

Strong Orderbook Maintains Revenue Visibility; Maintain BUY!
Est. Vs. Actual for Q2FY25: Revenue: **INLINE** ; EBITDA: **INLINE** ; PAT: **BEAT**
Change in Estimates
FY25E/FY26E: Revenue: 0%/0%; EBITDA: 0%/0%; PAT: 5%/5%

Recommendation Rationale

- Order Pipeline Getting Healthier:** The company has secured over Rs 4,500 Cr of new orders this quarter, bringing its total order book to approximately Rs 14,600 Cr (including framework contracts). Additionally, it is the preferred bidder for orders worth over Rs 3,500 Cr, which are expected to materialize in the coming months. With an order inflow outlook exceeding Rs 8,000 Cr for FY25, the company is on track to achieve an order book position of over Rs 16,000 Cr by the end of this fiscal year. Recent orders secured over the last few quarters are anticipated to start contributing significantly in the second half of the year. Furthermore, continued order inflow is expected to support sustained revenue growth over the medium term, alongside an improving margin profile.
- Focus on Improving Cash Cycle:** The management highlighted that revenue recognition is typically skewed towards the second half of the year, whereas there is significant cash outflow into projects during the first half. Despite this, the company has ensured timely payments to its vendors, which has led to a reduction in payables. Nonetheless, the company has maintained a net cash position during this period, driven by a strong focus on reducing working capital requirements. The company expects further improvements as project deliveries accelerate in H2.

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%, with the potential to exceed the upper end of this guidance. The company currently holds a robust order book of approximately Rs 14,600 Cr and aims to surpass Rs 16,000 Cr by FY25. 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 FY26E (23x FY26E)

Current TP: 1,970/share(1,700/share)

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

Valuation & Recommendation: The results were broadly in line with our expectations, and as a result, our estimates remain largely unchanged. Consequently, we maintain our BUY rating on the stock and have revised the valuation multiple to 21x FY27E (from the earlier 23x FY26E). **Our target price is now revised upwards to Rs 1,970/share, implying an upside of 16% from the current market price (CMP).**

Key Financials (Consolidated)

(Rs Cr)	Q2FY25	YoY (%)	QoQ (%)	Axis Est.	Variance
Net Sales	700	5%	12%	690	2%
EBITDA	94	9%	15%	92	2%
EBITDA Margin	13.37%	42bps	39bps	13.30%	7bps
Net Profit	70	17%	28%	62	14%
EPS (Rs)	11.4	17%	28%	10.0	14%

Source: Company, Axis Securities Research

(CMP as of 8th November 2024)

CMP (Rs)	1,695
Upside /Downside (%)	16%
High/Low (Rs)	1,907/552
Market cap (Cr)	10,539
Avg. daily vol. (1 Yr) Shrs.	6,91,999
No. of shares (Cr)	6.22

Shareholding (%)

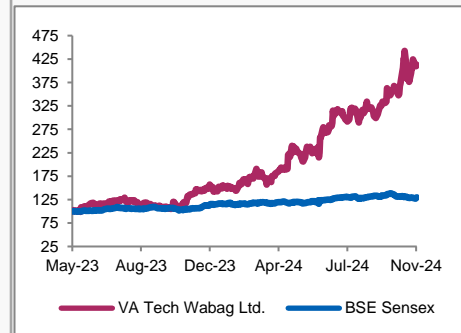
	Mar-24	Jun-24	Sep-24
Promoter	19.12	19.12	19.12
FIIIs	12.45	11.52	14.68
DIIIs	5.63	4.99	3.59
Others	62.78	64.35	62.59

Financial & Valuations

Y/E Mar (Rs Cr)	FY24	FY25E	FY26E
Net Sales	2,856	3,308	4,277
EBITDA	376	454	633
Net Profit	250	332	485
EPS (Rs)	39.5	53.7	78.3
PER (x)	42.9	31.6	21.6
EV/EBITDA (x)	27.4	22.7	16.3
RoA (%)	6%	7%	10%
ROE (%)	15%	17%	20%

Change in Estimates (%)

