Haryana and Uttar Pradesh	FR completed
7	Rajasthan-Sabarmati link	Sabarmati	Gujarat, Rajasthan, Haryana and Uttar Pradesh	FR completed
8	Chunar-Sone Barrage link	Ganga and Sone	Bihar and Uttar Pradesh	Draft FR completed
9	Sone Dam – Southern Tributaries of Ganga link	Sone and Badua	Bihar and Jharkhand	PFR completed
10	Ganga (Farakka) - Damodar - Subernarekha link	Ganga, Damodar and Subernarekha	West Bengal, Odisha and Jharkhand	FR completed - DPR in progress
11	Subernarekha -Mahanadi link	Subernarekha and Mahanadi	West Bengal and Odisha	FR completed
12	Kosi-Mechi Link	Kosi and Mechi	Nepal & India - (Bihar and West Bengal)	PFR completed
13	Ganga (Farakka) -Sunderbans link	Ganga and Ichhamati	West Bengal	FR completed
14	Jogighopa - Tista -Farakka link (Alternative to M-S-T-G)	Manas,Tista and Ganga	Assam, Bihar and West Bengal	Dropped

*Note: PFR – Pre-Feasibility Report, FR - Feasibility Report, DPR – Detailed Project Report

Source: Ministry of Jal Shakti, YES Sec

SEWAGE/WASTEWATER TREATMENT PLANTS

HAM model under Namami Gange mission:

For the first time, the central government offered creation and maintenance of sewage treatment infrastructure under hybrid annuity-based PPP model under National Mission for Clean Ganga (NMCG). Similar to the HAM model in highway sector, HAM under NMCG include development, operation and maintenance of the sewage treatment STPs to be undertaken by a Special Purpose Vehicle (SPV) created by the winning bidder at the local level. NMCG would provide 40% funding while balance 60% to be arranged by the concessionaire (mix of debt & equity).

VATW bagged 2 HAM projects under this scheme in Kolkata and Patna:

- **Kolkata HAM project:** The project has total concession value of Rs5.7bn of which EPC value is ~Rs4bn. It includes upgradation of existing STP and creation of new STPs & allied infrastructure and has a concession period of 15 years post commissioning. The STPs would be treating 187mn liters of sewage water per day and would reduce untreated sewage flowing into the river ganga from West Bengal by ~15%. The company achieved financial closure (FC) of Kolkata HAM project. VATW has partnered with Kathari Water (a subsidiary of GGEF) for equity and for debt with IFC and Tata cleantech. The effective date has been notified and the project is currently under execution.
- **Patna HAM project:** The largest order under NMCG worth Rs11.9bn, this project includes development of 150MLD STP and construction of 450km of sewerage network in Digha and Kankarbagh zones of Patna. The company has already received FC and is awaiting the effective date from the customer. VATW has partnered with PTC India Financing Services ltd (PFS) for debt funding.

With Rs28bn allocated to Namami Gange in budget 2022-23 (for HAM & DBO projects) and strong institutional participation in financing the first HAM project, govt is evaluating to replicate this model on other rivers as well and consequently, many such projects are expected to come up going ahead.

Company has been keen to take up HAM projects under Namami Gange as EBITDA margins on EPC portion are expected be in the range of 10-12%. Further, management indicates that the company would continue to remain asset light and would be looking to monetize HAM projects post commissioning.

One City One Operator

Many cities in India are looking at 'One City One Operator' model wherein a single contractor is in-charge of the entire sewage infrastructure of a city, including the O&M. This leads to single source accountability and long-term sustenance and provides long term opportunities for integrated players.

VATW bagged its first One-City-One-Operator project in 2019 for Ghaziabad (Rs10.5bn) and Agra (Rs4.3bn) in Uttar Pradesh for combined treatment of 650MLD of sewage. With the visible success of the model, many more cities across the country would be looking to implement the same, giving huge opportunities for experienced players like VATW going ahead. Further 2 more cities in UP and states like Gujarat and Karnataka are expected to release tenders soon.

Desalination: in India:

Today the growing population, heavy industrialization and negative impacts of climate change have led to severe water stress. Government of India is fully aware of this fact and has been striving hard to evolve an implementable solution through its various ministries. The dwindling water resources will help desalination emerge as the key technology in water space.

Currently desalination plants provide approximately 1% of the world's drinking water supply and the number is increasing every year. The global desalination market is likely to showcase a CAGR of 7.8% over 2018-2025, valuing $27bn by 2025. India's long coastline of ~7,800 km provides immense potential for harnessing seawater to augment the scarce fresh-water resources through the technology of desalination. NITI Aayog is planning to set up desalination plants and tap the seawater. Industries have also realized that captive desalination/water recovery plants can be an asset in terms of water security. An experienced player like VATW, which carries out desalination of 1mn m3 of seawater in projects at Nemmeli, India, and Al-Ghubra at Oman, would see sizeable opportunities coming up in India.

VATW has a dominant position in the desalination market (among top 10 players globally for desalination, as per GWI), the probability of winning more contracts in the future remains strong. Moreover, if the company is successful in receiving orders, it could receive O&M orders as well for the maintenance of these plants resulting in margin expansion as O&M division enjoys higher margins

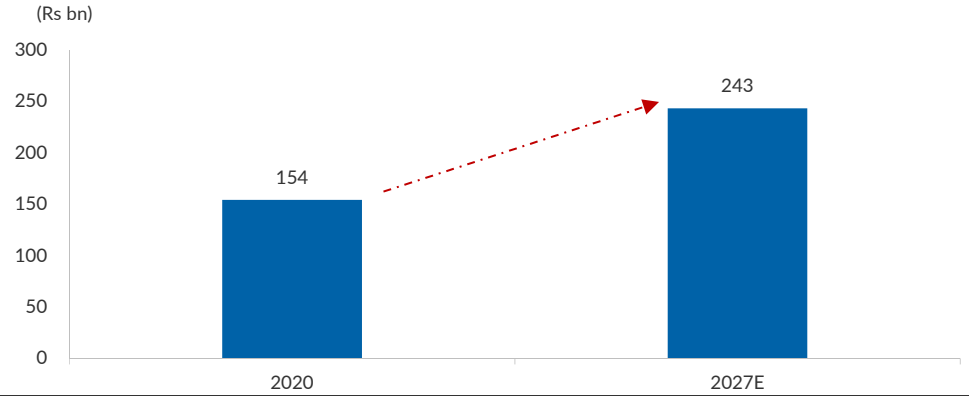
Exhibit 12: 110MLD Nemmeli Desalination Plant in Chennai

Source: Company, YES Sec

Global Scenario

Over the past 100 years, global water use has increased six-fold, and it is further expected to steadily rise by 1% annually. The real issue of water crisis is not about the volumes; it is more about managing water efficiently. Water crisis is a global problem, with many countries already facing an acute water crisis, or on the verge of facing water shortage. Around 80% of the entire industrial and municipal wastewater is released untreated into the environment. At the current pace of water usage, it is estimated that 50% of the global population will live in water crisis areas by 2025. Many countries are strongly recognizing this daunting issue and hence waste-water treatment has gained increased recognition over past 2 decades. Further, ***the global water and wastewater treatment market is estimated to reach a size of US$243bn by 2027***, at a CAGR of 6.7% over 2020-2027E.

Exhibit 13: Global waste-water market to grow at 6.7% CAGR over FY20-27E

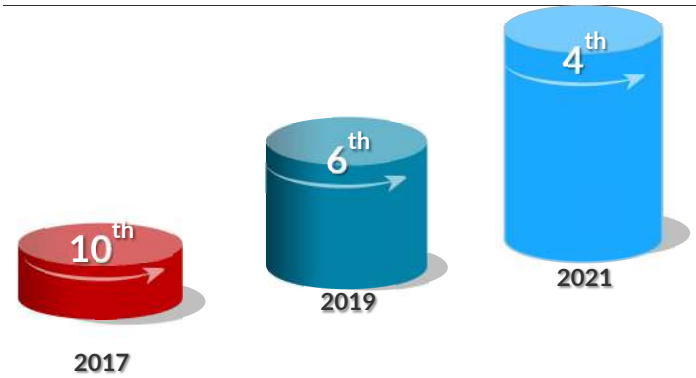


Source: Company, YES Sec

VATW ranks 4th in top-50 global private water companies

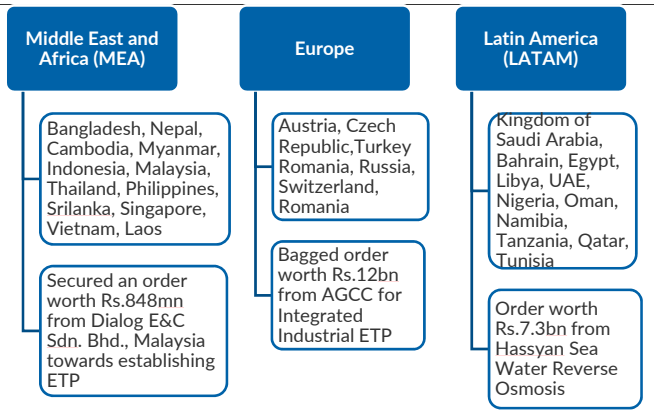
With continuous innovations and implementation of new & advanced technologies in the field of water and waste-water treatment, VATW has gradually emerged as one of the key global players (in private sector) functioning in this space. The company has been gaining market share and have improved its ranking from 10th in 2017 to 4th in 2021 among top-50 global private water companies.

