

Va Tech Wabag

BSE SENSEX	S&P CNX
34,300	10,540
Bloomberg	VATW IN
Equity Shares (m)	54.6
M.Cap.(INRb)/(USD\$b)	30.7 / 0.5
52-Week Range (INR)	749 / 483
1, 6, 12 Rel. Per (%)	-9/-19/-6
Avg Val, INRm	111.0
Free float (%)	75.3

Financials & Valuations (INR b)

Y/E Mar	2018E	2019E	2020E
Net Sales	38.5	37.0	38.9
EBITDA	3.6	3.8	4.1
PAT	1.8	1.9	2.1
EPS (INR)	33.2	34.8	38.4
Gr. (%)	76.0	4.9	10.3
BV/Sh (INR)	207.0	233.2	262.1
RoE (%)	17.1	15.8	15.5
RoCE (%)	16.1	15.1	14.8
P/E (x)	17.1	16.3	14.8
P/BV (x)	2.7	2.4	2.2

Estimate change



TP change



Rating change



CMP:INR562

TP:INR700 (+24%)

Buy

Operating performance below expectations; orders disappoint

- A miss on estimates:** Consol. sales grew 20% YoY to INR8.7b, below our estimate of INR9.3b. Revenue growth was supported by a pick-up in execution of key orders like Petronas (Malaysia), Polghawela (Sri Lanka), Koyambedu (Chennai), AP Genco and AMAS (Bahrain). Standalone sales rose 21% YoY to INR4.6b, while subsidiary sales grew 20% YoY to INR4b. Consol. EBITDA fell 2% YoY to INR0.8b, with the margin of 9% (-210bp YoY) below our estimate of 10.1%. Consol. recurring profit of INR300m too was below our estimate of INR476m.
- Order backlog down for first time in six quarters; L1 in INR19b of orders:** In 3QFY18, consol. order intake declined 74% YoY to INR3.2b, while order backlog fell 14% YoY at INR65.2b. VATW is L1 in INR19b of orders, of which it targets to convert 50% into orders in 4QFY18. Only one large order of INR.3b – Toruk 4 desalination plant at Libya – was finalized during the quarter. Domestic tendering/orders are picking up for projects like Namami Ganga, Mumbai STP and the Chennai desalination plant.
- Maintains FY18 sales, order guidance:** Management maintained its FY18 guidance of revenue of INR38b-40b (+25%) and order inflow of INR43b-45b (+25%). Order guidance for FY18 implies ~INR25b in 4QFY18 – of this, INR10b is from India, INR10b from GCC countries and INR3-4b from Europe.
- Valuation view:** We cut FY18/19 estimates by 4/6% to factor in lower order inflows and resultant execution over the next few years. We maintain **Buy** with a TP of INR700 (18x FY20E EPS, in line with five-year average). We believe that from the medium- to long-term perspective, VATW is in a sweet spot to take advantage of a pick-up in domestic order inflows, led by state-driven municipal orders, and central government schemes like Namami Gange, AMRUT, Swachh Bharat and Smart Cities.

Quarterly Performance (Consolidated)

(INR Million)

Y/E March	FY17				FY18				FY17	FY18E	FY18	Var. Vs Est
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE				
Sales	5,803	7,776	7,183	11,317	6,686	8,865	8,647	14,296	32,079	38,494	9,282	-6.8%
Change (%)	27.6	31.3	17.7	33.3	15.2	14.0	20.4	26.3	27.9	20.0	30.2	
EBITDA	275	585	794	1,317	418	827	777	1,595	2,966	3,616	938	-17.2%
Change (%)	-0.8	25.7	80.6	16.9	52.2	41.4	-2.2	21.1	27.3	21.9	26.5	
As of % Sales	4.7	7.5	11.1	11.6	6.3	9.3	9.0	11.2	9.2	9.4	10.1	
Depreciation	46	47	46	52	45	45	43	75	191	208	52	
Interest	119	109	137	161	133	143	142	157	526	575	145	
Other Income	55	19	35	3	20	2	8	81	112	111	28	
PBT	165	448	646	1,108	259	642	599	1,443	2,362	2,944	769	-22.0%
Tax	109	186	45	326	160	220	248	481	667	1,109	292	
Effective Tax Rate (%)	66.3	41.6	6.9	29.5	61.7	34.3	41.4	33.3	28.2	37.7	38.0	
Minority Int	3.7	16.7	626.5	24.1	15.6	38.4	50.5	(81.1)	666.1	23.4	0.5	
Adj PAT	52	245	-26	757	84	383	301	1,044	1,029	1,811	476	-36.9%
Change (%)	(155.7)	110.6	(112.3)	16.2	61.5	56.4	(1,274.2)	37.9	15.9	76.0	(14.5)	
Extra-ordinary Items	0.0	4.5	0.0	0.0	0.0	52.0	0.0	0.0	4.5	52.0	0.0	
Reported PAT	52	240	-26	757	84	331	301	1,044	1,024	1,759	476	-36.9%
Change (%)	-155.5	109.8	-112.3	15.8	61.5	56.4	-1,274.2	37.9	11.3	71.7	-14.5	

