

**Robust Medium-Term Revenue Visibility; Maintain BUY!**
**Est. Vs. Actual for Q3FY25: Revenue: BEAT; EBITDA: MISS; PAT: MISS**
**Changes in Estimates post Q3FY25**
**FY25E/FY26E/FY27E: Revenue: -4%/5%/3%; EBITDA: -10%/-2%/0%; PAT: -12%/-2%/0%**
**Recommendation Rationale**

- **Order Pipeline Strengthening:** The company has secured new orders totalling over Rs. 2,781 Cr this quarter, increasing its total order book to around Rs 14,200 Cr (including framework contracts). It also recently won a consortium order worth Rs 3,251 Cr (\$371 Mn) for the Al Haer Independent Sewage Treatment Plant in Riyadh, Saudi Arabia. With this, the company is now likely to surpass the order book target of over Rs 16,000 Cr by the end of this fiscal year.
- **Margins to improve with revenue growth acceleration:** The recent orders are expected to accelerate revenue growth starting FY26. Management has guided a 15-20% revenue CAGR over the next three to five years. The sustained revenue growth and improving product mix are also expected to drive profit margins higher in the medium term.
- **Improving Cash Cycle:** The company has now been net cash positive for the eighth consecutive quarter, with a net cash position of Rs 263 Cr as of Q3FY25. It continues to focus on reducing working capital requirements and expects further improvement in the coming quarter.

**Sector Outlook: Optimistic**

**Company Outlook & Guidance:** The management anticipates strong revenue growth driven by India and MEA, projecting a CAGR of 15%-20% over the next 3-5 years. EBITDA/PAT growth is expected to outpace revenue growth, with EBITDA margins ranging between 13%-15% and potentially exceeding the upper end of this guidance. The company currently holds a robust order book of approximately Rs 14,200 Cr, aims to surpass Rs 16,000 Cr by FY25, and targets order book 3X of revenue in the medium term. The targeted revenue mix, which includes over 50% from international projects, 30% from industrial customers, 20% from O&M, and one-third of EPC being EP projects, is expected to contribute to margin improvement.

**Current Valuation: 21x FY27E** (unchanged)

**Current TP: 1970/share** (unchanged)

**Recommendation:** We **maintain our BUY** rating on the stock.

**Financial Performance:** The company reported revenue of Rs 811 Cr, reflecting a substantial 15% YoY growth and a 16% QoQ increase, surpassing our estimate of Rs 760 Cr. EBITDA margin came in at 12.38%, below our estimate of 13.97%. EBITDA stood at Rs 100 Cr, up 2% YoY and 7% QoQ, below our estimate of Rs 106 Cr. This performance resulted in a PAT of Rs 70 Cr, marking a 12% YoY growth, missing our estimate of Rs 74 Cr by 6%. The company reported an EPS of Rs 11.29/share. The order intake for the period stood at Rs 2,781 Cr, with the order book at over Rs 14,200 Cr, including framework contracts.

**Key Financials (Consolidated)**

(Rs Cr)	Q3FY25	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	811	15%	16%	760	7%
EBITDA	100	2%	7%	106	-5%
EBITDA Margin	12.38%	-166bps	-99bps	13.97%	-160bps
Net Profit	70	12%	0%	74	-6%
EPS (Rs)	11.3	12%	-1%	12.0	-6%

Source: Company, Axis Securities Research

 (CMP as of 11<sup>th</sup> February 2025)

CMP (Rs)	1,420
Upside /Downside (%)	39%
High/Low (Rs)	1,944/650
Market cap (Cr)	8,773
Avg. daily vol. (1 m) Shrs.	6,77,027
No. of shares (Cr)	6.22

**Shareholding (%)**

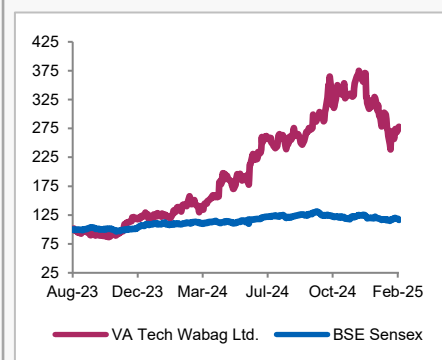
	Jun-24	Sep-24	Dec-24
Promoter	19.12	19.12	19.12
FIIs	11.52	14.68	18.86
DIIIs	4.99	3.59	2.01
Others	64.35	62.59	60.00

