

Stock Update VA TECH WABAG LTD.

Mar 11, 2024





Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Water Supply & Management	Rs.730.85	Buy in the band of Rs. 723-738 & add more on dips to Rs.647-660 band	Rs.798	Rs.861	2-3 quarters

HDFC Scrip Code	VATECHEQNR
BSE Code	533269
NSE Code	WABAG
Bloomberg	VATW:IN
CMP Mar 07- 2024	730.85
Equity Capital (Rs cr)	12.44
Face Value (Rs)	2
Equity Share O/S (cr)	6.22
Market Cap (Rs cr)	4545.88
Book Value (Rs)	253.2
Avg. 52 Wk Volumes	47,190
52 Week High	814.2
52 Week Low	312

Share holding Pattern % (Dec, 2023)	
Promoters	19.12
Institutions	18.96
Non Institutions	61.92
Total	100



HDFCsec Retail research
stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

VaTech Wabag is one of the experienced players with strong presence of more than 25 years in water technology and providing customized water treatment solutions through Engineering, Procurement, and Construction (EPC) services, Operations and Maintenance (O&M) services, research and development, construction and commissioning. The company has executed more than 1450 plants, including 450+ sewage treatment plants and 320+ water treatment plants. The order-book of the company is well diversified in various segments of Municipal and Industrial projects, along with its world-wide presence across various continents. The order inflow in 9MFY24 stood at approx. Rs. 1,761 crore boosting the total order-book value as at Dec'23 to Rs. 11,865.5 crores. Recently, Wabag has forged a strategic partnership with Peak Sustainability Ventures to establish 100 Bio-CNG plants across India, GCC, Africa and Europe. The order book comprised of 13% of Industrial orders while Municipal orders accounting for 87% of total order-book. Wabag has gradually increased its share of Operation and Maintenance business segment which now contributes 43% of its existing order-book, which is likely to fetch better margins compared to EPC segment. Wabag continues to focus on emerging markets and has secured 59% of orders from International geographies. Wabag plans to grow its order book to Rs. 20,000 cr and expects the topline to be in the range of Rs. 6,000-7,000 cr in 5 years. As of Dec'2023, the order book indicated a robust visibility of 4x of FY23 revenue.

Recently, Wabag secured an industrial order worth Rs 277 crores from SEPCO III Electric Power Construction Corporation Limited towards engineering and procurement of a 20 million litre-per-day industrial wastewater treatment plant at Ras Tanura refinery complex in Kingdom of Saudi Arabia. This order being executed for Miahona and Saudi Aramco, which is scheduled to be completed over a 20-month period, is another testimony of Wabag's technology leadership in oil and gas sector and enables to further cement the presence in Middle East region.

Wabag is on the way to follow its long term growth "Wriddhi" strategy which is to focus on international geographies. On account of its healthy order book, strong execution capabilities, robust order pipeline, stable EBITDA margins, and positive expectation of government's spend, we remain positive on the stock.

We had issued an initiating coverage report on VA Tech Wabag dated March 20, 2023 ([link](#)); both the targets were achieved within our time frame. Given the robust order book, pick-up in execution, and healthy balance sheet, we are issuing a stock update report.



Valuation & Recommendation:

Aided by strong long term outlook due to expectation of order inflows and revenue growth in the upcoming years on better execution in the coming few quarters we expect revenue/EBITDA/PAT to grow at a CAGR of 9.5%/19.1%/10.8% over FY23–26E. **We think the base case fair value of the stock is Rs. 798 (12.5x FY26E EPS and 7.8x FY26 EV/EBITDA) and the bull case fair value is Rs.861.5 (13.5x FY26E EPS and 8.6x FY26 EV/EBITDA) over the next two-three quarters. Investors can buy the stock in the band of Rs.723-738 (11.5x FY26E EPS and 7x FY26 EV/EBITDA) and add more on dips to Rs. 647-660 band (10.2x FY26E EPS and 6.1x FY26 EV/EBITDA).**

