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India | Equity research | Q1FY24 result review

VA Tech Wabag

Capital goods

Walking the talk

VA Tech Wabag's (Wabag) orderbook increased to INR 125bn as of Jun-23 on account of strong order inflow in the last 5 quarters. Of the total, EPC orders account for INR 65bn (2.6x book to bill ratio). Note that the O&M orderbook at INR 48bn provides strong revenue visibility. Wabag is increasingly focusing on engineering and procurement (E&P) projects over EPC orders to improve profitability (a third of the EPC orderbook is for E&P). As a result, the company's margins have now moved to double digits. Also, over the years, it has developed a significant moat around water recycling, reuse, zero liquid discharge, desalination, etc. Wabag is reinventing itself to drive growth and profitability.

Sharp increase in operating margins

Revenue for Q1FY24 decreased 13% YoY to INR 5.5bn due to sale of European subsidiaries and lower growth in execution in Europe. However, EBITDA grew 3x YoY to INR 660mn on reduced provisioning, reduced fixed-costs at European subsidiaries, and lower input price inflation. As a result, PAT increased 60% YoY to INR 500mn.

Strong order backlog

Wabag has recently won large orders from marquee clients with better payment terms and operating margins. Its orderbook stands at INR 125bn – of which EPC is worth INR 65bn and O&M INR 48bn. Most of these large orders are still in pre-construction stage and will start contributing in revenue terms only in H2FY24. A third of the EPC orderbook is now comprised of the high-margin E&P projects, hence Wabag is likely to benefit on the margin front (by 200-300bps) going ahead.

Receivables remain high in Jun'23

Trade receivables as of Jun'23 remain elevated at INR 15bn (flat QoQ). However, most of the receivables are funded by multilateral agencies, private players and Central government.

Maintain BUY with a target price of INR 611/share

We maintain our **BUY** rating on the stock, valuing it at 12x FY25E EPS of INR 51/share with an unchanged target price of INR 611/share.

Financial summary

Y/E Mar (INR mn)	FY22A	FY23A	FY24E	FY25E
Net Revenue	29,793	29,605	40,742	46,133
EBITDA	2,370	2,598	4,397	4,959
EBITDA Margin (%)	8.0	8.8	10.8	10.7
Net Profit	1,319	1,954	2,843	3,169
EPS (INR)	21.2	31.4	45.7	50.9
EPS % Chg YoY	42.2	81.2	11.5	11.9
P/E (x)	23.4	12.9	11.6	10.3
EV/EBITDA (x)	13.2	12.3	7.7	6.7
RoCE (%)	11.2	15.9	17.0	16.8
RoE (%)	8.9	12.5	16.6	15.9

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Market Data

Market Cap (INR)	32bn
Market Cap (USD)	381mn
Bloomberg Code	VATW IN
Reuters Code	VATE.BO
52-week Range (INR)	545 /240
Free Float (%)	81.0
ADTV-3M (mn) (USD)	3.5

Price Performance (%)	3m	6m	12m
Absolute	18.3	55.6	104.9
Relative to Sensex	6.4	8.2	11.4

ESG Disclosure	2021	2022	Change
ESG score	32.8	33.3	0.5
Environment	2.8	2.8	-
Social	16.9	18.4	1.6
Governance	78.6	78.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

18-07-2023: [Company Update](#)

Conference call highlights

Guidance maintained for FY24

- Management expects double-digit growth in revenues for FY24 though it has not quantified it. Given the high EPC orderbook of INR 65bn as of Jun'23, we expect revenue growth to be far higher than management guidance.
- EBITDA margin for FY24 is guided at 10%.
- Order inflow target is not specified as the management wants to focus on profitable execution growth, hence the emphasis be on higher mix of technology-driven projects.

Orderbook highlights

- Total orderbook stands at INR 125bn of which – EPC is at INR 65bn, O&M at INR 48bn and framework orders at INR 12bn.
- A third of the EPC orderbook is accounted for by engineering and procurement (E&P) orders, which are expected to fetch higher margins.
- Geographical orderbook breakup: Domestic 69%, international 31%.
- Customer-wise order book breakup: Municipal 83%, industrial 17%.

Other highlights

Q1FY24 result highlights

- Revenue fell in Q1FY24 due to lower execution as a large portion of the orderbook is still not executable. Most of the large orders will start generating revenue from H2FY24 and thus the execution growth will pick pace.
- Management expects other expenses run-rate to remain at INR 110m per quarter (it was higher in the previous year due to write-offs and provisions for cost overruns).