Y/E Mar	FY25E	FY26E
Sales	0%	0%
EBITDA	0%	0%
PAT	5%	5%

Relative Performance


Source: ACE Equity, Axis Securities Research

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Financial Performance

- The company reported revenue of Rs 700 Cr, reflecting a 5% YoY growth and a 12% QoQ increase, in line with our estimate of Rs 690 Cr. EBITDA margin came in at 13.37%, slightly above our estimate of 13.30%. EBITDA stood at Rs 94 Cr, up 9% YoY and 15% QoQ, in line with our estimate of Rs 92 Cr. This performance resulted in a PAT of Rs 70 Cr, marking a 17% YoY and 28% QoQ growth, surpassing our estimate of Rs 62 Cr by 14%, primarily due to a share of profit from associates and a joint venture of Rs 5 Cr. The company reported an EPS of Rs 11.35/share. The order intake for the period stood at Rs 4,607 Cr, with the order book at over Rs 14,600 Cr, including framework contracts.

Outlook

- VA Tech Wabag Ltd. (VTW) has been strategically enhancing the quality and predictability of its revenue in recent years. In line with this focus, the company has divested its low-profit European subsidiaries and is shifting its focus towards projects with adequate payment securities. Additionally, VTW is improving its product mix by increasing the 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, these strategic efforts are expected to help the company achieve its targeted margins, further strengthening its financial position and business sustainability.

Key Highlights from Concall

- **Order Book:** During the quarter, the company secured over Rs. 4,500 Cr (more than 75%) of the order intake, compared to the preferred bidder status in projects worth Rs. 6,000 Cr. Additionally, the company is a preferred bidder in orders worth over Rs. 3,500 Cr, which are anticipated to convert in the next couple of months. Wabag's order book position now stands at over Rs. 14,500 Cr.
- **New Orders:** During the quarter, the company secured a prestigious 300-megalitre per day seawater desalination plant in Yanbu, Kingdom of Saudi Arabia, from the Saudi Water Authority worth Rs. 2,700 Cr. This order is expected to help the company build long-term relations with the Saudi Water Authority. The company also secured a mega order worth Rs. 1,000 Cr from Indosol Solar for a 100 MLD seawater desalination plant, marking its entry into the Solar PV sector. Additionally, Wabag secured a large repeat order from Reliance Industries to deliver a water system for their Dahej and Nagothane facilities. The company also received a repeat order from Chennai Metro Water Supply and Sewerage Board valued at Rs. 415 Cr to operate and maintain the Nemmeli Desalination Plant, which Wabag built and commissioned in 2013, for a further period of seven years.
- **Cash Position:** The net cash position stood at Rs. 338 Cr (excluding debt on HAM entities, which is transitory due to the asset-light strategy).
- **Expenses:** Higher employee expenses were due to ESOPs granted to employees. Reduced other expenses were because of the non-materialization of costs in this quarter for the three European subsidiaries that the company has divested.
- **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 remain in the 13%-15% range, with the potential to exceed the upper end of this guidance. For H2, the management anticipates close to Rs. 2,000 Cr in revenues.

- **Project Selection Criteria:** The management outlined its project selection criteria, focusing on projects with advanced technology, good cash flow, and those located in emerging markets. The company seeks projects with adequate payment securities, either 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	3,308	4,277	4,867	3,305	4,273	4,863	0%	0%	0%
EBITDA	454	633	740	456	632	739	0%	0%	0%
PAT	332	485	584	318	461	551	5%	5%	6%
EPS	53.65	78.34	94.29	51.25	74.35	88.80	5%	5%	6%