**Financial & Valuations**

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	2,856	3,181	4,486
EBITDA	376	407	622
Net Profit	250	291	477
EPS (Rs)	39.5	46.9	76.8
PER (x)	42.9	30.3	18.5
EV/EBITDA (x)	27.4	21.1	13.8
RoA (%)	6%	6%	9%
ROE (%)	15%	15%	20%

**Change in Estimates (%)**

Y/E Mar	FY25E	FY26E	FY27E
Sales	-4%	5%	3%
EBITDA	-10%	-2%	0%
PAT	-12%	-2%	0%

**Relative Performance**


Source: ACE Equity, Axis Securities Research

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**Outlook:**

VA Tech Wabag Ltd. (VTW) has consistently grown its order book while strategically enhancing its revenue quality and predictability, which aligns with this focus. The company is looking to increase its share of more profitable international, industrial, and O&M contracts. With its current order book providing clear revenue visibility for the next 3-4 years, especially in terms of international orders, these strategic efforts are expected to help the company achieve its targeted margins, further strengthening its financial position and business sustainability.

**Valuation & Recommendation:**

Our revised estimates reflect the expectation that some of the revenue growth and margin improvement will be pushed over from FY25 to FY26 and beyond. However, our long-term view remains positive. Consequently, we maintain our BUY rating and continue to value the stock at 21x FY27E. Our target price remains unchanged at Rs 1,970/share, implying an upside of 39% from the current market price (CMP).

**Key Highlights from Concall**

**Order Book:** During the quarter, the company secured over Rs. 2,781 Cr of the order intake, compared to the preferred bidder status in projects worth Rs. 6,000 Cr. Wabag's order book position now stands at over Rs. 14,200 Cr. During the Q2 earnings, the management had mentioned that it is a preferred bidder for projects worth approximately Rs. 3,500 Cr for H2, of which it has already secured 75% of the opportunities into confirmed orders. And it expects Rs. 2000-2500 Cr orders in the next 2-3 months. The management mentioned that it anticipates a good order inflow going ahead, with project execution likely accelerating in FY26.

**Performance:** During the quarter, margins were comparatively lower, as margins may vary on a QoQ basis due to the nature of projects. However, the medium-term outlook on margin improvement remains unchanged. In 9MFY25, nearly 50% of revenue came from international geographies. The operation and maintenance business contributed 19%, and the company maintains a healthy revenue mix of about 70% and 30% between municipal and industrial segments.

**New Orders:**

During the quarter, the company secured four significant orders: two from the Middle East, one from Africa, and one from India. Recently, Wabag also secured a significant consortium order worth approximately Rs. 3,251 Cr. for a 200 MLD Al Haer Independent Sewage treatment plant in Riyadh, Kingdom of Saudi Arabia (February 2025). Wabag's revenue share will be approximately Rs. 1720 Cr in the order.

**Cash Position:** The net cash position stood at Rs. 379 Cr (vs Rs. 338 Cr in Q2FY25) (excluding debt on HAM entities, which is transitory due to the asset-light strategy).

**Growth Opportunities:** The company has identified future growth opportunities in ultra-pure water for semiconductor manufacturing, solar PV, green hydrogen, and generating clean fuel from biogas. The management mentioned that it has sufficient cash to fund the anticipated progress.

**Guidance:** The management expects strong revenue growth at a CAGR of 15%-20% over the next 3-5 years, with EBITDA/PAT growing at a faster rate. EBITDA margins are anticipated to be in the 13%-15% range, with the potential to exceed the upper end of this guidance. The management is confident of a stronger performance in the next Quarter; as Q4 is the seasonally strongest quarter in terms of performance.

