

# Equity Research

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BSE Sensex: 52329

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## Q4FY21 result review and earnings revision

## Capital Goods

Target price: Rs307

### Earnings revision

(%)	FY22E	FY23E
Revenue	↓ 2.2	↑ 1.7
EBITDA	↓ 18.2	↑ 2.3
PAT	↓ 17.1	↑ 11.2

### Target price revision

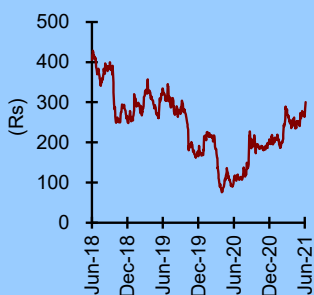
Rs307 from Rs225

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	21.7	21.7	21.7
Institutional investors	17.4	18.2	17.9
MFs and others	3.5	3.0	2.6
FIs/Ins Co	0.7	0.7	0.7
FIs	13.2	14.5	14.6
Others	60.9	60.1	60.4

Source: NSE

### Price chart



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# INDIA

# ICICI Securities

## VA Tech Wabag

### HOLD

Maintained

### Healthy execution, cashflow concern persists

### Rs299

VA Tech Wabag's Q4FY21 performance was better than expectations, supported by pick-up in domestic execution leading to healthy operating margins. Company has succeeded in financial closure of two HAM projects, which will commence execution going forward. Chennai 400MLD desalination project ordering activity has commenced and prequalification bids completed with new state government in charge. Strong orderbook of Rs95.8bn (3.4x TTM sales) lends visibility; however, 34% of the orderbook is O&M, which restricts near-term growth. Supported by proceeds from preferential allotment and increase in payables, the company turned around to net cash position of Rs436mn. Factoring-in near-term growth and margin impact we cut FY22E earnings by 17% while we assume strong revival in FY22E order intake leading to 11% raise in FY23E earnings. Given the Rs1.1bn provision on doubtful debtors in FY21 and continuation of this due to TS-Genco/AP-Genco issue and rich valuation, we maintain HOLD with a revised target price of Rs307 (previously: Rs225).

- ▶ **Delay in APGenco/TSGenco collection continues:** Although current receivables have reduced slightly to Rs13.5bn in Mar'21 from Rs15.8bn in Mar'20, status on Rs4.1bn receivables from APGenco/TSGenco and Rs695mn from Tecpro remain unchanged. These account for 30% of overall receivables.
- ▶ **Cashflow from operations supported by higher payables:** There is an overall increase of Rs1.3bn in other assets impacting the cash from operations. This is expected to fall by Rs400mn as it pertains to funding of partner stake in the HAM projects and Rs600mn is due on GST (impacted by project delay) and ~Rs300mn pertains to advance given to suppliers. This has been offset by Rs600mn increase in payables majorly due to forex, hence the quality of cashflow from operations remains a concern.
- ▶ **High raw material prices and provision towards doubtful debt to limit upside:** Although most projects have price variation clause, we believe, the overall gross margins are likely to be impacted by high commodity prices. Q4FY21 gross margin was reduced by 260bps YoY due to commodity price increase. Additionally, the company has taken Rs1,1bn provision due to doubtful debt, which is 3.8% of sales. In normal course of business, the doubtful debt provision is in the range of 1-1.5% of sales; assuming 1.5% as normal provision, this implies Rs646mn provision towards the slow-moving receivables from TS-Genco and AP-Genco. Hence, the overall margin stress is likely to continue until resolution of the slow-moving receivables issue.
- ▶ **Maintain HOLD; rich valuation and working capital stress to cap upside:** Financial closure of *Namami Ganga* project and pick-up in domestic execution provide growth visibility. The stress on working capital continues and provision towards doubtful debtors is likely to limit margin upside. Order prospects are promising, which is likely to support FY23E earnings; hence we maintain **HOLD** with a revised target price of Rs307 (previously: Rs225). We have rolled forward our target valuation to FY23E from Sept'22 earnings and increased our target multiple to 12x from 10x factoring in improved growth visibility and healthy cash flows.