Exhibit 14: VATW ranked 4th globally in 2021



Source: Company, YES Sec

Exhibit 15: Global footprint of VATW



Source: Company, YES Sec

INVESTMENT RATIONALE

Dominant player in the water space with healthy market share

VATW is one of the leading companies in pure play water technology across the world offering complete range of value chain services from engineering, procurement and construction to O&M services with focus on conservation, optimization, recycle and reuse of water to the extent possible. Over the years, the company's key competences in execution, offering competitive and customized solutions along with O&M facility across water and wastewater treatment projects has enabled it to attain a healthy bid-hit ratio of 30% globally. VATW has successfully executed 6000 plus municipal and industrial projects globally with quality and timely delivery and is ranked 4th globally in 2021 by Global Water intelligence for ensuring safe drinking water and clean environment for over 71mn people across the globe.

Niche technology already in place

Water and wastewater treatment projects are technically complex which requires high value engineering and designing skills along with customization for clients. VATW has been investing in R&D and technologies heavily and owns around 90+ IP rights and which include both process and product giving a competitive edge over its competitors. The company has R&D facilities across three locations in India, Austria and Switzerland. For a tech-focused player heavily invested in R&D, the company astutely follows an asset light model, with the gross block of fixed assets comprising only 4% of its total assets in FY21.

Exhibit 16: Key technologies offered for varied water treatment projects

Wide ranging products & technologies	Biological Treatment	Sludge Treatment	Anaerobic Digestion	Coagulation	Flocculation	Demineralization
	Disinfection	Filtration	Sedimentation	Reverse Osmosis	Thermal Desalination	Screening & Separation
	Ion Exchange	Ozone Treatment	UV Treatment	Membrane Treatment	Electro Dialysis	Water Stabilization
Patents for several innovative technologies	Fluidized Bed Biology	Biofiltration	Activated Sludge Processes	Anaerobic Biological Processes	Membrane Bioreactor	
	FLUOPUR®	BIOPUR	Hybrid™, SBR	EKJ™, UASB, an-OPUR™, EGSB	MARAPUR®, Megamodul™	
	Membrane Filtration	Denitrification	Oxidation Processes	Thermal Desalination	Sludge Digestion and Disintegration	
	RO, MF, UF, NF	BIODENE®, ENR®	ADOX®, BIOZONE®	MED, TVC, MVC, MSF	BIOZONE-AD®	

Source: Company, YES Sec

Exhibit 17: Key projects executed across various sectors

Petronas	• Customized multi-stage ETP treatment system including sludge and VOC treatment is installed to treat a total capacity of 102,864 m3/d effluents from seven different types of wastewater streams are treated exclusively
Reliance industries	• Raw water treatment plant to treat a cocktail of PTA process effluent streams generated from expansion of the PTA and PET plants in Gujarat. being the largest recycling plant for PTA effluent in India. A tailor-made, advanced process design was employed, combining the activated sludge process (MBR) and anaerobic treatment (UASB) in a single unit.
Dangote oil refining company	• Complete water package with first of its kind advanced processes and technologies like HHP Wet Air Oxidation, Bioremediation, Bardenpo Process based BNR, Thermal Oxidiser, BIOPUR® and Reject meeting TN standards.
SIGMA DIZ spol. s r.o	• The project comprised of the water treatment in cooling circuit ZPO with the aim to reuse the recycled water for the steel works. To meet the strict requirements a system was implemented mainly consisting of two piping flocculators, one flotation unit and five two-chamber sand filters. Capacity is 48,000 m3/d.
Suez canal authority (SCA)	• An advanced multi-stage treatment process including PAC dosing design for the purification of Nile water was implemented to ensure drinking water supply to a population of over 500,000
Dar Es Salaam water & sewerage authority	•Rehabilitation and expansion of the intake and raw water transmission system at Ruvu river and the building of a new water treatment plant to cater over 700,000 people in Dar Es Salaam. The project was funded by EXIM India.

Source: Company, YES Sec

Experienced player, Execution, Technical Qualifications, Technical Capability

Over the years, VATW's ability to manage and execute large and complex project on time through use of superior technology have helped improve its technical qualification. Currently, VATW can bid for large project worth Rs10bn plus (only few players) on standalone basis giving an edge over most of its peers. Further, the company's focus on innovation and R&D has helped register 10+ technologies and 90+ IP rights enabling to bid for projects at competitive rates with ensuring quality, efficiency and timely delivery.

Exhibit 18: Complex projects executed backing proprietary technology

NEREDA® technology	CYCLOPUR®	MICROPUR® technology	FLUOPUR® technology	Removal of micropollutants
•Sarneraatal WWTP, Alpnach, Switzerland 14,000 m3 /d (65,000 P.E) •Start up: 2018 •First NEREDA® plant in Switzerland with 40% reduction in space and Higher nitrogen elimination despite smaller volume	•SBR Technology Port Said WWTP, Egypt 40 MLD, peak flow of 107 MLD •Start up: 2018/19 •CYCLOPUR – SBR and tertiary treatment using disc filters followed by disinfection to make water fit for reuse as irrigation water	•Ujams Industrial Park, Windhoek BOOT Contract – Model Project in Namibia •O&M contract for 21 years (2014-2035) •Reclamation of wastewater emanating from various facilities in the industrial park	•Dragon ETP, Bucharest, Romania •Modernisation of existing ETP for PepsiCo international •Start Up: 2017 •Operational revision from CAS to MBBR process structures •Treatment process based on Moving Bed Bio-Reactor (MBBR)-based FLUOPUR® technology	•Muttenz WTP, Switzerland Capacity: 19.2 MLD •Start Up: 2017 •Advanced Oxidation Process (AOP), Adsorption and Ultrafiltration (UF) •First plant in Switzerland using continuous PAC dosing in water stream, with subsequent retention by UF Membranes

Source: Company. YES Sec

Experienced management execution capability:

Being professionally managed, the company commands an experience of more than three decades in the water industry. Currently, VATW has ~1,065 employees which includes 798 qualified engineers (75%) as on 3QFY22. The unique mix of talented professionals consisting of engineers and water experts has been critical in achieving the technical competencies in response to evolving customer needs and market conditions, thereby enabling the company to get repeated orders from its existing clients.

Exhibit 19: Repeat orders received in last 2 years

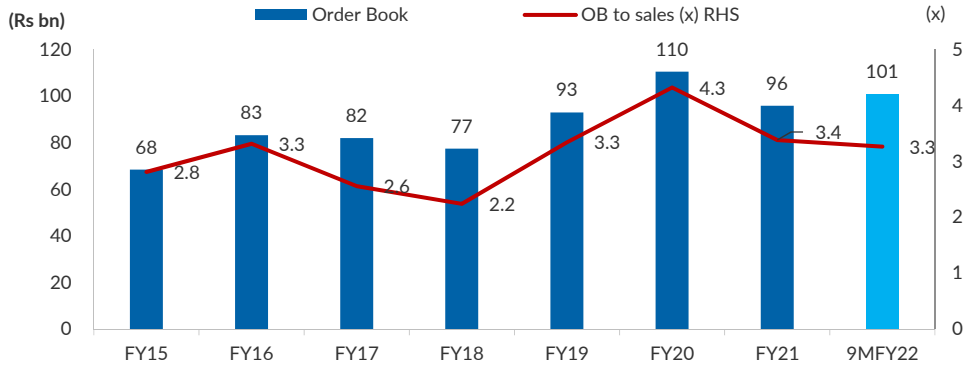
Order to design, build and operation of 124 MLD water treatment plant (WTP) at Rajpur-Sonarpur in Kolkata	Repeat order from Electro Mechanical Works worth Rs3.6bn to execute 300MLD, Saudi Arabia
General Desalination Company of Libya ('GDCOL') ordered to design and build 3 Thermal seawater desalination Multi-Effect Distillation (MED) plants in Libya	Order for water treatment plant at Kaseeb from Societe Nationale D'exploitation Et De Distribution Des Eaux (SONEDE), Tunisia

Source: Company. YES Sec

Comfortable order book at ~3.3x trailing revenues

VATW have grown exponentially over the last decade on the back of healthy awarding activity and continuous gain in market share across both domestic and overseas markets. ***Over FY09-21, VATW's order book have grown 7.5x from Rs12.7bn in FY09 to ~Rs96bn in FY21, registering an exponential CAGR of 18%.*** This translates into an order book-to-sales of 3.3x trailing revenues, giving comfortable revenue visibility over next 2-3 years.

