

Charting a new growth path...

About the stock: VA Tech Wabag (Wabag) leader in the total water management industry, ranked 3rd globally, caters a complete portfolio of water solutions with technological (~80.5% of revenue) and operational expertise (~19.5% of revenue)

- Wabag delivers tailored water solutions such as desalination, drinking & municipal water treatment, sludge treatment, industrial water & wastewater treatment etc. Its revenue was stable at 0.33% CAGR (FY21-24) with focus on EBITDA & PAT improvement which grew by 19.8% CAGR & 30.7% CAGR respectively over the same period.

Investment Rationale:

- Order book reasonable; International markets to drive inflows in FY25:** As of H1FY25, the company commands a reasonable order backlog of ₹14,600 crore, which provides decent revenue visibility in the medium term. The company had participated in projects worth \$1 billion in the international markets which we believe will drive order inflows in FY25E given domestic ordering in H1FY25 was tepid on account of the general elections. Wabag has achieved 75% of FY25 order intake guidance of ₹6000 crore in H1FY25 and expects a total order inflow of ₹8000 crore in FY25E exceeding earlier guidance. The management will continue to focus on the E&P projects rather than EPC projects. The management is targeting an order book of ₹16,000 crore in FY25 and revenue mix of >50% International Projects, 30% Industrial Customers and 1/3rd of EPC being EP Projects. We have built in order inflows of ₹8,200 and ₹10,490 crore in FY26E and FY27E respectively. Similarly, with gradual pick up in execution we expect overall consolidated revenues to grow at a CAGR of ~17.4% over FY24-27E.
- Focus on asset light model & working capital to improve ROCE:** The company reported ROCE of 18.3% in H1FY25 which clearly indicates the strong focus of the management on being an asset light model. The target of taking O&M revenues to be 20% of overall revenues will also further augment cash flow cycle. The company has successfully inducted majority Equity Partner in 2 out of 3 HAM SPVs. Going ahead, with improved operational performance we expect ROCE to improve from 18.3% in H1FY25 to 22.1% in FY27E.

Rating and Target Price

- Company's operational and financial performance to improve significantly in the coming period. We estimate Revenue, EBITDA and PAT to grow at ~17.4%, ~21.9% and ~24.9% CAGR respectively over FY24-27E. ROCE to be at 22.1% in FY27E from 19.6% in FY24
- Focus on improving return ratios and asset light model can lead to rerating. We value the company at ₹ 2308 i.e. 30x FY27E EPS.



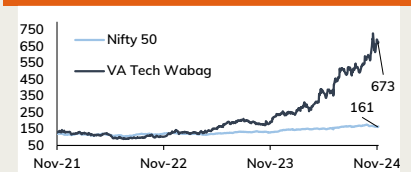
Market data

Particular	Rs. in crore
Market Cap	11,101.0
FY24 Gross Debt	280.6
FY24 Cash	509.9
EV	10,871.7
52 Week H/L (Rs./share)	1907/526
Equity Capital	12.4
Face Value (Rs./share)	2.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoter	19.1	19.1	19.1	19.1
FII	13.1	12.5	11.5	14.7
DII	5.9	5.6	5.0	3.6
Public	61.9	62.8	64.4	62.6

Price chart



Key risks

- delay in execution;
- Increase in receivables can elongate working capital cycle.

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Key Financial Summary

Particulars (₹ crore)	FY21	FY22	FY23	FY24	3 year CAGR (FY21-24)	FY25E	FY26E	FY27E	3 year CAGR (FY24-27E)
Revenues	2,834.5	2,979.3	2,960.5	2,856.4	0.3%	3,303.2	3,797.9	4,619.0	17.4%
EBITDA	218.8	237.0	317.8	375.7	19.8%	458.6	559.3	679.8	21.9%
EBITDA Margin (%)	7.7	8.0	10.7	13.2		13.9	14.7	14.7	
Net Profit	110.1	131.9	200.8	245.6	30.7%	309.4	386.7	478.5	24.9%
EPS (₹)	18.8	21.2	32.3	39.5		49.7	62.2	76.9	
P/E (x)	94.5	83.9	55.1	45.0		35.8	28.6	23.1	
Price / Book (x)	7.4	7.2	7.0	6.1		5.2	4.4	3.7	
EV/EBITDA (x)	50.5	46.7	34.6	28.8		24.0	19.5	15.6	
RoCE (%)	12.2	13.2	20.3	19.6		20.6	21.5	22.1	
RoE (%)	7.8	8.6	12.8	13.5		14.5	15.4	16.0	

