

Price: 1,444

Recommendation: Buy

Industry: Water Supply & Management

Sector: Utilities

Report Date: 03-Apr-2025

VA Tech Wabag Limited is advancing its growth with the "Wriddhi" strategy, focusing on long-term partnerships in finance, construction, and technology. The company plans to invest up to 100 million USD in PPP projects in the municipal water sector, maintaining an 'Asset-Light' approach. With a focus on India, Southeast Asia, and Africa, Wabag aims to leverage its technical expertise and financial partnerships to drive sustainable growth and expand its market presence.

Sales		Profit & Loss		Profitability Matrix	
Current Year	2607 Cr	Operating Profit(Year)	357 Cr	Operating Profit Margin	13.7 %
Previous Year	2325 Cr	Operating Profit(Quarter)	85.2 Cr	EBITDA Margin	14.54 %
Current Quarter	676 Cr	PAT (Year)	236 Cr	Net Profit Margin	9.39 %
Previous Quarter	613 Cr	PAT (Quarter)	64.2 Cr	EPS	39.3
Revenue (QYoY)	624 Cr				
Valuation Matrix		Growth(YoY)		Growth(QoQ)	
Trailing P/E	36.8	Sales Growth	4.87 %	Sales Growth	10.28 %
PEG Ratio	2.03	PAT Growth	-131.81 %	Sales Growth QYoY	8.33 %
EV/EBITDA	22.5	EPS Growth	3.69 %	PAT Growth	11.46 %
P/B	5.57	Dividend Yield	0.00	PAT Growth QYoY	3.05 %
Capital Allocation		Holdings		Leverage	
RoE	17.1 %	Promoter	19.1 %	Debt/Equity	0.19
RoA	6.94 %	FII	18.9 %	Debt	299 Cr
RoCE	24.0 %	DII	2.01 %	Market Cap	8990 Cr
RoIC	21.7 %	Public	60.0 %	Enterprise value	8785 Cr
		No of Shares	6.22 Cr	Cash Equivalents	503 Cr

source : Company filings

Company's Overview Based on Recent Concall and Performance:

VA Tech Wabag Limited has announced a strategic development in its growth journey, focusing on the "Wriddhi" strategy to build long-term partnerships in finance, construction, and technology. The company has agreed with international investors to invest up to 100 million USD over the next three to five years. This investment will support the equity requirements of Public-Private Partnership (PPP) projects in the municipal water sector. Wabag will maintain its commitment to an 'Asset-Light' approach, participating as a minority investor while playing a pivotal role as the Technical Partner. The company aims to deliver best-in-class Engineering, Procurement, and Construction (EPC) and Operation & Maintenance (O&M;) services, keeping financial exposure minimal.

The water sector is evolving from a contractor-driven model to a performance-based model, with PPP models at the forefront. Wabag is positioning itself to be future-ready by establishing a dedicated platform with a long-term vision. The potential in this space is substantial, with a business opportunity of around a billion USD in PPP projects. The capital projects team is actively identifying and evaluating opportunities, with some projects ready for investment. This partnership combines financial strength with technical expertise, addressing the growing demand for advanced water treatment technologies and infrastructure development in India and emerging markets.

For Wabag, this initiative is more than just an investment; it strengthens its leadership position, unlocks new revenue streams, and delivers sustainable value to stakeholders. The company is excited about leveraging this platform to drive long-term profitable growth. The partnership is strategically structured to combine financial strength with technical expertise, with financial partners bringing deep experience in water sector financing, critical for scaling PPP projects efficiently. Wabag, with over a century of leadership in the water sector, will provide essential technical know-how and operational excellence.

The company's future growth and scaling perspectives are promising, with a focus on India, Southeast Asia, and selectively Africa. The partnership is expected to expand opportunities, with a billion-dollar opportunity identified. The company remains asset-light, with marquee financial partners and a long-term base to tap the market without investing capital. The order book perspective is optimistic, with more projects expected to come in, allowing Wabag to invest and increase its ticket size and scope of work. The company is progressing well in line with its medium-term outlook, with the fourth quarter expected to be strong. The partnership will enable Wabag to bid for higher ticket orders, benefiting from the combination of design-build-operate contracts and PPP contracts.