Exhibit 20: Order book stands comfortable at 3.3x TTM revenue



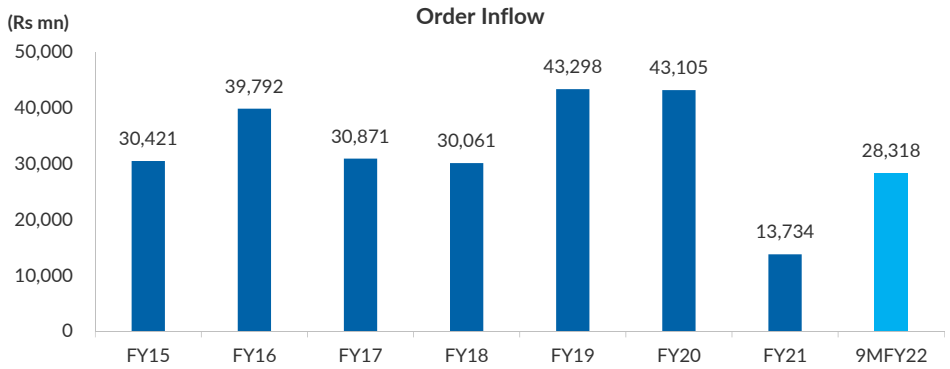
Source: Company. YES Sec

FINANCIAL ANALYSIS

Order inflow outlook

Massive allocation towards water infra (Rs4.5trn over next 5 years) VATW expects to bag Rs180-190bn worth of upcoming projects in wastewater treatment, reuse and desalination space by FY23. Further union budget 22-23 led massive allocation of Rs600bn towards jal jeevan mission giving much needed impetus to the sector. Additionally, as ESG norms tighten and demand for water-related projects increases, huge industrial order inflow along with Namami Ganga Ph-II opportunities are expected in FY23. In overseas market, company is focusing on improving the order inflow as the projects are funded by multinational agencies thereby reducing the cashflow risk. On the back of strong outlook, we expect order inflows to remain healthy at an average of ~Rs30bn over FY21E-24E taking order book to a massive ~Rs100bn by FY24E.

Exhibit 21: Order Inflow gained momentum in FY22 post pandemic



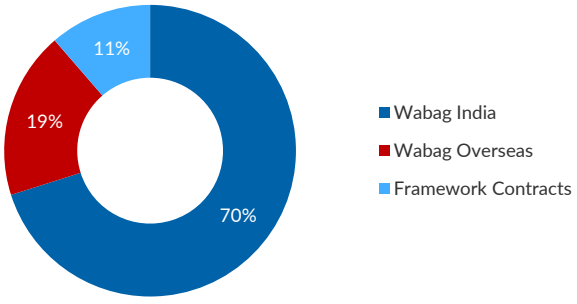
Source: Company, YES Sec

Order book mix

75% of the order book comprises of domestic orders while the balance 21% are overseas orders. With strong outlook in several overseas markets, the company expects to move to a 50-50 mix of domestic and international orders going forward.

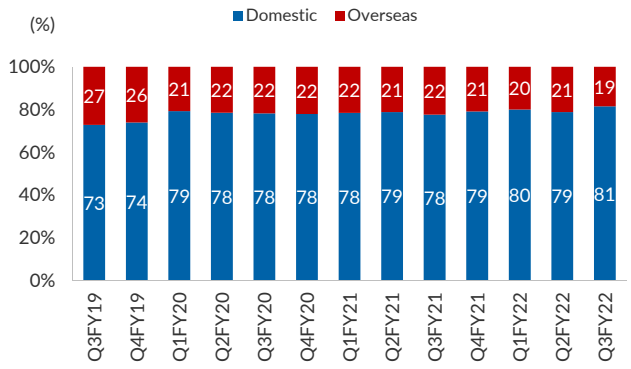
With order wins in O&M segment in YTDFY22, order mix have tilted towards O&M which currently forms 1/3rd of the order book, up from 19% in FY19. The order book continues to be dominated by municipal/ government orders which make up ~72% of the OB as at 3QFY22.

Exhibit 22: Order book mix as at 3QFY22



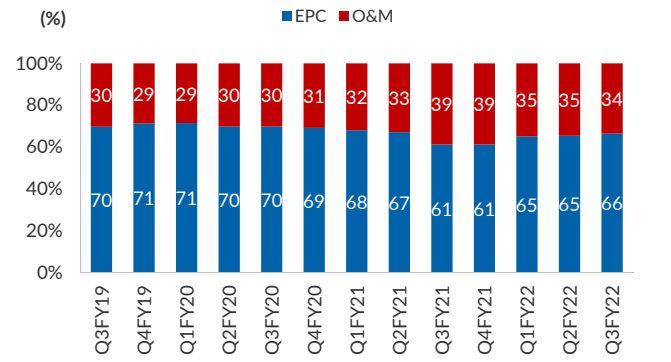
Source: Company, YES Sec

Exhibit 23: Overseas orders make up 19% of the OB



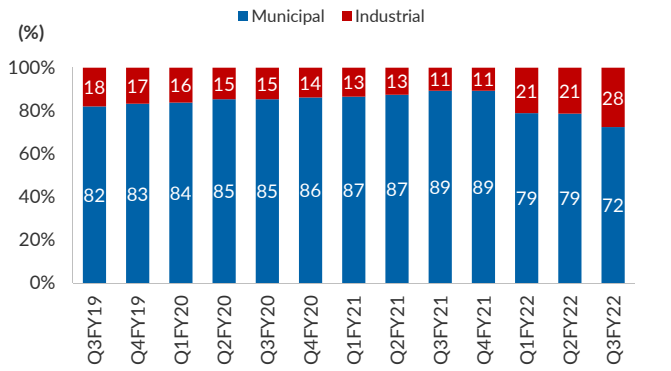
Source: Company, YES Sec

Exhibit 24: Share of O&M orders have gone up to 34%



Source: Company, YES Sec

Exhibit 25: Municipal / govt order make up 72% of OB



Source: Company, YES Sec

Exhibit 26: Key contracts in order book

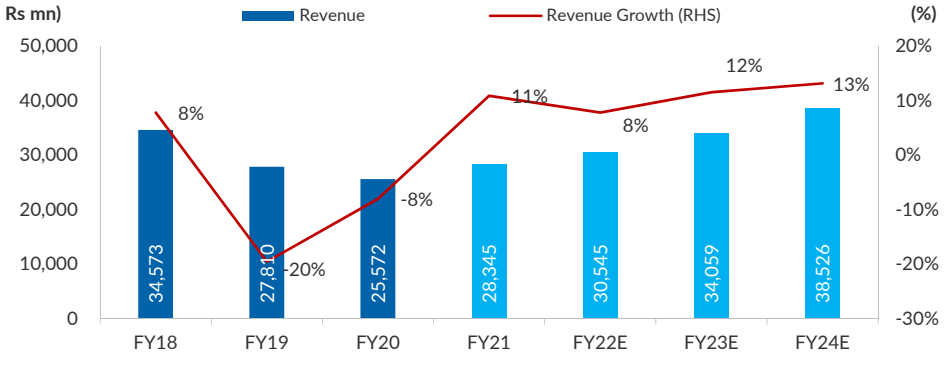
Project details	Value (Rs mn)
UPJN, O&M of Agra & Ghaziabad	15,663
AGCC, Russia - integrated industrial ETP	11177
BUIDCO, Digha & Kankarbagh – STP & network	9,240
Hassyan, UAE – SWRO	7335
KMDA, Howrah – STP	3,300
JAJMAU, Kanpur – CETP	2,837
Jeddah Airport, KSA – STP	2,142
Ipsach Biel SWW – WTP, Switzerland	2,032
Koyambedu O&M, Chennai – TTRO	1,920
50 MLD Zarat, Tunisia – Desal	1,723
Water Supply System, Bhagalpur, India – WTP & Network	1,769

Source: Company, YES Sec

Revenues expected to grow at 11% CAGR over FY21-24E

After muted revenues (de-growth) in FY19 and FY20, the company have picked up pace in FY22 with 13.7% YoY growth in 9MFY22 despite the impact of the pandemic. Strong performance was witnessed in 3QFY22 (revenue up ~9% QoQ) to continue on the back of strong order book, sustained execution momentum and healthy industry outlook. We expect revenues on consol basis to grow by a healthy 10.8% CAGR over FY21-24E.

