



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✗	✗
+ Positive = Neutral - Negative			

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✓	↔	✓

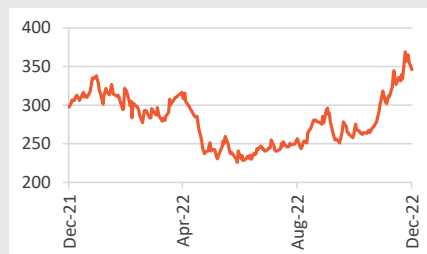
Company details

Market cap:	Rs. 2,152 cr
52-week high/low:	Rs. 375/216
NSE volume: (No of shares)	3.8 lakh
BSE code:	5,33,269
NSE code:	WABAG
Free float: (No of shares)	5.0 cr

Shareholding (%)

Promoters	19.1
FII	14.4
DII	3.3
Others	63.2

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.3	28.4	57.5	16.2
Relative to Sensex	17.4	24.1	38.4	5.5

Sharekhan Research, Bloomberg

Va Tech Wabag Ltd

On a healthy growth pedestal

Capital Goods

Sharekhan code: WABAG

Reco/View: Buy



CMP: Rs. 346

Price Target: Rs. 420



Upgrade



Maintain



Downgrade

Summary

- We reiterate Buy on VA Tech Wabag (VA Tech) with a revised PT of Rs. 420 post our interaction with the management considering multiple growth opportunities globally and attractive valuation.
- Order intake is expected to be robust in H2FY2023. The company is a key contender for ~Rs 4,500 crore Chennai desalination EPC and O&M order. Order book stands at Rs. 9,200 crore executable over a period of 2.5-3 years.
- The long-term prospects are promising as the global desalination market is growing at a CAGR of 9.32% and is likely to reach USD 28.1 billion (CY2020-26). Further, wastewater treatment plant's market in India is likely to grow at a CAGR of 6.9% (CY2021-26) to reach USD 21 billion.
- VA Tech has strong long-term prospects as domestic and overseas order pipeline remains buoyant. The company's focus on technological and well-funded industrial projects would drive growth and lead to better margins and timely cash flows.

Our interaction with VA Tech Wabag's (VA Tech's) management reaffirms our bullish stance on the company backed by its strong order book and promising order prospects in the near to long-term. VA Tech has strengthened the quality of its order book by bidding for well-funded projects. The order book which is executable over a period of 2.5-3 years would entail higher margins. Further, the company is focused on establishing itself as a leading company in water treatment technology globally. It's a key contender for ~Rs 5,000 crore Chennai desalination plant, financial bids for which are likely to be opened in a quarter or so. We are upbeat on VA Tech's long-term prospects given strong order pipeline as there are multiple opportunities in desalination, water treatment and sewage treatment across all its key segments such as EPC, industrial and municipal.

Healthy order intake tailwinds in the near future: The company expects to have a strong order intake in H2FY2023. The company has submitted technical bids for 400 million litres of desalination plant at Perur, Chennai which is to be executed in 36-40 months. As per the company, the construction cost of the plant could be Rs 2,000 – 2,500 crore and would also involve an O&M contract of ~Rs 2,000 crore. There are Israel and Spain based companies which are also competing for the project. VA Tech has past reference of constructing the 110 MLD Nemilli, Chennai desalination plant in 2013 and seems to have submitted a competitive bid for the project. The financial bids are likely to be opened in Q4FY2023.

Well-funded projects provide security: Currently, 90% of the order book is funded by multi-lateral agencies or the federal government. The company reiterated its focus on bidding for projects that are backed by multi-lateral agencies and the central government. It is targeting orders from Namami Gange program, Swachh Bharat, and several desalination projects in India and abroad. As the company operates in emerging countries, it works on pre-payments and LCs.

Plenty of opportunities in wastewater treatment and desalination globally: The company's current order backlog is at Rs. 9,200 crore and the order book is executable over a period of 2.5-3 years. In the domestic markets, it is optimistic on strong order intake from various schemes such as Namami Gange Program, Swachh Bharat Mission, ZLD solutions, and desalination projects. The company has completed ZLD plant for NMDC's iron ore plant and SIGUR project in Russia is also under execution. Further, the company is present in river rejuvenation under Namami Gange and governments' focus with Rs 19,000 crore being allocated to 13 rivers promises bright prospects. Global wastewater treatment plant market 2021-2027 is expected to grow at a CAGR of 6.12% (CY2022-2027) and Asia-Pacific is the fastest-growing market. The global desalination market is growing at a rapid pace, valued at USD 16.5 billion in 2020 and is likely to reach USD 28.1 billion by 2026 at CAGR of 9.32% (CY2020-26). As per the latest report of Central Pollution Control Board, India has generated 72,368 MLD of sewage. Out of this, only 20,236 MLD has been treated. The current capacity installed can be utilized to treat only 28% of sewage generated which calls for newer capacity addition. As per Arizton report, wastewater treatment plant's market size in India is estimated to be USD 15 billion in 2021 and is likely to grow at a CAGR of 6.9% over 2021-26 to reach USD 21 billion. Hence, VA Tech has ample of opportunities in various business segments in India as well as overseas.

