

VA Tech Wabag Ltd.

ACCUMULATE

Sector: Capital Goods

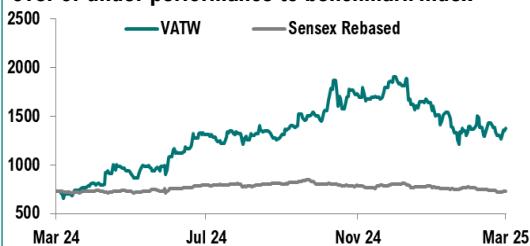
07th March 2025

| | | | | | | | |
|--------------------|-----------------|-----------------|-------------------|---------------|------------------|---------------|------------------|
| Key Changes | Target ▲ | Rating ▲ | Earnings ▼ | Target | Rs. 1,571 | | |
| Stock Type | Bloomberg Code | Sensex | NSE Code | BSE Code | Time Frame | CMP | Rs. 1,371 |
| Small Cap | VATW:IN | 74,333 | WABAG | 533269 | 12 Months | Return | +15% |

Data as of: 07-03-2025

| Company Data | | | |
|---------------------------|-------------|---------|--------|
| Market cap. (Rs. cr) | 8,408 | | |
| 52 Week High — Low (Rs.) | 1,944 – 650 | | |
| Enterprise Value (Rs. cr) | 8,199 | | |
| Outstanding Shares (cr) | 6.2 | | |
| Free Float (%) | 81 | | |
| Dividend Yield (%) | 0.0 | | |
| 6m average volume (cr) | 0.06 | | |
| Beta | 1.2 | | |
| Face value (Rs) | 2.0 | | |
| Shareholding (%) | Q1FY25 | Q2FY25 | Q3FY25 |
| Promoters | 19.1 | 19.1 | 19.1 |
| FII's | 11.5 | 14.7 | 18.9 |
| MFs/Institutions | 5.0 | 3.6 | 2.0 |
| Public | 64.4 | 62.6 | 60.0 |
| Total | 100.0 | 100.0 | 100.0 |
| Promoter Pledge | Nil | Nil | Nil |
| Price Performance | 3 Month | 6 Month | 1 Year |
| Absolute Return | -27.8% | 4.9% | 88.3% |
| Absolute Sensex | -9.0% | -8.4% | 0.4% |
| Relative Return | -18.8% | 13.2% | 87.9% |

*over or under performance to benchmark index



| Y.E March (cr) | FY25E | FY26E | FY27E |
|-------------------|-------|-------|-------|
| Sales | 3,197 | 3,928 | 4,472 |
| Growth (%) | 12 | 23 | 14 |
| EBITDA | 407 | 527 | 627 |
| EBITDA Margin (%) | 12.7 | 13.4 | 14.0 |
| PAT Adjusted | 289 | 365 | 434 |
| Growth (%) | 15 | 26 | 19 |
| Adjusted EPS | 46.4 | 58.7 | 69.8 |
| Growth (%) | 15 | 26 | 19 |
| P/E | 29.5 | 23.3 | 19.6 |
| P/B | 4.0 | 3.4 | 2.9 |
| EV/EBITDA | 19.5 | 15.0 | 13.9 |
| ROE (%) | 19.4 | 14.7 | 14.7 |
| D/E | 0.1 | 0.2 | 0.1 |

Author: Arun Kailasan, Research Analyst

Strong prospects to drive orderbook expansion

VA Tech Wabag (VATW), is a Chennai-based multinational company specialising 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.

- Q3FY25 revenue stood at Rs.811cr., registering 15.1% YoY growth driven by EPC municipal/O&M Municipal/O&M industrial segments. With this the 9Mrevenues are at Rs.2,198cr.(11.2%YoY).
- Strong order intake of Rs.2,781.3cr. In this quarter with notable inflow in O&M industrial segment. Order intake for 9MFY25 is at Rs.5,075cr. Registering 188.1% YoY growth.
- Revenue visibility remains strong with the current orderbook at Rs.13,103cr. (excluding framework contracts) , implying 4.6XTTM revenue.
- O&M contribution to revenue mix increased by 263bps, contributing about 19% of the total revenues, in-line with VATW's envisioned strategy.
- However, higher cost of sales impacted margins which came in lower than expectations. Gross/EBITDA margins registered 202/166bps contraction while PAT registered 23bps contraction, as margin contraction was partially offset by higher other income.