Market Cap	Rs18.6bn/US\$256mn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	VATE.BO/VATW IN	Revenue (Rs mn)	25,572	28,345	29,227	32,726
Shares Outstanding (mn)	62.2	Rec. Net Income (Rs mn)	910	1,101	1,129	1,591
52-week Range (Rs)	299/105	EPS (Rs)	16.6	17.7	18.2	25.6
Free Float (%)	75.3	% Chg YoY	(13.4)	21.1	2.5	40.9
FII (%)	14.6	P/E (x)	18.0	16.9	16.5	11.7
Daily Volume (US\$/000)	2,569	CEPS (Rs)	19.4	19.7	20.2	27.7
Absolute Return 3m (%)	11.7	EV/E (x) (Incl. Indus)	8.3	8.1	7.9	6.1
Absolute Return 12m (%)	166.5	Dividend Yield (%)	-	-	0.3	0.7
Sensex Return 3m (%)	4.1	RoCE (%)	8.9	9.7	10.2	12.5
Sensex Return 12m (%)	54.5	RoE (%)	8.1	8.5	7.7	10.0

Please refer to important disclosures at the end of this report

## Outlook and valuation

VA Tech Wabag currently trades at 11.7x FY23E earnings. High receivable days impacting overall cashflow continues and is expected to keep RoEs at lower levels despite the company being asset-light. Financial closure of HAM projects under *Namami Ganga* project with a financial partner who will fund majority stake provides relief in terms of near-term growth prospects. The provision towards doubtful debtors and high commodity prices are likely to cap margins.

Factoring-in the near-term growth due to muted FY21 order intake and margin impact due to high commodity prices, we cut FY22E earnings by 17% while we assume strong revival in FY22E order intake leading to 11% raise in FY23E earnings. We value the stock assigning 12x P/E multiple to FY23E earnings vs previous multiple of 10x 1-year forward valuation. Given the net cash position and overall improvement in order intake growth prospects and return on equity we have increased our multiple. Despite building-in optimistic earnings, we believe the stock is trading at rich valuation, hence maintain **HOLD**.

Any favourable judgement on the AP-Genco, TS-Genco and Tecpro legal case can act as rerating catalyst for the stock.

**Chart 1: 1-year forward P/E chart**



Source: Bloomberg, I-Sec research

**Table 1: Earnings revision**

(Rs mn)

Rs mn	FY22E			FY23E		
	Earlier	Revised	YoY (%)	Earlier	Revised	YoY (%)
Revenue	29,876	29,227	-2.2	32,180	32,726	1.7
EBIDTA	2,928	2,395	-18.2	3,089	3,162	2.3
PAT	1,363	1,129	-17.1	1,431	1,591	11.2

Source: I-Sec research

**Table 2: Quarterly financial trend (consolidated)**

(Rs mn)

	Q4FY20	Q4FY21	YoY(%)	Q2FY21	QoQ(%)	I-sec est	Var(%)	FY20	FY21	YoY(%)
<b>Total Revenues</b>	<b>7,851</b>	<b>9,993</b>	<b>27.3</b>	<b>7,960</b>	<b>25.5</b>	<b>8,764</b>	<b>14.0</b>	<b>25,572</b>	<b>27,810</b>	<b>8.8</b>
EBITDA	508	764	50.5	702	8.8	676	13.0	2,170	1,941	(10.5)
Margin	6.5	7.6	118bps	8.8	-117bps	7.7	-7bps	8.5	7.0	-150bps
Depreciation	40	27	(32.4)	30	(10.3)	81	-66.5	154	168	9.1
Finance Cost	273	222	(18.5)	229	(2.8)	279	-20.4	1,090	753	(30.9)
Other Income	257	16	(93.9)	36	(56.8)	34	-53.4	352	44	(87.6)
Extraordinary income	-	-	-	-	-	-	-	-	-	-
PBT	452	530	17.4	479	10.6	350	51.7	1,325	1,064	(19.7)
Tax	141	107	(23.9)	120	(11.0)	111	-3.1	486	205	(57.8)
Tax rate	31.2	20.2	-1095bps	25.1	-491bps	31.7		36.7	19.3	
<b>PAT</b>	<b>311</b>	<b>423</b>	<b>36.0</b>	<b>359</b>	<b>17.9</b>	<b>239</b>	<b>77.0</b>	<b>792</b>	<b>859</b>	<b>8.5</b>
Share of profit in Associates and JV	1	15		22		8		(23)	33	(244.5)
Reported PAT	312	438	40.6	380	15.2	247	77.7	910	892	(2.0)
Adjusted PAT	312	465	49.4	418	11.4	231	101.5	910	892	(2.0)
Margin (%)	4.0	4.7	69bps	5.2	-59bps	2.6		3.6	3.2	-35bps
<b>EPS</b>	<b>5.5</b>	<b>8.1</b>		<b>7.4</b>		<b>4.0</b>		<b>16.6</b>	<b>15.8</b>	<b>(5.1)</b>
Orderbook	1,10,452	95,841	(13.2)	1,07,120	(10.5)	1,00,685	-4.8	1,10,452	95,841	(13.2)
Order inflow	3,049	3,407	11.8	3,425	(0.5)	13,645	-75.0	43,704	13,121	(70.0)

