



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. 8,723 cr
52-week high/low:	Rs. 1,444/436
NSE volume: (No of shares)	7.4 lakh
BSE code:	533269
NSE code:	WABAG
Free float: (No of shares)	5.0 cr

Shareholding (%)

Promoters	19.1
FII	11.5
DII	5.0
Others	64.4

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.9	24.1	99.1	206.5
Relative to Sensex	2.9	16.2	85.2	183.6

Sharekhan Research, Bloomberg

Va Tech Wabag Ltd

Strong sectoral outlook to drive growth

Capital Goods

Sharekhan code: WABAG

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 1,403

Price Target: Rs. 1,700



Summary

- We visited Va Tech Wabag's waste water treatment and desalination plants in Chennai and also had an interaction with the management. Company has maintained its guidance of 15% revenue growth and margins of 13-15% for the next 3-5 years.
- Order backlog stood strong at Rs. 10,676 crore at the end of Q4 and the company has also received an order of Rs. 2,700 crore in Saudi Arabia recently. The order pipeline is promising across Middle East, Africa, CIS nations, and SE Asian countries. The company has submitted bids worth Rs. 3,000 crore in Middle East and India region.
- Va Tech's focus on technologically advanced EP projects, industrial and international projects, and increasing share of O&M contracts would improve margins, cash flows, and working capital cycle.
- We maintain BUY with a revised PT of Rs. 1,700, given its strong order inflow, promising pipeline, and margin tailwinds. The stock trades at a P/E of ~21.5x its FY2026E EPS.

We visited Va Tech Wabag's 45 MLD tertiary treatment reverse osmosis (TTRO) plant in Koyambedu and the 110 MLD desalination plant in Nemmeli. The TTRO plant further processes secondary treated wastewater and then supplies it to industries. The desalination plant's treated water is directly used for the daily water supply of Chennai. Last year, the company bagged an order for a 400 MLD desalination plant near this 110 MLD plant. The company had a Rs. 10,676 crore orderbook at the end of Q4FY24 and it has also received a Rs. 2,700 crore order in the ongoing quarter. The management has reiterated its guidance of revenue growth of 15% and margins of 13-15% for the next few years.

Tertiary waste water treatment plant: We visited the 45 MLD waste water treatment plant in Koyambedu which treats water using reverse osmosis. This plant, operated by Wabag is the largest tertiary treatment reverse osmosis (TTRO) plant in India. The treated water is sold to mainly auto industries in the Southern part of Chennai for around Rs. 65/KL. Some of the clients are Hyundai Motors, CEAT Tyres, Apollo Tyres, Asian Paints, etc. This treated water preserves the groundwater which otherwise would have been used by the industries. In Chennai, 12% of wastewater gets recycled and reused by industries.

Desalination plant: The other plant was the 110 MLD desalination plant in Nemmeli. This plant was built in 2013 by Wabag on Design, build and operate (DBO) model. There are two other desalination plants in Chennai of 100 MLD and 150 MLD. So in total, desalination plants cater to around 36% of the daily water requirement of Chennai of 1000 MLD. Also, Wabag had last year received an order for a 400 MLD desalination plant. It would take four years for completion and after completion of this plant Wabag itself can supply 50% of Chennai's water requirement. The processing cost of the desalination water is Rs. 65/KL and it is sold at Rs. 160/KL.

Revenue and profit growth outlook: The company has recently received an order of Rs. 2,700 crore from Saudi Water Authority for a 300 MLD desalination plant. Company has more Rs. 3,000 crore of orders in the pipeline and it has guided of an orderbook of Rs. 16,000 crore at the end of FY25. At the end of FY24, the orderbook was Rs.10,676 crore. The strong outlook means that the company's revenue and net profit are expected to grow at 16%/28% over FY24-26.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 1,700: VA Tech has been exhibiting a good operating performance, driven by a better order mix and improved execution efficiencies. The company's order book is robust and, with a promising order pipeline, the company aims to deliver a healthy 15% revenue CAGR. Further, the company is focused on improving the margin to 13-15% and is on the cusp of a healthy growth trajectory in the medium to long term. The company is optimistic about growth opportunities present in desalination, ultrapure water, and water treatment solutions in both domestic and export markets. A well-funded and strong order book with healthy revenue visibility provides comfort in execution and collections going ahead. At the CMP, the stock trades at a P/E of ~21.5x its FY2026E earnings, which we believe is reasonable, given an optimistic outlook on business and earnings. Hence, we maintain our BUY rating on the stock with a revised price target (PT) of Rs. 1,700.

Key Risks

- Lumpiness in order book execution could impact the company's revenue and cash flows.
- Non-payment of dues can be a huge hit to the profitability.

Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E
Revenue from Operations	2,960	2,856	3,306	3,862
Operating Profit Margin (%)	10.7	13.2	13.7	14.0
Adjusted PAT	230	246	326	405
Adjusted EPS (Rs.)	36.9	39.5	52.5	65.1
P/E (x)	38.0	35.5	26.7	21.5
P/BV (x)	5.5	4.8	4.1	3.4
EV/EBITDA (x)	27.8	23.3	19.3	16.1
RoCE (%)	17.6	18.5	19.6	20.6
RoE (%)	14.6	14.5	16.5	17.3

Source: Company; Sharekhan estimates

Koyambedu Tertiary treated reverse osmosis (TTRO) plant



Source: Company

Nemmeli 110 MLD Desalination plant



Source: Company

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 on account of 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 USD211 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. Rising demand for water treatment facilities across the world will have a positive impact on the market's growth in the coming years.

