

August 15, 2023

RESULT REPORT Q1 FY24 | Sector: Infrastructure

# VA Tech Wabag Ltd

## Orderbook provides revenue visibility

### Our view

VA Tech Wabag's (VATW) revenue declined 12.5% YoY to Rs5.5bn on account of higher share of EP projects and delay in commencement of new projects while EBITDAM expanded 8x YoY to 11.9% on account of change in project mix. Order intake was strong at Rs7.3bn during Q1FY24 leading to a robust orderbook of Rs125.1bn (4.3x TTM sales), 58% of which is for EPC contracts. Chennai 400MLD desalination project will start contributing to revenue from 2H post foundation stone to be laid on 21<sup>st</sup> Aug. Management indicated it would focus on improving intake of international orders and EP projects as these projects have sustainable margins and have shorter execution timeline, which will help improve its cashflow.

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 12.2x/ 10.4x on FY24E/25E earnings estimates. We maintain our BUY rating on the stock with a TP of Rs636 based on 13x PE on FY25E earnings.

### Result Highlights

- For 1QFY24, VATW's revenues came in at Rs5.5bn, down 12.5% YoY (below our estimates of Rs8.0bn) with slowdown in execution.
- EBITDA grew by 1.8x YoY to Rs656mn (below our estimates of Rs883mn) with EBITDAM expanding to 825bps YoY to 11.9% (above our estimates of 11%). Margin were better on account of lower raw material cost and other expenses
- On the bottom-line front, adj PAT in 1QFY24 came in at Rs594mn (below our estimates of Rs764mn) mainly due to lower execution.
- In 1Q, company has bagged orders worth Rs7.3bn
- At the CMP, the stock trades at a PE of 12.2x FY24E and 10.4x FY25E EPS.

### Exhibit 1: Actual vs Estimate

Rs mn	Actual	Estimate		% variation		Comments
		YSec	Consensus	YSec	Consensus	
Sales	5,528	8,018	-	(31.1)	-	Revenue impacted due to delay in commencement of large orders however margins remained robust
EBITDA	656	883	-	(25.7)	-	
EBITDA margin %	11.9	11.0	-	85 bps	-	
Adj.Pat	594	764	-	(22.2)	-	

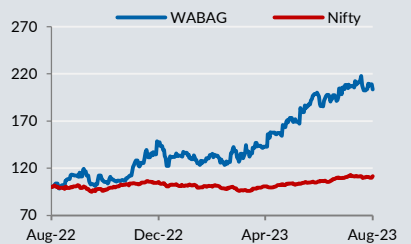
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 509
Target Price	: Rs 636
Potential Return	: +25%

### Stock data (as on Aug 14, 2023)

Nifty	19,435
52 Week h/l (Rs)	545 / 242
Market cap (Rs/USD mn)	32224 / 386
Outstanding Shares (mn)	62
6m Avg t/o (Rs mn):	217
Div yield (%):	-
Bloomberg code:	VATW IN
NSE code:	WABAG

### Stock performance



	1M	3M	1Y
Absolute return	(1.5%)	18.3%	104.9%

### Shareholding pattern (As of June'23 end)

Promoter	19.1%
FII+DII	20.2%
Others	60.7%

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Revenues	29,605	33,407	39,506
Yoy growth (%)	-0.6	12.8	18.3
OPM (%)	10.7	11.2	11.0
EPS (Rs)	48.3	41.8	48.9
EPS growth	127.3	-13.4	17.2
P/E (x)	10.5	12.2	10.4
EV/EBITDA (x)	9.8	8.3	7.2
Debt/Equity (x)	0.1	0.1	0.1
RoE (%)	19.2	14.9	14.8
RoCE (%)	17.2	13.4	13.4

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## RESULT HIGHLIGHTS

Exhibit 2: Result Table (Consolidated)

