

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. 9,652 cr
52-week high/low:	Rs. 1,944/820
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	18.6
DII	3.0
Others	59.3

Price chart


Source: NSE India, Mirae Asset Sharekhan Research

Price performance

(%)	1m	3m	6m	12m
Absolute	8.8	10.8	-8.4	59.3
Relative to Sensex	6.1	1.0	-11.9	49.1

Source: Mirae Asset Sharekhan Research, Bloomberg

Va Tech Wabag Ltd
Strong Q4; Maintain Buy

Capital Goods	Sharekhan code: WABAG		
Reco/View: Buy	↔	CMP: Rs. 1,552	Price Target: Rs. 1,770 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- Va Tech Wabag's adjusted net profit increased 37.4% y-o-y to Rs. 100 crore. Revenue of Rs. 1,156 crore grew 23.8% y-o-y and OPM stood at 12.2%, down 19 bps y-o-y.
- Order backlog stands strong at Rs. 13,667 crore. The company is also preferred bidder for Rs. ~3,000 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. 1,770, valuing it at 23x its FY27 EPS. The stock trades at a P/E of ~25x/20x its FY26E/27E EPS.

VA Tech Wabag Limited (Va Tech) reported a strong performance during Q4FY2025 with sales growth of 23.8% y-o-y to Rs. 1,156 crore. This helped them meet the 15% revenue growth guidance for FY25. OPM of 12.2% decreased 19bps y-o-y because of fall in gross margin (474 bps y-o-y) and it was compensated by a reversal of provision in other expenses. The gross margin was down because of the higher presence of construction element in the quarter (execution of the 400 MLD Perur desalination plant). Operating profit of Rs. 141 crore grew 21.9% y-o-y. Adjusted profit rose 37.4% y-o-y to Rs. 100 crore with the absence of minority interest this year. The company has declared a dividend of Rs. 4/share for FY25.

Key positives

- The Saudi Arabia order which was cancelled is expected to be won again by the next quarter (almost of the same size) and the company is the preferred bidder for it.

Key negatives

- The gross margin was down 474 bps y-o-y.

Management Commentary

- The company has an orderbook of Rs. 13,667 crore and a preferred orderbook of Rs. ~3,000 crore (the Saudi Arabia order).
- Company expects to bid for Rs. 15,000-20,000 crore worth of projects every year and expects to win Rs. 6,000 crore out of it. (30% win rate).
- In the equity partnership with the investor consortium which includes Norfund, due diligence is going on and it is expected to close in the next few months. Till then, the company is scouting for projects.
- The net cash surplus is a strong Rs. 760 crore (excluding the transitory HAM debt). It is an improvement of Rs. 360 crore over FY24.

Our Call

Valuation - Maintain Buy with a revised PT of Rs. 1,770: 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. 13,667 crore (4.15x TTM revenue) provides good visibility. We maintain a Buy rating on the stock with a revised price target of Rs. 1,770, valuing it at 23x FY27 EPS (from 21x earlier due to strong execution). At CMP, the stock trades at a P/E of ~25x/20x 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)

	Rs cr				
Rs. Crore	FY23	FY24	FY25	FY26E	FY27E
Revenue from Operations	2,960	2,856	3,294	3,827	4,431
Operating Profit Margin (%)	10.7	13.2	12.8	13.2	13.8
Adjusted PAT	230	246	295	385	478
Adjusted EPS (Rs.)	36.9	39.5	47.5	61.9	76.9
P/E (x)	42.0	39.3	32.7	25.1	20.2
P/BV (x)	6.1	5.3	4.5	3.9	3.3
EV/EBITDA (x)	30.7	25.8	22.9	19.0	15.9
RoCE (%)	17.6	18.5	17.0	19.0	20.3
RoE (%)	14.6	14.5	14.9	16.6	17.6

Source: Company; Mirae Asset Sharekhan estimates

Results (Consolidated)

Particulars	Rs cr				
	Q4FY25	Q4FY24	YoY (%)	Q3FY25	QoQ (%)
Revenue	1156	934	23.8	811	42.6
Operating Profit	141	116	21.9	100	40.2
Depreciation	1	3	-44.0	1	7.7
Interest	22	22	-1.4	20	5.9
Other Income	11	8	39.0	15	-23.0
PBT	129	99	30.1	94	38.1
Exceptional item	0	0	NA	0	NA
Tax Expense	32	22	45.0	21	52.7
Reported PAT	100	78	27.4	70	41.7
Adjusted PAT	100	72	37.4	70	41.7
EPS (Rs.)	15.8	11.6	35.5	11.1	41.7
Margins			BPS		BPS
OPM (%)	12.2	12.4	-19	12.4	-20
NPM (%)	8.6	7.7	86	8.7	-5
Tax Rate (%)	24.4	21.9	251	22.1	232

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 USD453 billion by 2028 at a CAGR of 7.7% over 2023-2028. 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. 13,667 crore (~4.15x 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. 1,770

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. 13,667 crore (4.15x TTM revenue) provides good visibility. We maintain a Buy rating on the stock with a revised price target of Rs. 1,770, valuing it at 23x FY27 EPS (from 21x earlier due to strong execution). At CMP, the stock trades at a P/E of ~25x/20x its FY26E/27E earnings.

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

Name	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	3.16
3	Blackrock Inc	2.46
4	Norges Bank	2.21
5	Dimensional Fund Advisors LP	1.62
6	Federated Hermes Inc	1.51
7	BASERA HOME FINANCE PVT LTD	1.31
8	Motilal Oswal Asset Management Co	1.22
9	ISHARES II PUBLIC LTD CO	1.09
10	Invesco Ltd	0.88

Source: Bloomberg

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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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Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-6750 2000. Fax no. 022 2432 7343.

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.

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited - (AMFI-registered Mutual Fund Distributor), Research Analyst Regn No.: INH000006183. CIN: U99999MH1995PLC087498.

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-6226 3303; email id: complianceofficer@sharekhan.com

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