



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	✓	↔	✓

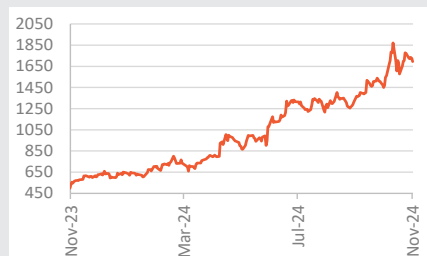
Company details

Market cap:	Rs. 10,539 cr
52-week high/low:	Rs. 1,907/526
NSE volume: (No of shares)	7.0 lakh
BSE code:	533269
NSE code:	WABAG
Free float: (No of shares)	5.0 cr

Shareholding (%)

Promoters	19.1
FII	14.7
DII	3.6
Others	62.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.8	30.9	95.8	217.6
Relative to Sensex	19.5	30.2	87.6	195.3

Sharekhan Research, Bloomberg

Va Tech Wabag Ltd

Decent Q2; strong orderbook to drive growth

Capital Goods

Sharekhan code: WABAG

Reco/View: Buy



CMP: Rs. 1,695

Price Target: Rs. 2,100



Upgrade



Maintain



Downgrade

Summary

- Va Tech Wabag's adjusted net profit increased 27.8% y-o-y to Rs. 70 crore. Revenue of Rs. 700 crore grew 5.3% y-o-y and OPM stood at 13.4%, up 42 bps y-o-y.
- Order backlog stands strong at Rs. 14,604 crore and order pipeline is promising across Middle East, Africa, CIS nations, and SE Asian countries. The company is the preferred bidder for Rs. 3,500 crore worth of projects.
- 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. Company has guided for a revenue growth CAGR of 15% and margin guidance of 13-15% for the next 3-5 years.
- We maintain BUY with a revised PT of Rs. 2,100, given its strong order inflow, promising pipeline, and margin tailwinds. The stock trades at a P/E of ~25.4x/21.3x its FY26E/27E EPS.

VA Tech Wabag Limited (Va Tech) reported a decent performance during Q2FY2025. Sales grew 5.3% y-o-y to Rs. 700 crore. Domestic revenue of Rs. 376 crore was down 18% y-o-y while the exports revenue of Rs. 346 crore was up 25% y-o-y with increasing share of international projects in the orderbook. OPM of 13.4% increased 42bps y-o-y with decrease in other expenses and a little increase in employee expenses (related to ESOPs). Consequently, Operating profit of Rs. 94 crore grew 8.7% y-o-y. Adjusted profit rose 27.8% y-o-y to Rs. 70 crore with increase in profit of associate and decrease in minority interest. Order backlog at the end of the quarter stood at Rs. 14,604 crore (4.9x of TTM revenue). Order intake for the first half has been strong at Rs. 4,600 crore.

Key positives

- Strong order book of Rs. 14,604 crore and order pipeline as well with preferred bidder in projects worth Rs. 3,500 crore
- OPM increased 42bps y-o-y to 13.4%.

Key negatives

- Company hasn't been able to translate the orderbook into revenue growth yet.

Management Commentary

- The company has guided for a year end orderbook of over Rs. 16,000 crore and is expecting to win Rs. 3,500 crore of orders in 2HFY25.
- The revenue growth of 9% in H1 is tracking less than the guided 15%. Management expects the 2H to be strong with revenues of Rs. 2,000 crore and be around the growth guidance.
- Management sees strong growth potential in the ultrapure water segment, especially in the production of semiconductors, solar PV and green hydrogen.
- For any project, the initial 20% is slow in the design phase, the next 60% is fast with the actual construction happening and the last 20% is slow with the final commissioning.

Our Call

Valuation – Maintain BUY with a revised PT of Rs. 2,100: 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 over the next few years. Further, the company is focused on improving the margin to 13-15% and is on the cusp of a healthy growth trajectory. 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 of Rs. 14,604 crore (4.9x TTM revenue) provides good visibility. At CMP, the stock trades at a P/E of ~25.4x/21.3x its FY26E/27E 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. 2,100.