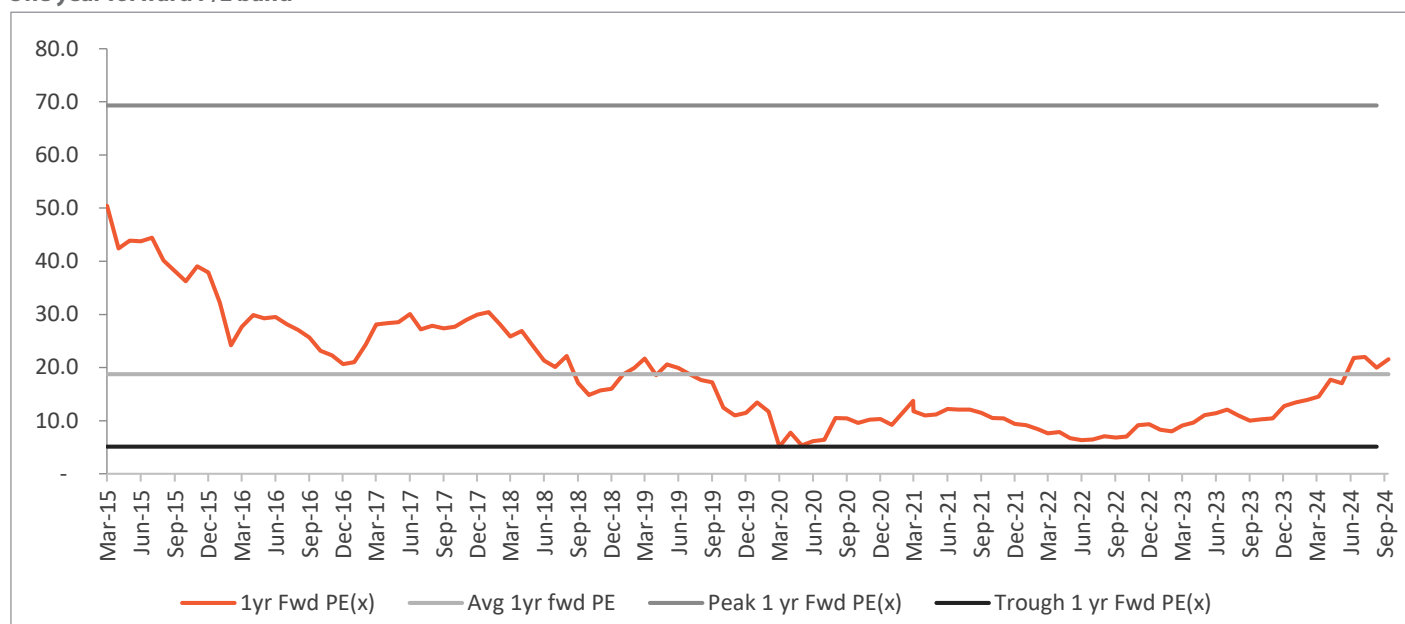
■ Company outlook - Creating enduring value

VA Tech had a strong order book of over Rs. 10,676 crore (~3.6x its TTM consolidated revenue) at the end of Q4 which is 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 strengthening balance sheet profile.

■ Valuation - Maintain Buy with a revised PT of Rs. 1,700

VA Tech has been exhibiting a good operating performance, driven by a better order mix and improved execution efficiencies. The company's order book is robust and, with a promising order pipeline, the company aims to deliver a healthy 15% revenue CAGR. Further, the company is focused on improving the margin to 13-15% and is on the cusp of a healthy growth trajectory in the medium to long term. The company is optimistic about growth opportunities present in desalination, ultrapure water, and water treatment solutions in both domestic and export markets. A well-funded and strong order book with healthy revenue visibility provides comfort in execution and collections going ahead. At the CMP, the stock trades at a P/E of ~21.5x its FY2026E earnings, which we believe is reasonable, given an optimistic outlook on business and earnings. Hence, we maintain our BUY rating on the stock with a revised price target (PT) of Rs. 1,700.

One year forward P/E 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 the 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 100 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 6,500 projects across multiple sectors, and state-of-the-art plants in over 25 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

- ♦ Lumpiness in order book execution could impact the company's revenue and cash flows.
- ♦ Non-payment of dues can be a huge hit to the profitability

Additional Data

Key management personnel

Rajiv Mittal	Chairman and Managing Director
Skandaprasad Seetharaman	Chief Financial Officer
Anup Kumar Samal	Company Secretary and Compliance Officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jhunjhunwala Rekha Rakesh8.04	8.04
2	Norges Bank	2.64
3	BASERA HOME FINANCE PVT LTD	2.41
4	Dimensional Fund Advisors LP	1.44
5	Motilal Oswal Asset Management Co	1.26
6	OekoWorld Lux SA	1.03
7	BlackRock Inc	0.95
8	SBI Funds Management Ltd	0.65
9	Bajaj Finserv Mutual Fund	0.64
10	East Capital Asset Management	0.52

Source: Bloomberg

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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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