

Retail Equity Research (South India Focus)

VA Tech Wabag Ltd

Capital Goods

BSE CODE : 533269 NSE CODE: WABAG
BLOOMBERG CODE: VATW:IN SENSEX : 52,104

BUY

12M Investment Period

Rating as per Small Cap

CMP Rs 239 TARGET Rs. 288 RETURN 21 % 
(Closing: 16-02-21)

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Execution nearing normalcy; Valuation attractive

VA Tech Wabag Ltd is a Chennai based Multinational, providing solutions on water recycling and reuse for municipal and corporate clients.

- Current order backlog stands at Rs.10,712Cr with order intake of Rs.971Cr during the quarter.
- Company registered better than expected revenue of Rs.796Cr registering a growth of 17.2%YoY and 30.8% QoQ. We expect revenue to grow at a CAGR of 11.7% over FY20-23.
- Increased government focus on water recycling and higher budgetary spend will boost the order intake going forward.
- Debt level has shown significant reduction and stands at Rs.383Cr against Rs.482Cr in FY20 and Rs.392Cr in Q2FY21. We expect further decline in debt level due to improved revenue generation.
- Considering the positive outlook of the water treatment industry and expected revenue rebound along with improving cash position, we value the stock at 1 year forward PE of 10.5x its FY23E earnings with a target price of Rs.288, and upgrade our rating to BUY.

Better than expected quarterly numbers

On a consolidated basis revenue for the quarter stood at Rs.796Cr as against Rs.697Cr in Q3FY20 and Rs.608Cr during Q2FY21 registering a YoY growth of 17.2% and sequential growth of 30.8%. Revenue improvement is on account of improvement in EPC business to near pre-covid levels and O&M continuing to operate at full capacity. EPC segment contributed 84% of 9MFY21 revenue where as O&M contributed 16%. Management aims to increase the O&M contribution to 25% in the coming years, which will help in improving the margins. Municipal orders contributed 75% to the total revenue whereas industrial orders contributed 25%. On a sequential basis, EBITDA margin improved 171bps to 8.4% due to lower cost of operation, however, declined 108bps due to increase in cost of sales. We expect a revamp in revenue generation going forward and expect revenue to grow at CAGR of 11.7% over FY20-23.

Increasing focus on water recycling to boost order intake

Order backlog of the company stands at Rs.10,712Cr as on Q3FY21 with order intake during 9MFY21 at Rs.971Cr. EPC contributes 67% to current order book, whereas, O&M contributes 33%. Municipal order mix stands at 87% and Industrial order mix at 13%. Major order intake during 9MFY21 are STP-Jeddah Airport, Saudi Arabia of Rs.361.4Cr and WTP-Ipsach Biel SWW of Rs.226Cr. 87% of order intake are municipal orders and 13% industrial orders. With Order book of more than 3 times of annual revenue, company has the leverage to be more choosy in selecting orders. Increased government focus and higher budgetary spends on water related projects like Jal Jeevan Mission, Namami Gange etc will help in boosting the order intake going forward.

Gradual improvement in debt level

As on Q3FY21, gross debt on consolidated basis stands at Rs.383Cr against Rs.482Cr in FY20 and Rs.392Cr in Q2FY20. Company had also released the promoter pledge during Q2FY21. Finance cost has come down to Rs.22.8Cr against Rs.23.7Cr as of Q2FY21. We expect further reduction in debt level and finance cost due to improved cash position and rebound in revenue generation.

Valuations

Improvement seen in revenue generation and debt level are expected to continue as execution is picking up with major projects have reached revenue generation stage. Even though receivable levels remained elevated due to GENCO receivables, performance parameters of core business (excluding exceptions like GENCO) looks promising. Considering the positive outlook of the water treatment industry and expected revenue rebound along with improving cash position, we value the stock at 1 year forward PE of 10.5x, its FY23E earnings with a target price of Rs.288, and upgrade our rating to BUY.