Revision in estimates – We have maintained our estimates for FY2022-FY2024E.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 420: VA Tech is on the cusp of a strong growth trajectory backed by its quality order book and improvement in execution as well as margin. The company is optimistic on growth opportunities present in desalination, ZLD, and water treatment solutions in both domestic and export markets. Further, high leverage and higher working capital woes are now behind it. A well-funded, strong order book provides comfort on execution and collections going ahead. The company has multiple order intake tailwinds which bodes well for future growth. At the CMP, the stock trades at P/E of ~11x its FY2024E earnings, which we believe is attractive given optimistic outlook on business and earnings. Hence, we maintain our Buy rating with a revised price target (PT) of Rs. 420.

Key Risks

- Lumpiness in order book execution could impact its revenue and cash flows.
- Non-conversion of two framework contracts (~11% of the order book) into executable orders would lead to decline in order book.

Valuation (Consolidated)

Particulars	FY21	FY22	FY23E	FY24E
Revenue from Operations	2,834	2,979	3,283	3,797
OPM (%)	7.7	8.0	6.9	8.0
RPAT	100	132	160	193
AEPS (Rs.)	16.1	21.2	25.7	31.1
P/E (x)	21.5	16.3	13.5	11.1
P/BV (x)	1.5	1.4	1.3	1.1
EV/EBITDA (x)	9.7	9.1	9.1	6.5
RoCE (%)	10.9	12.2	12.9	13.7
RoE (%)	7.8	8.9	9.9	10.8

Source: Company; Sharekhan estimates

Key management interaction highlights:

A key contender for Chennai desalination plant project: The company has submitted technical bids for 400 million liters of desalination plant at Perur, Chennai which is to be executed in 36-40 months. As per the company, the construction cost of the plant could be Rs 2,000 – 2,500 crore and would also involve an operation and maintenance (O&M) contract of ~Rs 2,000 crore. There are Israel and Spain based companies which are also competing for the project. VA Tech has past reference of constructing the 110 MLD Nemilli, Chennai desalination plant in 2013 and seems to have submitted a competitive bid for the project. If awarded, the company expects a better working capital cycle in this project. The financial bids are likely to be opened in Q4FY2023.

Orders have better payment terms: The company receives 5-10% order advance and further payments are mile-stoned based. Further, 5-10% is retention money of which 50% is paid on commissioning and 50% can be realized on submission of bank guarantee. In Industrial orders, the company does not receive advances and they are usually mile-stone based payments.

90% of the order book is funded by multi-lateral agencies or the federal government: The company reiterated its focus on bidding for projects that are backed by multi-lateral agencies and the central government. It is targeting orders from Namami Gange program, Swachh Bharat, and several desalination projects in India and abroad. As the company operates in emerging countries, it also works on pre-payments and LCs. The order book execution cycle is 2.5-3 years.

Interest cost: With the reduction in its gross debt, the company expects lower interest cost in FY2024 as compared to FY2023.

Key focus areas for the business: The company's key focus areas are: - EPC which includes desalination plants, tertiary treatment of sewage water/industrial water and zero liquid discharge plants. Tertiary treatment orders are more in India as compared to overseas. Industrial water treatment order opportunities are both in India and abroad, while desalination is largely in India and overseas portion is very less.

Mixed competitive landscape across segments: In desalination, competition is less as apart from Wabag there are Spanish competitors like Cadagua, Acciona Agua and Israel based IDE solutions. In Industrial key competitor is Thermax and competitors also differ from project to project. In sewage treatment there are a lot of competitors with leading companies being Vishvaraj Infrastructure and L&T.

Composition of EPC job: In a typical EPC contract, 15% content is engineering, 50% procurement and 30-35% is the civil part.

Status of Amur Gas Chemical Complex LLC Project of ~ Rs 1,200 crore: The company has completed 25% of the job and the project is likely to be completed in 18-24 months.