Financial Summary

Particulars (Rs cr)	Q3FY24	Q3FY23	YoY-%	Q2FY24	QoQ-%	FY22	FY23	FY24E	FY25E	FY26E
Total Operating Income	704.4	651.6	8%	665.0	6%	2,979.3	2,960.5	2,913.9	3,409.3	3,886.6
EBITDA	98.9	74.8	32%	86.1	15%	237.0	317.8	385.6	463.7	536.4
Depreciation	2.1	2.2	-4%	2.1	0%	10.1	8.8	8.0	8.0	8.1
Other Income	3.7	2.0	81%	15.4	-76%	32.4	53.6	54.1	61.3	68.5
Interest Cost	16.7	16.2	3%	16.8	-1%	87.7	65.8	66.1	67.0	69.7
Tax	20.7	13.3	55%	22.8	-9%	36.3	5.9	88.1	112.5	131.8
PAT	63.1	45.1	40%	59.8	6%	135.2	290.9	277.5	337.5	395.3
Adjusted PAT	62.9	47.1	33%	60.2	4%	131.9	12.8	279.3	339.1	396.8
EPS (Rs)	10.1	7.6	33%	9.7	4%	21.2	2.1	44.9	54.5	63.8
RoE-%						0.8	16.3	16.3	16.8	16.6
P/E (x)						353.8	16.3	16.3	13.4	11.5
EV/EBITDA						14.1	11.4	11.4	8.6	7.0

(Source: Company, HDFC sec)

Q3FY24 Earnings Update:

- Consolidated Operating Revenue in Q3FY24 stood at Rs.704 crores, +8% YoY/6% QoQ. The Consolidated EBITDA for the Q3FY24 stood at Rs.99 crores, +32% YoY/15% QoQ.
- Consolidated EBITDA margin for Q3FY24 stood at 14%.
- 9MFY24 revenue from the EPC segment stood at Rs.1577 crores (82%) and O&M segment of business contributed a revenue of Rs.340 crores (18%) while both India and International projects contributed 56% and 44% to the 9MFY24 revenue.
- The company has seen a recovery in EBITDA margin over last few quarters due to its International high margin projects contributing to it and also shifting of its focus from EPC based contracts to E&P contracts. The company going forward is primarily focused on yielding better margins and generating positive cash flows.
- The Management has guided to maintain EBITDA margin as company is focusing more towards better margin projects into E&P contracts rather than generating more revenues from lower margin projects.



- Consolidated PAT reported for Q3FY24 was Rs.63 crore, +34% YoY/4% QoQ.

Con-Call Highlights/Recent developments (Q3FY24):

- Revenue from operations increased by 8%-year over-year to Rs.704 crore owing to new and large projects commencing revenue generation and continued execution speed in other ongoing projects
- The Order-book in the next 2 years could increase by 10-15%. and the management is very positive for Middle east and Africa.
- The Mix between O&M and EPC would be ~25% and 75% in 3-5 years.
- Wabag plans to grow its order book to 20,000 cr and expects the topline to be in the range of Rs. 6,000-7,000 cr in 5 years. As of Dec'2023, the order book indicated a robust visibility of 4x of FY23 revenue.
- Wabag received a prestigious award "Energy Globe Award 2024" in water category in Norway for their outstanding project, the Jubail Industrial City wastewater treatment plant and water reclamation plant, Marafiq, in Saudi Arabia, followed by another award where it was a national winner in KSA from Energy Globe in Saudi Arabia for Marafiq project.
- Wabag has forged a strategic partnership with Peak Sustainability Ventures to establish 100 Bio-CNG plants across India, GCC, Africa and Europe.
- The company secured an industrial order worth Rs.277 cr from SEPCO III Electric Power Construction Corporation Limited towards engineering and procurement of a 20 million litre-per-day industrial wastewater treatment plant at Ras Tanura refinery complex in Kingdom of Saudi Arabia. This order is being executed for Miahona and Saudi Aramco, which is scheduled to be completed over a 20-month period.
- Wabag has maintained a high-quality order book of around Rs. 12,000 crores with a healthy mix of 57% EPC and 43% O&M, majority of which have secured payment terms. Further, the strong order book and pipeline visibility shows high growth prospects.
- During the quarter, the execution speed of ongoing projects has picked up a good pace. New projects like Perur desalination plant in Chennai and Pagla STP in Bangladesh have commenced planning activities with engineering, making substantial progress and thus enabling start of procurement and construction.
- Even after divestment of 2 subsidiaries abroad, 9MFY24 numbers have seen a growth and management expects the same momentum in Q4FY24.
- Company has maintained a net positive cash position, efficient debt management and improved on receivable collection days which company claims is likely to continue in the future
- In Bio-CNG segment, revenues can flow in about 9-12 months as the company has plans for new plants.
- Key industrial projects like Reliance desalination project in Jamnagar Gujarat and the AGCC project SIBUR in Russia, is progressing well to be completed in H1 of next fiscal as anticipated.



