

Retail Equity Research
VA Tech Wabag Ltd.
Capital Goods

BSE CODE : 533269 NSE CODE: WABAG
BLOOMBERG CODE: VATW:IN SENSEX : 76,490

ACCUMULATE

12 Months Investment Period Rating as per Small Cap
CMP Rs.1,154 TARGET Rs. 1,340 RETURN 16% ↑
(Closing: 10-06-2024)

KEY CHANGES: TARGET ↑ RATING ↔ EARNINGS ↓

Positive orderbook outlook, Margins to improve

VA Tech Wabag Ltd. (VATW), is a Chennai-based multinational company specializing in water technology. With its expertise in the turnkey execution and operation of water and wastewater treatment plants, the company primarily serves both municipal and industrial sectors, focusing on providing comprehensive solutions for water-related challenges.

- VATW beat our FY24 revenue and EBITDA estimates, but PAT missed by 6% due to higher finance costs, tax expenses, and lower other income.
- At4XFY24 Revenues, the orderbook position at ~Rs.114 bn. provides long-term topline visibility. O&M and the industrial segment's share of the orderbook pie improved with higher intake from international and industrial orders, which is in line with the company's strategy.
- VATW expects to unlock more value from the CBG sector, shifting its focus to selling gas rather than captive purposes. Management guided for 15-20% CAGR topline growth for 3-5 years with optimistic improvements in EBITDA and PAT margins. The medium-term outlook expects order inflow contributions to be driven by international, industrial, and O&M segments.
- We build our expectations for topline to grow at ~17%CAGR in FY24-26E period and EBITDA/PAT margins to improve to 13.8%/9.5% by FY26E. With the EPS expected to grow at ~22%%CAGR, we value the stock at 22X PE on FY26EPS , maintaining our recommendation to AC-CUMULATE the stock with a target of Rs.1,340.

Revenue & EBITDA beat Geojit Estimates, PAT miss

VATW beat our FY24 Revenue/EBITDA estimates by 2%/4% respectively. Despite 3.5%YoY decline in revenues in FY24, lower costs of revenues and other operational expenses aided in 242bps expansion in EBITDA margins. However, an increase in finance costs, higher tax expenses, and lower other income led to a 17.1% YoY decline in PAT, which missed our estimates by 6%.

Orderbook composition and intake in-line with strategy

With ~Rs.114bn. in orderbook (incl. framework contracts) at hand, the orderbook-to-sales ratio stands at 4XFY24 revenues, which provides visibility for the long term. O&M's share of the pie increased by 5%, & industrials increased by 3%. While the Indian orderbook remains higher, FY24 saw a higher intake of international orders, with over 67% from the rest of the world and 24% from the industrial segment.

Positive commentary on CBG, Hydrogen and Semiconductor play

The management reiterated its interest in Compressed Biogas (CBG) sector, shifting focus from captive purposes to selling the gas to the government, PSUs and gas stations etc. Moreover, it looks to tap into semiconductor and green hydrogen manufacturing opportunities by being a water partner. Although the current cost is high, the management expects hydrogen production to be more affordable in the future.

Guidance indicates topline and margin improvement

The management has guided a robust pipeline, with bids submitted for more than 1bn dollars in the Gulf region alone. Topline growth is expected to be at 15-20% CAGR growth in the top line for the next 3-4 years, and EBITDA/PAT margins are targeted to be in the range of 13%-15%/9%-10% respectively. The orderbook is expected to grow to ~Rs.16,000Cr. in FY25E, with a good pick-up from the second quarter in India & ME&A. The medium-term outlook guides for 50%/30% of the order inflows to come from international/industrial segments, while the O&M segment would constitute 20%.

Valuations

We build our top-line expectations at ~16%/18% YoY growth in FY25E/FY26E driven by a robust pipeline & strong executions. Focus on international, O&M and industrial segments is expected to deliver better margins. Nevertheless, we build a 13.8%/9.5% EBITDA/PAT margin expectation, which is conservative to guidance due to geopolitical instabilities and inflationary pressures . With EPS forecasted to grow at ~23% CAGR in FY24-26E period, we value the stock at 22XFY26E-EPS & recommend accumulating the stock with a target of Rs. 1,340.