O&M contacts have better gross margins than EPC: Gross margin in EPC are in double digits and O&M contracts have higher double digit margins.

EPC and O&M contracts proportion in HAM: In HAM/BOOT - EPC orders Including Ghaziabad are over Rs 700 crore and Rs 200 crore of O&M orders.

Key Contracts in Order book

Project	Rs. crore
UPJN, O&M of Agra & Ghaziabad	1,446.4
AGCC, Russia – Integrated Industrial ET	1,042
BUIDCO, Digha & Kankarbagh – STP & Network	863.5
Hassyan UTICO SWRO	786.2
50 MLD Senegal – Desal	403.8
RIL, Jamnagar - Desal	351.1
GNN, Ghaziabad – TTRO	244.6
KMDA, Howrah – STP	201.2
Koyambedu O&M, Chennai – TTRO	187.8
Kingisepp EuroChem, Russia - ETP	142.7
Total	5,669

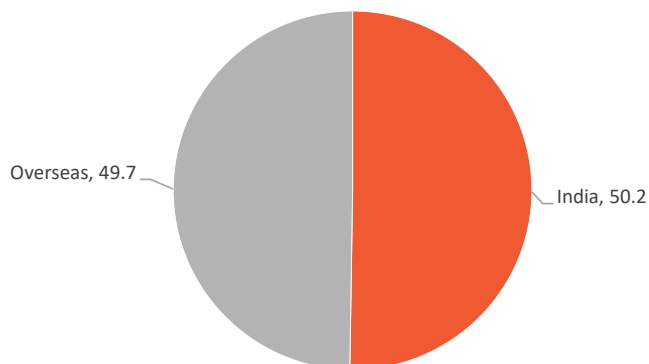
Source: Company, Sharekhan Research

Key Orders Received during 9MFY2023

Project	Rs. crore
Industrial wastewater treatment - Romania	260.0
53 MLD RIL, Jamnagar - Desal	427.5
50 MLD Senegal – Desal	382.6
Qatar Energy – O&M of STP	97.4
Total	1,167.5

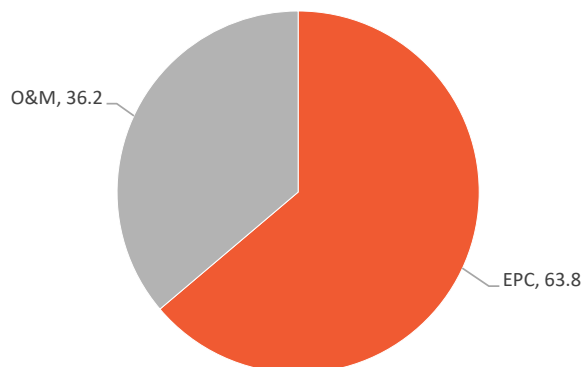
Source: Company, Sharekhan Research

Geography - wise order book break up



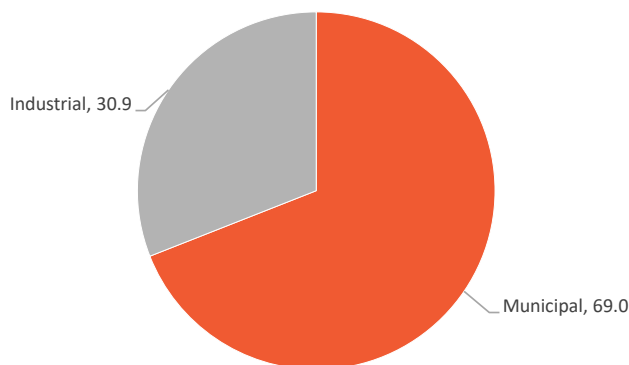
Source: Company, Sharekhan Research

Business offerings - wise order book break up



Source: Company, Sharekhan Research

Segment - wise order book break up



Source: Company, Sharekhan Research

Strong order pipeline in FY2023

VA Tech's order intake in H1FY2023 has been around ~Rs. 1,500 crores. The company expects order momentum to gain further pace in H2FY2023 with its focus on winning international orders and works related to the industrial domain. The company has submitted technical bids for a desalination plant in Chennai. Its a ~Rs 4,500-crore plant with a capacity to treat 400 million litres of water per day at Perur, Chennai and is expected to be commissioned by FY2027. As per the company, the construction cost of the plant could be Rs 2,000 – 2,500 crore and would also involve an O&M contract of ~Rs 2,000 crore. The execution timeline of the project could be between 36-40 months. There are Israel and Spain based companies which are also competing for the project. VA Tech has past reference of constructing the 110 MLD Nemilli, Chennai desalination plant in 2013 and seems to have submitted a competitive bid for the project. Thus, we are bullish on orders prospects for VA Tech in the near-term.

