

### 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	✓	↔	✓

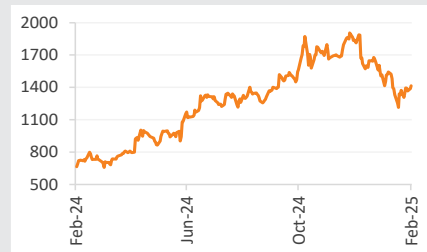
### Company details

Market cap:	Rs. 8,798 cr
52-week high/low:	Rs. 1944/650
NSE volume: (No of shares)	5.8 lakh
BSE code:	533269
NSE code:	WABAG
Free float: (No of shares)	5.0 cr

### Shareholding (%)

Promoters	19.1
FII	18.9
DII	2.0
Others	60.0

### Price chart



Source: NSE India, Mirae Asset Sharekhan Research

### Price performance

(%)	1m	3m	6m	12m
Absolute	-6.7	-21.3	8.8	106.1
Relative to Sensex	-5.3	-17.3	12.2	99.5

Source: Mirae Asset Sharekhan Research, Bloomberg

## Va Tech Wabag Ltd

### Decent Q3; strong orderbook to drive growth

Capital Goods	Sharekhan code: WABAG
Reco/View: Buy	CMP: Rs. 1,415 Price Target: Rs. 1,650
↑ Upgrade	↔ Maintain ↓ Downgrade

#### Summary

- Va Tech Wabag's adjusted net profit increased 11.6% y-o-y to Rs. 70 crore. Revenue of Rs. 811 crore grew 15.1% y-o-y and OPM stood at 12.4%, down 166 bps y-o-y.
- Order backlog stands strong at Rs. 14,263 crore and order pipeline is promising across Middle East, Africa, CIS nations, and SE Asian countries. The company is the preferred bidder for Rs. 2,000-2,500 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. 1,650 (we have cut the valuation and target price to factor in the increased volatility in the market). The stock trades at a P/E of ~23.1x/18.1x its FY26E/27E EPS.

**VA Tech Wabag Limited reported a decent performance during Q3FY2025 with sales growth of 15.1% y-o-y to Rs. 811 crore. Domestic revenue increased 24% y-o-y to Rs. 496 crore while the international revenue was up 2% y-o-y to Rs. 308 crore. OPM of 12.4% decreased 166bps y-o-y because of fall in gross margin. This was due to the higher mix of domestic business. Consequently, operating profit of Rs. 100 crore grew 1.5% y-o-y. Adjusted profit rose 11.6% y-o-y to Rs. 70 crore with decrease in tax rate. Order backlog at the end of the quarter stood at Rs. 14,263 crore (4.6x of TTM revenue). Order intake for 9MFY25 has been strong at Rs. 5,075 crore. Company has won four orders in the last quarter – two in Middle East, one in India and one in Africa. The total value of these orders was Rs. 4,338 crore. The company's win ratio for any order is generally ~30-40%.**

#### Key positives

- The company has a good orderbook and received a huge Rs. 3,251 crore order recently.

#### Key negatives

- OPM decreased 166 bps y-o-y to 12.4%
- Company hasn't been able to translate the orderbook into strong revenue growth yet.

#### Management Commentary

- In Q2FY25, management had guided for 2HFY25 revenues to be Rs. 2,000 crore and company has maintained the guidance in the current quarter. So, Q4FY25 should be a strong quarter.
- Company won an order in Zambia, Africa worth Rs. 700 crore and it is multilaterally funded by European Investment Bank and KfW of Germany. Another order win was for a 200 MLD Independent sewage treatment plant in Riyadh, Saudi Arabia for Rs. 3,251 crore. The company's share in this order is 55% as it was a consortium order. The margins would gradually increase as the higher margin international orders start flowing through the revenue.
- The Saudi order of Rs. 2,700 crore was cancelled because the client retendered it to change its scope. The company is currently working on the tender and have to submit it in 8 weeks.
- The net cash surplus is Rs. 262 crore excluding the transitory HAM debt. India Rating and Research, a Fitch Group company has upgraded company's long term rating to AA(-) with a stable outlook. The borrowing limit has been raised to Rs. 6,000 crore after shareholders approval for future growth. The bank limits would also be increased from Rs. 4,000 crore to Rs. 5,000 crore.