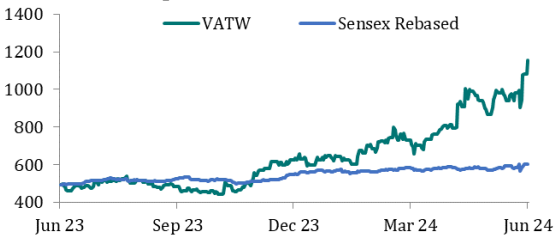
Company Data

Market Cap (cr)	₹ 7,179
Enterprise Value (cr)	₹ 6,957
Outstanding Shares (cr)	6.2
Free Float (%)	81
Dividend Yield (%)	-
52 week high	₹ 1,177
52 week low	₹ 436
6m average volume (cr)	0.07
Beta	0.8
Face value	₹ 2

Shareholding (%)	Q2FY24	Q3FY24	Q4FY24
Promoters	19.1	19.1	19.1
FII's	15.6	13.1	12.5
MFs/Institutions	3.5	5.9	5.6
Public	61.7	61.9	62.8
Total	100.0	100.0	100.0
Promoter pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	66.1%	81.3%	133.8%
Absolute Sensex	3.8%	9.9%	22.1%
Relative Return*	62.2%	71.4%	111.6%

*over or under performance to benchmark index



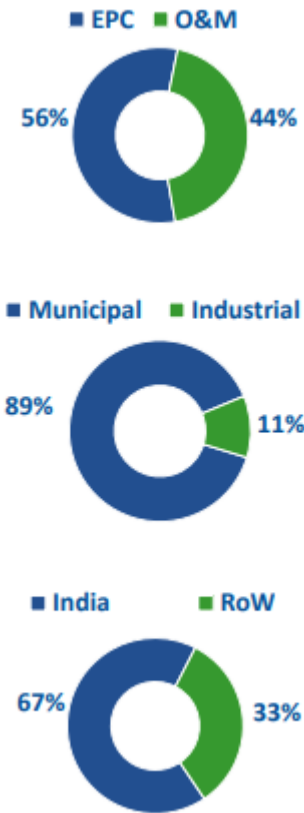
Consolidated (cr)	FY24A	FY25E	FY26E
Sales	2,856.4	3,307.6	3,903.0
Growth (%)	-3.5	15.8	18.0
EBITDA	375.7	448.2	546.4
EBITDA Margin(%)	13.2	13.6	14.0
PAT Adj.	250.4	299.0	378.7
Growth (%)	-16.6	19.4	26.7
Adj.EPS	40.3	48.1	60.9
Growth (%)	-16.6	19.4	26.7
P/E	28.7	24.0	19.0
P/B	3.9	3.4	2.9
EV/EBITDA	19.9	16.6	13.5
ROE (%)	14.8	15.2	16.4
D/E	0.2	0.1	0.1

Quarterly Financials (Consolidated)

Profit & Loss Account

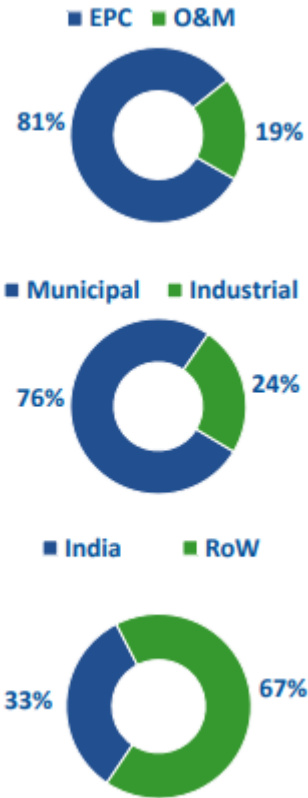
(Rs cr)	Q4FY24	Q4FY23	YoY Growth (%)	Q3FY24	QoQ Growth (%)	FY24	FY23	YoY Growth (%)
Sales	934.2	926.9	0.8	704.4	32.6	2,856.4	2,960.5	-3.5
EBITDA	115.5	108.4	6.5	98.9	16.8	375.7	317.8	18.2
EBITDA margins (%)	12.4	11.7	66bps	14.0	-168bps	13.2	10.7	242bps
Depreciation	2.5	2.2	16.3	2.1	19.0	8.4	8.8	-4.7
EBIT	113.0	106.3	6.3	96.8	16.7	367.3	309.0	18.9
Interest	21.8	16.2	34.8	16.7	30.5	71.1	65.8	8.1
Other Income	8.2	7.7	7.2	3.7	121.6	43.4	53.6	-19.0
Exceptional Items	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
PBT	99.4	97.8	1.7	83.8	18.6	339.6	296.8	14.4
Tax	21.8	-29.9	-172.9	20.7	5.3	79.7	5.9	1,250.8
Reported PAT	78.1	-112.0	-169.8	62.6	24.8	250.4	12.9	1,848.6
Adjustments	0.0	243.4		0.0		0.0	2,892.3	
Adj PAT	78.1	131.4	-40.6	62.6	24.8	250.4	302.1	-17.1
No. of Shares	6.2	6.2		6.2		6.2	6.2	
EPS (Rs)	12.6	-18.0	-169.8	10.1	24.8	40.3	2.1	1,848.6