Plenty of opportunities in wastewater treatment and desalination globally

The company's current order backlog is at Rs. 9,200 crores (excluding framework contracts of ~Rs. 1,100 crore) and the order book is executable over a period of 2.5-3 years. In the domestic markets, it is optimistic on strong order intake from various schemes such as Namami Gange Program, Swacch Bharat Mission, ZLD solutions, and desalination projects. The company competes with global peers like Veolia Water and Suez, and aims to be amongst the top water technology companies in the world. Demand for ZLD solutions is increasing as high penalties are being imposed on industries for water pollution to the extent of shutting down the plants. With ZLD solutions, industries build a reliable source of water. Further, in case of drought, industrial water supply is reduced drastically, which could affect operations. The water cost is also continuously going up. Hence, ZLD solutions are being perceived as a life cycle cost. The company has completed ZLD plant for NMDC's iron ore plant and SIGUR project in Russia is also under execution. Further, the company is present in river rejuvenation under Namami Gange and governments' focus with Rs 19,000 crore being allocated to 13 rivers promises bright prospects. Global wastewater treatment plant market 2021-2027 is expected to grow at a CAGR of 6.12% (CY2022-2027) and Asia-Pacific is the fastest-growing market. The global desalination market is growing at a rapid pace, valued at USD 16.5 billion in 2020 and is likely to reach USD 28.1 billion by 2026 at CAGR of 9.32% (CY2020-26). As per Central Pollution Control Board report, India has generated 72,368 MLD of sewage and the current capacity installed can be utilized to treat only 28% of sewage generated. This calls for more capacity addition to treat sewage. As per Arizton report, wastewater treatment plant's market size in India is likely to grow at a CAGR of 6.9% over 2021-26 to reach USD 21 billion. Hence, VA Tech has ample of opportunities in various business segments in India as well as overseas.

Outlook and Valuation

■ Sector view - Investments by governments and private sectors will play a vital role

Wastewater technology is primarily used by municipal authorities to treat wastewater in various Indian cities. Rising urban population in major Indian cities has created a demand for wastewater treatment facilities to balance the population with the availability of fresh water. In the coming years, desalination is expected to be a prominent technology in Indian cities for water filtration due to the rising scarcity of fresh water. The global water treatment industry has undergone a sea change over the past decade. This is owing to rising awareness about water scarcity, innovations in water treatment technologies, and investments by governments and private sectors in this segment. The global water and wastewater treatment market is estimated to reach a size of \$211 billion by 2025 at a CAGR of 6.5% over 2019-2025. India's water and wastewater treatment (WWT) technology market is partially consolidated, with major players accounting for a moderate share of the market. Key players in the market include Veolia, Suez, Thermax Limited, VA Tech Wabag Limited, and DuPont. Rising demand for water-treatment facilities across the world will have a positive impact on the market's growth in the coming years.