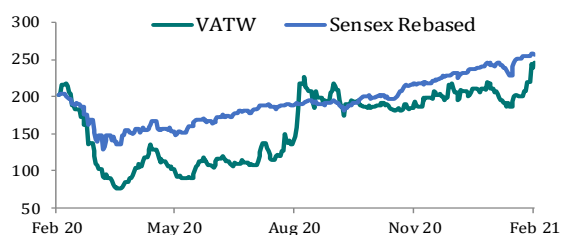
Company Data

Market Cap (Rs.cr)	1,486
Enterprise Value (cr)	1,570
Outstanding Shares (cr)	6.2
Free Float (%)	78.3
Dividend Yield (%)	-
52 week high	252
52 week low	73
6m average volume (cr)	0.08
Beta	1.34
Face value	2

Shareholding (%)	Q1FY21	Q2FY21	Q3FY21
Promoters	24.7	21.7	21.7
FII's	22.3	13.2	14.5
MFs/Institutions	5.7	4.2	3.7
Public	47.3	60.9	60.1
Total	100	100	100
Promoter pledge	3.07	0.00	0.00

Price Performance	3 month	6 Month	1 Year
Absolute Return	30.2%	12.8%	21.2%
Absolute Sensex	18.7%	34.7%	26.6%
Relative Return*	11.5%	-21.9%	-5.4%

*over or under performance to benchmark index



Consolidated (cr)	FY21E	FY22E	FY23E
Sales	2,681	3,196	3,562
Growth (%)	4.9	19.2	11.5
EBITDA	218	263	300
EBITDA Margin(%)	8.1	8.2	8.4
PAT Adj.	103	138	169
Growth (%)	23.0	33.5	22.6
Adjusted EPS	16.6	22.2	27.2
Growth (%)	0.1	0.3	0.2
P/E	14.4	10.8	8.8
P/B	1.1	1.0	0.9
EV/EBITDA	7.7	6.3	5.4
ROE (%)	8.0	9.5	10.6
D/E	0.3	0.2	0.2

Cyril Charly
Research Analyst

Quarterly Financials

Profit & Loss

	Q3FY21	Q2FY21	QoQ Growth%	Q3FY20	YoY Growth %	9MFY21	9MFY20	YoY Growth %
Sales	796	608.35	31%	679.44	17%	1835	1772	4%
EBITDA	70	43.2	62%	67.26	4%	142	166	-14%
Depreciation	3.02	3.51	-14%	3.59	-16%	9	11	-17%
EBIT	67.17	39.7	69%	63.67	5%	133	155	-14%
Interest	22.87	23.73	-4%	28.27	-19%	68	82	-17%
Other Income	3.61	1.74	107%	2.83	28%	7	9	-30%
PBT	47.91	17.78	169%	38.23	25%	72	83	-13%
Tax	12.04	4.41	173%	13.19	-9%	19	34	-46%
Reported PAT	38.04	13.93	173%	28.25	35%	57	53	8%
Adj*	0	0		0		0	0	
Adj PAT	38.04	13.93	173%	28.25	35%	57	53	8%
Shares Outstanding	6.2	6.2	0%	5.5	13%	6	6	13%
EPS (Rs)	6.12	2.24	173%	4.54	35%	9	8	8%

Change in Estimates

Year / Rs cr	Old estimates		New estimates		New estimates		
	FY21E	FY22E	FY21E	FY22E	FY23	FY21E	FY22E
Revenue	2,549	3,107	2,681	3,196	3,562	5.2%	2.9%
EBITDA	212	274	218	263	300	2.7%	-4.1%
Margin (%)	8.34	8.82	7.65	7.73	7.96	69bps	109bps
Adj. PAT	89	137	103	138	169	16.0%	0.6%
EPS	14.3	22	16.6	22.2	27.2	16.1%	0.8%

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Sales	2,781	2,557	2,681	3,196	3,562
% change	-19.6	-8.0	4.9	19.2	11.5
EBITDA	194	217	218	263	300
% change	-33.5	11.8	0.3	20.7	14.2
Depreciation	17	15	13	16	16
EBIT	177	202	205	247	284
Interest	75	109	87	80	75
Other Income	4	35	11	8	8
PBT	106	128	129	175	217
% change	-52	20	1	36	24
Tax	20	49	33	45	55
Tax Rate (%)	19%	38%	26%	26%	26%
Reported PAT	89	84	103	138	169
Adj.*	0	0	0	0	0
Adj. PAT	89	84	103	138	169
% change	-39.3	-5.9	23.0	33.5	22.6
No. of shares (cr)	5.5	5.5	6.2	6.2	6.2
Adj EPS (Rs)	16.3	15.3	16.6	22.2	27.2
% change	-0.4	-0.1	0.1	0.3	0.2
DPS (Rs)	4	0	0	3	3