Exhibit 27: Revenue expected to grow at 10.8% CAGR over FY21-24E

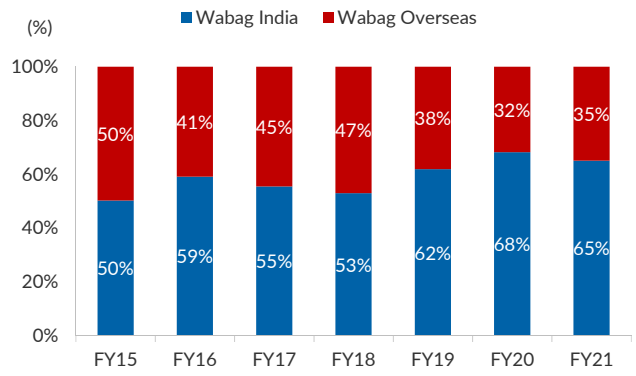


Source: Company, YES Sec

Revenue mix remains skewed towards the domestic business which made up 65% of the total revenues in FY21. With strong outlook in Middle East, Africa and LATAM and company's intention to move to 50-50 domestic: overseas business mix, we expect incremental contribution coming in from overseas segment going forward.

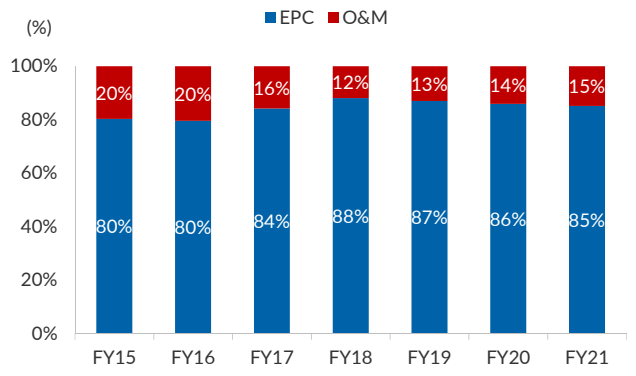
Further, the higher margin O&M orders make up 1/3rd of the current order book while contribution to revenues have been less than 15% since past few years. VATW manages One-City-One-Operator model in Agra & Ghaziabad and most cities in India are likely to come up with such model. Further, O&M opportunity is also prevalent in upcoming HAM and DBO long term models hence we expect share of O&M revenues to increase going forward.

Exhibit 28: Domestic business contributes 65% revenue



Source: Company, YES Sec

Exhibit 29: Rising share of O&M to improve margins

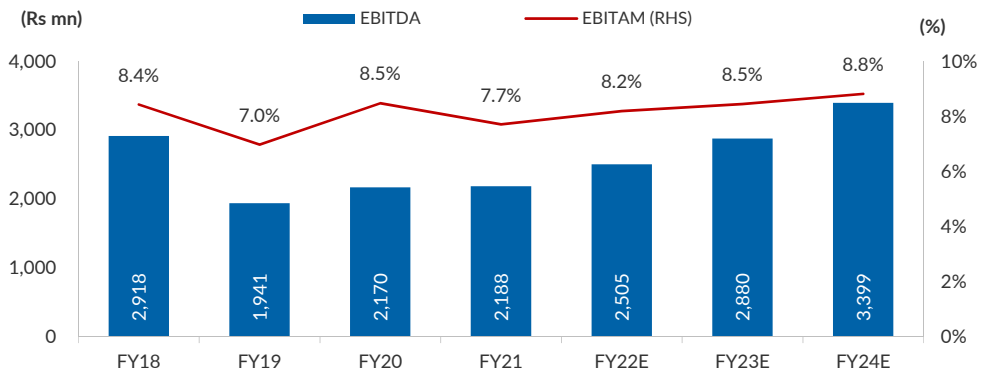


Source: Company, YES Sec

EBITDAM resilient in the range of ~8.5%

With constant focus on strong margin projects, the company have sustained EBITDA margins of 8.5-9% since FY10. With marginal dip in FY21 to ~7.7%, margins bounced back from 2QFY22 and are expected to sustain. Higher share of O&M revenues, international EP orders and industrial business would further aid the margin profile. We expect EBITDA margins to be in the range of 8.2-8.8% over FY22E-24E.

Exhibit 30: EBITA margins to sustain average 8.5% from FY22E



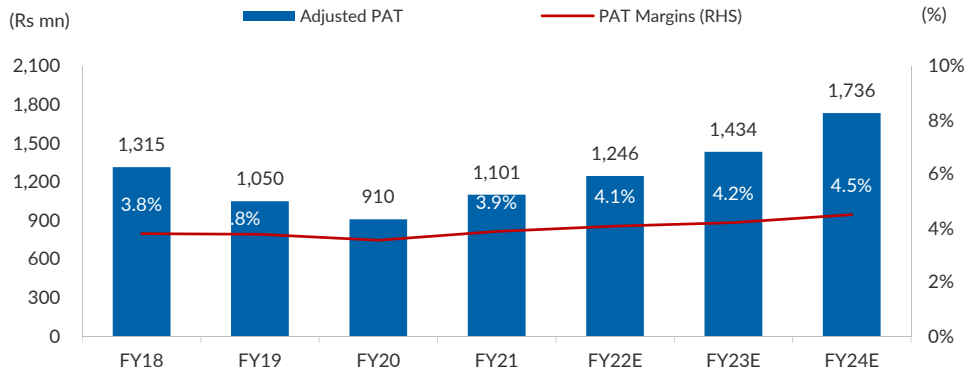
Source: Company, YES Sec

Erratic PAT margin to stabilize with reduced finance costs

Despite, strong and sustained EBITDA margins, PAT have been erratic mainly due to higher finance cost burden causing 240bps reduction in PAT margins over FY19-21. Lower interest rate cycle and company's focus on debt reduction is expected to bring down finance cost and eventually improve PAT margins to 4% plus levels from FY22E.

With strong revenue growth, higher operating margins and lower burden of finance costs, VATW is expected to witness a healthy growth in profitability (16.4% CAGR over FY21-24E).

Exhibit 31: With debt reducing, erratic PAT margins to expand from FY22E

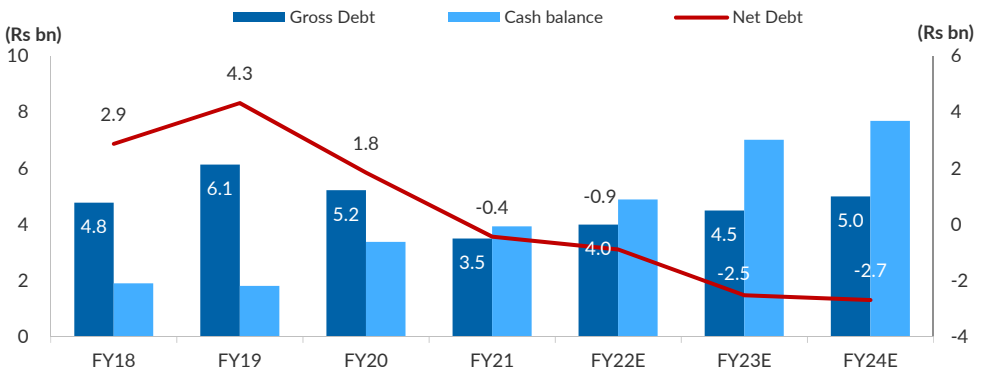


Source: Company, YES Sec

Net Debt levels reduced to 1.45bn in 3QFY22

With rising level of operations, the company grabbed large debt over FY16-19 and reached peak of ~Rs6bn in FY19 taking gross & net D:E to 0.6x & 0.4x respectively. Over past two years, the company has focused on deleveraging and have reduced net debt to Rs1.5bn significantly reducing the finance cost burden going forward.

