

Va Tech Wabag India Ltd: Q2FY16 Result Update

Strong execution; robust inflows
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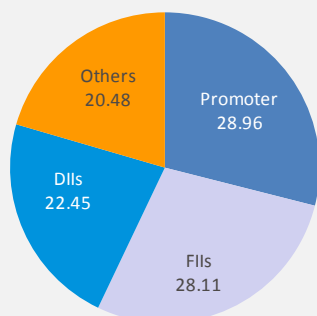
52-week range (INR): 973 / 615

Share in issue (Crs): 4.7

M cap (INR crs): 3,635

Avg. Daily Vol. 13.59/ 89.29

BSE/NSE :('000):

SHARE HOLDING PATTERN (%)

 Date: 10th November, 2015

Va Tech Wabag Ltd. (VTW) has reported strong Q2FY16 results, with net sales at INR 602 cr and EBITDA at INR 44 cr, which beat our estimate of INR 30 cr. EBITDA margins in Q2FY16 were at 7.3%, increasing 80 bps YoY inspite of provisioning for INR 5 cr in the Al-Ghubra project. In Q2FY16, the company added one major order from Petronas worth INR 1500 cr. It presently has a healthy order book of INR 8617 cr (including framework contracts), which is executable over the next 2-3 years. The company has given revenue guidance of 20% growth and maintained order intake guidance of INR 3700 cr for FY16. With the robust order intake of INR 3000 cr YTD, we expect the company to beat its order intake guidance. We believe that VTW is in a favorable position to gain from the huge order book and the completion of its loss making project in Oman.

Strong consolidated Q2FY16; Al-Ghubra project hurt margins slightly

Consolidated net sales for Q2FY16 at INR 602 cr, up 19% YoY and PAT at INR 14 cr was up 9.8% YoY. Sales for Q2FY16 were mainly driven by 34.5% YoY growth in the Indian business to INR 212 cr and International business by 10.5% YoY to INR 404 cr. The company has already booked revenues worth INR 74 crore from the Petronas order bagged in the same quarter. EBITDA at INR 44 cr was above our estimate of INR 30 cr due to robust execution. EBITDA margins for Q2FY16 at 7.3% were 80 bps above Q2FY15 margins 6.5%. The margins could have been better had it not been for the INR 5 cr cost overrun on the Al Gubrah project in Oman. The margins are expected to increase further in the coming quarters with the Al gubrah project coming to a closure with the final trials being conducted at the project and post that it is to be handed over to the client.

Order book at all time high of INR 8617 cr

VTW's order book of INR 8617 cr, comprises of INR 1427 cr worth of O&M orders(16.6% of Order-book) and the remaining INR 7190 cr from the EPC segment(83.4% of Order-book). Major order bagged for Q2FY16 was the Petronas Rapid order worth INR 1500 cr for the engineering, procurement, construction and commissioning of the Effluent Treatment Plant (ETP).

Management maintains strong guidance for FY16

Management is confident of achieving revenues in the range of INR 2800 – 3000 cr (15-23%) and Order Intake in the range of INR 3500 – 3700 cr. YTD the company has already won projects worth INR 3000 cr and we expect the order intake to be better than the guidance. Desalination projects (>400MLD) worth USD 1 bn will be coming up for bidding in South India in the coming 6 months, the management and is hopeful that it will be able to bag some of these projects in Q4FY16E. VTW has indicated that orders for Smart Cities, Swach Bharat and Namami Ganga are only expected 3-4 quarters from now but the management believes that the government is very proactive with these projects and these projects provide huge opportunities to VA Tech Wabag in the future. Internationally, the company expects incremental orders from West Asia in the coming quarters. The Bahrain order will also start contributing to the revenues by Q4FY16E and the framework order in Sri Lanka worth INR 676 cr is expected to convert into the order book by Q4FY16E as well.

Valuations

VTW presently trades at FY17E PE of 17.2 and based on FY17E EPS of INR 38.5, respectively. We maintain BUY on the stock.

Year to March	Q2FY16	Q2FY15	y-o-y	Q1FY16	q-o-q	FY15	FY16E	FY17E
Net Revenue (INR. Crs.)	602	507	18.8	457	32.0	2,435	2,900	3,538
EBITDA (INR Crs.)	44	33	34.5	12	259.7	211	260	342
Reported net profit	14	13	9.8	(10)	(236.8)	112	150	205
Adj. Diluted EPS (INR)	2.8	5.2	(47.2)	(1.8)	(251.3)	20.7	28.1	38.5
Diluted P/E (x)						31.9	23.5	17.2
EV/EBITDA (x)						15.3	12.5	9.5
RoCE (%)						18.7	20.2	24.1