BALANCE SHEET

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Cash	135	249	320	224	305
Accounts Receivable	1720	1708	2016	2094	2429
Inventories	15	26	26	31	34
Other Cur. Assets	1589	1466	1565	1614	1629
Investments	8	20	22	22	22
Gross Fixed Assets	129	134	147	153	158
Net Fixed Assets	88	84	88	89	86
CWIP	0	0	0	0	0
Intangible Assets	61	2	2	3	3
Def. Tax (Net)	99	25	55	60	60
Other Assets	76	136	126	103	103
Total Assets	3779	4024	4298	4598	4952
Current Liabilities	1992	2226	2308	2530	2763
Provisions	53	58	63	64	71
Debt Funds	584	482	388	368	332
Other Liabilities	80	82	141	119	119
Equity Capital	11	11	12	12	12
Reserves & Surplus	1058	1164	1385	1504	1655
Shareholder's Fund	1069	1174	1398	1517	1667
Total Liabilities	3779	4024	4298	4598	4952
BVPS	195	215	225	244	268

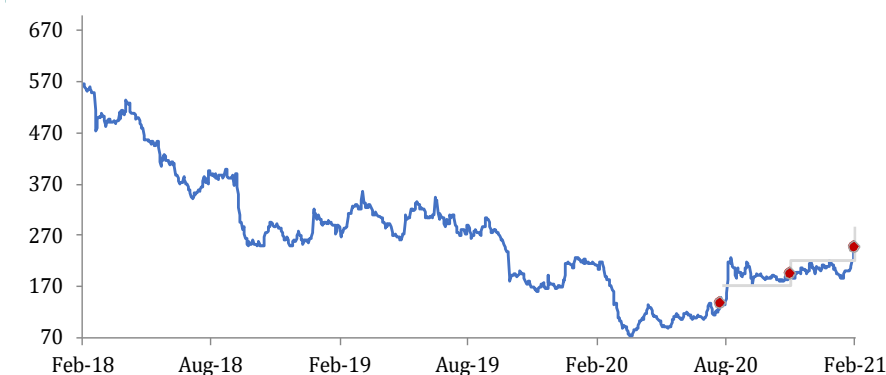
CASH FLOW

Y.E March (Rs Cr)	FY19A	FY20A	FY21E	FY22E	FY23E
Net inc. + Deprn.	106	104	116	154	185
Non-cash adj.	83	108	87	80	75
Changes in W.C	-266	37	-20	-214	-45
C.F. Operation	-76	249	183	19	216
Capital exp.	-2	65	-13	-6	-6
Change in inv.	0	0	-2	0	0
Other invest.CF	13	-35	0	0	0
C.F - Investment	11	30	-46	-11	-6
Issue of equity	1	0	120	0	0
Issue/repay debt	71	-136	-181	-100	-111
Dividends paid	-23	-2	0	-19	-19
Other finance.CF	0	0	-5	15	0
C.F - Finance	49	-135	-66	-104	-130
Chg. in cash	-17	143	71	-96	81
Closing cash	118	253	320	224	305

RATIOS

Y.E March	FY19A	FY20A	FY21E	FY22E	FY23E
Profitab & Return					
EBITDA margin (%)	7.0	8.5	8.1	8.2	8.4
EBIT margin (%)	6.4	7.9	7.6	7.7	8.0
Net profit mgn.(%)	3.2	3.3	3.9	4.3	4.7
ROE (%)	8.1	7.5	8.0	9.5	10.6
ROCE (%)	6.4	9.1	8.1	9.1	9.8
W.C & Liquidity					
Receivables (days)	224.9	265.7	279.7	259.5	265.6
Inventory (days)	3.5	3.0	3.6	3.2	3.3
Payables (days)	284.3	325.4	316.2	289.2	289.7
Current ratio (x)	1.7	1.6	1.7	1.7	1.7
Quick ratio (x)	0.9	0.9	0.9	1.0	1.0
Turnover & Leverage					
Gross asset T.O (x)	21.4	19.4	19.1	21.3	22.9
Total asset T.O (x)	0.7	0.7	0.6	0.7	0.7
Int. covge. ratio (x)	2.4	1.8	2.4	3.1	3.8
Adj. debt/equity (x)	0.5	0.4	0.3	0.2	0.2
Valuation					
EV/Sales (x)	0.7	0.7	0.6	0.5	0.5
EV/EBITDA (x)	9.7	8.2	7.7	6.3	5.4
P/E (x)	14.7	15.6	14.4	10.8	8.8
P/BV (x)	1.2	1.1	1.1	1.0	0.9

Recommendation summary



Dates	Rating	Target
12 August 2020	Buy	172
18 November 2020	Accumulate	220
17 February 2021	Buy	288

Source: Bloomberg, Geojit Research.

Investment 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		-	

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 : The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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