FY24 Order book breakup

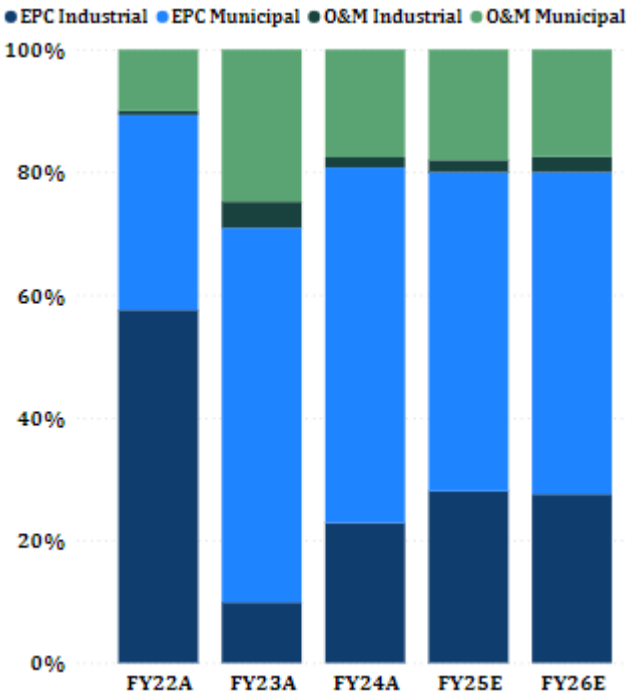


Source: Q4FY24 Investor presentation, Company.

FY24 Order Intake breakup



FY24-26E forecasted Order inflow mix



Source: Company, Geojit Research.

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY25E
Revenue	3,341	3,719	3,308	3,903	-1.00	4.95
EBITDA	461	517	448	546	-2.78	5.69
Margins (%)	13.8	13.9	13.6	14.0	-20bps	10bps
Adj. PAT	339	380	299	379	-11.80	-0.33
EPS	54	61	48	61	-11.62	-0.32

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue	2,979.3	2,960.5	2,856.4	3,307.6	3,903.0
% change	5.1	-0.6	-3.5	15.8	18.0
EBITDA	237.0	317.8	375.7	448.2	546.4
% change	8.3	34.1	18.2	19.3	21.9
Depreciation	10.1	8.8	8.4	8.3	8.2
EBIT	226.9	309.0	367.3	439.9	538.2
Interest	87.7	65.8	71.1	71.9	64.0
Other Income	32.4	53.6	43.4	43.4	43.4
PBT	171.6	7.6	339.6	411.3	517.7
% change	37.8	-95.6	4,380.2	21.1	25.9
Tax	36.3	5.9	79.7	102.8	129.4
Tax Rate (%)	21.2	77.8	23.5	25.0	25.0
Reported PAT	132.1	12.9	250.4	299.0	378.7
Adj*	0.0	289.2	0.0	0.0	0.0
Adj PAT	132.1	300.1	250.4	299.0	378.7
% change	20.0	127.1	-16.6	19.4	26.7
No. of shares (cr)	6.2	6.2	6.2	6.2	6.2
Adj EPS (Rs.)	21.2	48.3	40.3	48.1	60.9
% change	20.0	127.1	-16.6	19.4	26.7
DPS (Rs.)	0.0	0.0	0.0	0.0	0.0

CASH FLOW

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Net inc. + Depn.	142.3	21.7	258.8	307.3	386.9
Non-cash adj.	151.2	16.1	162.9	71.9	64.0
Changes in W.C	-281.7	49.2	-288.2	155.3	-246.7
C.F – Operation	11.7	86.9	133.5	534.6	204.2
Capital exp.	-2.6	-1.7	-11.0	1.0	1.0
Change in inv.	-18.3	0.0	43.8	-3.4	-3.5
Other invest.CF	-13.1	17.5	51.3	0.0	0.0
C.F – Investment	-34.0	15.8	84.1	-2.7	-2.3
Issue of equity	0.0	0.0	0.0	0.0	0.0
Issue/repay debt	46.2	-238.3	41.1	-109.9	-84.0
Dividends paid	-0.2	0.0	0.0	0.0	0.0
Other finance.CF	0.2	13.0	0.0	0.0	0.0
C.F – Finance	44.3	-227.1	43.6	-109.9	-84.0
Chg. in cash	22.1	-124.5	261.2	421.9	117.9
Closing cash	320.8	221.5	439.9	861.8	979.7