- KMDA HAM project is now in commissioning stage and is expected to finish the activities within this quarter. STP HAM projects being built for BUIDCO at Digha Kankarbagh and the 40 million litres per day Ghaziabad Nagar Nigam tertiary treatment recycled reuse water project being built for GNN has been steadily advancing with engineering and procurement activities substantially completed.
- Company recently secured a 20 million litres per day industrial wastewater treatment plant at Ras Tanura refinery complex in Kingdom of Saudi Arabia. Wabag sees the MEA cluster with huge potential, and it will continue to exploit good amount of the opportunities in this region.
- Revenues for 3 large projects like Chennai Desalination, Bangladesh sewage treatment plant and CIDCO water will start flowing in from first quarter in the next fiscal year
- The Company’s financial performance in the last 9 months reflect its focus on delivering profitable growth with a strategic emphasis on international geographies, industrial projects, advanced technology plants, engineering and procurement, which is E&P business, and long-term operation and maintenance.
- Company has a net cash position of Rs.100 crores as of Dec 31st 2023.

Key Drivers:

Strong Order Inflow and Diversified Order Book Mix:

The company has received orders worth Rs. 6,844 crores in FY23 and Rs.1761 crores in 9MFY24 and the company is expecting to secure more orders in which it has emerged as L1 bidder in areas of Desalination and Industrial water treatment. The order inflow has gained momentum in recent years and desalination, wastewater treatment plants orders are increasing due to stricter government norms and increasing demand for water related projects. The company is focusing on improving the international order inflow for higher margin projects and accepting projects that are funded by multinational agencies like World Bank, ADB and JICA thereby reducing cashflow risk.

The Company has diversified order-book from domestic and International Projects with India constituting 68% and RoW constituting 32% to the orderbook. The order wins in O&M segment have increased recently driving the O&M orders to 43%, while the municipal orders continue to dominate the orderbook with 87% share. The company is gradually focusing on increasing its share in O&M segment which has increased from 30% to 43% from FY20 to 9MFY24.

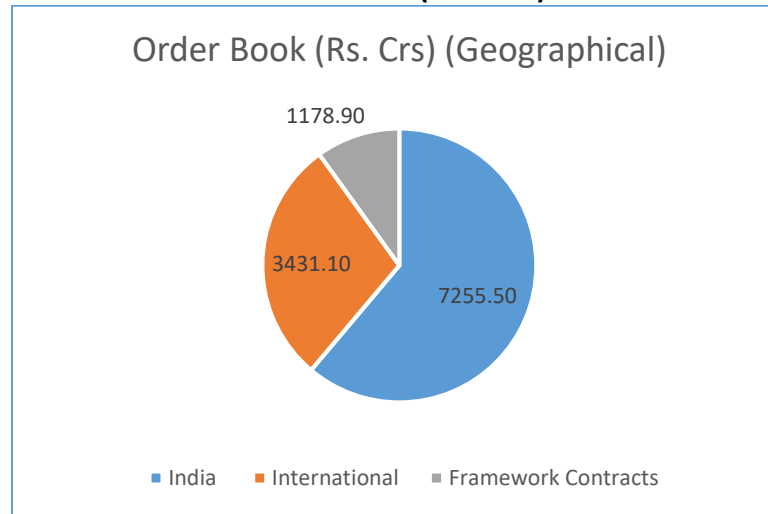
	Municipal	Industrial	Total
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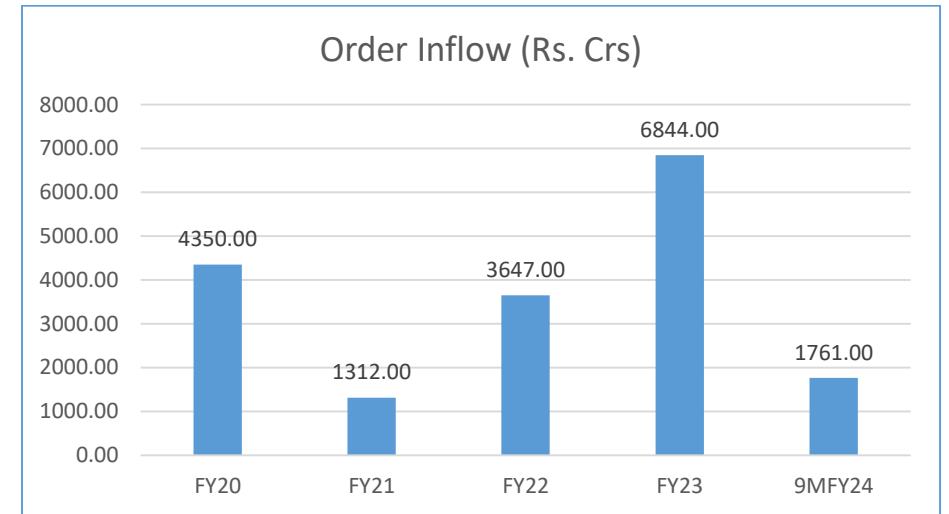
Order-Book Segment (Rs Cr)	Composition (Business)		
EPC		5081.4	1058.1
O&M		4226.3	320.8
Framework Contracts			1178.9
Total		9307.7	1378.9