**Project Selection Criteria:** The management outlined its project selection criteria, focusing on projects with advanced technology, good cash flow, and those in emerging markets. The company seeks projects with adequate payment securities backed by multilateral, bilateral funding, sovereign funds, or letters of credit.

### Key Risks to Our Estimates and TP

- Delays in order execution
- Lower EBITDA levels led by higher operating cost
- Long receivables cycle
- Currency and key commodity fluctuations

### Change in Estimates

	New			Old			% Change		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	3,181	4,486	5,035	3,308	4,277	4,867	-4%	5%	3%
EBITDA	407	622	740	454	633	740	-10%	-2%	0%
PAT	291	477	585	332	485	584	-12%	-2%	0%
EPS	46.85	76.76	94.05	53.70	78.30	94.30	-13%	-2%	0%

Source: Company, Axis Securities Research

## Results Review

Particulars (Rs Cr)	Q3FY24	Q2FY25	Axis Est.	Q3FY25	YoY Growth (%)	QoQ Growth (%)	Axis Variance
Revenue	704	700	760	811	15%	16%	7%
Net Raw Material consumed	530	522	566	627	18%	20%	
Gross Profit	175	178	194	185	6%	3%	
Gross Margin %	24.8%	25.5%	25.5%	22.7%	-202bps	-273bps	-273bps
Employee	57	65	65	63	10%	-3%	
Other Expenses	18	20	22	21	16%	7%	
Total Expenditure	606	607	654	711	17%	17%	
EBIDTA	99	94	106	100	2%	7%	-5%
EBITDA Margin	14.0%	13.4%	14.0%	12.4%	-166bps	-99bps	-160bps
Less: Depreciation	2	1	2	1	-38%	0%	
EBIT	97	92	104	99	2%	7%	
Less: Net Interest	17	19	22	20	22%	7%	
Add: Other income	4	14	20	15	300%	7%	
Profit Before Extraordinary Items and Tax	84	87	102	94	12%	7%	
Less: Extraordinary Expense (net)	-	-	-	-			
Profit Before Tax	83	92	107	91	9%	-2%	
Less: Total Tax	21	22	33	21	0%	-6%	
Profit After Tax	63	70	74	70	12%	0%	-6%

Source: Company, Axis Securities Research

## Revenue Breakup

Q3FY25	Municipal	Industrial	Total		Total
EPC	460	191	651	India	496
O&M	134	18	153	Overseas	308
<b>Total</b>	<b>594</b>	<b>199</b>	<b>804</b>	<b>Total</b>	<b>804</b>

## Order Book (Backlog)

Q3FY25	Municipal	Industrial	Total		Total
EPC	6,573	1,061	7,633	India	7,831
O&M	4,391	1,079	5,469	Overseas	5,272
Framework			1,161	Framework	1,161
<b>Total</b>	<b>10,963</b>	<b>2,139</b>	<b>14,263</b>	<b>Total</b>	<b>14,263</b>

## Financials (Consolidated)

### Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
<b>Net Revenue</b>	<b>2,856</b>	<b>3,181</b>	<b>4,486</b>	<b>5,035</b>
COGS	2,167	2,414	3,364	3,751
Staff costs	235	266	347	393
Operating Exp.	79	94	153	151
Total Expenditure	2,481	2,774	3,864	4,295
<b>EBITDA</b>	<b>375.7</b>	<b>407.2</b>	<b>621.6</b>	<b>740.2</b>
<b>EBITDA Margin %</b>	<b>13.2%</b>	<b>12.8%</b>	<b>13.9%</b>	<b>14.7%</b>
Depreciation	8	6	8	7
EBIT	411	464	703	833
Interest	71	79	85	83
Other Income	43	63	89	100
PBT	330	383	638	782
Tax	80	92	161	197
<i>Tax Rate %</i>	<i>24.1%</i>	<i>24.0%</i>	<i>25.2%</i>	<i>25.2%</i>
<b>PAT</b>	<b>250</b>	<b>291</b>	<b>477</b>	<b>585</b>
<b>EPS</b>	<b>39.5</b>	<b>46.9</b>	<b>76.8</b>	<b>94.1</b>