Outlook & Valuation

Order inflows are expected to remain robust with international orders gaining prominence as VATW looks to expand its presence in emerging markets. Strong executions will continue, unlocking 18%CAGR growth in topline as they execute their orderbook. We expect EBITDA margins to expand by 128bps in FY25E-27E period, thereby leading to over 24% EBITDA growth. PAT is expected to grow at 23%CAGR in this period leading to 144bps ROE expansion to 16%. **Therefore, we value the stock at 22.5XFY27EPS of Rs.69.8 to set a target price of Rs.1,571 and upgrade to ACCUMULATE rating.**

Quarterly Financials Consol.

| Rs.cr | Q3FY25 | Q3FY24 | YoY (%) | Q2FY25 | QoQ (%) | 9MFY25 | 9MFY24 | YoY (%) |
|------------|--------|--------|---------|--------|---------|--------|--------|---------|
| Sales | 811 | 704 | 15.1 | 700 | 15.8 | 2,138 | 1,922 | 11.2 |
| EBITDA | 100.4 | 98.9 | 1.5 | 93.6 | 7.3 | 275.3 | 250.6 | 9.9 |
| Margin (%) | 12.4 | 14.0 | -166bps | 13.4 | -99bps | 12.9 | 13.0 | -16bps |
| EBIT | 99.1 | 96.8 | 2.4 | 92.3 | 7.4 | 270.8 | 244.7 | 10.7 |
| PBT | 90.9 | 83.3 | 9.1 | 92.4 | -1.6 | 253.3 | 230.2 | 10.0 |
| Rep. PAT | 70.2 | 62.6 | 12.1 | 70.3 | -0.1 | 195.3 | 172.3 | 13.3 |
| Adj PAT | 70.2 | 62.6 | 12.1 | 70.3 | -0.1 | 195.3 | 172.3 | 13.3 |
| EPS (Rs) | 11.3 | 10.1 | 11.7 | 11.4 | -0.5 | 31.5 | 27.8 | 13.1 |



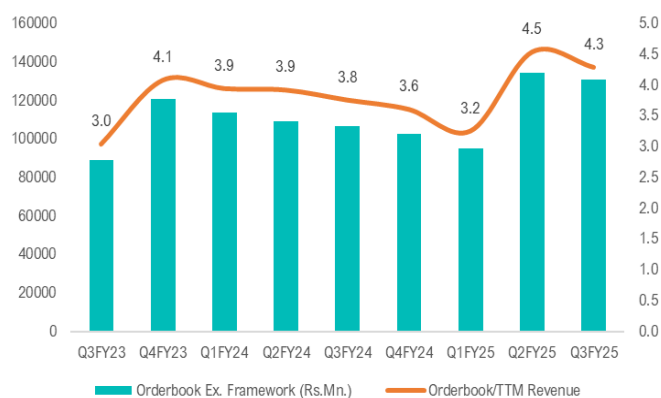
Key Concall Highlights

- VATW secured 4 significant orders in this quarter , 2 from Middle East, 1 from Africa and 1 from India. This includes a consortium order worth Rs.3,251cr. 200MLD STP in Riyadh, Kingdom of Saudi Arabia, where VATW will be a technology partner and leader of consortium.
- Other notable orders include Rs.121cr. BAPCO Refining Industrial WTP in Kingdom of Bahrain, Rs.700cr. Multi-lateral funded order from Lusaka Water Supply and Sanitation company in Zambia, and Chennai Petroleum Corporation Ltd. order worth Rs.145cr.
- Wabag has secured 75% of its Rs.3,500cr. orders which it had informed earlier that was in preferred bid status. Emerging markets continue to be the focus of the management and most contracts have secured payment terms.
- At Rs.262cr. Of net cash position, Wabag marks 8th consecutive quarter of maintaining net cash positive position. In order to gear up for further orderbook expansion, the company has also secured approval of shareholders for borrowing upto Rs.6,000cr. We believe the recent credit rating upgrade will enable VATW to source fund from bankers.