Rs mn	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)	FY23	FY22	YoY (%)
Revenue	6,317	7,504	6,516	9,269	5,528	(12.5)	(40.4)	29,605	29,793	(0.6)
<b>Total Revenues</b>	<b>6,317</b>	<b>7,504</b>	<b>6,516</b>	<b>9,269</b>	<b>5,528</b>	<b>(12.5)</b>	<b>(40.4)</b>	<b>29,605</b>	<b>29,793</b>	<b>(0.6)</b>
<b>Expenditure</b>	<b>6,089</b>	<b>6,966</b>	<b>5,596</b>	<b>8,184</b>	<b>4,872</b>	<b>(20.0)</b>	<b>(40.5)</b>	<b>26,427</b>	<b>27,423</b>	<b>(3.6)</b>
as % of sales	96.4	92.8	85.9	88.3	88.1			89.3	92.0	
Consumption of RM	5,010	5,842	4,674	7,020	4,178	(16.6)	(40.5)	22,695	23,057	(1.6)
as % of sales	79.3	77.9	71.7	75.7	75.6			76.7	77.4	
Employee Cost	655	644	663	694	586	(10.5)	(15.5)	2,655	2,507	5.9
as % of sales	10.4	8.6	10.2	7.5	10.6			9.0	8.4	
Other expenditure	424	481	259	471	108	(74.5)	(77.1)	1,076	1,860	(42.1)
as % of sales	6.7	6.4	4.0	5.1	2.0			3.6	6.2	
<b>EBITDA</b>	<b>228</b>	<b>537</b>	<b>920</b>	<b>1,084</b>	<b>656</b>	<b>187.5</b>	<b>(39.5)</b>	<b>3,178</b>	<b>2,370</b>	<b>34.1</b>
Depreciation	23	22	22	22	17	(24.4)	(20.9)	88	101	(13.0)
EBIT	206	515	898	1,063	639	210.6	(39.9)	3,090	2,269	36.2
Other Income	332	229	20	77	257	(22.5)	235.9	536	324	65.5
Interest	164	170	162	162	158	(3.7)	(2.3)	658	877	(25.0)
PBT	374	574	756	978	738	97.6	(24.5)	2,968	1,716	73.0
Total Tax	93	132	133	-299	144	55.3	(148.2)	59	363	(83.8)
<b>Adjusted PAT</b>	<b>281</b>	<b>442</b>	<b>623</b>	<b>1,277</b>	<b>594</b>	<b>111.5</b>	<b>(53.5)</b>	<b>2,909</b>	<b>1,352</b>	<b>115.1</b>
(Profit)/loss from JV's/Ass/MI	21	25	20	38	-94	(556.3)	(348.7)	103	-33	(411.8)
PAT after MI	301	467	643	1,314	500	65.9	(62.0)	3,012	1,319	128.4
Extra ordinary items	0	0	-171	-2,434	0	0.0	0.0	-2,605	0	0.0
Reported PAT	301	467	471	-1,120	500	65.9	(144.7)	407	1,319	(69.1)
Adjusted EPS	5.5	7.5	9.7	13.1	9.1	65.9	(30.2)	35.8	21.5	66.2
<b>Margins (%)</b>										
EBIDTA	3.6	7.2	14.1	11.7	11.9	825.4	16.8	10.7	8.0	278.1
EBIT	3.3	6.9	13.8	11.5	11.6	830.3	9.3	10.4	7.6	282.3
EBT	5.9	7.6	11.6	10.5	13.4	743.7	280.3	10.0	5.8	426.8
PAT	4.8	6.2	7.2	(12.1)	9.0	427.3	2112.3	1.4	4.4	(305.1)
Effective Tax rate	24.8	23.0	17.6	(30.6)	19.5	(530.7)	5008.7	2.0	21.2	(1919.0)