Source: Company data, I-Sec research

**Table 3: Quarterly segmental revenue trend (consolidated)**

(Rs mn)

	Q4FY20	Q4FY21	YoY(%)	Q2FY21	QoQ(%)	I-Sec est	Var(%)	9MFY20	9MFY21	YoY(%)
<b>Revenues</b>										
<b>EPC</b>	<b>6,534</b>	<b>8,708</b>	<b>33.3</b>	<b>6,864</b>	<b>26.9</b>	<b>7,611</b>	<b>14.4</b>	<b>15,148</b>	<b>15,122</b>	<b>(0.2)</b>
Municipal	4,662	6,463	38.6	5,200	24.3	5,395	19.8	9,721	11,025	13.4
Industrial	1,872	2,245	19.9	1,664	34.9	2,215	1.3	5,427	4,097	(24.5)
<b>O&amp;M</b>	<b>1,190</b>	<b>1,179</b>	<b>(0.9)</b>	<b>999</b>	<b>18.0</b>	<b>1,043</b>	<b>13.1</b>	<b>2,367</b>	<b>2,985</b>	<b>26.1</b>
Municipal	1,089	981	(9.9)	857	14.5	794	23.5	1,995	2,560	28.3
Industrial	101	198	96.0	142	39.4	249	-20.3	372	425	14.2
<b>Total revenues</b>	<b>7,724</b>	<b>9,887</b>	<b>28.0</b>	<b>7,863</b>	<b>25.7</b>	<b>8,653</b>	<b>14.3</b>	<b>17,515</b>	<b>18,107</b>	<b>3.4</b>