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)

Rs. Crore	FY23	FY24	FY25E	FY26E	FY27E
Revenue from Operations	2,960	2,856	3,306	3,827	4,336
Operating Profit Margin (%)	10.7	13.2	13.7	14.0	14.4
Adjusted PAT	230	246	326	416	495
Adjusted EPS (Rs.)	36.9	39.5	52.3	66.8	79.6
P/E (x)	45.9	42.9	32.4	25.4	21.3
P/BV (x)	6.7	5.8	4.9	4.1	3.4
EV/EBITDA (x)	33.5	28.2	23.3	19.6	16.8
RoCE (%)	17.6	18.5	18.5	20.1	20.4
RoE (%)	14.6	14.5	16.4	17.7	17.6

Source: Company; Sharekhan estimates

Q2FY2025 conference call highlights

- ♦ **Order book:** Company has an order book of Rs. 14,604 crore, 4.9x its TTM revenue (59% EPC and 41% O&M). Company has recently won the following orders – 1) Rs. 2,700 crore order for a 300 MLD desalination plant from Saudi Water Authority 2) Rs. 1,000 crore order for a 100 MLD desalination plant from Indosol Solar for their PV manufacturing facility 3) Large repeat orders (Rs. 300-500 crore) from Reliance for water treatment in Dahej and Nagothane facilities 4) Repeat order of Rs. 415 crore from Chennai Metro to operate and maintain the Nemmeli desalination plant. Total orders of Rs. 4,600 crore have been secured in H1 with 57% coming from international clients and 31% from industrial sector. Company converted around 75% of the orders from its preferred bidder status of Rs. 6,000 crore. Further, it currently is the preferred bidder in projects worth Rs. 3,500 crore and hopes to end FY25 with an orderbook of Rs. >16,000 crore.
- ♦ **Guidance:** Company has guided for Rs. 2,000 crore of order execution in H2 with the Chennai desalination plant ramping up. This would help meet the 15% revenue growth guidance of the company. The revenue growth is lagging the growth in the orderbook currently. This is because typically for any project, the initial 20% of the work which involves site investigation and getting the design approval is slow, then the next 60% is fast with construction starting and equipments getting delivered and last 20% is again slow with installation and commissioning of the project.

Management has guided for 15% revenue growth CAGR and Operating profit margin (OPM) of 13-15% for the next 3-5 years. Margin drivers will be EP, international orders, faster turnaround projects, increasing component of O&M, among others.
- ♦ **Net cash and WC:** Company has a net cash position of Rs. 222 crore currently – excluding the Rs. 117 crore transitory HAM debt from Ghaziabad, it is Rs. 339 crore. Payables have reduced by Rs. 162 crore due to payment to vendors and contactors to expedite the project, they will go back to normal levels at the end of the year. Receivables have shown improvement with a 5% reduction even with increase in revenue.

Results (Consolidated)

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Revenue	700	665	5.3	627	11.8
Operating Profit	94	86	8.7	81	15.1
Depreciation	1	2	-38.1	2	-31.6
Interest	19	17	13.1	18	5.6
Other Income	14	15	-10.4	11	27.8
PBT	87	82	5.5	72	20.8
Exceptional item	0	0	NA	0	NA
Tax Expense	22	23	-3.1	15	45.4
Reported PAT	70	60	17.1	54	28.5
Adjusted PAT	70	55	27.8	55	28.6
EPS (Rs.)	11.2	8.8	26.7	8.7	28.0
Margins			BPS		BPS
OPM (%)	13.4	12.9	42	13.0	39
NPM (%)	10.0	8.3	177	8.7	131
Tax Rate (%)	25.5	27.7	-224	21.2	432

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Investments by governments and private sectors will play a vital role

Wastewater technology is primarily used by municipal authorities to treat wastewater in various cities around the world. Rising urban population in major 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 worldwide 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. Rising demand for water treatment facilities across the world will have a positive impact on the market's growth in the coming years.