Source: Company, YES Sec

Exhibit 3: Key Assumptions

Rs mn	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Order inflow	48,785	43,504	13,122	36,476	68,441	72,062	75,876
Revenues	27,810	25,572	28,345	29,793	29,605	33,407	39,506
Order book	92,919	110,452	95,841	101,070	132,190	159,209	195,579
Execution cycle (%)	22%	19%	23%	23%	17%	16%	17%
Ob to sales (x)	3.3	4.3	3.4	3.4	4.5	4.8	5.0

Source: Company, YES Sec

## KEY CONCALL HIGHLIGHTS

- Consolidated revenue stood at Rs5.5bn (down 12.5% YoY) in 1Q with 80% of the revenue contributed from EPC orders.
- Key project status: a) AGCC Russia plant is progressing well, b) 53MLD Reliance, Jamnagar – the project is under procurement and construction stage, c) 400MLD Chennai desalination plant – planning work has started, d) 200MLD Bangladesh STP – project is engineering and procurement stage and e) 187MLD NMCG plant- all sites are expected to be operational by 3QFY24.
  - 400MLD Perur project foundation inauguration is on 21<sup>st</sup> Aug, post which revenue will start generating from the project,
- With order inflows of Rs7.3bn in 1QFY24, order book of the company stands strong at Rs125bn as at 1QFY24. This translates into Order-Book-to-sales of 4.3x trailing revenues.
- The company has bided/ plans to bid for projects worth Rs40-50bn in FY24E.
- The Order book comprises of 58% EPC projects while O&M projects make up 42% of the order book.
  - Municipal/ Government projects continue to dominate the order book with ~83% share while industrial projects contribute ~17%.
  - 69% of the order book are domestic projects while 31% are overseas projects.
- Bid pipeline continues to remain robust in both domestic and overseas segments, with company primarily focusing on projects fully funded by Government or multilateral agencies.
- Company plans to focus to bid for projects in international and industrial sector.
- For FY24E, management has refrained from giving any guidance (on revenues and order inflows front

## FINANCIALS

**Exhibit 4: Balance Sheet (Consolidated)**

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
<b>Sources of Funds</b>					
Equity capital	124	124	124	124	124
Reserves	13,973	15,267	15,625	18,173	21,168
Non-Minority Controlling Int.	-134	-133	-3	-3	-3
<b>Net worth</b>	<b>14,098</b>	<b>15,391</b>	<b>15,749</b>	<b>18,297</b>	<b>21,292</b>
Debt	3,585	4,359	2,191	2,391	2,591
Deferred tax liab (net)	(253)	(329)	(361)	(361)	(361)
<b>Total liabilities</b>	<b>17,295</b>	<b>19,289</b>	<b>17,577</b>	<b>20,325</b>	<b>23,520</b>
<b>Application of Funds</b>					
Gross Block	1,586	1,523	1,299	1,799	2,299
Depreciation	722	723	544	646	777
<b>Fixed Asset</b>	<b>863</b>	<b>800</b>	<b>755</b>	<b>1,152</b>	<b>1,521</b>
CWIP	0	0	0	0	0
Investments	244	376	458	528	612
<b>Net Working Capital</b>	<b>16,188</b>	<b>18,114</b>	<b>16,364</b>	<b>18,644</b>	<b>21,387</b>
Inventories	298	320	411	458	541
Sundry debtors	18,972	20,711	21,940	24,712	28,682
Cash & equivalents	3,713	4,286	2,754	2,949	3,051
Loans & Advances	793	394	932	1,077	1,247
Other Current Asset	15,400	11,920	12,439	14,360	16,617
Sundry creditors	12,094	11,404	12,029	13,271	15,153
Provisions	-254	192	-92	-46	0
Other current liabilities	11,148	7,920	10,174	11,685	13,598
<b>Total Assets</b>	<b>17,295</b>	<b>19,289</b>	<b>17,577</b>	<b>20,325</b>	<b>23,520</b>