Source: Company data, I-Sec research

**Table 4: Financial assumptions (consolidated)***(Rs mn)*

	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
<b>Order Inflow</b>									
Municipal EPC	9,588	25,839	14,757	17,463	30,764	21,239	7,892	21,666	24,634
Growth(%)	-53.0	169.5	-42.9	18.3	76.2	-31.0	-62.8	174.5	13.7
Industrial EPC	10,603	19,717	15,765	8,537	13,279	2,117	722	2,548	3,171
Growth(%)	32.9	86.0	-20.0	-45.8	55.5	-84.1	-65.9	252.9	24.5
O&M	9,576	5,845	5,676	5,931	4,742	20,348	4,507	6,064	6,986
Growth(%)	86.1	-39.0	-2.9	4.5	-20.0	329.1	-77.9	34.5	15.2
<b>Total</b>	<b>29,767</b>	<b>51,401</b>	<b>36,198</b>	<b>31,931</b>	<b>48,785</b>	<b>43,704</b>	<b>13,121</b>	<b>30,278</b>	<b>34,792</b>
Growth(%)	-11.2	72.7	-29.6	-11.8	52.8	-10.4	-70.0	130.8	14.9
<b>Orderbook</b>									
Municipal EPC	25,741	39,857	37,632	36,090	52,616	59,472	44,995	48,433	50,111
Growth(%)	-15.3	54.8	-5.6	-4.1	45.8	13.0	-24.3	7.6	3.5
Industrial EPC	11,301	21,026	22,495	17,029	18,657	13,475	6,654	4,191	2,815
Growth(%)	43.2	86.1	7.0	-24.3	9.6	-27.8	-50.6	-37.0	-32.8
O&M	17,344	12,199	13,157	14,967	14,650	31,441	32,766	33,233	35,427
Growth(%)	13.6	-29.7	7.9	13.8	-2.1	114.6	4.2	1.4	6.6
<b>Total</b>	<b>54,386</b>	<b>73,082</b>	<b>73,284</b>	<b>68,086</b>	<b>85,923</b>	<b>1,04,388</b>	<b>84,415</b>	<b>85,857</b>	<b>88,353</b>
Growth(%)	1.6	34.4	0.3	-7.1	26.2	21.5	-19.1	1.7	2.9
<b>Revenues</b>									
Municipal EPC	12,961	10,178	12,782	14,460	11,892	14,383	17,488	18,228	22,956
Growth(%)	16.2	-21.5	25.6	13.1	-17.8	20.9	21.6	4.2	25.9
Industrial EPC	6,534	10,050	14,210	15,727	11,794	7,299	6,342	5,011	4,548
Growth(%)	-3.8	53.8	41.4	10.7	-25.0	-38.1	-13.1	-21.0	-9.2
O&M	4,789	5,193	5,072	4,103	3,545	3,557	4,164	5,597	4,792
Growth(%)	9.9	8.4	-2.3	-19.1	-13.6	0.3	17.1	34.4	-14.4
<b>Total</b>	<b>24,352</b>	<b>25,486</b>	<b>32,162</b>	<b>34,573</b>	<b>27,810</b>	<b>25,572</b>	<b>28,350</b>	<b>29,227</b>	<b>32,726</b>
Growth(%)	8.8	4.7	26.2	7.5	-19.6	-8.0	10.9	3.1	12.0

Source: Company data, I-Sec research

## Financial summary (consolidated)

Table 5: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Total Income</b>	<b>25,572</b>	<b>28,345</b>	<b>29,227</b>	<b>32,726</b>
<b>Operating Expenses</b>	<b>23,402</b>	<b>26,157</b>	<b>26,832</b>	<b>29,564</b>
<b>EBITDA</b>	<b>2,170</b>	<b>2,188</b>	<b>2,395</b>	<b>3,162</b>
% margins	8.5	7.7	8.2	9.7
Depreciation & Amortisation	154	121	125	130
<b>EBIT</b>	<b>2,016</b>	<b>2,067</b>	<b>2,270</b>	<b>3,032</b>
Gross Interest	1,090	903	1,081	1,211
Other Income	352	82	100	100
<b>PBT before exceptional</b>	<b>1,277</b>	<b>1,246</b>	<b>1,289</b>	<b>1,921</b>
Add: Extraordinaries /Exceptionals	-	-	-	-
Add: Share in associates	48	58	60	60
<b>PBT</b>	<b>1,325</b>	<b>1,303</b>	<b>1,349</b>	<b>1,981</b>
Less: Taxes	486	295	309	480
Less: Minority Interests	(70)	(93)	(90)	(90)
<b>Net Income (Reported)</b>	<b>910</b>	<b>1,101</b>	<b>1,129</b>	<b>1,591</b>
<b>Adjusted Net Income</b>	<b>910</b>	<b>1,101</b>	<b>1,129</b>	<b>1,591</b>