WABAG Daily Closing One Year Price Chart



Name	Mar Cap (Rs. Cr.)	P/E	ROE	Sales(G) QoQ	Sales(G) QYoY	PAT(G) QoQ	PAT(G) QYoY
Engineers India	9359.52	22.53	20.80%	10.98%	-11.88%	9.13%	71.63%
Va Tech Wabag	8989.70	36.80	17.09%	10.24%	8.30%	11.46%	3.05%
GMR Urban	8566.47			16.43%	46.13%	-373.39%	38.24%
Larsen & Toubro	469890.63	33.87	14.68%	5.06%	17.31%	-1.07%	13.96%
ACME Solar Hold.	12204.02	99.25	5.48%	34.45%	5.24%	671.44%	181.16%

Aspect	Commentary
Revenue	The company shows a positive revenue trend with a year-on-year increase from 2325 Cr to 2607 Cr and a quarter-on-quarter rise from 613 Cr to 676 Cr. This indicates a robust sales performance, reflecting effective market strategies and possibly increased demand for its products or services.
Profit & Loss	Operating profit for the year stands at 357 Cr, with a quarterly figure of 85.2 Cr. The PAT for the year is 236 Cr, and for the quarter, it is 64.2 Cr. This suggests stable profitability, though the annual PAT growth is negative, indicating potential cost pressures or one-time expenses.
Profitability Matrix	The company maintains healthy profitability with an operating profit margin of 13.7% and an EBITDA margin of 14.54%. The net profit margin is 9.39%, and EPS is 39.3, reflecting efficient cost management and strong earnings performance relative to sales.
Valuation Matrix	The trailing P/E ratio is 36.8, indicating market optimism about future earnings. The PEG ratio of 2.03 suggests moderate growth expectations. EV/EBITDA is 22.5, and P/B is 5.57, reflecting a premium valuation, possibly due to strong growth prospects or market position.
Growth (YoY)	Sales growth is modest at 4.87%, while PAT growth is significantly negative at -131.81%, indicating challenges in translating sales into profits. EPS growth is 3.69%, suggesting some resilience in earnings per share despite overall profit declines.
Growth (QoQ)	Quarterly sales growth is strong at 10.28%, with a QYoY increase of 8.33%. PAT growth is 11.46% quarterly, with a QYoY rise of 3.05%, indicating improved profitability in the short term, possibly due to operational efficiencies or cost control measures.
Capital Allocation	The company demonstrates effective capital allocation with RoE at 17.1%, RoA at 6.94%, RoCE at 24.0%, and RoIC at 21.7%. These metrics indicate strong returns on equity, assets, and invested capital, suggesting efficient use of resources to generate profits.
Holdings	Promoter holding is 19.1%, FII is 18.9%, DII is 2.01%, and public holding is 60.0%. This distribution suggests a balanced ownership structure, with significant public participation, which may enhance market liquidity and investor confidence.
Leverage	The debt/equity ratio is low at 0.19, with total debt at 299 Cr. The market cap is 8990 Cr, and enterprise value is 8785 Cr, with cash equivalents of 503 Cr. This indicates a strong balance sheet with low leverage, providing financial flexibility for future growth.

Analyst viewpoint: VA Tech Wabag Limited is exhibiting a promising short to mid-term outlook backed by robust quarterly growth metrics and effective capital allocation strategies. The recent quarter showcased a strong sales growth of 10.28% quarter-over-quarter, alongside a notable PAT increase of 11.46%, exemplifying the company's operational efficiency and market prowess. The strategic focus on the "Wriddhi" initiative aims to bolster long-term financial and technical collaborations, particularly in the burgeoning Public-Private Partnership sector for water management. With a trailing P/E ratio of 36.8, the market perceives positive future earnings potential, reinforced by the company's low debt-to-equity ratio of 0.19, allowing for substantial financial flexibility to seize growth opportunities in India, Southeast Asia, and Africa. These efforts, complemented by maintaining an asset-light approach, align with the company's goal of strategically leveraging technical strength to expand its market penetration.

In comparison to peers like Engineers India and Larsen & Toubro, VA Tech Wabag shows a balanced blend of growth potential and financial prudence, evidenced by its superior RoCE of 24.0% and RoIC of 21.7%. However, while we are bullish about the company's trajectory, it's important to note the premium valuation with an EV/EBITDA of 22.5, which might suggest market over-enthusiasm. The company continues to solidify its foundation for future bidding on higher ticket orders, expecting strong Q4 performance as per the recent concall, which assures us of their commitment to driving shareholder value. While the overall recommendation is optimistic, investors should remain mindful of the premium valuation levels and stay informed on potential market fluctuations that could impact future earnings visibility.

Please read detailed disclosure on next page.

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BUY	>=15%
SELL	<-10%
NEUTRAL	>-10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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