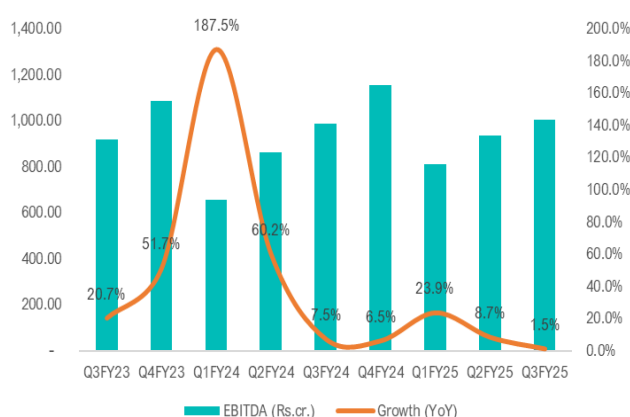
Revenue



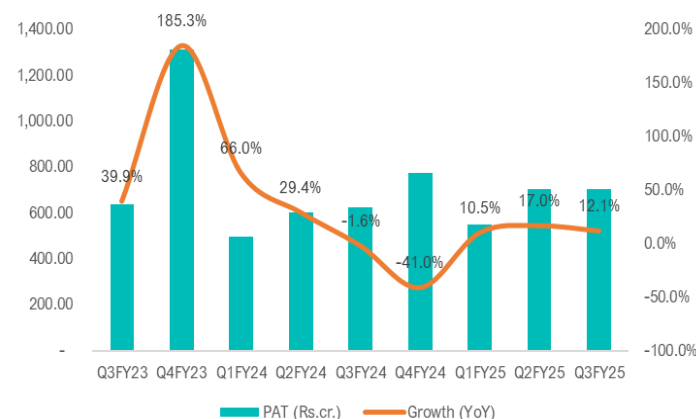
Orderbook



EBITDA



PAT



Change in Estimates

| Year / Rs cr | Old estimates | | New estimates | | | Change (%) | |
|--------------|---------------|-------|---------------|-------|-------|------------|--------|
| | FY25E | FY26E | FY25E | FY26E | FY27E | FY25E | FY26E |
| Revenue | 3,601 | 4,249 | 3,197 | 3,928 | 4,472 | -11 | -8 |
| EBITDA | 497 | 608 | 407 | 527 | 627 | -18 | -13 |
| Margins (%) | 13.8 | 14.3 | 12.7 | 13.4 | 14.0 | -107bps | -89bps |
| Adj. PAT | 336 | 425 | 289 | 365 | 434 | -14 | -14 |
| EPS | 54 | 68 | 46 | 59 | 70 | -14 | -14 |



Consolidated Financials

Profit & Loss

| Y.E March (Rs cr) | FY23A | FY24A | FY25E | FY26E | FY27E |
|---------------------------|--------------|--------------|--------------|--------------|--------------|
| Sales | 2,961 | 2,856 | 3,197 | 3,928 | 4,472 |
| % change | (1) | (4) | 12 | 23 | 14 |
| EBITDA | 318 | 376 | 407 | 527 | 627 |
| % change | 34 | 18 | 8 | 29 | 19 |
| Depreciation | 9 | 8 | 7 | 7 | 7 |
| EBIT | 309 | 367 | 400 | 520 | 620 |
| Interest | 66 | 71 | 73 | 84 | 92 |
| Other Income | 63 | 34 | 52 | 52 | 52 |
| PBT | 17 | 330 | 379 | 488 | 580 |
| % change | (90) | 1,853 | 15 | 29 | 19 |
| Tax | 6 | 80 | 90 | 122 | 146 |
| Tax Rate (%) | 35 | 24 | 24 | 25 | 25 |
| Reported PAT | 11 | 250 | 289 | 365 | 434 |
| Adj. | 289 | 0 | 0 | 0 | 0 |
| Adj. PAT | 300 | 250 | 289 | 365 | 434 |
| % change | 127 | (17) | 15 | 26 | 19 |
| No. of shares (cr) | 6.2 | 6.2 | 6.2 | 6.2 | 6.2 |
| Adj EPS (Rs) | 48.3 | 40.3 | 46.4 | 58.7 | 69.8 |
| % change | 127 | (17) | 15 | 26 | 19 |

Cash Flow

| Y.E March (Rs cr) | FY23A | FY24A | FY25E | FY26E | FY27E |
|-------------------------|-------------|-------------|-------------|------------|-------------|
| Net inc. + Deprn. | 26 | 339 | 385 | 494 | 587 |
| Non-cash adj. | 38 | 109 | 73 | 84 | 92 |
| Changes in W.C | 22 | -314 | -50 | -450 | -391 |
| C.F – Operation | 85 | 134 | 409 | 129 | 287 |
| Capital exp. | -5.2 | -11.9 | 0 | -1 | -1 |
| Change in inv. | 3.5 | 44.7 | -8 | -17 | -13 |
| Other invest.CF | 17.5 | 51.3 | 0 | 0 | 0 |
| C.F – Investment | 15.8 | 84.1 | -8 | -18 | -13 |
| Issue of equity | 0 | 0 | 0 | 0 | 0 |
| Issue/repay debt | -210.1 | 66 | -73 | 73 | -90 |
| Dividends paid | 0 | 0 | 0 | 0 | 0 |
| Other finance.CF | -29.9 | -22.4 | -73 | -84 | -92 |
| C.F – Finance | -240 | 43.6 | -147 | -12 | -182 |
| Chg. in cash | -139.3 | 261.2 | 254 | 99 | 92 |
| Closing cash | 181 | 440 | 693 | 793 | 884 |