BALANCE SHEET

Y.E March (Rs. cr)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash	321.0	180.6	439.9	861.8	979.7
Accounts Receivable	2,071.1	2,193.9	2,521.5	2,310.8	2,726.7
Inventories	32.0	35.3	35.9	41.0	48.1
Other Cur. Assets	1,285.3	1,349.0	1,158.4	1,322.3	1,363.6
Investments	37.6	45.8	67.1	70.5	74.0
Gross Fixed Assets	136.3	119.1	124.6	123.6	122.6
Net Fixed Assets	76.6	71.8	68.9	59.6	50.4
CWIP	0.0	0.0	0.0	0.0	0.0
Intangible Assets	3.3	3.6	3.6	3.6	3.6
Def. Tax (Net)	36.2	37.1	45.0	45.4	45.2
Other Assets	139.3	172.1	234.2	217.5	256.6
Total Assets	4,002.3	4,089.2	4,574.5	4,932.4	5,547.9
Current Liabilities	1,926.5	2,227.2	2,082.1	2,292.0	2,527.3
Provisions	81.6	66.1	128.0	90.6	106.9
Debt Funds	428.5	213.2	280.6	242.6	222.6
Other Liabilities	26.6	7.8	265.1	189.4	194.6
Equity Capital	12.4	12.4	12.4	12.4	12.4
Reserves & Surplus	1,526.7	1,562.5	1,806.3	2,105.3	2,484.0
Shareholder’s Fund	1,539.1	1,574.9	1,818.7	2,117.7	2,496.4
Total Liabilities	4,002.3	4,089.2	4,574.5	4,932.4	5,547.9
BVPS (Rs.)	247.5	253.2	292.4	340.5	401.4

RATIOS

Y.E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profitab. & Return					
EBITDA margin (%)	8.0	10.7	13.2	13.6	14.0
EBIT margin (%)	7.6	10.4	12.9	13.3	13.8
Net profit mgn.(%)	4.4	10.1	8.8	9.0	9.7
ROE (%)	9.0	19.3	14.8	15.2	16.4
ROCE (%)	7.3	8.9	10.7	11.4	12.6
W.C & Liquidity					
Receivables (days)	243.1	262.9	301.3	266.6	235.6
Inventory (days)	3.8	4.1	4.5	4.2	4.2
Payables (days)	186.0	188.4	198.7	184.6	185.3
Current ratio (x)	1.8	1.6	1.9	1.9	1.9
Quick ratio (x)	1.1	1.0	1.2	1.0	1.1
Turnover & Leverage					
Gross asset T.O (x)	21.4	23.2	23.4	26.7	31.7
Total asset T.O (x)	0.7	0.7	0.7	0.7	0.7
Int. coverage ratio (x)	2.6	4.7	5.2	6.1	8.4
Adj. debt/equity (x)	0.3	0.1	0.2	0.1	0.1
Valuation					
EV/Sales (x)	2.6	2.5	2.6	2.2	1.9
EV/EBITDA (x)	32.1	23.3	19.9	16.6	13.5
P/E (x)	54.3	23.9	28.7	24.0	19.0
P/BV (x)	4.7	4.6	3.9	3.4	2.9



Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
18-Nov-20	ACCUMULATE	220
17-Feb-21	BUY	288
22-Jun-21	ACCUMULATE	393
23-Nov-21	ACCUMULATE	385
21-Nov-22	BUY	370
21-Mar-23	ACCUMULATE	383
15-Nov-23	BUY	684
16-Feb-24	ACCUMULATE	855
10-Jun-24	ACCUMULATE	1,340

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note; **Accumulate:** Partial buying or to accumulate as CMP dips in the future; **Hold:** Hold the stock with the expected target mentioned in the note.; **Reduce:** Reduce your exposure to the stock due to limited upside.; **Sell:** Exit from the stock; **Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute ‘Accumulate’ as Buy and ‘Reduce’ as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review

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However, one of our major share holder, Mrs.Rekha Rakesh Jhunjhunwala/her close relative has over 1% stake in the subject company.

Further, the Analyst confirms that:

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