**Revision in earnings estimates** – We have cut our FY25-26 estimates because of lower margin and maintained FY27 earnings estimates.

#### Our Call

**Valuation – Maintain BUY with a revised PT of Rs. 1,650:** The company's order book is robust and, with a promising order pipeline, it aims to deliver a healthy 15% revenue CAGR over the next few years and maintain the margin at 13-15%. 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. 14,263 crore (4.6x TTM revenue) provides good visibility. We maintain a Buy rating on the stock with a revised price target of Rs. 1,650, valuing it at 21x FY27 EPS (the cut in valuation and target price is to factor in the increased volatility in the market). At CMP, the stock trades at a P/E of ~23.1x/18.1x its FY26E/27E earnings.

#### Key Risks

- Lumpiness in order book execution could impact the company's revenue and cash flows.
- Non-payment of dues can affect the profitability.

#### Valuation (Consolidated)

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Revenue from Operations	2,960	2,856	3,272	3,742	4,312
Operating Profit Margin (%)	10.7	13.2	12.9	13.5	14.6
Adjusted PAT	230	246	297	381	487
Adjusted EPS (Rs.)	36.9	39.5	47.8	61.2	78.3
P/E (x)	38.3	35.8	29.6	23.1	18.1
P/BV (x)	5.6	4.8	4.1	3.5	2.9
EV/EBITDA (x)	28.0	23.5	20.9	17.3	13.9
RoCE (%)	17.6	18.5	17.5	19.4	21.0
RoE (%)	14.6	14.5	15.1	16.5	17.8

Source: Company; Mirae Asset Sharekhan estimates

## Results (Consolidated)

Particulars	Rs cr				
	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
<b>Revenue</b>	<b>811</b>	<b>704</b>	<b>15.1</b>	<b>700</b>	<b>15.8</b>
<b>Operating Profit</b>	<b>100</b>	<b>99</b>	<b>1.5</b>	<b>94</b>	<b>7.3</b>
Depreciation	1	2	-38.1	1	0.0
Interest	20	17	21.6	19	6.8
Other Income	15	4	300.0	14	7.2
<b>PBT</b>	<b>94</b>	<b>84</b>	<b>11.7</b>	<b>87</b>	<b>7.5</b>
Exceptional item	0	0	NA	0	NA
Tax Expense	21	21	0.0	22	-6.3
Reported PAT	70	63	12.1	70	-0.1
<b>Adjusted PAT</b>	<b>70</b>	<b>63</b>	<b>11.6</b>	<b>71</b>	<b>-0.6</b>
<b>EPS (Rs.)</b>	<b>11.1</b>	<b>10.1</b>	<b>10.1</b>	<b>11.2</b>	<b>-0.5</b>
<b>Margins</b>			<b>BPS</b>		<b>BPS</b>
OPM (%)	12.4	14.0	-166	13.4	-99
NPM (%)	8.7	8.9	-27	10.1	-143
Tax Rate (%)	22.1	24.7	-259	25.4	-326

Source: Company; Mirae Asset 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.