Balance Sheet

| Y.E March (Rs cr) | FY23A | FY24A | FY25E | FY26E | FY27E |
|--------------------------|--------------|--------------|--------------|--------------|--------------|
| Cash | 181 | 440 | 693 | 793 | 884 |
| Accounts Receivable | 2194 | 2522 | 2638 | 3242 | 3691 |
| Inventories | 35 | 36 | 40 | 49 | 56 |
| Other Cur. Assets | 172 | 234 | 262 | 322 | 367 |
| Investments | 46 | 67 | 75 | 92 | 105 |
| Gross Fixed Assets | 130 | 130 | 131 | 131 | 132 |
| Net Fixed Assets | 72 | 69 | 63 | 57 | 51 |
| CWIP | 0 | 0 | 0 | 0 | 0 |
| Intangible Assets | 4 | 4 | 4 | 3 | 4 |
| Def. Tax (Net) | 37 | 45 | 50 | 62 | 70 |
| Other Assets | 1349 | 1158 | 1288 | 1567 | 1774 |
| Total Assets | 4,089 | 4,575 | 5,114 | 6,187 | 7,001 |
| Current Liabilities | 2,090 | 1,948 | 2,206 | 2,707 | 3,078 |
| Provisions | 66 | 128 | 143 | 176 | 200 |
| Debt Funds | 213 | 281 | 207 | 280 | 190 |
| Other Liabilities | 146 | 394 | 444 | 546 | 621 |
| Equity Capital | 12.4 | 12.4 | 12.4 | 12.4 | 12.4 |
| Reserves & Surplus | 1,563 | 1,806 | 2,095 | 2,460 | 2,894 |
| Non-Controlling Interest | -0.3 | 5.3 | 5.3 | 5.3 | 5.3 |
| Shareholder's Fund | 1,575 | 1,824 | 2,113 | 2,478 | 2,912 |
| Total Liabilities | 4,089 | 4,575 | 5,114 | 6,187 | 7,001 |
| BVPS (Rs.) | 253 | 293 | 340 | 398 | 468 |

Ratios

| Y.E March | FY23A | FY24A | FY25E | FY26E | FY27E |
|--------------------------------|-------|-------|-------|-------|-------|
| Profitab. & Return | | | | | |
| EBITDA margin (%) | 10.7 | 13.2 | 12.7 | 13.4 | 14.0 |
| EBIT margin (%) | 10.4 | 12.9 | 12.5 | 13.2 | 13.9 |
| Net profit margin (%) | 10.1 | 8.8 | 9.0 | 9.3 | 9.7 |
| ROE (%) | 19.4 | 14.7 | 14.7 | 15.9 | 16.1 |
| ROCE (%) | 17.1 | 17.5 | 15.6 | 17.5 | 17.9 |
| W.C & Liquidity | | | | | |
| Receivables (days) | 262.9 | 301.3 | 294.6 | 273.2 | 283.0 |
| Inventory (days) | 5.4 | 6.0 | 5.7 | 5.4 | 5.6 |
| Payables (days) | 188.4 | 198.7 | 186.2 | 180.4 | 186.9 |
| Current ratio (x) | 1.3 | 1.7 | 1.7 | 1.7 | 1.7 |
| Quick ratio (x) | 0.8 | 1.2 | 1.2 | 1.2 | 1.2 |
| Turnover & Leverage | | | | | |
| Gross asset T.O (x) | 22.8 | 21.9 | 24.5 | 29.9 | 33.9 |
| Total asset T.O (x) | 0.7 | 0.7 | 0.7 | 0.7 | 0.7 |
| Int. coverage ratio (x) | 4.6 | 4.0 | 4.2 | 4.7 | 5.2 |
| Adj. debt/equity (x) | 0.0 | -0.1 | -0.2 | -0.2 | -0.2 |
| Valuation | | | | | |
| EV/Sales (x) | 0.7 | 1.6 | 2.5 | 2.0 | 1.9 |
| EV/EBITDA (x) | 6.8 | 12.1 | 19.5 | 15.0 | 13.9 |
| P/E (x) | 7.3 | 19.0 | 29.5 | 23.3 | 19.6 |
| P/BV (x) | 1.4 | 2.6 | 4.0 | 3.4 | 2.9 |



Recommendation Summary (last 3 years)



| Dates | Rating | Target |
|-----------|------------|--------|
| 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 | 1340 |
| 14-Aug-24 | HOLD | 1,424 |
| 07-Mar-25 | ACCUMULATE | 1,571 |

Investment Rating 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.

Symbols definition:



Upgrade



No Change



Downgrade

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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