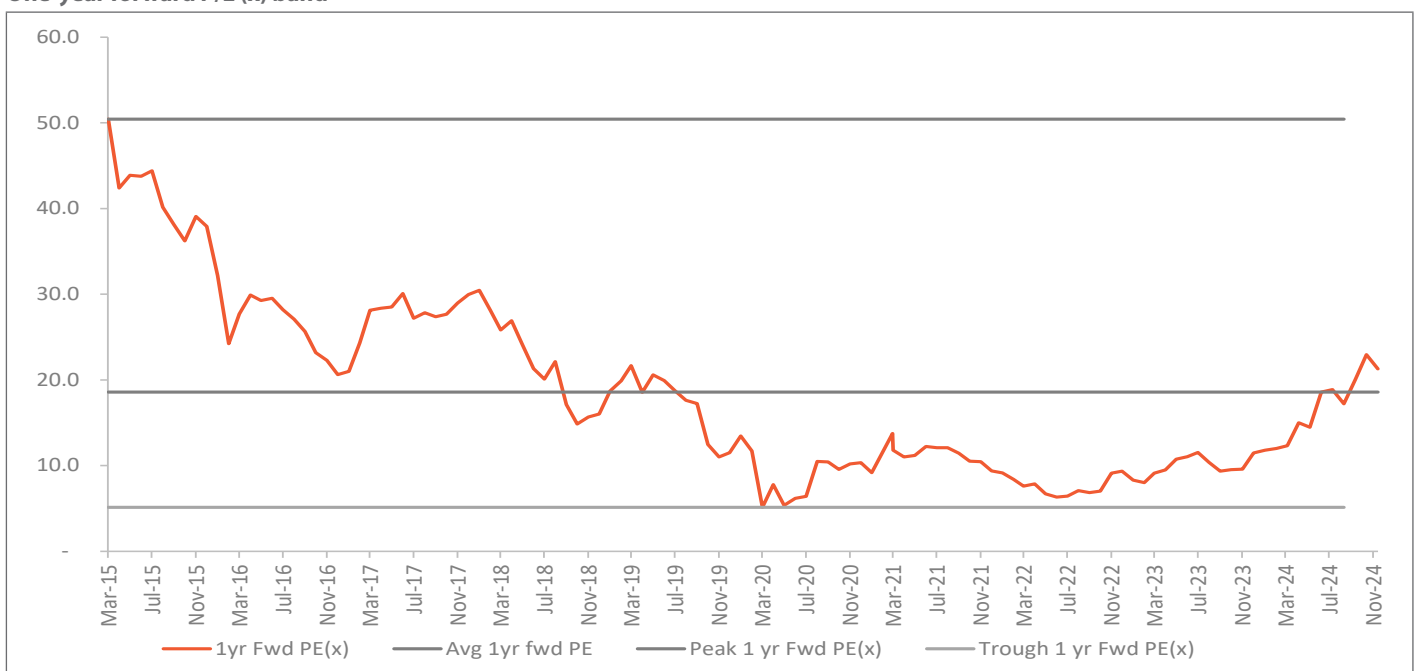
■ Company Outlook – Creating enduring value

VA Tech has a strong order book of over Rs. 14,604 crore (~4.9x its TTM consolidated revenue), funded by the entre, 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. 2,100

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 over the next few years. Further, the company is focused on improving the margin to 13-15% and is on the cusp of a healthy growth trajectory. 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 of Rs. 14,604 crore (4.9x TTM revenue) provides good visibility. At CMP, the stock trades at a P/E of ~25.4x/21.3x its FY26E/27E 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. 2,100.

One-year forward P/E (x) band



Source: Sharekhan Research

About the 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, wastewater treatment and desalination 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 1600 and has a presence in more than 25 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 90 million people. The company is a globally known organisation with decades of rich experience, over 1,500 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 focus is expected to remain on emerging themes like desalination, ultra-pure water etc., 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: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jhunjhunwala Rekha Rakesh	8.04
2	Norges Bank	2.64
3	Blackrock Inc	2.20
4	BASERA HOME FINANCE PVT LTD	1.91
5	Vanguard Group Inc/The	1.64
6	Dimensional Fund Advisors LP	1.47
7	Motilal Oswal Asset Management Co	1.32
8	OekoWorld Lux SA	1.03
9	Capital Securities Investment Trus	0.72
10	BAJAJ FINSERV MUTUAL FUND	0.57

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. CIN: - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6115000.

Correspondence/Administrative Office Address - Gigaplex IT Park, Unit No 1001, 10th Floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE (CASH / F&O / CD) / MCX - Commodity: INZ000171337; BSE – 748, NSE – 10733, MCX – 56125, DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669 (date of initial registration: 03/07/2004, and valid till 02/07/2026); IRDAI Registered Corporate Agent (Composite) License No. CA0950, valid till June 13, 2027.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022- 41523200/022-69920600.