Ankur Sharma – Research Analyst (Ankur.VSharma@MotilalOswal.com); +91 22 6129 1556

Amit Shah – Research Analyst (Amit.Shah@MotilalOswal.com); +91 22 6129 1543

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3QFY18 operating performance below estimates; order book declines

- Consol. sales grew 20% YoY to INR8.7b, below our estimate of INR9.3b. Revenue growth was supported by a pick-up in execution of key orders like Petronas (Malaysia), Polghawela (Sri Lanka), Koyambedu (Chennai), AP Genco and AMAS (Bahrain). Standalone sales rose 21% YoY to INR4.6b, while subsidiary sales grew 20% YoY to INR4b.
- Consol. EBITDA fell 2% YoY to INR0.8b, with the margin of 9% (-210bp YoY) below our estimate of 10.1%. Consol. recurring profit of INR300m too was below our estimate of INR476m.
- Goss debt at the consolidated level fell to INR4.2b. Gross debtors stood at INR22.7b, of which INR5b (incl. retention money of INR5b) is due from AP Genco. Total retention money included in debtors stood at INR3.5b.

Order backlog at INR65b provides robust revenue visibility

- In 3QFY18, consol. order intake declined 74% YoY to INR3.2b, while order backlog fell 14% YoY at INR65.2b. VATW is L1 in INR19b of orders, of which it targets to convert 50% into orders in 4QFY18. Only one large order of INR.3b – Toruk 4 desalination plant at Libya – was finalized during the quarter.
- Domestic tendering/orders are picking up for projects like Namami Ganga, Mumbai STP and Chennai desalination plant. Management expects order inflow traction to remain strong from the domestic market, given the likelihood of finalization of the strong pipeline of orders from the municipal corporations like Maharashtra, Tamil Nadu, Karnataka, Delhi and Rajasthan.
- Management has guided for order inflow of INR43–45b (up 25% YoY) in FY18.

Change in Estimates:

Description	New Estimates		Old Estimates		% Change		
	2017	2018e	2019e	2018e	2019e	2018e	2019e
Sales	32,079	38,494	36,995	38,940	40,479	-1%	-9%
EBITDA	2,966	3,616	3,796	3,694	3,967	-2%	-4%
Margins(%)	9.2%	9.4%	10.3%	9.5%	9.8%	-0.1%	0.5%
PAT	1,029	1,811	1,900	1,881	2,031	-4%	-6%
EPS	18.9	33.2	34.8	34.5	37.2	-4%	-6%

Source: Company, MOSL

Valuations and view

We cut FY18/19 estimates by 4/6% to factor in lower order inflows and resultant execution over the next few years. We maintain Buy with a TP of INR700 (18x FY20E EPS, in line with five-year average). We believe that from the medium- to long-term perspective, VATW is in a sweet spot to take advantage of a pick-up in domestic order inflows, led by state-driven municipal orders, and central government schemes like Namami Gange, AMRUT, Swachh Bharat and Smart Cities.



Concall Highlights

Overall business environment

- L1 in INR19b of orders - expected to get at least 50% of this in Q418 to ensure a good backlog, Some of the approvals have also come through
- GST impact has been coming down but not completely gone - procedural delays in amending contracts is still impacting sales
- Presence across 4 continents and been very asset light - big opportunity in LATAM, SE Asia and M East for drinking and processed water for industries (Power, Refining, Metals) and also sewerage, desalination, water reuse
- Want to be a EUR1b company in the next few years

Orders

- Holding on to INR43-45b of orders as L1 in INR19b of orders - these are multi lateral projects and expect 50% to be finalized,
- Also placed preferential bidder in a few large orders as well apart from L1 bids
- Domestic - expect CY18/FY19 to see more orders and are submitted bids, Namami Gange has got a big push with Mathura being bid out and 4 other cities to be bid out in FY19, Desalination project too being pushed
- Mumbai STP - have been restarted with 5 of 7 tenders being put out for bids
- Chennai desal - consultants have evaluated the bids and after customer approves it then the price bids will be opened, Likely to be opened in Q418
- Target of INR25b of orders in Q418 - INR10b is from India, INR10b from GCC countries, INR3-4b from Europe
- Middle East, Africa - base would be in Dubai with his core team
- Namami Gange - only 2 sizeable projects awarded and another 3 is under bidding, A no. of other projects will see DPR/tenders to be out in next few quarter which will be focused on by VA Tech