Focus to shift on engineering and procurement

- As a strategic decision, management will be focusing on E&P orders going forward and wants to reduce the construction portion of its orders.
- Company will focus on enhancing the technological value-addition in its work and thus drive the profitability.
- In an EPC contract, 30% of the order value comes from construction where Wabag makes negligible EBITDA margin, hence the company is focusing on E&P orders. It therefore expects overall margins to improve 200-300bps in the longer run.

Exhibit 1: Key orders as of Jun'23

	Details	Nature	Order Value (INR Mn)
MLD Perur, Chennai – Desal	400 MLD	EPC	36,779
UPJN O&M of Agra and Ghaziabad	-	O&M	13,000
AGCC Russia	-	EPC	8,923
STP and network at Digha and Kankarbagh	150 MLD	EPC	7,009
Pagla, Bangladesh – STP	200 MLD	EPC	6,680
CIDCO Maharashtra WTP	270 MLD	EPC	4,195
GNN TTRO Ghaziabad	40 MLD	EPC	3,928
Senegal – Desal	50 MLD	EP	3,154
RIL, Jamnagar – Desal	53 MLD	EPC	1,815
Koyenbu Chennai	45 MLD	EPC	1,797
Total			87,280

Source: I-Sec research

Exhibit 2: Consolidated quarterly financial highlights

INR mn	Q1FY24	Q1FY23	YoY(%)	Q4FY23	QoQ(%)	FY23	FY22	YoY(%)
Total Revenue	5,528	6,317	(12.5)	9,269	(40.4)	29,605	29,793	(0.6)
EBITDA	656	228	187.5	1,084	(39.5)	2,598	2,370	9.6
Margin	11.9	3.6	825bps	11.7	17bps	8.8	8.0	82bps
Depreciation	17	23	(24.4)	22	(20.9)	88	101	(13.0)
Finance Cost	158	164	(3.7)	162	(2.3)	658	877	(25.0)
Other Income	257	332	(22.5)	77	235.9	657	324	103.0
PBT	738	374	97.6	978	(24.5)	2,510	1,715	46.3
Tax	144	93	55.3	(299)	(148.2)	59	363	(83.8)
tax rate	19.5	24.8	-531bps	(30.6)	5009bps	2.4	21.2	-1883bps
Reported PAT	594	281	111.5	1,277	(53.5)	2,451	1,352	81.2
Adjusted PAT	500	301	65.9	1,323	(62.2)	2,562	1,319	94.3
Margin(%)	9.0	4.8	427bps	14.3	-523bps	8.7	4.4	423bps
EPS	8	5		(18)		2	21	(90.3)

Source: I-Sec research

Outlook and Valuation

Wabag's current orderbook stands at INR125bn, of which EPC accounts for INR 65bn, O&M INR 48bn and frameworks at INR 12bn. Given a strong EPC orderbook of INR 65bn (2.6x FY23 EPC revenue of INR 25bn), we believe Wabag is favourably placed to improve execution going forward.

Also, the company is in transition process to focus more on E&P projects (higher margins compared to EPC projects). Since 31% of the orderbook is from overseas projects, we expect margins to improve, supported by the recent reduction in commodity prices.

The stock is currently trading at 10x FY25E. We maintain our FY24E and FY25E EPS estimates. We value the stock at 12x FY25E EPS and maintain the target price at INR 611/share. Maintain **BUY**.

Key risk: i) Delay in execution of overseas orders, which might impact margins.

Exhibit 3: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	19.1	19.1	19.1
Institutional investors	19.4	19.8	20.2
MFs and others	2.5	2.5	2.7
FIs/Banks	-	-	-
Insurance	0.7	0.7	0.7
FIIIs	16.1	16.6	16.8
Others	61.5	61.1	60.7

Source: Bloomberg

Exhibit 4: Price chart



Source: Bloomberg

Financial summary

Exhibit 5: Profit & Loss

(INR mn, year ending Mar)

	FY22A	FY23A	FY24E	FY25E
Net Sales	29,793	29,605	40,742	46,133
Operating Expenses	4,366	4,501	5,373	5,920
EBITDA	2,370	2,598	4,397	4,959
EBITDA Margin (%)	8.0	8.8	10.8	10.7
Depreciation & Amortisation	101	88	100	110
EBIT	2,269	2,510	4,297	4,849
Interest expenditure	877	658	1,019	1,153
Other Non-operating Income	324	657	363	381
Recurring PBT	1,716	2,510	3,642	4,076
Profit / (Loss) from Associates	(32)	93	93	93
Less: Taxes	363	59	910	1,019
PAT	1,352	2,451	2,731	3,057
Less: Minority Interest	2	(19)	(19)	(19)
Extraordinaries (Net)	-	(2,434)	-	-
Net Income (Reported)	1,321	109	2,824	3,150
Net Income (Adjusted)	1,319	1,954	2,843	3,169