Q2FY16 Result Highlights

Year to March (INR Crs.)	Q2FY16	Q2FY15	y-o-y	Q1FY16	Q-o-Q	FY15	FY16E	FY17E
Net Revenues	602	507	18.8	457	32.0	2,435	2,900	3,538
Raw Materials Cost	489	384	27.2	317	54.2	1,833	2,215	2,714
Gross Profit	114	123	(7.3)	139	(18.5)	602	684	824
Employee Expenses	50	64	(21.8)	88	(42.9)	278	305	351
Other Expenses	19	26	(24.8)	39	(50.8)	114	119	131
Operating Expenses	558	474	17.8	444	25.7	2,224	2,640	3,196
EBITDA	44	33	34.5	12	259.7	211	260	342
EBITDA margin	7.3%	6.5%	0.9%	2.7%		8.7%	9.0%	9.7%
Depreciation	5	6	(4.0)	5	3.7	11	16	18
Forex (Gain)/Loss	(3)	(2)		0				
Net finance expense	11	6	76.2	7	51.6	31	29	27
Profit before tax	31	23	33.4	(0)	(13,373.9)	169	223	306
Provision for taxes	15	9	71.7	10	53.6	57	74	101
Minority Interest	(2)	(1)		0				
Reported net profit	14	13	9.8	(10)	(236.8)	112	150	205
As % of net revenues								
COGS	81	76	5.3	69	11.7	75	76	77
Employee cost	8	13	(4.3)	19	(10.9)	11	11	10
Other Expenses	3	5	(1.9)	9	(5.4)	5	4	4
Operating expenses	93	94	(0.9)	97	(4.6)	91	91	90
EBITDA	7	6	0.9	3	4.6	9	9	10
Reported net profit	2	3	(0.2)	(2)	4.6	5	5	6
Tax rate (% of PBT)	48.8	37.9	10.9	(4,217.4)	4,266.2	33.6	33.0	33.0

Company Description

Va Tech Wabag (VTW) is engaged in the business of providing total water management solutions since 1996. It provides complete lifecycle solutions from product design to installation to operations and maintenance services (EPC and O&M services) for sewage treatment, processed & drinking water treatment, effluents treatment, sludge treatment and desalination plants. It provides these services to institutional clients like municipal corporations and companies in the infrastructure sectors such as Power, Steel and Oil & Gas companies. It is a multinational player in water treatment industry with a presence in India, Middle East, North Africa, Central & Eastern Europe, China and South East Asia.

VTW is a professionally managed company with promoters having an average of 20 years work experience in the water industry. The company is positioned as a pure-play water technology company and Wabag brand is in existence since 1924. It has a track record of delivering more than 2,250 projects over the last three decades. VTW is a technology focused company with R&D centers located in India, Austria and Switzerland and ownership of more than 100 patents. In the past four years, VTW grew at a CAGR of 18% in revenues and 20% in PAT.

Investment Theme

Va Tech Wabag (VTW) is a technology focused company providing complete lifecycle solution in water and waste water treatment space, including EPC and O&M services, across the Middle East, North Africa, Central & Eastern Europe, China and South East Asia. The company has asset light business model whereby it focuses on design and engineering work while capital intensive construction work is outsourced. It has witnessed a strong 25% CAGR in order inflows in the past three years, driven by a 22% CAGR in EPC and 47% CAGR in O&M. Further inflows are expected to be strong due to the impending increase in capex for water and sewage projects in India and international markets. The company has been reporting continuous improvement in margins for the past five years, led by the increased share of high margin O&M contracts and multi-geographical strategy (to save cost by servicing through low cost locations such as Turkey, Philippines, etc.). Global capex on water infrastructure is estimated to grow at a CAGR of 6.4% to USD 131 bn per annum by 2016 which would largely be driven by Middle East, Africa, China, Europe, South Asia and South East Asia, where VTW is focussed on.

Key Risks

Execution risk: The company outsources construction and has dependency over its subcontractors for timely completion of projects. Any delay on the part of sub-contractors may negatively impact its margins.

Financing to sub-contractor: VTW has been operating at a low working capital, with net current asset days of 65-70 days. In the present tight liquidity scenario, the company financed its sub-contractors for timely completion of projects. Any further increase in advances to subcontractors would impact the cash flows and in turn the working capital cycle.

Delay in revival of international operations: The company is reducing costs in international operations by reducing workforce in high-cost locations and would instead focus on multi domestic units. Any delay in revival of international MDUs would impact improvement in margins

Financials

Income statement					(INR crs)
Year to March	FY13	FY14	FY15	FY16E	FY17E
Income from operations	1,619	2,239	2,435	2,900	3,538
Direct costs	1,185	1,708	1,833	2,215	2,714
Employee costs	201	222	278	305	351
Other expenses	279	322	391	425	482
Total operating expenses	1,464	2,030	2,224	2,640	3,196
EBITDA	155	209	211	260	342
Depreciation and amortisation	11	15	11	16	18
EBIT	144	193	200	243	324
Interest expenses	22	25	31	29	27
Other income	13	18	0	9	9
Profit before tax	135	186	169	223	306
Provision for tax	46	53	57	74	101
Core profit	90	134	112	150	205
Extraordinary items	0	(5)	2	0	0
Profit after tax	90	129	114	150	205
Minority Interest	1	(0)	(0)	(0)	(0)
Adjusted net profit	90	128	114	149	205
Equity shares outstanding (cr)	3	3	5.3	5.3	5.3
Adjusted EPS (INR) basic	17.0	24.1	20.7	28.1	38.5
Diluted shares (cr)	2.7	2.7	5.3	5.3	5.3
EPS (INR) fully diluted	17.0	24.1	20.7	28.1	38.5
Dividend per share	7.0	8.0	3.8	5.2	7.1
Dividend payout (%)	20.6	15.9	18.5	18.5	18.5