Execution

- Madinaty, Egypt near Cairo - Completed this project
- AMAS, Bahrain - civil is complete and installation done so startup in 3 months
- AP Genco - completion in Q1 and COD in Q418, GST issues impacted in Q2-Q3 but now AP Genco has agreed to for VA Tech to directly invoice and collect money from them. Have an order book of INR2b and some revenue in Q119
- Post COD, tippler, CHP will be completed and also do the performance guarantee and then the project is complete - receivables will come back by end CY18
- Coimbatore - engineering is complete and orders in advance stage with civil work picking, Progress as per schedule
- Sri Lanka, Polghawella - advance engineering stage, first lot of pipe laying has commenced, To be completed in Mar20
- Petronas, Malaysia - Engr and procurement is done with civil too done, Pipework is in progress and order book of INR3b to be completed by Oct-Nov18

Margins

- Finance charges -INR0.22b and Interest INR0.195b in 9M18
- Turkey O&M - let this order go as it came for rebid and would not make enough margins

NWC

- Down at 94 days from 101 days in Q317 as GST issues faded away. Expect further improvement driven by faster collections and contract amendments corrected
- Net cash in Q318 has improved - reduced net debt by INR1.9b
- Gross debt - INR4.2b, Gross cash - INR2.61b, Debtor INR22.7b less by INR1.5b vs Sep17 with AP Genco receivables at INR5b incl. retention money is INR1.6b, Total retention is INR3.5b
- INRb of Kakatiya is receivable next month and will come, Also with direct billing on AP Genco so get INR0.4-0.5b so a total of INR1.5b will reduce from AP Genco.

Operating Matrix

(INR million)	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Order Intake	21,550	33,539	29,767	51,401	36,198	34,850	41,098	47,613
% YoY	21.5%	55.6%	-11%	72.7%	-29.6%	-3.7%	17.9%	15.9%
Standalone	11,028	17,150	16,461	28,044	30,382	26,255	30,785	35,236
Overseas	10,522	16,389	13,306	23,357	5,816	8,595	10,314	12,376
Revenues	16,022	22,301	24,284	25,083	32,079	38,494	36,995	38,887
% YoY	11.4%	39.2%	8.9%	3.3%	27.9%	20.0%	-3.9%	5.1%
Standalone	10,411	11,400	12,201	15,134	17,984	23,437	26,098	28,053
Overseas	5,611	10,901	12,083	9,948	14,095	15,057	10,897	10,834
EBIDTA Margins (Adjusted)	8.5%	9.0%	8.4%	9.3%	9.2%	9.4%	10.3%	10.5%
Standalone	11.8%	12.3%	11.5%	12.5%	11.2%	11.8%	12.1%	12.2%
Overseas	2.5%	5.5%	5.3%	4.4%	6.7%	5.6%	5.8%	6.0%
EPS (INR/sh)								
Standalone	15.5	18.4	17.5	20.9	25.5	30.5	34.9	38.0
Subsidiaries	0.8	5.4	3.1	-4.6	-6.7	2.7	-0.1	0.4
Consolidated	16.3	23.7	20.6	16.3	18.9	33.2	34.8	38.4
NWC (Days)	69	68	79	101	95	95	95	95
Standalone	80	123	132	164	140	125	130	130
Net Cash / (Debt) (INR M)								
Standalone	2,127	674	657	(832)	(252)	(161)	105	1,092
Consolidated	3,003	2,119	1,305	13	(473)	(864)	959	2,059
ROE(%)	13.3	14.6	12.6	10.1	10.6	17.1	15.8	15.5
ROCE(%)	13.1	16.4	13.3	11.4	15.9	16.1	15.1	14.8