Source: Company, Axis Securities Research

Results Review

Particulars (Rs Cr)	Q2FY24	Q1FY25	Axis Est.	Q2FY25	YoY Growth (%)	QoQ Growth (%)	Axis Variance
Revenue	665	627	690	700	5%	12%	2%
Net Raw Material consumed	494	460	511	522	6%	14%	
Gross Profit	171	167	179	178	4%	7%	
Gross Margin %	25.7%	26.6%	26.0%	25.5%	-27bps	-113bps	-53bps
Employee	60	60	61	65	9%	9%	
Other Expenses	26	26	26	20	-23%	-23%	
Total Expenditure	579	545	598	607	5%	11%	
EBIDTA	86	81	92	94	9%	15%	2%
EBITDA Margin	12.9%	13.0%	13.3%	13.4%	42bps	39bps	7bps
Less: Depreciation	2	2	2	1	-38%	-32%	
EBIT	84	79	90	92	10%	16%	
Less: Net Interest	17	18	21	19	13%	6%	
Add: Other income	15	11	15	14	-10%	28%	
Profit Before Extra-ordinary Items and Tax	83	72	84	87	5%	21%	
Less: Extraordinary Expense (net)	-	-	-	-			
Profit Before Tax	83	70	82	92	11%	32%	
Less: Total Tax	23	15	20	22	-3%	45%	
Profit After Tax	60	55	62	70	17%	28%	14%

Source: Company, Axis Securities Research

Revenue Breakup

Q2FY25	Municipal	Industrial	Total	Region	Total
EPC	404	157	562	India	358
O&M	121	14	135	Overseas	339
Total	526	172	697	Total	697

Source: Company, Axis Securities Research

Order Book (Backlog)

Q2FY25	Municipal	Industrial	Total	Region	Total
EPC	6,862	1,093	7,955	India	8,116
O&M	4,494	965	5,460	Overseas	5,298
Total	11,356	2,058	13,414	Total	13,414

Source: Company, Axis Securities Research

Financials (Consolidated)

Profit & Loss

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
Net Revenue	2,856	3,308	4,277	4,867
COGS	2,167	2,458	3,157	3,592
Staff costs	235	293	342	389
Operating Exp.	79	102	145	146
Total Expenditure	2,481	2,854	3,644	4,127
EBITDA	375.7	454.0	633.0	739.8
EBITDA Margin %	13.2%	13.7%	14.8%	15.2%
Depreciation	8	7	8	7
EBIT	411	513	711	830
Interest	71	82	82	81
Other Income	43	66	85	97
PBT	330	444	648	780
Tax	80	112	163	196
<i>Tax Rate %</i>	<i>24.1%</i>	<i>25.2%</i>	<i>25.2%</i>	<i>25.2%</i>
PAT	250	332	485	584
EPS	39.5	53.7	78.3	94.3

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	2,140	2,627	3,067
Net Worth	1,824	2,156	2,641	3,079
Financial Non-Current Liability	323	218	163	118
Other Non-current Liability	260	260	260	260
Deferred Tax Liability	-	-	-	-
Total Non-Current Liability	596	491	436	391
Current Financial Liability	1,153	1,313	1,126	1,493
Other Current Liability	865	865	865	865
Provisions	22	22	22	22
Total Current Liability	2,155	2,316	2,129	2,495
Total Equity & Liability	4,575	4,963	5,206	5,965
Application Of Funds				
PPE	69	67	64	62
Capital Work in Progress	-	-	-	-
Right Use Of Assets	-	-	-	-
Intangible Assets	4	4	4	4
Non- Current Financial Assets	535	535	535	535
Other Non-Current Assets	-	-	-	-
Total Non-Current Assets	949	947	944	942
Inventories	36	45	82	107
Current-Financial Assets	2,501	2,986	3,195	3,931
Other Current Assets	1,054	950	950	950
Total Current Assets	3,625	4,016	4,262	5,023
Total Assets	4,575	4,963	5,206	5,965

Source: Company, Axis Securities Research

Cash Flow

(Rs Cr)

Y/E March	FY24	FY25E	FY26E	FY27E
PBT	330	444	648	780
Depreciation & Amortization	8	7	8	7
Finance Cost	26	28	18	8
Chg in Working cap	-288	396	-766	392
Direct tax paid	-26	-112	-163	-196
Cash flow from operations	134	818	-190	1,064
Chg in Gross Block	-12	-5	-5	-5
Chg in Investments	56	-	-	-
Other Investments	25	-	-	-
Cash flow from investing	84	-5	-5	-5
Fresh Issue Proceeds	-	-	-	-
Proceeds / (Repayment) of ST Borrowings (Net)	-	-	-	-
Finance Cost paid	-25	-82	-82	-81
Dividends paid	-	-	-	-147
Cash flow from financing	44	-182	-182	-268
Chg in cash	261	605	-378	791
Cash and cash equivalents at the beginning of the year	207	440	1,045	667
Cash and Cash equivalents at the end of the year	466	1,045	667	1,458