Key result and concall highlights

- Consolidated revenue for H1FY25 was ₹1,327 crores, up 11% YoY on a like to like basis. EBITDA rose by 19% to ₹184 crores on account of efficient execution and a good project mix. PAT for H1 FY25 stood at ₹126 crores, up 31% YoY, with a PAT margin of 9.5%.
- The company has achieved 75% of FY25 order intake guidance (₹6000 crore) in H1FY25 and expects a total order inflow of ₹8000 crore in FY25 exceeding earlier order intake guidance. The company received orders worth ₹4,540 crore in Q2FY25, of which 72% were EPC orders, 57% were international orders and 31% were industrial. The orderbook in Q2FY25 stood at ₹14,600 crore, of which operation and maintenance(O&M) constituted 41%. The company is preferred bidder in contracts worth ₹3,500 and expects to convert them in Q3FY25E.
- Key orders received by Wabag in H1FY25:
 - a. 300 MLD seawater desalination EPC contract in Yanbu, Saudi Arabia from Saudi water authority for ₹2700 crore
 - b. 100 MLD seawater desalination EP contract from Indosol solar, marking its entry into solar PV sector worth ₹1000 crore, the contract also encompasses 15 years O&M.
 - c. It also received repeat order worth ₹400 crore from 100 MLD Nemmeli Chennai desalination plant for O&M of 7 years and ₹300 crore order from Reliance Industries.
- Work on 200 MLD sewage treatment plant in Pagla, Bangladesh has resumed after a temporary disruption of 2 months. The work on 400 MLD seawater desalination plant in Chennai is on track with peak engineering activities, equipment deliveries will commence in H2FY25E.
- The company has provided a revenue guidance of ₹2000 crore in H2FY25E, order intake of ₹8000 crore in FY25 with order backlog to reach ₹16,000 crore by FY25E. The company maintains medium term (3-5 years) guidance of 15-20% revenue growth and EBITDA margins in range of 13-15% over the same period.

Financial Summary

Exhibit 1: Profit and loss statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Revenue	2,960.5	2,856.4	3,303.2	3,797.9	4,619.0
% Growth	NA	(3.5)	15.6	15.0	21.6
Other income	53.6	43.4	47.7	52.5	57.8
Total Revenue	2,960.5	2,856.4	3,303.2	3,797.9	4,619.0
% Growth	NA	(3.5)	15.6	15.0	21.6
Total Raw Material Costs	2,269.5	2,166.7	2,478.6	2,826.5	3,435.6
Employee Expenses	265.5	235.4	261.3	295.1	360.5
Other expenses	107.6	78.6	104.6	117.1	143.1
Total Operating Expenditure	2,642.7	2,480.7	2,844.6	3,238.7	3,939.1
Operating Profit (EBITDA)	317.8	375.7	458.6	559.3	679.8
% Growth	NA	18.2	22.1	22.0	21.6
Interest	65.8	71.1	80.8	80.8	80.8
PBDT	305.6	348.0	425.6	531.0	656.8
Depreciation	8.8	8.4	9.7	11.2	13.6
PBT before Exceptional Items	296.8	339.6	415.9	519.8	643.2
Total Tax	5.9	79.7	106.5	133.1	164.7
PAT before MI	10.9	250.4	309.4	386.7	478.5
PAT	12.9	245.6	309.4	386.7	478.5
% Growth	NA	1,808.8	26.0	25.0	23.7
EPS	32.3	39.5	49.7	62.2	76.9