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	33,307	33,048	33,697	36,775
of which cash & cash eqv.	3,205	3,713	2,578	1,932
Total Current Liabilities & Provisions	23,670	24,555	24,506	27,240
<b>Net Current Assets</b>	<b>6,432</b>	<b>4,780</b>	<b>6,613</b>	<b>7,604</b>
Investments	153	153	153	153
Other Non-Current Assets	5,913	7,549	7,776	8,792
<b>Net Fixed Assets</b>	<b>863</b>	<b>863</b>	<b>866</b>	<b>896</b>
Goodwill	-	-	-	-
<b>Total Assets</b>	<b>16,566</b>	<b>17,057</b>	<b>17,986</b>	<b>19,376</b>
<b>Liabilities</b>				
Borrowings	4,825	3,052	2,986	2,923
Deferred Tax Liability	20	41	41	41
Minority Interest	(23)	(134)	(144)	(158)
Equity Share Capital	109	124	124	124
Face Value per share (Rs)	2.00	2.00	2.00	2.00
Reserves & Surplus	11,635	13,973	14,978	16,445
<b>Net Worth</b>	<b>11,744</b>	<b>14,098</b>	<b>15,103</b>	<b>16,569</b>
<b>Total Liabilities</b>	<b>16,566</b>	<b>17,057</b>	<b>17,986</b>	<b>19,376</b>

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Operating Cashflow</b>	<b>2,321</b>	<b>1,865</b>	<b>2,071</b>	<b>2,511</b>
Working Capital Changes	975	1,366	(1,959)	(1,122)
Capital Commitments	471	(121)	(128)	(160)
<b>Free Cashflow</b>	<b>3,766</b>	<b>3,110</b>	<b>(16)</b>	<b>1,229</b>
<b>Cashflow from Investing Activities</b>	<b>(173)</b>	<b>(1,505)</b>	<b>(113)</b>	<b>(744)</b>
Issue of Share Capital	-	15	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(1,013)	(1,772)	(66)	(63)
Interest paid	(1,090)	(903)	(1,081)	(1,211)
Dividend paid	-	-	(62)	(124)
<b>Extraordinary Items/Others</b>	<b>(75)</b>	<b>1,563</b>	<b>203</b>	<b>267</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>1,415</b>	<b>508</b>	<b>(1,135)</b>	<b>(647)</b>

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (in Rs.)</b>				
Diluted adjusted EPS	16.6	17.7	18.2	25.6
Recurring Cash EPS	19.4	19.7	20.2	27.7
Dividend per share (DPS)	-	-	1.0	2.0
Book Value per share (BV)	214.7	226.7	242.8	266.4
<b>Growth Ratios (%)</b>				
Operating Income	(8.0)	10.8	3.1	12.0
EBITDA	11.8	0.8	9.5	32.0
Recurring Net Income	(13.4)	21.1	2.5	40.9
Diluted adjusted EPS	(13.4)	21.1	2.5	40.9
Diluted Recurring CEPS	(12.7)	15.0	2.6	37.2
<b>Valuation Ratios</b>				
P/E	18.0	16.9	16.5	11.7
P/CEPS	15.4	15.2	14.8	10.8
P/BV	1.4	1.3	1.2	1.1
EV / EBITDA	8.3	8.1	7.9	6.1
EV / Operating Income	0.7	0.6	0.6	0.6
EV / Op. FCF (pre -Capex)	7.3	5.5	167.5	14.0
<b>Operating Ratios</b>				
Raw Material/Sales (%)	75.7	78.8	77.9	76.6
SG&A/Sales (%)	6.6	6.5	6.8	6.7
Other Income / PBT (%)	27.5	6.6	7.8	5.2
Effective Tax Rate (%)	38.0	23.7	24.0	25.0
NWC / Total Assets (%)	21.8	17.8	22.1	22.5
Inventory Turnover (days)	3.8	3.8	3.8	3.8
Receivables (days)	226.9	173.8	185.0	185.0
Payables (days)	253.8	231.3	238.5	242.4
Net D/E Ratio (x)	0.1	(0.0)	0.0	0.1
<b>Return/Profitability Ratios (%)</b>				
Recurring Net Income Margins	3.6	3.9	3.9	4.9
RoCE	8.9	9.7	10.2	12.5
RoNW	8.1	8.5	7.7	10.0
Dividend Payout Ratio	0.0	0.0	0.1	0.1
Dividend Yield (%)	0.0	0.0	0.3	0.7
EBITDA Margins	8.5	7.7	8.2	9.7

Source: Company data, I-Sec research

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