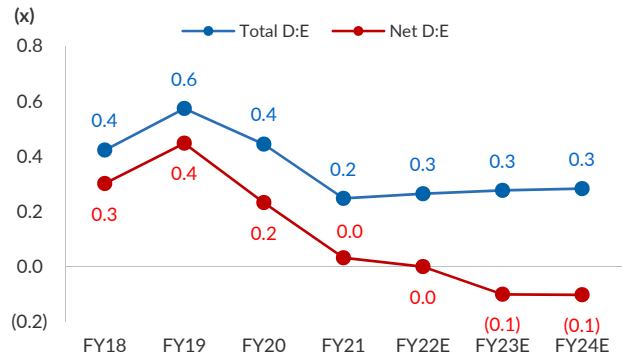
Exhibit 32: Debt levels have largely reduced from the peak of FY19



Source: Company, YES Sec

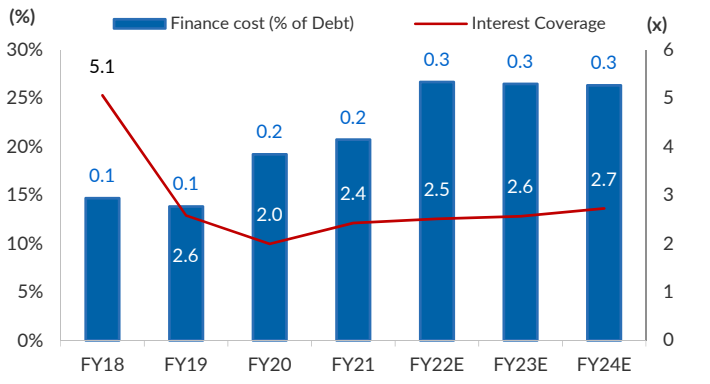
Lower interest rates and reduction in debt levels augurs well for reduced interest cost for the company. However overall finance costs have not tapered off due to increased BG commission as the company is scaling up operations in newer project sites. Going forward, we expect gross D:E in the range of ~0.3x and interest coverage to increase from 2x to over ~3x by FY24E.

Exhibit 33: D:E stands low at ~0.2x in FY21



Source: Company, YES Sec

Exhibit 34: Low interest rates to reduce finance cost burden



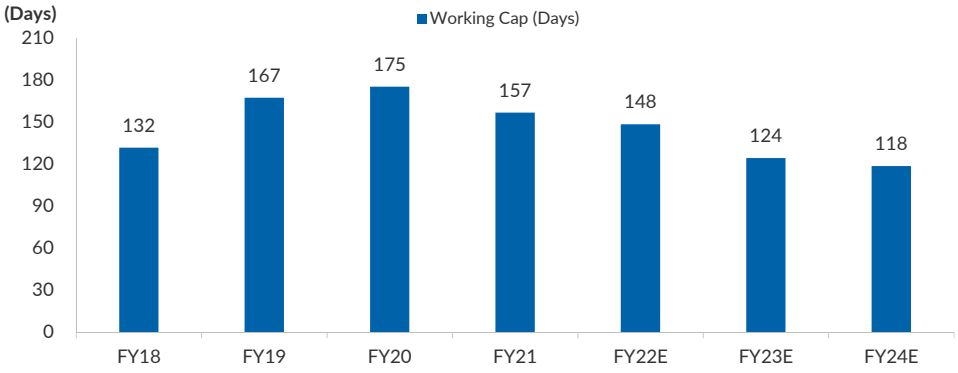
Source: Company, YES Sec

Working capital is elongated due to GENCO receivables

VATW's overall cash flows have been erratic over the past decade with the company having positive free cash flows in only 4 out of past 9 years. Working capital cycle too seems stretched as working capital days have gone up from 152 days in FY18 to over 207 days in FY21. With massive budget allocation and strong focus on building water infra, we expect timely payments in domestic projects going forward, and eventually working capital cycle to reduce to below 150 days by FY22E.

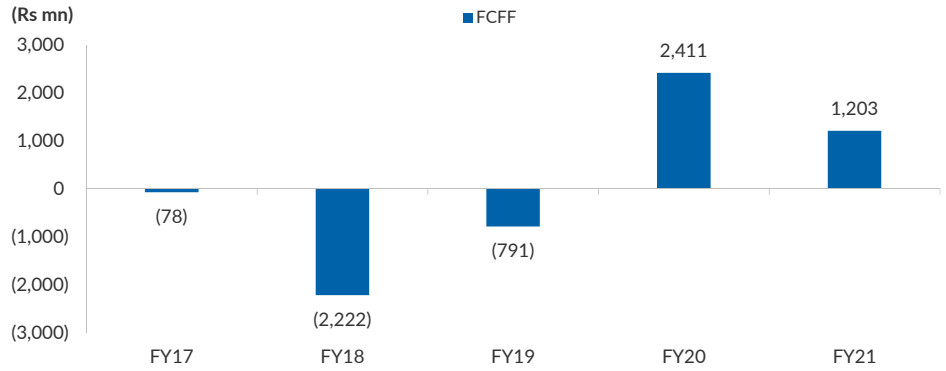
Of the total receivables of ~Rs13bn, Rs4bn are legacy/ long overdue receivables from Andhra Pradesh and Telangana GENCO. These dues are stuck in proceedings at supreme court and high court related to power plant projects of 2011-12 which the company overtook as they were not completed by other parties. However, there has been some slow progress in AP Genco as VATW is able to gradually recover the retention money.

Exhibit 35: Working capital cycle is elongated due to GENCO receivable



Source: Company, YES Sec

Exhibit 36: After long company turned FCFF positive since FY20

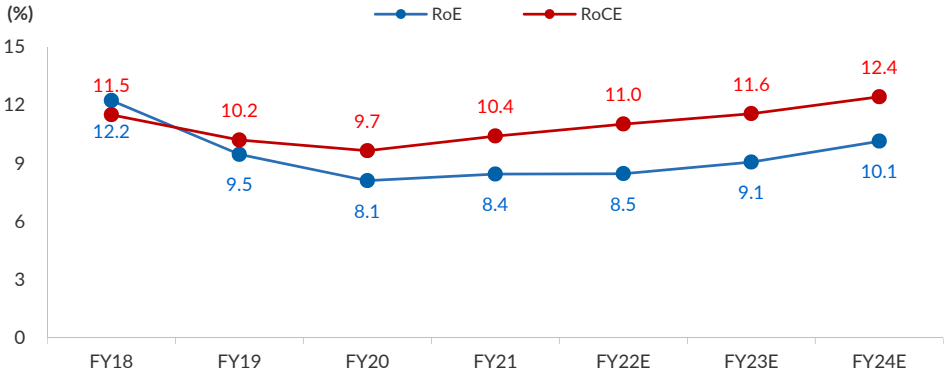


Source: Company, YES Sec

Return ratios expected to expand by 220bps by FY24E

On the back of encouraging macro factors and positive outlook of the company, strong order book, stable profit margins and sustained efforts on deleveraging, VATW would witness return ratios improving by 150-220bps over next 2-3 years.

Exhibit 37: Return ratios expected to be strong going forward



Source: Company, YES Sec

LONG TERM POTENTIAL

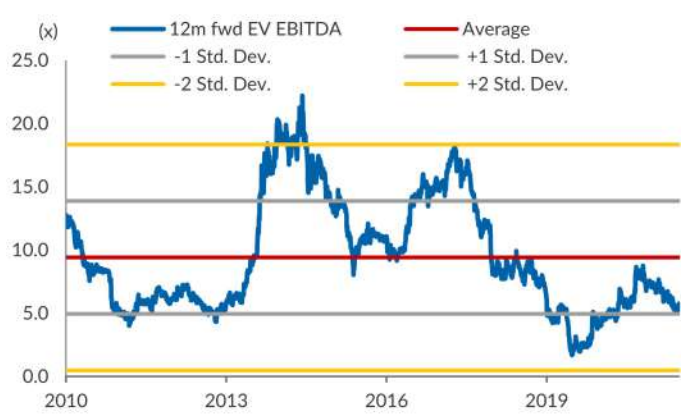
Earnings	Past 10yr	3yr fwd CAGR
Revenue CAGR	13%	11%
Earnings CAGR	8%	16%
We forecast revenue/ EBITDA/ PAT CAGR of 10.8%/ 15.8%/ 16.4% over FY21–24E. We expect growth to be driven mainly by increase in order book of wastewater and desalination projects		

Multiple	Past 10yr	3yr fwd CAGR
ROCE (%)	12%	12%
ROE (%)	11%	9%
RoE/RoCE expected to remain strong over coming years		

Historical Valuation bands

P/E (x)

EV/EBITDA (x)



Target Price with 3-year perspective

Long term potential

CMP (Rs)	304		
	Base case	Bull Case	Bear Case
FY24 EPS	28	31	25
Base P/E	14	15	13
Target Price	391	473	316
Potential Return in 3 years	**29%**	**55%**	**4%**

COMPANY BACKGROUND

About the company

Incorporated in 1995, VA tech Wabag is a market leader in water technology. It is a leading multinational player with a workforce of over 2,000 people and presence in more than 20 countries. Since 1996, VATW has built over 800 water & wastewater plants worldwide and managed more than 2300 projects. The company has invested heavily on R&D facilities to develop various wastewater treatment technologies in order to provide customized solutions to various clients. Globally, VATW holds over 150 patents for water solutions. The company has a strong foothold in the India market with a healthy 30% bid-hit ratio in projects & have also established presence across Middle East, Africa, Europe, South-East Asia and Latin America. The R&D centers of the company are located in India, Austria and Switzerland.