Source: Company, Axis Securities Research

### Balance Sheet

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Share Capital	12	12	12	12
Reserves & Surplus	1,806	2,098	2,575	3,014
<b>Net Worth</b>	<b>1,824</b>	<b>2,115</b>	<b>2,592</b>	<b>3,031</b>
Financial Non-Current Liability	323	218	163	118
Other Non-current Liability	260	260	260	260
Deferred Tax Liability	-	-	-	-
<b>Total Non-Current Liability</b>	<b>596</b>	<b>491</b>	<b>436</b>	<b>391</b>
Current Financial Liability	1,153	1,263	1,183	1,546
Other Current Liability	865	865	865	865
Provisions	22	22	22	22
<b>Total Current Liability</b>	<b>2,155</b>	<b>2,265</b>	<b>2,186</b>	<b>2,548</b>
<b>Total Equity &amp; Liability</b>	<b>4,575</b>	<b>4,871</b>	<b>5,214</b>	<b>5,970</b>
<b>Application Of Funds</b>				
<b>PPE</b>	<b>69</b>	<b>68</b>	<b>65</b>	<b>63</b>
Capital Work in Progress	-	-	-	-
Right Use Of Assets	-	-	-	-
Intangible Assets	4	4	4	4
<b>Non- Current Financial Assets</b>	<b>535</b>	<b>535</b>	<b>535</b>	<b>535</b>
Other Non-Current Assets	-	-	-	-
<b>Total Non-Current Assets</b>	<b>949</b>	<b>948</b>	<b>946</b>	<b>943</b>
Inventories	36	44	86	110
Current-Financial Assets	2,501	2,894	3,197	3,931
Other Current Assets	1,054	950	950	950
<b>Total Current Assets</b>	<b>3,625</b>	<b>3,923</b>	<b>4,268</b>	<b>5,027</b>
<b>Total Assets</b>	<b>4,575</b>	<b>4,871</b>	<b>5,214</b>	<b>5,970</b>

Source: Company, Axis Securities Research

**Cash Flow**

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
PBT	330	383	638	782
Depreciation & Amortization	8	6	8	7
Finance Cost	26	28	18	8
Chg in Working cap	-288	440	-902	432
Direct tax paid	-26	-92	-161	-197
<b>Cash flow from operations</b>	<b>134</b>	<b>816</b>	<b>-332</b>	<b>1,108</b>
Chg in Gross Block	-12	-5	-5	-5
Chg in Investments	56	-	-	-
Other Investments	25	-	-	-
<b>Cash flow from investing</b>	<b>84</b>	<b>-5</b>	<b>-5</b>	<b>-5</b>
Fresh Issue Proceeds	-	-	-	-
Proceeds / (Repayment) of ST Borrowings (Net)	-	-	-	-
Finance Cost paid	-25	-79	-85	-83
Dividends paid	-	-	-	-146
<b>Cash flow from financing</b>	<b>44</b>	<b>-179</b>	<b>-185</b>	<b>-270</b>
<b>Chg in cash</b>	<b>261</b>	<b>606</b>	<b>-522</b>	<b>833</b>
Cash and cash equivalents at the beginning of the year	207	440	1,046	524
Cash and Cash equivalents at the end of the year	<b>466</b>	<b>1,046</b>	<b>524</b>	<b>1,357</b>