Source: Company, YES Sec

## Exhibit 5: Income statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	28,345	29,793	29,605	33,407	39,506
<i>% Change YoY</i>	<i>10.8</i>	<i>5.1</i>	<i>(0.6)</i>	<i>12.8</i>	<i>18.3</i>
Operating profit	2,188	2,370	3,178	3,748	4,331
<b>EBITDA margins</b>	<b>7.7%</b>	<b>8.0%</b>	<b>10.7%</b>	<b>11.2%</b>	<b>11.0%</b>
<i>% Change YoY</i>	<i>0.8</i>	<i>8.3</i>	<i>34.1</i>	<i>17.9</i>	<i>15.6</i>
Depreciation	121	101	88	103	131
EBIT	2,066	2,269	3,090	3,645	4,200
<i>EBIT margins</i>	<i>7.3</i>	<i>7.6</i>	<i>10.4</i>	<i>10.9</i>	<i>10.6</i>
Interest expense	903	877	658	741	803
Other income	82	324	536	568	672
Profit before tax	1,245	1,716	2,968	3,472	4,068
Taxes	295	363	59	874	1,024
<i>Effective tax rate (%)</i>	<i>23.7</i>	<i>21.2</i>	<i>2.0</i>	<i>25.2</i>	<i>25.2</i>
<b>Net profit</b>	<b>951</b>	<b>1,352</b>	<b>2,909</b>	<b>2,598</b>	<b>3,044</b>
Minorities and other	(150)	32	(93)	0	0
Net profit after minorities	1,101	1,321	3,002	2,598	3,044
Exceptional items	0	0	(2,892)	0	0
<b>Net profit</b>	<b>1,101</b>	<b>1,321</b>	<b>109</b>	<b>2,598</b>	<b>3,044</b>
<i>% Change YoY</i>	<i>21.1</i>	<i>19.9</i>	<i>(91.7)</i>	<i>(13.4)</i>	<i>17.2</i>
EPS (Rs)	17.7	21.2	48.3	41.8	48.9

Source: Company, YES Sec

## Exhibit 6: Cash Flow Statement (Consolidated)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Profit before Tax	1,303	1,684	3,061	3,472	4,068
Interest	366	363	287	741	803
Depreciation	121	101	88	103	131
Other Items	851	972	(2,803)	-	-
(Inc)/Dec in WC	(968)	(2,817)	492	(2,086)	(2,640)
Direct Taxes Paid	319	186	275	874	1,024
<b>CF from Oper. Activity</b>	<b>1,353</b>	<b>116</b>	<b>850</b>	<b>1,356</b>	<b>1,339</b>
(Inc)/Dec in FA	(150)	(55)	(52)	(500)	(500)
Free Cash Flow	1,203	61	798	856	839
(Pur)/Sale of Invest.	109	(285)	210	(71)	(83)
<b>CF from Inv. Activity</b>	<b>(41)</b>	<b>(340)</b>	<b>158</b>	<b>(571)</b>	<b>(583)</b>
Change in Networth	1,178	-	-	-	-
Inc/(Dec) in Debt	(1,737)	826	(2,101)	200	200
Interest Paid	(347)	(364)	(281)	(741)	(803)
Dividends Paid	(13)	2	-	(50)	(50)
Others	60	(18)	(18)	(0)	0
<b>CF from Fin. Activity</b>	<b>(859)</b>	<b>446</b>	<b>(2,401)</b>	<b>(591)</b>	<b>(653)</b>
<b>Inc/(Dec) in Cash</b>	<b>453</b>	<b>223</b>	<b>(1,393)</b>	<b>195</b>	<b>103</b>
Opening cash Balance	2,489	2,997	3,210	2,066	2,261
Others	96	(10)	(11)	(260)	(260)
<b>Closing cash Balance</b>	<b>3,038</b>	<b>3,210</b>	<b>1,806</b>	<b>2,000</b>	<b>2,103</b>