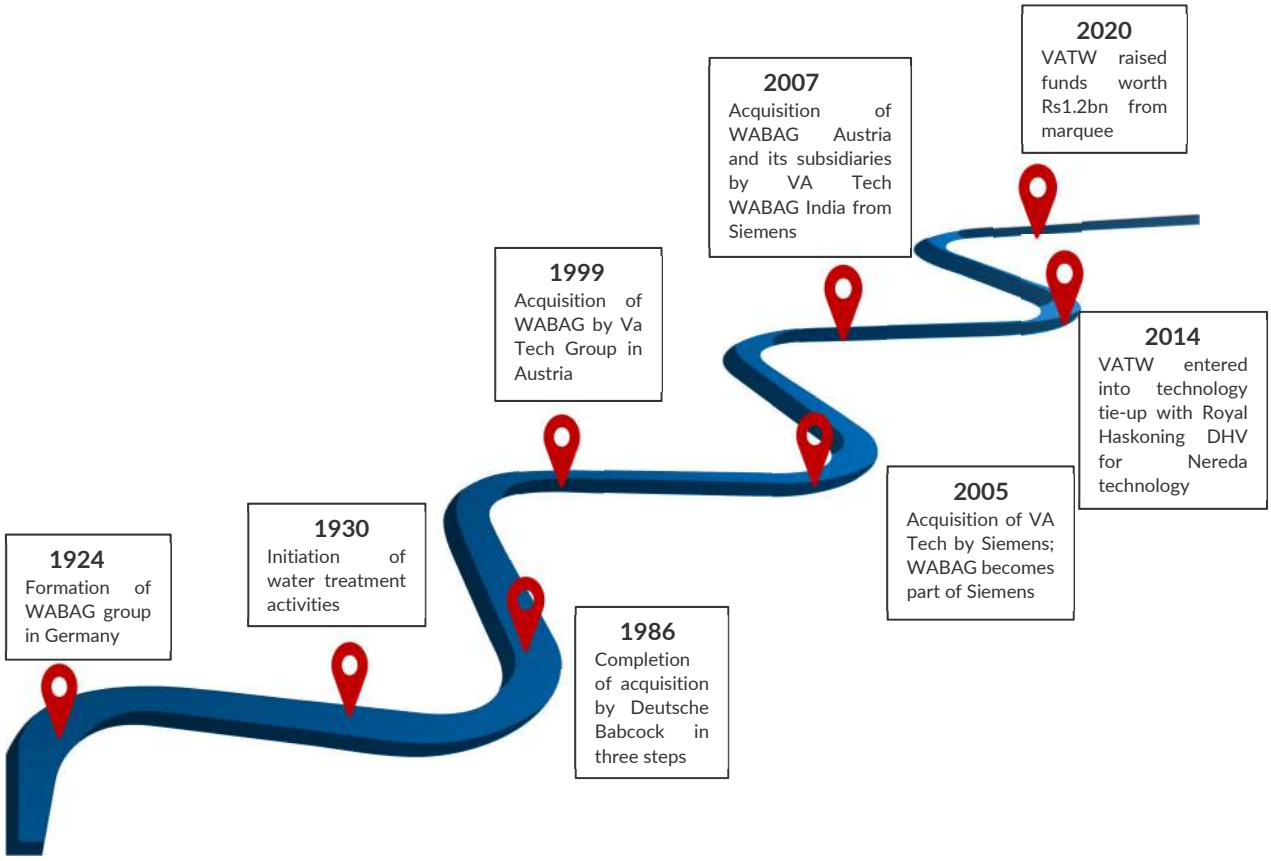
VATW provides technology for water solutions along with more emphasis towards design & engineering, while it outsources the civil & construction works. This helps company maintain an asset light model. The company also provides operation & maintenance (O&M) services to the clients, which are margin lucrative and helps improve the margins at consolidated levels. The business model has been reclassified among cluster-based approach to attain synergies as a whole. The four clusters have been named as a) India cluster, b) Europe Cluster, c) Middle East & Africa (MEA) Cluster and d) Latin America cluster. The scope of the work largely includes providing comprehensive and customized water solutions in the area of drinking water and wastewater management.

Exhibit 38: Company`s presence across the globe

01 India (Global Headquarters)
02 Nepal
03 Sri Lanka
04 Thailand
05 Malaysia
06 Singapore
07 Philippines
08 Vietnam
09 Bahrain
10 Kingdom of Saudi Arabia
11 Qatar
12 Oman
13 Tunisia
14 Turkey
15 Egypt
16 Libya
17 Nigeria
18 Tanzania
19 Namibia
20 Czech Republic
21 Austria
22 Switzerland
23 Romania
24 Russia
25 Ecuador

Source: Company, YES Sec

Exhibit 39: Key milestones



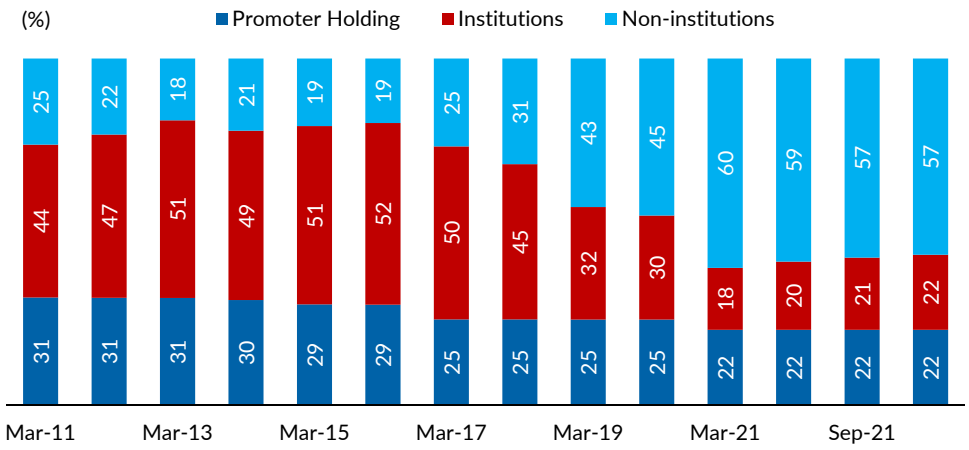
Source: Company, YES Sec

Exhibit 40: Key management profile

Name	Designation	Background
Mr. Rajiv Mittal	Managing director	Through his professional career spanning over 3 decades, Mr Mittal has dedicated himself to the water industry with a special focus on sustainability. Mr Mittal holds a degree in chemical engineering from the University Department of Chemical Technology (UDCT), Mumbai and is a corporate member of the International Water Association as well as Indian Desalination Association.
Mr. Pankaj Sachdeva	CEO	Pankaj Sachdeva has a vast experience of 35 years in leading major multinational companies in the field of power, energy, infrastructure and asset creation. He is an electronics engineer (Hons) and has done PG leadership management certification course from the international institute of management, Switzerland.
Mr. S Varadarajan	Whole-time director	Varadarajan is a graduate in commerce and postgraduate in public administration. He is a member of the Institute of Cost and Management Accountants of India (CMA) and the Institute of Company Secretaries of India (ICSI). He is a part of the company since 1997 and have held various key positions including chief financial officer.
Mr. Skandaprasad Seetharaman	Group chief financial officer	Skandaprasad Seetharam is a member of the Institute of Chartered Accountants of India (ICAI) and is a commerce graduate.
Mr. Amit Goela	Independent director	Amit Goela has over 30 years of experience in Indian financial and securities market. He is an MBA in finance from the University of North Florida and gains international experience. Mr. Goela has been an advisor for various companies in the areas of macro - economics, equity research, corporate restructuring, investments and arrangements.
Mr. Milin Mehta	Independent director	Mr. Milin Mehta, is a fellow member of the Institute of Chartered Accountants of India and has been in practice since over 3 decades. He is also a law graduate and has obtained a master's degree in commerce.
Mr. Ranjit Singh	Independent director	Mr. Ranjit Singh has over 30 years of experience in industrial management in indian, international and multicultural business environment.
Ms. Vijaya Sampath	Independent director	Ms Vijaya has been a lawyer for over 35 years. She holds a graduate degree in English literature and law and is a fellow member of the Institute of Company Secretaries of India (ICSI). She has attended the advanced management program in Harvard business school and the strategic alliances program conducted by the Wharton business school.

Source: Company, YES Sec

Exhibit 41: Shareholding have shifted towards non-institutions



Source: Company, YES Sec

During FY21, VATW released pledge on 1.7mn promoter shares making it a zero-promoter pledge entity.