Financials and valuations

Income statement - Consolidated

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	16,022	22,301	24,284	25,083	32,079	38,494	36,995	38,887
Change (%)	11	39	8.9	3.3	27.9	20.0	-3.9	5.1
Raw Materials	11,747	16,979	19,098	19,402	25,388	30,640	29,368	30,857
Staff Cost	2,088	2,217	2,006	2,113	2,440	2,787	2,516	2,600
Other Mfg. Expenses	821	1,099	1,136	1,237	1,286	1,451	1,315	1,347
EBITDA	1,366	2,005	2,044	2,330	2,966	3,616	3,796	4,084
% of Net Sales	8.5	9.0	8.4	9.3	9.2	9.4	10.3	10.5
Depreciation	109	150	109	205	191	208	226	244
Interest	220	252	392	457	526	575	595	615
Other Income	299	214	146	79	112	111	110	169
EO Items (as rep.)								
PBT	1,336	1,816	1,688	1,747	2,362	2,944	3,085	3,394
Tax	456	526	566	668	667	1,109	1,161	1,276
Rate (%)	34	29	34	38	28	38	38	38
Minority Int	(7)	3	4	191	666	23	23	23
Adjusted PAT	887	1,288	1,118	887	1,029	1,811	1,900	2,095
Extra-ordinary Inc.(net)	16	(154)	-17	33	-5	0	0	1
Reported PAT	903	1,134	1,101	921	1,024	1,811	1,900	2,096
Change (%)	22	25	-3	-16	11	77	5	10

Balance Sheet - Consolidated

(INR Million)

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Share Capital	109	109	109	109	109	109	109	109
Reserves	7,048	8,305	8,919	9,094	9,822	11,184	12,613	14,189
Net Worth	7,156	8,414	9,028	9,203	9,931	11,293	12,722	14,298
Loans	822	1,583	1,806	3,773	3,091	3,291	3,491	3,691
Deffered Tax Liability	(112)	(70)	-199	-218	-216	-216	-216	-216
Minority Interest	19	28	49	82	173	134	96	57
Capital Employed	7,885	9,954	10,684	12,841	12,979	14,502	16,092	17,830
Net Fixed Assets	511	1,192	1,919	1,779	1,744	1,722	1,682	1,624
Capital WIP	478	692	6	0	-27	0	0	0
Investments	33	232	377	322	225	225	225	225
Curr. Assets	17,770	22,135	23,152	26,866	31,290	36,833	37,516	40,508
Inventory	405	350	470	976	385	462	444	467
Debtors	11,464	13,875	14,807	19,424	25,115	30,137	28,964	30,445
Cash & Bank Balance	3,825	3,702	3,112	3,786	2,617	2,427	4,449	5,750
Loans & Advances	1,156	1,004	1,158	139	51	61	59	62
Other Current Assets	921	3,204	3,606	2,540	3,122	3,746	3,600	3,784
Current Liab. & Prov.	10,909	14,298	14,765	16,126	20,253	24,278	23,330	24,526
Current Liabilities	9,320	12,564	12,876	15,485	19,596	23,489	22,572	23,730
Provisions	1,588	1,734	1,889	641	657	789	758	797
Net Current Assets	6,862	7,837	8,388	10,739	11,037	12,555	14,186	15,982
Application of Funds	7,885	9,954	10,684	12,841	12,979	14,502	16,092	17,830

Financials and valuations

Ratios - Consolidated

Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
Consolidated EPS	16.3	23.7	20.6	16.3	18.9	33.2	34.8	38.4
Growth (%)	20	45.1	-13.2	-20.9	15.8	76.0	4.9	10.3
Cash EPS	18	26.5	22.6	20.0	22.4	37.0	39.0	42.9
Book Value	132	155	166	169	182	207	233	262
DPS	7	4	4	4	4	7	7	8
Payout (incl. Div. Tax.)	43	16.5	19.4	24.6	21.2	21.2	21.2	21.2
Valuation (x)								
P/E (consolidated)				34.9	30.2	17.1	16.3	14.8
Cash P/E				28.4	25.4	15.4	14.6	13.3
EV/EBITDA				13.3	10.6	8.8	7.9	7.1
EV/Sales				1.2	1.0	0.8	0.8	0.7
Price/Book Value				3.4	3.1	2.7	2.4	2.2
Dividend Yield (%)				0.7	0.7	1.2	1.3	1.4
Profitability Ratios (%)								
RoE	13.3	14.6	12.6	10.1	10.6	17.1	15.8	15.5
RoCE	13.1	16.4	13.3	11.4	15.9	16.1	15.1	14.8
RoIC	23.2	29.0	20.0	16.0	20.6	19.1	18.9	20.4
Turnover Ratios								
Debtors (Days)	261	227	223	283	286	286	286	286
Inventory (Days)	9	6	7	14	4	4	4	4
Creditors. (Days)	212	206	194	225	223	223	223	223
Leverage Ratio								
Debt/Equity (x)	0	0.2	0.20	0.4	0.3	0.3	0.3	0.3

Cash Flow Statement - Consolidated

(INR Million)