Source: Company, YES Sec

## Exhibit 7: Du-pont Analysis

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23	FY24E	FY25E
Tax burden (x)	5.4	4.9	51.3	3.1	3.1
Interest burden (x)	0.1	0.2	0.0	0.2	0.2
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	1.6	1.5	1.7	1.6	1.7
Financial leverage (x)	1.2	1.3	1.1	1.1	1.1
<b>RoE (%)</b>	<b>11.2%</b>	<b>11.6%</b>	<b>19.2%</b>	<b>14.9%</b>	<b>14.8%</b>

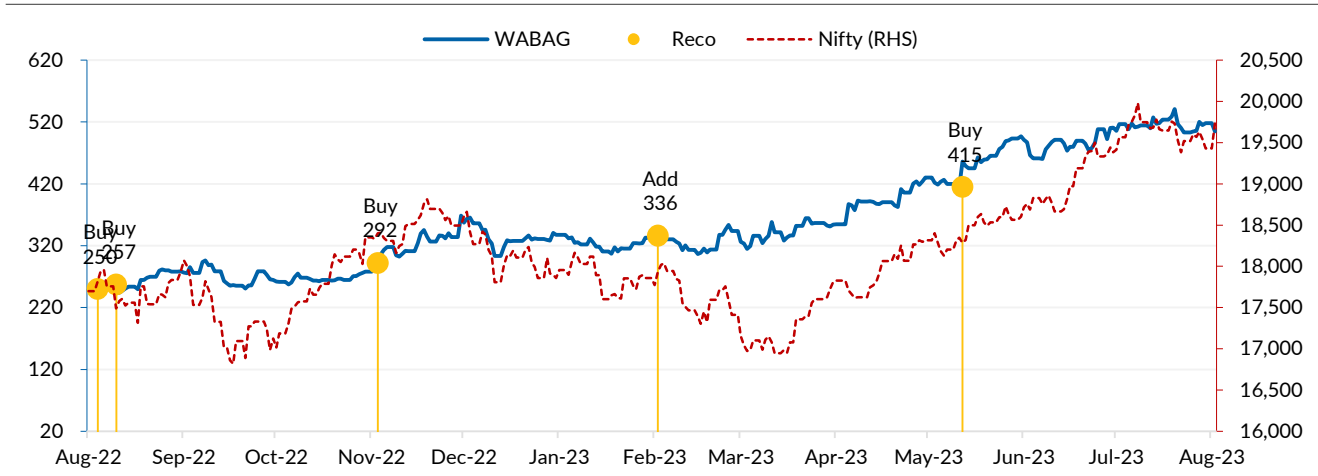
Source: Company, YES Sec

## Exhibit 8: Ratio Analysis

Y/e 31 Mar	FY21	FY22	FY23	FY24E	FY25E
<b>Basic (Rs)</b>					
EPS	17.7	21.2	48.3	41.8	48.9
Dividend per share	0.4	0.8	0.8	0.8	0.8
Cash EPS	19.7	22.9	49.7	43.4	51.1
Book value per share	227	247	253	294	342
Div. payout (%)	3%	4%	296%	2%	2%
<b>Valuation ratios (x)</b>					
P/E	28.7	24.0	10.5	12.2	10.4
P/CEPS	25.9	22.3	10.2	11.7	10.0
P/B	2.2	2.1	2.0	1.7	1.5
EV/EBIDTA	14.4	13.4	9.8	8.3	7.2
Dividend yield (%)	0.1	0.2	0.2	0.2	0.2
<b>Profitability Ratios (%)</b>					
RoC	9.2	9.3	17.2	13.7	13.6
RoE	11.2	11.6	19.2	14.9	14.8
RoCE	9.1	9.3	17.2	13.4	13.4
<b>Liquidity ratios</b>					
Debtor (days)	244	254	270	270	265
Inventory (days)	4	4	5	5	5
Creditor (days)	156	140	148	145	140
Net working Capital (days)	161	169	168	171	169
Asset Turnover (x)	1.6	1.5	1.7	1.6	1.7

Source: Company, YES Sec

## Recommendation Tracker



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1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
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**Khushbu Jayesh Gandhi**

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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