Source Company data, I-Sec research

Exhibit 6: Balance sheet

(INR mn, year ending Mar)

	FY22A	FY23A	FY24E	FY25E
Total Current Assets	29,638	30,717	34,439	39,285
of which cash & cash eqv.	4,286	2,754	871	1,275
Total Current Liabilities & Provisions	18,345	21,401	25,086	28,406
Net Current Assets	11,293	9,316	9,353	10,879
Investments	376	458	458	458
Net Fixed Assets	766	718	748	778
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	33	36	-	-
Other assets	8,338	6,897	9,492	10,748
Deferred Tax assets	362	1,205	1,205	1,348
Total Assets	21,679	19,491	22,116	25,073
Liabilities				
Borrowings	4,285	3,534	3,438	3,346
Deferred Tax Liability	33	11	11	11
provisions	126	130	130	130
other Liabilities	1,976	70	74	77
Equity Share Capital	124	124	124	124
Reserves & Surplus	15,267	15,625	18,343	21,388
Total Net Worth	15,391	15,749	18,467	21,512
Minority Interest	(133)	(3)	(3)	(4)
Total Liabilities	21,679	19,491	22,116	25,073

Source Company data, I-Sec research

Exhibit 7: Cashflow statement

(INR mn, year ending Mar)

	FY22A	FY23A	FY24E	FY25E
Operating Cashflow	2,339	(314)	1,567	2,673
Working Capital Changes	408	445	(1,920)	(1,122)
Capital Commitments	(136)	(808)	(94)	(140)
Free Cashflow	2,475	494	1,661	2,813
Other investing cashflow	(1,396)	2,431	(2,232)	(875)
Cashflow from Investing Activities	(1,532)	1,623	(2,326)	(1,015)
Issue of Share Capital	-	-	-	-
Interest Cost	(877)	(658)	(1,019)	(1,153)
Inc (Dec) in Borrowings	1,233	(751)	(96)	(91)
Dividend paid	(62)	(124)	(124)	(124)
Others	(528)	(1,307)	115	115
Cashflow from Financing Activities	(234)	(2,840)	(1,124)	(1,254)
Chg. in Cash & Bank balance	573	(1,532)	(1,883)	404
Closing cash & balance	4,286	2,754	871	1,275

Source Company data, I-Sec research

Exhibit 8: Key ratios

(Year ending Mar)

	FY22A	FY23A	FY24E	FY25E
Per Share Data (INR)				
Reported EPS	21.7	39.4	43.9	49.2
Adjusted EPS (Diluted)	21.2	31.4	45.7	50.9
Cash EPS	22.8	32.8	47.3	52.7
Dividend per share (DPS)	1.0	2.0	2.0	2.0
Book Value per share (BV)	247.4	253.2	296.9	345.9
Dividend Payout (%)	4.6	5.1	4.6	4.1
Growth (%)				
Net Sales	5.1	(0.6)	37.6	13.2
EBITDA	8.3	9.6	69.2	12.8
EPS (INR)	42.2	81.2	11.5	11.9
Valuation Ratios (x)				
P/E	23.4	12.9	11.6	10.3
P/CEPS	22.3	15.5	10.8	9.6
P/BV	2.1	2.0	1.7	1.5
EV / EBITDA	13.2	12.3	7.7	6.7
P / Sales	1.1	1.1	0.8	0.7
Dividend Yield (%)	0.2	0.4	0.4	0.4
Operating Ratios				
Gross Profit Margins (%)	22.6	24.0	24.0	23.6
EBITDA Margins (%)	8.0	8.8	10.8	10.7
Effective Tax Rate (%)	21.2	2.4	25.0	25.0
Net Profit Margins (%)	4.5	8.3	6.7	6.6
NWC / Total Assets (%)	32.3	33.7	38.3	38.3
Net Debt / Equity (x)	0.0	0.0	0.1	0.1
Net Debt / EBITDA (x)	(0.2)	0.1	0.5	0.3
Profitability Ratios				
RoCE (%)	11.2	15.9	17.0	16.8
RoE (%)	-	-	-	-
RoC (%)	11.2	15.9	17.0	16.8
Fixed Asset Turnover (x)	37.2	39.9	55.6	60.4
Inventory Turnover Days	4	5	5	4
Receivables Days	166	185	177	162
Payables Days	124	131	140	128

Source Company data, I-Sec research

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