KEY RISKS

Major exposure to municipal/ government orders: 72% of the total order book of VATW pertains to municipal clients (both domestic and overseas) as at 3QFY22, with 74% of the total order inflows in municipal segment over FY17-21. In a scenario of lower public spending on irrigation and water infra would result in slowdown in new government projects, posing a risk to the future revenue outlook of the company.

Currency volatility: With ~21% of the order book in overseas segment and the company intending to take the same to ~50% of the OB going forward, sizeable portion of revenue is expected to accrue in forex. Any major fluctuations in exchange rates would impact the margins in the short term.

Pandemic led industrial slowdown could impact new orders: In the industrial segment, the company primarily expects order inflows from oil & gas sector. Further, water is largely used by irrigation, power and steel sectors. With the pandemic is impacting industries across the globe and lower capex cycle in middle east countries, the company could face lower ordering from domestic and overseas industrial market in short/ medium term.

Political risk: With operations spread over 20 countries and large part of business (~90%) coming from government/ municipal corporations, the company is highly exposed to political risk. A major change in the policy(ies) of major geography can materially impact the revenues of the company.

Exhibit 42: In FY22, projects worth over Rs494bn have been awarded in the water infra space

Awardee (Rs mn)	Irrigation	Water & Sewerage Pipeline & Distribution	Water, Sewage & Effluent Treatment	Grand Total
Megha Engineering & Infrastructures Pvt. Ltd.	49,580	24,910	-	74,490
RVR Projects Pvt. Ltd.	51,620	-	-	51,620
Vindhya Telelinks Ltd.	-	39,890	-	39,890
VPR Mining Infrastructure Pvt. Ltd.	38,830	-	-	38,830
SPML Infra Ltd.	-	27,460	-	27,460
JMC Projects (India) Ltd.	-	25,360	-	25,360
Gaja Engineering Pvt. Ltd.	17,640	4,540	2,260	24,440
Power Mech Projects Ltd	-	21,200	-	21,200
Va Tech Wabag Ltd.	-	-	19,720	19,720
Ion Exchange (India) Ltd.	-	10,000	3,570	13,570
Ramky Infrastructure Ltd.	-	-	11,800	11,800
Larsen & Toubro Ltd.	3,960	7,280	-	11,240
Ashoka Buildcon Ltd.	-	-	10,460	10,460
Om Infra Ltd.	-	9,790	-	9,790
KEC International Ltd.	-	9,350	-	9,350
NCC Ltd.	4,320	3,780	-	8,100
Civet Projects Pvt. Ltd.	7,560	-	-	7,560
PNC Infratech Ltd.	-	7,480	-	7,480
Ocean Construction (India) Pvt. Ltd.	6,990	-	-	6,990
BSR Infratech India Ltd.	5,460	-	-	5,460
GCKC Projects & Works Pvt. Ltd.	-	5,080	-	5,080
J Kumar Infraprojects Ltd.	-	4,550	-	4,550
Vishnu Prakash R Punglia Ltd.	-	4,330	-	4,330
Indian Hume Pipe Co. Ltd.	1,560	2,580	-	4,140
WPIL Ltd.	-	-	4,100	4,100
Koya & Co. Construction Pvt. Ltd.	-	3,910	-	3,910
Sudhakara Infratech Pvt. Ltd.	-	3,760	-	3,760
EMS Infracon Pvt. Ltd.	-	-	3,510	3,510
Zuberi Engineering Construction Pvt. Ltd.	-	2,710	-	2,710
R. K. Jain Infra Projects Pvt. Ltd.	1,290	-	1,230	2,520
Unipro Techno Infrastructure Pvt. Ltd.	-	2,290	-	2,290
P C Snehal Construction Pvt. Ltd.	-	2,280	-	2,280
Shyan Engineers Project Pvt. Ltd.	-	2,280	-	2,280
Sarthi Construction, Gwalior	-	2,080	-	2,080
Keystone Infra Pvt. Ltd.	-	1,910	-	1,910
Macawber Beekay Pvt. Ltd.	-	-	1,870	1,870
LC Infra Projects Pvt. Ltd.	-	1,850	-	1,850
KMV Projects Ltd.	1,690	-	-	1,690
Tapi Prestressed Products Ltd.	-	1,620	-	1,620
DVP Infra Projects Pvt. Ltd.	1,610	-	-	1,610
SLR Infrastructure Pvt. Ltd.	1,500	-	-	1,500
Eco Protection Engineers Pvt. Ltd.	1,490	-	-	1,490
Backbone Construction Pvt. Ltd.	1,480	-	-	1,480
South East Constructions Co. Pvt. Ltd.	1,450	-	-	1,450
Traders & Engineers Pvt. Ltd.	-	-	1,440	1,440
Yadav Construction Co.	-	1,420	-	1,420
SSG Infratech Pvt. Ltd.	-	1,180	-	1,180
PLR Projects Pvt. Ltd.	1,130	-	-	1,130
Grand Total (project size over Rs1bn)	**199,160**	**234,870**	**59,960**	**493,990**

Source: Projects today, Company, YES Sec

Exhibit 43: In FY21, projects worth over Rs450bn have been awarded in the water infra space

Awardee (Rs mn)	Irrigation	Water & Sewerage Pipeline & Distribution	Water, Sewage & Effluent Treatment	Grand Total
Larsen & Toubro Ltd.	6,300	36,650	19,360	62,310
SPML Infra Ltd.	33,070	10,670	-	43,740
Hindustan Construction Co. Ltd.	41,680	-	-	41,680
PNC Infratech Ltd.	10,010	26,500	-	36,510
Gayatri Projects Ltd.	-	35,380	-	35,380
Kaveri Infra Project Pvt. Ltd.	-	25,000	-	25,000
NCC Ltd.	2,660	18,850	-	21,510
Megha Engineering & Infrastructures Pvt. Ltd.	11,390	9,790	-	21,180
MRKR Constructions & Industries Pvt. Ltd.	17,590	-	-	17,590
KNR Constructions Ltd.	16,140	-	-	16,140
Khilari infrastructure Pvt. Ltd.	-	-	16,010	16,010
JMC Projects (India) Ltd.	-	13,800	-	13,800
Indian Hume Pipe Co. Ltd.	1,990	7,700	-	9,690
Power Mech Projects Ltd	-	8,980	-	8,980
WPIL Ltd.	-	8,510	-	8,510
HES Infra Pvt. Ltd.	6,960	-	-	6,960
Om Infra Ltd.	6,210	-	-	6,210
KEC International Ltd.	-	4,690	-	4,690
RPP Infra Projects Ltd.	2,810	1,870	-	4,680
Dineshchandra R. Agrawal Infracon Pvt. Ltd.	-	4,430	-	4,430
Ion Exchange (India) Ltd.	-	4,000	-	4,000
LC Infra Projects Pvt. Ltd.	-	4,000	-	4,000
Kunal Structure (India) Pvt. Ltd.	3,830	-	-	3,830
Bhugan Infracon Pvt. Ltd.	-	3,210	-	3,210
GA Infra Pvt. Ltd.	-	2,520	-	2,520
HNB Engineers Pvt. Ltd.	-	-	2,480	2,480
LCC Projects Pvt. Ltd.	-	2,480	-	2,480
Jayvarudi Infracon Pvt. Ltd.	-	2,430	-	2,430
Keystone Infra Pvt. Ltd.	-	2,310	-	2,310
Brij Gopal Construction Co. Pvt. Ltd.	-	2,290	-	2,290
Praj Industries Ltd.	-	-	2,270	2,270
Undisclosed	1,000	1,020	-	2,020
Dara Engineering & Infrastructures Pvt. Ltd.	-	1,910	-	1,910
P&C Projects Pvt. Ltd.	-	1,740	-	1,740
Rajkamal Builders Pvt. Ltd.	1,710	-	-	1,710
Gharpure Engineering & Construction Pvt. Ltd.	-	1,650	-	1,650
GSJ Envo Ltd.	-	-	1,230	1,230
LNA Infraprojects Pvt. Ltd.	-	1,060	-	1,060
Devendra Construction Co.	-	1,040	-	1,040
Grand Total (project size over Rs1bn)	**163,350**	**244,480**	**41,350**	**449,180**

Source: Projects today, Company, YES Sec

Exhibit 44: In FY20, VATW bagged projects worth Rs35bn of total Rs332bn projects awarded in water infra space

