



'RIDING THE WAVE'

We are initiating coverage on Va Tech Wabag Ltd. (VTW) with a BUY recommendation and a target price of Rs 1,700/share, implying an upside of 30% from the CMP. Headquartered in Chennai, WABAG Group has a history spanning more than 90 years. With a presence in four continents, WABAG is a pure-play water technology multinational offering a wide range of solutions focused on conservation, optimization, recycling, and reuse of resources, addressing global water challenges. The group currently has a workforce of over 2,000 employees across more than 25 countries. It operates dedicated R&D centres in Europe and India, holds over 125 IP rights, and has a successful track record of executing over 6,500 municipal and industrial projects globally. WABAG presents a strong opportunity for participation in the growing green and ESG-themed investments.

Investment Thesis

Well-placed to serve the growing water security/conservation market

Regulatory bodies worldwide are allocating additional resources towards the conservation of water sources and implementing stricter regulations to minimize the impact of industrial waste on water bodies. This has led to a significant increase in municipal and industrial expenditure on water-related infrastructure, creating substantial opportunities for companies with the necessary expertise. VTW, with its nearly century-long presence in the industry, was primarily focused on revenue growth until a few years ago, with EBITDA margins hovering around the 8-9% range. However, in recent years, the company has made strategic decisions that have led to a visible improvement in its business mix, higher profitability, and steady cash flow generation. As a result, EBITDA margins have surpassed the 13% level in FY24, indicating a clear uptrend in profitability. Given VTW's extensive experience and strategic focus on key growth areas, the company is well-positioned to capitalize on the rising investment in water security and resource conservation.

Focusing on profitable and sustainable growth

VTW has adopted a strategy to be very selective about the project selection where it wants to focus. This includes 1) Reducing the construction component in EPC contracts, 2) Increasing the share of O&M revenues to at least 20% over the medium term, 3) Increasing the share of industrial contracts, 4) Adopting advanced technologies, 5) Expanding in key international geographies, and 6) Choosing projects where the payment security is higher. The company has also divested two of their European entities in Switzerland and the Czech Republic where the profitability was lower. As a result of these strategic decisions, VTW has seen a steady increase in EBITDA margins, which stood at 13.2% in FY24 compared to 7.7% in FY21. The company has guided EBITDA margins in the range of 13-15% in the medium term. Additionally, the selective approach in choosing projects is expected to increase revenue predictability while reducing default risks.

Clear revenue visibility

As of June 2024, the company's order book stood at approximately Rs 10,676 Cr, with the company identified as the preferred bidder for marquee projects worth around Rs 6,000 Cr, primarily in the MEA and India regions. The company confirmed on 6th September 2024, that it has received an order from Saudi Water Authority worth ~Rs 2,700 Cr towards a 300 MLD Mega Sea Water Desalination Plant in the Kingdom of Saudi Arabia. The Middle East is viewed as a key growth engine, offering higher payment security, larger project sizes, and better margins compared to domestic business. The company is targeting an order book of Rs 16,000 Cr or more by the end of FY25 and is confident in its ability to achieve this goal. EPC contracts typically take 2.5-3.5 years to complete, while O&M contracts can range from a few years to more than 20 years. Given these timelines, the current order book provides clear revenue visibility for the next 3-4 years, and the rising order book is expected to ensure a predictable stream of inflows in the medium term.

Expanding offerings to become a future-ready organization

In addition to its traditional offerings in water-related solutions, VTW is actively exploring new growth opportunities by leveraging its extensive experience, skills, and reputation. One notable initiative is the company's strategic partnership with Peak Sustainability Ventures to establish 100 Bio-CNG plants across India, GCC, Africa, and Europe. VTW has been involved in biogas production for the last 3-4 decades, primarily using biogas to generate electricity. Now, the company plans to convert biogas into compressed natural gas (CNG), aligning with the increasing governmental push towards cleaner energy sources. Additionally, VTW is exploring collaborations with players in the semiconductor and green hydrogen industries, where it can contribute by addressing water requirements. While these initiatives are expected to take at least 3-4 years to gain significant momentum, VTW appears to be taking the right steps to capitalize on these emerging opportunities.

Valuation & Recommendation

We initiate coverage on Va Tech Wabag Ltd. (VTW) with a BUY recommendation. Our recommendation is supported by a) Strong industry tailwinds, b) Improving profitability, c) Robust Order book, and d) Expanding offerings. The stock currently trades at 18x FY26E EPS. We value the stock at 23x FY26E EPS and initiate coverage with a BUY rating on the stock with a target price of Rs 1,700/share, implying an upside of 30% from the CMP.

Key Financials (Consolidated)

(Rs Cr)	FY24A	FY25E	FY26E	FY27E
Net Sales	2,856	3,305	4,273	4,863
EBITDA	376	456	632	739
Net Profit	250	318	461	551
EPS (Rs)	39.5	51.3	74.4	88.8
P/E (x)	33.2	25.6	17.7	14.8
EV/EBITDA (x)	21.1	17.3	12.5	10.7
ROE (%)	15%	16%	19%	20%
ROCE (%)	20%	20%	25%	26%

Source: Company, Axis Securities Research

(CMP as of 6th September, 2024)

CMP (Rs)	1,313
Upside /Downside (%)	30%
High/Low (Rs)	1,420/436
Market cap (Cr)	8,165
Avg. daily vol. (1 Yr) Shrs.	7,03,760
No. of shares (Cr)	6.22

Shareholding Pattern (%)

	Dec-23	Mar-24	Jun-24
Promoter	19.12	19.12	19.12
FIIs	13.11	12.45	11.52
DIIIs	5.85	5.63	4.99
Public	61.91	62.78	64.35

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
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EBITDA	376	456	632
Net Profit	250	318	461
EPS (Rs)	39.5	51.3	74.4
P/E (x)	33.2	25.6	17.7
EV/EBITDA (x)	21.1	17.3	12.5
ROE (%)	6%	7%	9%
ROCE (%)	15%	16%	19%

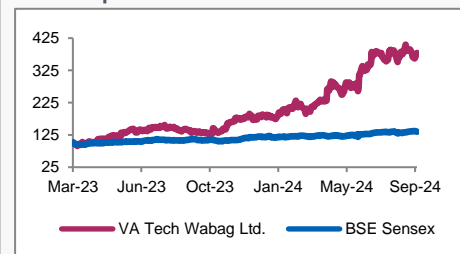
ESG disclosure Score**

Environmental Disclosure core	NA
Social Disclosure Score	NA
Governance Disclosure Score	NA
Total ESG Disclosure Score	NA

Source: Bloomberg, Scale: 0.1-100

**Note: This score measures the amount of ESG data a company reports publicly and does not measure the company's performance on any data point. All scores are based on 2022 disclosures

Relative performance



Source: Ace Equity, Axis Securities Research

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