(Source: Company, HDFC sec)

Order Book and Order Intakes (9MFY24) :



(Source: Company, HDFC sec)



(Source: Company, HDFC sec)

Improvement in Operating Margins & Profitability: Wabag has been constantly focusing on higher margin projects since last few quarters and has gradually shifted its focus from EPC based contract to E&P contracts, the company has also started to secure more International industrial orders which will yield higher operating margins. The company's focus is to generate more cash rather than achieving more revenue. The company in its past has maintained its EBITDA margins near 8.5% and has succeeded in increasing its margins due to softening of input prices and judicious bidding. As a result of this the company is able to post better operating margin of 14% in Q3. Company's focus on debt reduction is expected to bring down finance cost and eventually improve PAT margins. The company has been able to maintain its debt at sustainable levels.

The 9MFY24 sales are lower than 9MFY23, but the margins and absolute operating profit are much higher.



New Initiatives: Recently, Wabag has forged a strategic partnership with Peak Sustainability Ventures to establish 100 Bio-CNG plants across India, GCC, Africa and Europe. As Wabag is a dominant player in clean water production, Green Hydrogen and Semiconductor industries can benefit from this as ultra pure water is a key raw material to these industries. Company has also tied up with 'Pani energy' to implement AI for water treatment plants.

Long Term Strategy "Wriddhi": Company is focusing on international markets with E&P and industrial sectors, focusing on marketing and development of jobs rather than tendered jobs, implementing an efficient global delivery model, focusing on high tech jobs with payment security, establishing construction and financial partnerships for BOOT/HAM projects while remaining Asset light and focusing on operations and maintenance for better customer satisfaction.

Key Risks:

More Exposure towards Municipal Orders: As on Dec'23 Municipal/ Governmental orders constituted 87% of the order-book of the company, which may result in slower execution of projects, eventually resulting in lesser revenue recognition and the receivables might increase due to slower pace of recovery and hence increasing higher requirement of working capital.

Currency Risk: In 9MFY24 around 60% of order intake was from international projects. This increases the risk of volatility of changes in rate of currency, which can eventually impact margins of the company.

Low Promoter Holding: Promoters hold a small stake of 19.1%. This does not inspire confidence among public shareholders.

Elongated Working capital Cycle: The Company has constantly stretched working capital cycle due to large debtors. The working capital is mainly elongated due to higher receivables from municipal projects.

Global Economic Slowdown: The International business revenue has started contributing to almost 44% of company's topline in 9MFY24 and also 60% of the existing order book constitutes from International Projects. The company is operating across multiple geographies; Wabag thus faces risk of global slowdown in western countries of Europe, Middle East, Russia.

No dividend since FY19: Wabag has not declared any dividend since FY19 as it had requirements of working capital.

**Company Background:**

Va Tech Wabag is the leading pure-play global water technology-based company operating in India since last 25 years, company is primarily engaged in business of water treatment activities, it is mainly engaged into customized water solutions providing Waste Water treatment, Drinking water treatment, Water Recycling, Industrial water treatment, Desalination treatment etc. The company has a presence across the entire value chain of water solutions which include R&D, marketing, design & technology, engineering, procurement, construction and commissioning & operations & maintenance (O&M). The company in its span of last 25 years has successfully executed more than 1450 plants, including 450+ sewage treatment plants and 320+ water treatment plants, the company has started executing Desalination plants and has completed more than 60 plants.