Awardee (Rs mn)	Irrigation	Water & Sewerage Pipeline & Distribution	Water, Sewage & Effluent Treatment	Grand Total
Larsen & Toubro Ltd.	39,060	15,000	-	54,060
Max Infra (I) Ltd.	43,090	-	-	43,090
Va Tech Wabag Ltd.	-	5,750	29,420	35,170
Patel Engineering Ltd.	31,720	-	-	31,720
KNR Constructions Ltd.	16,970	-	-	16,970
Gaja Engineering Pvt. Ltd.	15,560	-	-	15,560
HES Infra Pvt. Ltd.	14,830	-	-	14,830
Indian Hume Pipe Co. Ltd.	6,250	8,270	-	14,520
SUEZ Group	-	-	11,330	11,330
Dilip Buildcon Ltd.	9,700	-	-	9,700
Vasishta Constructions Pvt. Ltd.	8,310	-	-	8,310
SPML Infra Ltd.	-	5,470	1,840	7,310
Navayuga Engineering Co. Ltd.	6,780	-	-	6,780
Waterfront Constructions Pvt. Ltd.	5,990	-	-	5,990
Om Infra Ltd.	3,070	2,400	-	5,470
JMC Projects (India) Ltd.	-	5,250	-	5,250
Sri Avantika Contractors India Ltd.	5,010	-	-	5,010
Concrete Udyog Ltd.	-	4,460	-	4,460
Vijay Kumar Mishra Construction Pvt. Ltd.	4,040	-	-	4,040
JWIL Infra Ltd.	-	3,560	-	3,560
Iron Triangle Ltd.	-	2,610	-	2,610
Undisclosed	2,600	-	-	2,600
VRC Constructions India Pvt. Ltd.	-	2,520	-	2,520
SCC Infrastructure Pvt. Ltd.	2,460	-	-	2,460
Karan Development Services Pvt. Ltd.	2,080	-	-	2,080
Ajay Prakash Associates Construction Ltd.	-	1,950	-	1,950
Vishnu Prakash R Punglia Ltd.	-	1,870	-	1,870
Paramount Ltd.	-	-	1,790	1,790
Lords Infracon Pvt. Ltd.	1,560	-	-	1,560
Mantena Constructions Pvt. Ltd.	1,540	-	-	1,540
VVC Realinfra Pvt. Ltd.	1,490	-	-	1,490
Vibhor Vaibhav Infrahome Pvt. Ltd.	-	-	1,470	1,470
Tirupati Cement Products	-	1,240	-	1,240
Veolia India Pvt. Ltd.	-	-	1,160	1,160
Harjeet Singh, Himachal Pradesh	-	1,150	-	1,150
B R Goyal Infrastructure Pvt. Ltd.	1,060	-	-	1,060
Grand Total (project size over Rs1bn)	**223,170**	**61,500**	**47,010**	**331,680**

Source: Projects today, Company, YES Sec

FINANCIALS

Exhibit 45: Balance Sheet (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Sources of Funds					
Equity capital	109	124	124	124	124
Reserves	11,635	13,973	14,970	16,117	17,506
Non Minority Controling Int.	(23)	(134)	(134)	(134)	(134)
Net worth	**11,744**	**14,098**	**15,095**	**16,242**	**17,630**
Debt	5,221	3,495	3,995	4,495	4,995
Deferred tax liab (net)	(226)	(253)	(253)	(253)	(253)
Total liabilities	**16,717**	**17,205**	**18,702**	**20,349**	**22,238**
Application of Funds					
Gross Block	1,491	1,586	2,086	2,586	3,086
Depreciation	628	722	868	1,049	1,265
Fixed Asset	863	863	1,217	1,536	1,820
CWIP	0	0	0	0	0
Investments	199	244	187	203	222
Net Working Capital	**15,655**	**16,099**	**17,298**	**18,610**	**20,195**
Inventories	264	298	335	373	422
Sundry debtors	20,157	18,972	20,084	20,528	23,221
Cash & equivalents	3,375	3,932	4,886	7,016	7,689
Loans & Advances	634	1,206	842	916	1,001
Other Current Asset	13,480	14,769	15,953	17,358	18,969
Sundry creditors	17,631	17,895	18,411	20,528	23,221
Provisions	(294)	(254)	637	653	669
Other current liabilities	4,918	5,437	5,754	6,400	7,217
Total Assets	**16,717**	**17,205**	**18,702**	**20,349**	**22,238**

Source: Company, YES Sec

Exhibit 46: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Revenue	25,572	28,345	30,545	34,059	38,526
% Change YoY	*(8.0)*	*10.8*	*7.8*	*11.5*	*13.1*
Operating profit	2,170	2,188	2,505	2,880	3,399
EBITDA margins	***8.5%***	***7.7%***	***8.2%***	***8.5%***	***8.8%***
% Change YoY	*11.8*	*0.8*	*14.5*	*15.0*	*18.0*
Depreciation	154	121	146	181	216
EBIT	2,016	2,066	2,359	2,699	3,183
EBIT margins	*7.9*	*7.3*	*7.7*	*7.9*	*8.3*
Interest expense	1,090	903	999	1,124	1,249
Other income	352	82	305	341	385
Profit before tax	1,277	1,245	1,666	1,916	2,319
Taxes	486	295	419	482	584
Effective tax rate (%)	*38.0*	*23.7*	*25.2*	*25.2*	*25.2*
Net profit	**792**	**951**	**1,246**	**1,434**	**1,736**
Minorities and other	(118)	(150)	0	0	0
Net profit after minorities	910	1,101	1,246	1,434	1,736
Exceptional items	0	0	0	0	0
Net profit	**910**	**1,101**	**1,246**	**1,434**	**1,736**
% Change YoY	*(13.4)*	*21.1*	*13.2*	*15.0*	*21.1*
EPS (Rs)	16.6	17.7	20.0	23.0	27.9

Source: Company, YES Sec

Exhibit 47: Cash Flow Statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Profit before Tax	1,325	1,303	1,666	1,916	2,319
Interest	600	366	999	1,124	1,249
Depreciation	154	121	146	181	216
Other Items	362	851	-	-	-
(Inc)/Dec in WC	374	(968)	(245)	819	(912)
Direct Taxes Paid	368	319	419	482	584
CF from Oper. Activity	**2,448**	**1,353**	**2,146**	**3,557**	**2,288**
(Inc)/Dec in FA	(36)	(150)	(500)	(500)	(500)
Free Cash Flow	2,484	1,503	2,646	4,057	2,788
(Pur)/Sale of Invest.	334	109	56	(16)	(19)
CF from Inv. Activity	**297**	**(41)**	**(444)**	**(516)**	**(519)**
Change in Networth	-	1,178	-	-	-
Inc/(Dec) in Debt	(792)	(1,737)	500	500	500
Interest Paid	(569)	(351)	(999)	(1,124)	(1,249)
Dividends Paid	(18)	(13)	(249)	(287)	(347)
Others	24	64	0	0	(0)
CF from Fin. Activity	**(1,354)**	**(859)**	**(748)**	**(911)**	**(1,096)**
Inc/(Dec) in Cash	**1,391**	**453**	**954**	**2,130**	**673**
Opening cash Balance	1,182	2,489	2,997	3,951	6,081
Others	(83)	96	41	41	41
Closing cash Balance	**2,489**	**3,038**	**3,992**	**6,122**	**6,795**

Source: Company, YES Sec

Exhibit 48: Du-pont Analysis

Y/e 31 Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Tax burden (x)	2.6	5.4	4.2	4.2	4.1
Interest burden (x)	0.2	0.1	0.2	0.2	0.2
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	1.5	1.6	1.6	1.7	1.7
Financial leverage (x)	1.4	1.2	1.2	1.3	1.3
RoE (%)	**10.6%**	**11.2%**	**11.7%**	**12.4%**	**13.5%**

Source: Company, YES Sec

Exhibit 49: Ratio Analysis

Y/e 31 Mar	FY20	FY21	FY22E	FY23E	FY24E
Basic (Rs)					
EPS	16.6	17.7	20.0	23.0	27.9
Dividend per share	-	3.5	4.0	4.6	5.6
Cash EPS	19.4	19.7	22.4	26.0	31.4
Book value per share	215	227	243	261	283
Div. payout (%)	0%	23%	20%	20%	20%
Valuation ratios (x)					
P/E	18.3	17.2	15.2	13.2	10.9
P/CEPS	15.6	15.5	13.6	11.7	9.7
P/B	1.4	1.3	1.3	1.2	1.1
EV/EBIDTA	8.5	8.4	7.2	5.7	4.8
Dividend yield (%)	-	1.2	1.3	1.5	1.8
Profitability Ratios (%)					
RoIC	7.6	9.2	10.8	11.3	12.3
RoE	10.6	11.2	11.7	12.4	13.5
RoCE	7.5	9.2	9.4	9.9	10.7
Liquidity ratios					
Debtor (days)	288	244	240	220	220
Inventory (days)	4	4	4	4	4
Creditor (days)	252	230	220	220	220
Net working Capital (days)	175	157	148	124	118
Asset Turnover (x)	1.5	1.6	1.6	1.7	1.7

Source: Company, YES Sec

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