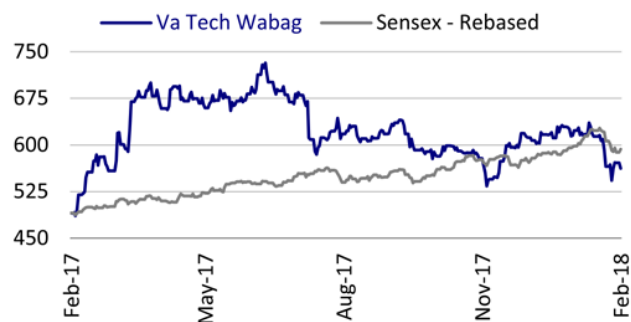
Y/E March	FY13	FY14	FY15	FY16	FY17	FY18E	FY19E	FY20E
PBT before EO Items	1,352	1,611	1,671	1,780	2,357	2,944	3,085	3,395
Depreciation	109	150	109	205	191	208	226	244
Interest	(60)	68	148	-	-	-	-	-
Direct Taxes Paid	(343)	(566)	(550)	(668)	(667)	(1,109)	(1,161)	(1,276)
(Inc)/Dec in WC	(1,152)	(838)	(2,566)	(1,677)	(1,439)	(1,678)	392	(495)
Others	939	699	1,243	1	-	-	-	-
CF from Operations	845	1,124	56	(360)	442	365	2,542	1,868
(Inc)/Dec in FA	(419)	(1,033)	(287)	(186)	(186)	(186)	(186)	(186)
Free Cash Flow	425	91	(232)	(546)	256	179	2,356	1,682
(Pur)/Sale of Investments & Others	1,402	694	254	405	(9)	509	509	509
CF from Investments	983	(338)	(33)	219	(195)	323	323	323
(Inc)/Dec in Net Worth	32	15	196	(456)	49	(38)	(38)	(38)
(Inc)/Dec in Debt	(426)	761	224	1,967	(683)	200	200	200
Interest Paid	(73)	(82)	(148)	202	31	-	-	-
Dividend Paid	(187)	(217)	(250)	(255)	(255)	(449)	(471)	(520)
CF from Fin. Activity	(654)	477	21	1,459	(857)	(288)	(310)	(358)
Inc/Dec of Cash	1,173	1,262	44	1,318	(610)	400	2,555	1,833
Add: Beginning Balance	2,651	2,439	3,068	2,469	3,227	2,027	1,895	3,917
Closing Balance	3,824	3,701	3,112	3,786	2,617	2,427	4,449	5,750

Corporate profile

Company description

VA Tech Wabag (VATW) is one of the leading players in water treatment industry, having its base of operation globally operating from Chennai. VATW's operations are stretched across countries like Austria, Czech Republic, Algeria, Tunisia, Romania, Turkey and Philippines. Wabag has been operational in water treatment industry since last 90 years and its has specialization in treating municipal, industrial, sludge treatment and sea water desalination projects.

Exhibit 1: Sensex rebased



Source: MOSL/Bloomberg

Exhibit 2: Shareholding pattern (%)

	Dec-17	Sep-17	Dec-16
Promoter	24.7	24.7	28.8
DII	22.5	25.0	24.2
FII	25.8	26.7	26.1
Others	27.0	23.6	20.9

Note: FII Includes depository receipts

Source: Capitaline

Exhibit 3: Top holders

Holder Name	% Holding
Sbi Magnum Taxgain Scheme	7.7
Idfc Premier Equity Fund	5.9
Sumitomo Corporation	4.5
Parvest Equity India	3.8
Amit Sengupta	3.0

Source: Capitaline

Exhibit 4: Top management

Name	Designation
Bhagwan Dass Narang	Chairman
Rajiv Mittal	Managing Director & Group CEO

Source: Capitaline

Exhibit 5: Directors

Name	Name
S Varadarajan	Jaithirth Rao
Malay Mukherjee	Revathi Kasturi
Sumit Chandwani	

*Independent

Exhibit 6: Auditors

Name	Type
M Damodaran & Associates	Secretarial Audit
PKF Sridhar & Santhanam LLP	Internal
S Chandrasekaran	Cost Auditor
Walker Chandiook & Co LLP	Statutory

Source: Capitaline

Exhibit 7: MOSL forecast v/s consensus

EPS (INR)	MOSL forecast	Consensus forecast	Variation (%)
FY18	33.2	32.5	2.0
FY19	34.8	37.6	-7.5
FY20	38.4	43.4	-11.5

Source: Bloomberg

NOTES

Explanation of Investment Rating

Investment Rating

BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10% to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst becomes inconsistent with the investment rating legend, the Research Analyst shall within 28 days of the inconsistency, take appropriate measures to make the recommendation consistent with the investment rating legend.

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