The company has built wastewater treatment plants treating over 27 million m3 liters per day of municipal and industrial wastewater and desalination plants with an installed capacity of 1.2 million m3 liters per day, WABAG is classified among top 10 desalination companies globally.

WABAG has a strong global presence in more than 25 countries across India, South-East Asia, Middle East, Africa, Europe and Latin America and a rich clientele base. The company has existing order book of Rs. 11,865.5 crores as on Dec'23, giving a strong 4x revenue visibility.

The company has developed technological focus, it has developed 125+ IP rights for water treatment technology solutions, and has also developed 3 R&D centers globally in Vienna, Winterthur and Chennai.

WABAG was ranked 3rd globally by GWI in 2022 for ensuring safe drinking water and clean environment for over 88 Mn people.

Key Contracts in Orderbook:

Project Details	(Rs. Crs)
400 MLD Perur, Chennai – Desal	3497.5
UPJN, O&M of Agra & Ghaziabad - OCOO	1214.2
150 MLD Digha & Kankarbagh – STP & Network	681.7
200 MLD Pagla, Bangladesh – STP	652.7
AGCC, Russia – Integrated Industrial ETP	608.9
270 MLD CIDCO, Maharashtra – WTP	396



40 MLD GNN, Ghaziabad – TTRO (Water Recycle)	318.4
20 MLD Ras Tanura Refinery Complex, KSA - IWWTP	278.2
345 MLD SONEDE, Tunisia – WTP	262.5
50 MLD Senegal – Desal	219
45 MLD Koyembedu, Chennai – TTRO (Water Recycle)	174.3

(Source: Company, HDFC sec)

Key Clients:

Municipal	Industrial	Funding Agencies
<h4>Serving clients in....</h4> <ul style="list-style-type: none"> ▪ Municipal Water & Waste Water ▪ Oil & Gas ▪ Power plants ▪ Steel ▪ Food & Beverages ▪ Fertilizer ▪ Industrial parks 		

(Source: Company, HDFC sec)



Financials:

Income Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	2979.3	2960.5	2913.9	3409.3	3886.6
Growth (%)	5.1	-0.6	-1.6	17.0	14.0
Operating Expenses	2742.3	2642.7	2528.4	2945.6	3350.3
EBITDA	237.0	317.8	385.6	463.7	536.4
Growth (%)	0.8	8.3	34.1	21.3	20.3
EBITDA Margin (%)	8.0	10.7	13.2	13.6	13.8
Depreciation	10.1	8.8	8.0	8.0	8.1
EBIT	226.9	309.0	377.6	455.7	528.3
Other Income	32.4	53.6	54.1	61.3	68.5
Interest expenses	87.7	65.8	66.1	67.0	69.7
PBT	171.6	296.8	365.6	450.0	527.1
Tax	36.3	5.9	88.1	112.5	131.8
PAT	135.2	290.9	277.5	337.5	395.3
Adjusted PAT	131.9	12.8	279.3	339.1	396.8
Growth (%)	19.8	-90.3	2073.7	21.4	17.0
EPS	21.2	2.1	44.9	54.5	63.8