Source: Company, Axis Securities Research

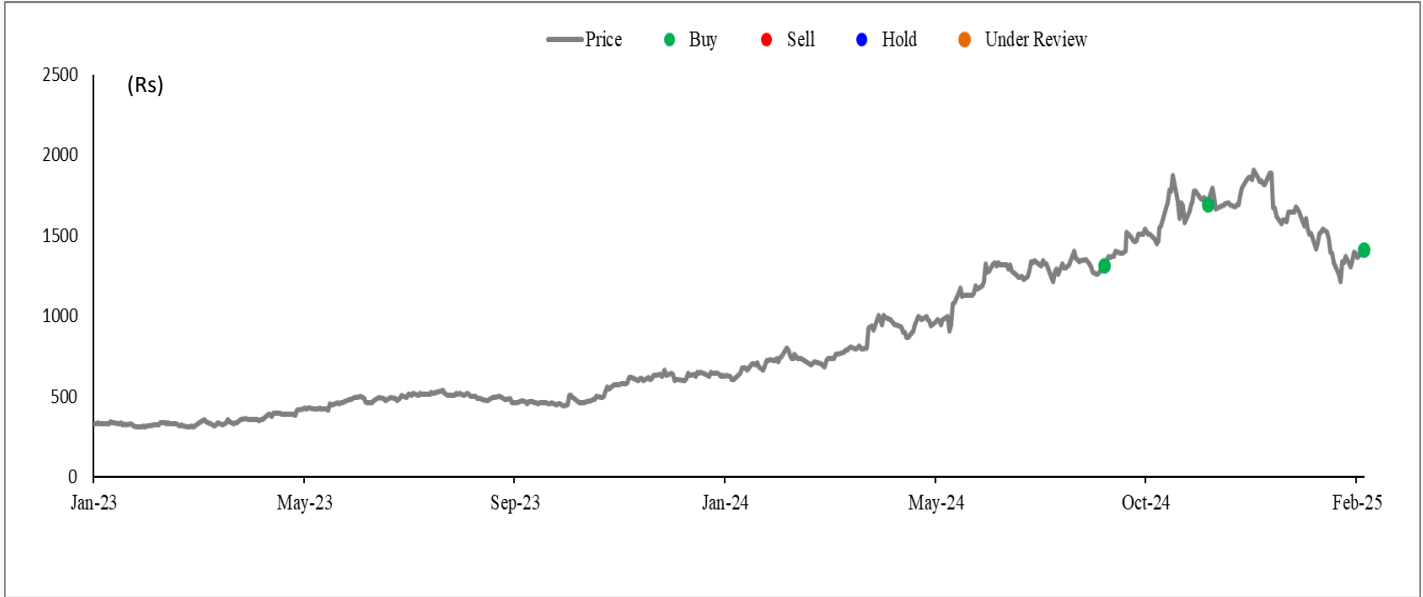
**Ratio Analysis**

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
<b>Efficiency Ratios</b>				
Asset Turnover (x)	0.66	0.67	0.89	0.90
Inventory Turnover(x)	56.26	60.75	51.92	38.20
Sales/Total Assets	0.62	0.65	0.86	0.84
Receivable days	223	216	178	185
Inventory Days	5	5	5	7
Payable days	134	124	91	94
<b>Financial Stability Ratios</b>				
Total Debt/Equity(x)	0.1	0.0	0.0	-0.0
Total Asset/Equity(x)	2.4	2.1	2.0	2.0
Current Ratio(x)	1.7	1.7	2.0	2.0
Quick Ratio(x)	1.7	1.7	1.9	1.9
Interest Cover(x)	-	-	-	-
<b>Operational &amp; Financial Ratios</b>				
Earnings Per Share (Rs)	39	47	77	94
Book Value (Rs)	293	340	417	487
Tax Rate(%)	24.1%	24.0%	25.2%	25.2%
<b>Performance Ratios</b>				
ROA (%)	5.8%	6.2%	9.5%	10.5%
ROCE (%)	19.5%	18.5%	25.0%	25.8%
ROE (%)	14.7%	14.8%	20.3%	20.8%

Source: Company, Axis Securities Research

## VA Tech Wabag Ltd Price Chart and Recommendation History



Date	Reco	TP	Research
09-Sep-24	BUY	1,700	Initiating Coverage
11-Nov-24	BUY	1,970	Result Update
12-Feb-25	BUY	1,970	Result Update

Source: Axis Securities Research

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BUY	More than 10%
HOLD	Between 10% and -10%
SELL	Less than -10%
NOT RATED	We have forward looking estimates for the stock, but we refrain from assigning valuation and recommendation.
UNDER REVIEW	We will revisit our recommendation, valuation and estimates on the stock following recent events
NO STANCE	We do not have any forward-looking estimates, valuation or recommendation for the stock

Note: Returns stated in the rating scale are our internal benchmark.