Source: Company, Axis Securities Research

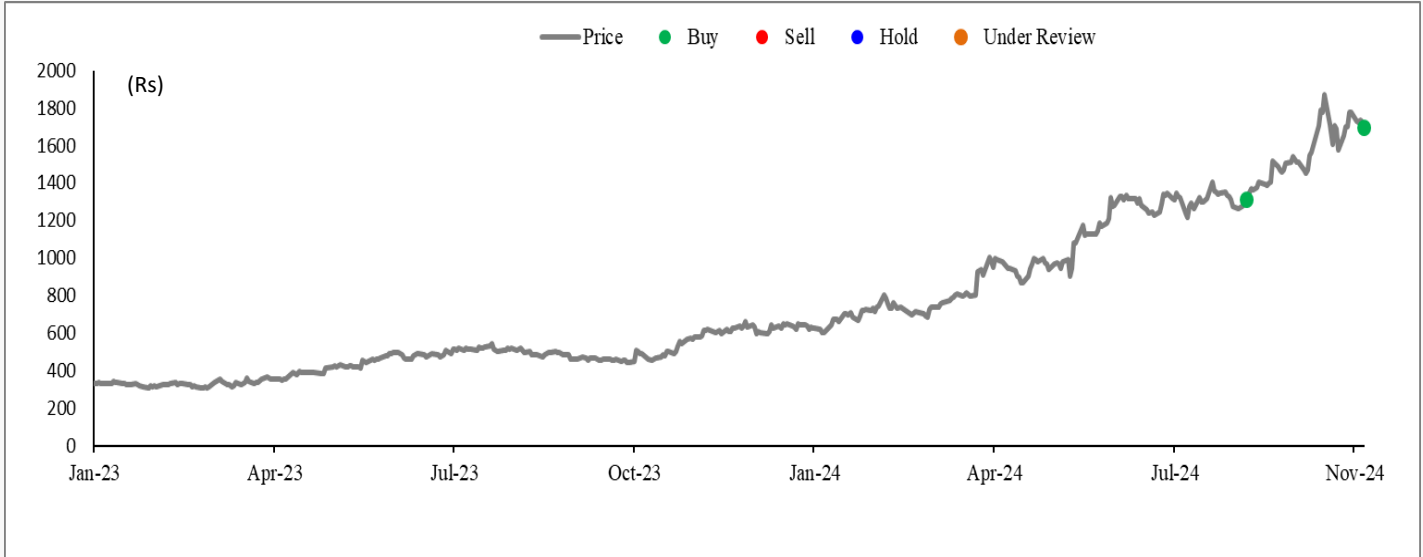
Ratio Analysis

(%)

Y/E March	FY24	FY25E	FY26E	FY27E
Efficiency Ratios				
Asset Turnover (x)	0.66	0.69	0.84	0.87
Inventory Turnover(x)	56.26	60.53	49.58	38.07
Sales/Total Assets	0.62	0.67	0.82	0.82
Receivable days	223	213	185	182
Inventory Days	5	4	5	7
Payable days	134	122	96	93
Financial Stability Ratios				
Total Debt/Equity(x)	0.1	0.0	0.0	-0.0
Total Asset/Equity(x)	2.4	2.1	2.0	1.9
Current Ratio(x)	1.7	1.7	2.0	2.0
Quick Ratio(x)	1.7	1.7	2.0	2.0
Interest Cover(x)	-	-	-	-
Operational & Financial Ratios				
Earnings Per Share (Rs)	39	54	78	94
Book Value (Rs)	293	347	425	495
Tax Rate(%)	24.1%	25.2%	25.2%	25.2%
Performance Ratios				
ROA (%)	5.8%	7.0%	9.5%	10.5%
ROCE (%)	19.5%	20.2%	24.8%	25.3%
ROE (%)	14.7%	16.7%	20.2%	20.4%

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

Source: Axis Securities Research

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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.