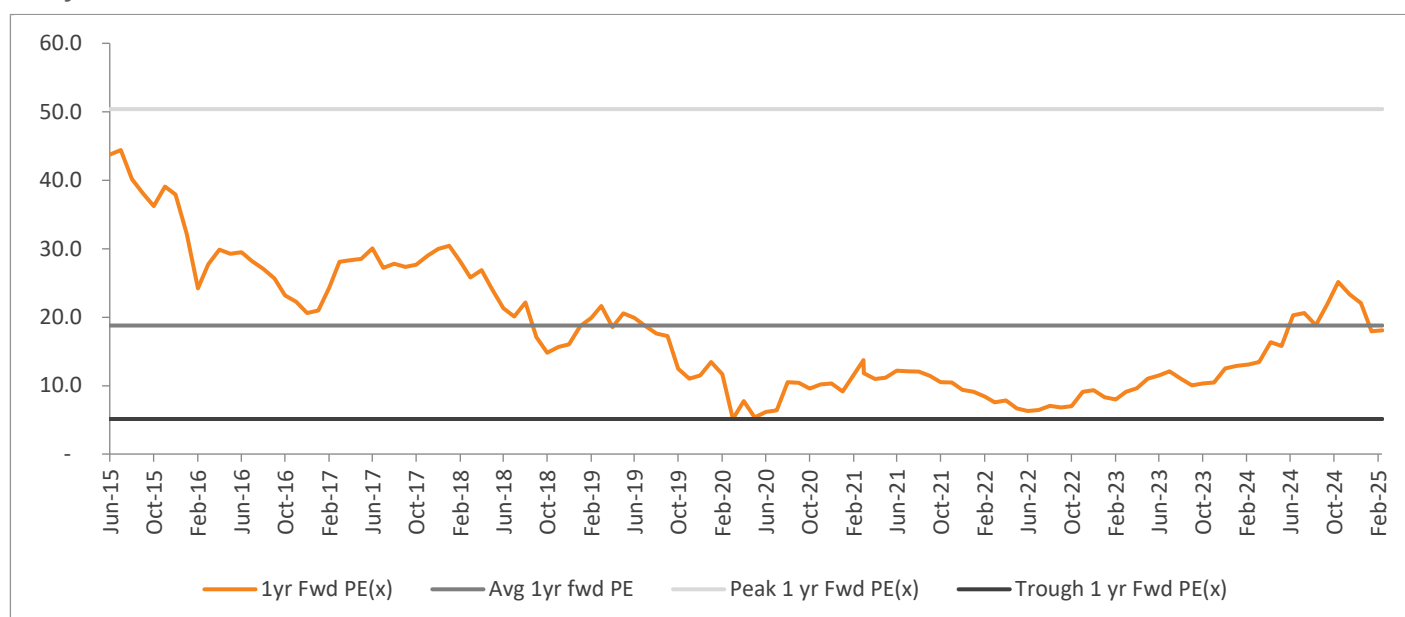
### ■ Company Outlook – Creating enduring value

VA Tech has a strong order book of over Rs. 14,263 crore (~4.6x its TTM consolidated revenue), with a significant chunk 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. 1,650

The company's order book is robust and, with a promising order pipeline, it aims to deliver a healthy 15% revenue CAGR over the next few years and maintain the margin at 13-15%. 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. 14,263 crore (4.6x TTM revenue) provides good visibility. We maintain a Buy rating on the stock with a revised price target of Rs. 1,650, valuing it at 21x FY27 EPS (the cut in the target price is to factor in the increased volatility in the market). At CMP, the stock trades at a P/E of ~23.1x/18.1x its FY26E/27E earnings.

### One-year forward P/E band



Source: Company; Mirae Asset 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, 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 affect the profitability.

## Additional Data

### Key management personnel

Management	Designation
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	Vanguard Group Inc/The	2.83
3	Norges Bank	2.64
4	Blackrock Inc	2.25
5	BASERA HOME FINANCE PVT LTD	1.91
6	Dimensional Fund Advisors LP	1.56
7	Invesco Ltd	1.17
8	Federated Hermes Inc	1.09
9	OekoWorld Lux SA	0.77
10	Capital Securities Investment Trus	0.75

Source: Bloomberg

## Understanding the Mirae Asset 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: Mirae Asset Sharekhan Research

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