Balance Sheet

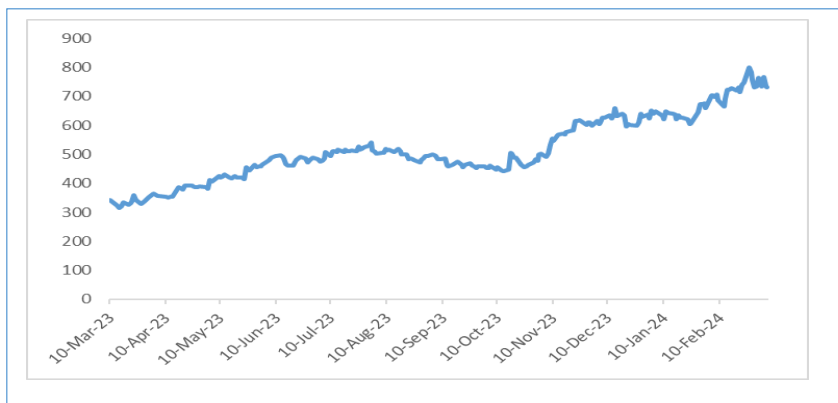
As at March	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	12	12	12	12	12
Reserves	1513	1562	1840	2177	2572
Shareholders' Funds	1526	1575	1852	2190	2585
Long Term Debt	94	55	15	30	20
Net Deferred Taxes	-33	-36	-36	-36	-36
Long Term Provisions & Others	210	158	158	185	211
Total Source of Funds	1797	1751	1989	2369	2780
APPLICATION OF FUNDS					
Net Block & Goodwill	80	75	71	74	67
CWIP	0	0	0	0	0
Other Non-Current Assets	922	905	891	891	891
Total Non Current Assets	1002	980	963	964	958
Current Investments	0	0	0	0	0
Inventories	32	41	40	37	43
Trade Receivables	1326	1507	1477	1728	1970
Cash & Equivalents	429	275	426	779	1027
Other Current Assets	1178	1248	1389	1532	1810
Total Current Assets	2964	3072	3332	4076	4849
Short-Term Borrowings	335	158	258	213	203
Trade Payables	985	1070	1038	1186	1352
Other Current Liab & Provisions	849	1073	1009	1273	1472
Total Current Liabilities	2169	2301	2305	2672	3028
Net Current Assets	794	771	1026	1404	1821
Total Application of Funds	1797	1751	1989	2369	2780



Cash Flow Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	168.4	16.8	365.6	450.0	527.1
Non-operating & EO items	110.5	20.4	23.9	60.6	59.3
Interest Expenses	22.9	17.3	66.1	67.0	69.7
Depreciation	10.1	8.8	8.0	8.0	8.1
Working Capital Change	-281.7	49.2	-215.0	-11.0	-193.4
Tax Paid	-18.6	-27.5	-88.1	-112.5	-131.8
OPERATING CASH FLOW (a)	11.6	85.0	160.5	462.1	339.1
Capex	-2.6	-1.7	-4.0	-10.0	-2.0
Free Cash Flow	9.0	83.3	156.5	452.1	337.1
Investments	-18.3	0.0	0.0	0.0	0.0
Non-operating income	-13.1	17.5	0.0	0.0	0.0
INVESTING CASH FLOW (b)	-34.0	15.8	-4.0	-10.0	-2.0
Debt Issuance / (Repaid)	79.0	-213.8	60.0	-30.2	-20.0
Interest Expenses	-36.4	-28.1	-66.1	-67.0	-69.7
FCFE	51.6	-158.6	150.4	354.9	247.4
Share Capital Issuance/ (Buy Back)	0.0	0.0	0.0	0.0	0.0
Dividend	0.0	0.0	0.0	0.0	0.0
Others	2.0	1.8	0.0	-1.6	0.1
FINANCING CASH FLOW (c)	44.6	-240.1	-6.1	-98.8	-89.6
NET CASH FLOW (a+b+c)	22.3	-139.3	150.4	353.3	247.5

One Year Price Chart



Key Ratios

	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY RATIOS					
EBITDA Margin	8.0	10.7	13.2	13.6	13.8
EBIT Margin	7.6	10.4	13.0	13.4	13.6
PAT Margin	4.4	0.4	9.6	9.9	10.2
RoE	9.0	0.8	16.3	16.8	16.6
RoCE	12.3	16.5	19.3	20.0	20.2
SOLVENCY RATIOS					
Debt/EBITDA (x)	1.8	0.7	0.7	0.5	0.4
D/E	0.3	0.1	0.1	0.1	0.1
PER SHARE DATA					
EPS	21.2	2.1	44.9	54.5	63.8
CEPS	22.8	3.5	46.2	55.8	65.1
Dividend	0.0	0.0	0.0	0.0	0.0
BVPS	247.5	253.2	298.2	352.7	416.5
TURNOVER RATIOS					
Debtor days	164	175	187	172	174
Inventory days	4	5	5	4	4
Creditors days	126	127	132	119	119
VALUATION					
P/E	34.5	353.8	16.3	13.4	11.5
P/BV	3.0	2.9	2.5	2.1	1.8
EV/EBITDA	19.2	14.1	11.4	8.6	7.0
EV/Revenues	1.5	1.5	1.5	1.2	1.0



HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. These stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicity of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

I, **Rishab A Jain**, Research Analyst, **(MBA)**, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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