Source: Company, ICICI Direct Research

Exhibit 3: Balance Sheet ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Equity Capital	12.4	12.4	12.4	12.4	12.4
Reserve and Surplus	1,562.4	1,806.5	2,115.9	2,502.6	2,981.2
Total Shareholders funds	1,574.9	1,818.9	2,128.3	2,515.0	2,993.6
Total Debt	213.2	280.6	280.6	280.6	280.6
Total Liabilities	1,949.1	2,515.3	2,824.6	3,211.3	3,690.0
Gross Block	136.3	119.1	119.0	118.9	118.8
Acc. Depreciation	47.3	50.1	59.8	71.0	84.6
Net Block	71.8	68.9	59.1	47.8	34.1
Capital WIP	-	-	-	-	-
Total Fixed Assets	75.5	72.6	62.7	51.5	37.8
Non Current Assets	900.6	813.9	981.1	1,043.7	1,248.9
Inventory	41.1	35.9	40.7	46.8	56.9
Debtors	1,506.8	1,991.1	2,302.6	2,647.4	3,037.1
Other Current Assets	1,155.2	1,054.1	1,256.7	1,442.8	1,616.6
Cash	275.4	509.9	345.9	438.8	757.5
Total Current Assets	3,071.7	3,625.5	3,985.7	4,621.7	5,524.0
Current Liabilities	1,069.7	1,028.3	1,189.2	1,367.3	1,708.4
Provisions	13.0	12.8	90.0	91.0	91.0
Total Current Liabilities	2,140.1	2,059.4	2,267.7	2,568.3	3,183.6
Net Current Assets	931.6	1,566.1	1,718.0	2,053.4	2,340.4
Total Assets	1,949.1	2,515.3	2,824.6	3,211.3	3,690.0

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement ₹ crore

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
Profit after Tax	12.9	245.6	309.4	386.7	478.5
Depreciation	8.8	8.4	9.7	11.2	13.6
Interest	65.8	71.1	80.8	80.8	80.8
Cash Flow before WC changes	87.5	325.1	399.9	478.7	572.9
Changes in inventory	(9.2)	5.2	(4.8)	(6.1)	(10.1)
Changes in debtors	(181.3)	(484.3)	(311.5)	(344.8)	(389.7)
Changes in loans & Advances	-	-	-	-	-
Changes in other current assets	(16.9)	101.1	(202.6)	(186.1)	(173.8)
Net Increase in Current Assets	(261.1)	(319.3)	(524.2)	(543.0)	(583.6)
Changes in creditors	84.4	(41.4)	160.9	178.1	341.1
Changes in provisions	(16.0)	62.2	(23.4)	17.0	44.3
Net Inc in Current Liabilities	308.2	(80.7)	208.3	300.6	615.3
Net CF from Operating activities	134.6	(74.9)	83.9	236.3	604.6
Changes in deferred tax assets	(0.9)	(7.9)	(5.0)	(5.0)	-
(Purchase)/Sale of Fixed Assets	(4.3)	(5.5)	0.0	0.1	0.1
Net CF from Investing activities	(29.6)	314.7	(167.2)	(62.5)	(205.2)
Dividend and Dividend Tax	-	-	-	-	-
Net CF from Financing Activities	(258.2)	(5.3)	(80.8)	(80.8)	(80.8)
Net Cash flow	(153.2)	234.5	(164.0)	93.0	318.6
Opening Cash/Cash Equivalent	428.6	275.4	509.9	345.9	438.8
Closing Cash/ Cash Equivalent	275.4	509.9	345.9	438.8	757.5

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios

(Year-end March)	FY23	FY24	FY25E	FY26E	FY27E
EPS	32.3	39.5	49.7	62.2	76.9
Cash per Share	44.3	82.0	55.6	70.6	121.8
DPS	9.3	14.0	14.0	15.0	15.0
BV	253.2	292.5	342.2	404.4	481.4
EBITDA Margin	10.7	13.2	13.9	14.7	14.7
PAT Margin	0.4	8.7	9.4	10.2	10.4
RoE	12.8	13.5	14.5	15.4	16.0
RoCE	20.3	19.6	20.6	21.5	22.1
RoIC	20.4	23.1	21.8	23.3	26.5
EV / EBITDA	34.6	28.8	24.0	19.5	15.6
P/E	55.1	45.0	35.8	28.6	23.1
EV / Net Sales	3.7	3.8	3.3	2.9	2.3
Sales / Equity	1.9	1.6	1.6	1.5	1.5
Market Cap / Sales	3.7	3.9	3.3	2.9	2.4
Price to Book Value	7.0	6.1	5.2	4.4	3.7
Asset turnover	1.7	1.4	1.4	1.4	1.4
Debtors Turnover Ratio	2.1	1.6	1.5	1.5	1.6
Creditors Turnover Ratio	2.9	2.7	3.0	3.0	3.0
Debt / Equity	0.1	0.2	0.1	0.1	0.1
Current Ratio	2.3	2.6	2.7	2.7	2.5
Quick Ratio	2.3	2.6	2.7	2.7	2.5

Source: Company, ICICI Direct Research

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Sell: <-15%



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