Common size metrics- as % of net revenues

Year to March	FY13	FY14	FY15	FY16E	FY17E
Operating expenses	90.4	90.7	91.3	91.0	90.3
Depreciation	0.7	0.7	0.4	0.6	0.5
Interest expenditure	1.4	1.1	1.3	1.0	0.8
EBITDA margins	9.6	9.3	8.7	9.0	9.7
Net profit margins	5.6	5.7	4.7	5.2	5.8

Growth metrics (%)

Year to March	FY13	FY14	FY15	FY16E	FY17E
Revenues	12.1	38.3	8.8	19.1	22.0
EBITDA	19.1	34.6	1.3	23.0	31.7
PBT	21.7	37.9	(9.4)	32.4	37.0
Net profit	22.5	49.4	(16.2)	33.5	37.0
EPS	22.0	41.9	(14.3)	35.6	37.1

Balance sheet					(INR crs)
As on 31st March	FY13	FY14	FY15E	FY16E	FY17E
Equity share capital	5.3	5.3	10.6	10.6	10.6
Reserves & surplus	710	836	927	1,049	1,216
Shareholders funds	715	841	938	1,060	1,226
Borrowings	82	158	208	208	208
Minority interest	2	3	3	3	3
Sources of funds	799	1,002	1,149	1,271	1,437
Gross block	114	175	195	215	235
Depreciation	63	56	67	83	101
Net block	51	119	128	132	134
Capital work in progress	48	69	0	0	0
Total fixed assets	99	188	128	132	134
Investments	3	23	23	23	23
Inventories	41	35	38	45	55
Sundry debtors	1,109	1,387	1,509	1,797	2,193
Cash and equivalents	287	370	481	479	477
Loans and advances	203	223	390	464	566
Other current assets	0	0	0	0	0
Total current assets	1,640	2,015	2,418	2,786	3,291
Sundry creditors and others	851	1,099	1,268	1,510	1,842
Provisions	129	152	160	168	176
Total CL & provisions	979	1,251	1,427	1,677	2,018
Net current assets	661	764	990	1,109	1,273
Net Deferred tax	11	7	7	7	7
Misc expenditure	25	19	0	0	0
Uses of funds	800	1,002	1,149	1,271	1,437
Book value per share (INR)	67	79	176	199	231

Cash flow statement					(INR crs)
Year to March	FY13	FY14	FY15E	FY16E	FY17E
Net profit	90	139	110	150	205
Add: Depreciation	11	15	11	16	18
Add: Misc expenses written off	(19)	6	19	0	0
Add: Deferred tax	(1)	4	0	0	0
Add: Others	1	(0)	(0)	(0)	(0)
Gross cash flow	82	164	140	166	223
Less: Changes in W. C.	50	20	116	120	167
Operating cash flow	32	144	25	46	56
Less: Capex	41	105	(49)	20	20
Free cash flow	(9)	39	74	26	36

Ratios

Year to March	FY13	FY14	FY15E	FY16E	FY17E
ROAE (%)	13.3	17.2	12.4	15.0	17.9
ROACE (%)	18.6	21.7	18.7	20.2	24.1
Debtors (days)	250	226	226	226	226
Current ratio	1.7	1.6	1.7	1.7	1.6
Debt/Equity	0.1	0.2	0.2	0.2	0.2
Inventory (days)	9	6	6	6	6
Payable (days)	192	179	190	190	190
Cash conversion cycle (days)	68	53	42	42	42
Debt/EBITDA	0.5	0.8	1.0	0.8	0.6
Adjusted debt/Equity	(0.3)	(0.3)	(0.3)	(0.3)	(0.2)

Valuation parameters

Year to March	FY13	FY14	FY15E	FY16E	FY17E
Adjusted Diluted EPS (INR)	17.0	24.1	20.7	28.1	38.5
Y-o-Y growth (%)	22.0	41.9	(14.3)	35.6	37.1
CEPS (INR)	19.1	27.9	22.8	31.2	41.9
Adjusted Diluted P/E (x)	38.8	27.3	31.9	23.5	17.2
Price/BV(x)	4.9	4.2	3.7	3.3	2.9
EV/Sales (x)	1.0	0.7	1.3	1.1	0.9
EV/EBITDA (x)	10.0	7.4	15.3	12.5	9.5
Diluted shares O/S	2.7	2.7	5.3	5.3	5.3
Adjusted Basic EPS	17.0	24.1	20.7	28.1	38.5
Basic PE (x)	38.8	27.3	31.9	23.5	17.2
Dividend yield (%)	1.1	1.2	1.0	1.4	1.9

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