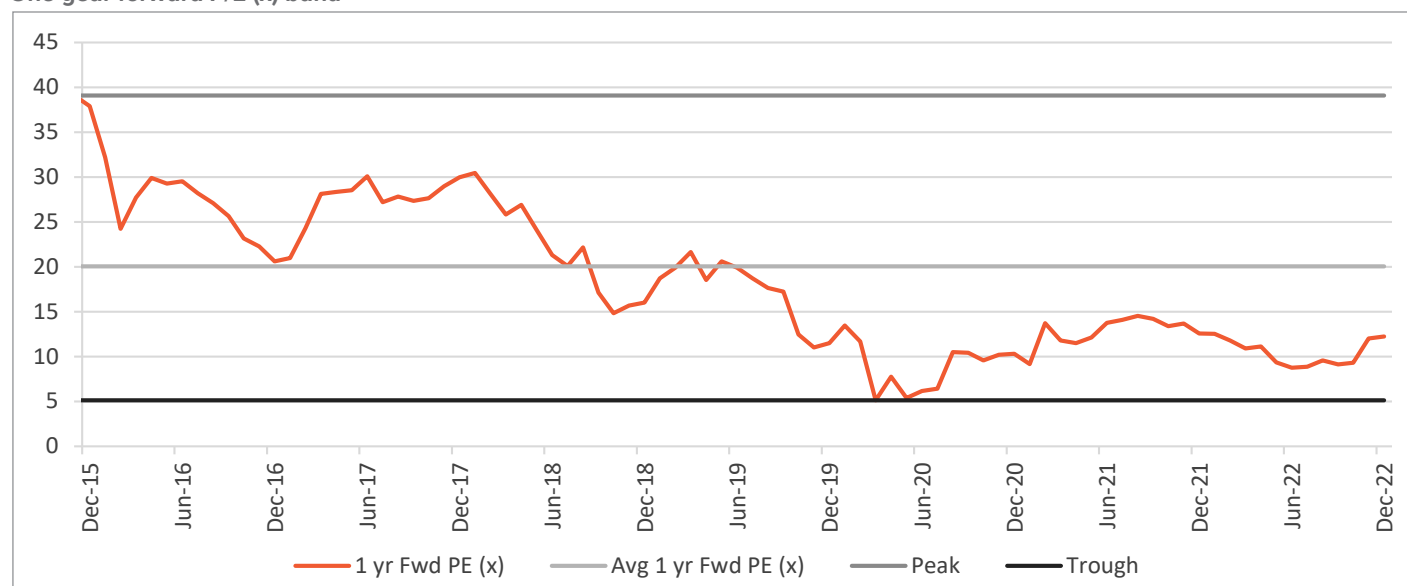
■ Company outlook - Creating enduring value

The company has a strong order book of over Rs. 10,000 crore (over 3x its FY2022 consolidated revenue), funded by the Centre, multilateral agencies, or sovereign entities, which provide comfort on cash collections and execution. The company has managed to curtail rising working capital requirements by bidding for quality orders, which are either backed by the government or multi-lateral agencies. The company is well placed to receive a continuous flow of orders having a strong project execution track record and marquee clients, led by its asset-light business model and strengthened balance sheet profile.

■ Valuation - Maintain Buy with a revised PT of Rs. 420

VA Tech is on a cusp of strong growth trajectory backed by its quality order book and improvement in execution as well as margin. The company is optimistic on growth opportunities present in desalination, ZLD, and water treatment solutions in both domestic and export markets. Further, high leverage and higher working capital woes are now behind it. A well-funded, strong order book provides comfort on execution and collections going ahead. The company has multiple order intake tailwinds which bodes well for future growth. At the CMP, the stock trades at P/E of ~11x its FY2024E earnings, which we believe is attractive given optimistic outlook on business and earnings. Hence, we maintain our Buy rating with a revised price target (PT) of Rs. 420.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

VA Tech is known for its innovative and successful solutions in the water engineering sector around the globe. The company is a systems specialist and full-service provider focusing on the planning, installation, and operations of drinking and wastewater plants for local government and industry in growth markets of Asia, North Africa, the Middle East, and Central and Eastern Europe. The company represents a leading multinational player with a workforce of over 1,600 and has companies and offices in more than 20 countries.

Investment theme

VA Tech has unique technological know-how, based on innovative, patented technologies, and long-term experience. For over 95 years, the company has been facilitating access to clean and safe water to over 500 million people. The company is a globally known organisation with decades of rich experience, over 6,000 projects across multiple sectors, and state-of-the-art plants in over 20 countries. The company is on a strong earnings growth trajectory going ahead, with concerns of high leverage led by increasing working capital now behind it. The company's well-funded strong order book provides comfort on execution and collections going ahead. Further, the government's focus is expected to remain on water-related investments, providing healthy order intake tailwinds for the company going ahead.

Key Risks

- ♦ Slowdown in economic activity might impact order intake visibility and delay in execution of existing order book might impact revenue booking.
- ♦ Non-conversion of two framework contracts would reduce the executable order book.

Additional Data

Key management personnel

Mr. Rajiv Mittal	Chairman and Managing Director
Mr. Pankaj Malhan	Deputy MD and group CEO
Mr. Skandaprasad Seetharaman	Chief Financial Officer
Mr. R Swaminathan	Company Secretary & Compliance Officer

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Mittal Rajiv Devaraj	15.61
2	Jhunjhunwala Rekha Rakesh	8.04
3	Federated Hermes Investments	4.04
4	Norges Bank	3.57
5	Government Pension Fund – Global	3.55
6	Varadarajan Subramanian	3.51
7	KBI Global Investors	3.50
8	Federated Hermes Inc.	3.49
9	Saraf Shivrinarayan J.	2.57
10	SBI Funds Management Pvt. Ltd.	2.54

Source: Bloomberg (old data)

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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