

Shubh Nivesh



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 (~83.5% of revenue) and operational expertise (~16.5% 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 FY24, the company commands a reasonable order backlog of ₹11,400 crore, which provides decent revenue visibility in the medium term. The company has participated in projects worth \$1 billion in the international markets which we believe will drive order inflows in FY25E given domestic ordering in H1FY25 might be tepid on account of the general elections. 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 FY26E and has guided ~3x of revenue in the medium term 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 ₹3,186 and ₹4,323 crore in FY25E and FY26E respectively. Similarly, with gradual pick up in execution we expect overall consolidated revenues to grow at a CAGR of ~14% over FY24-26E
- Focus on asset light model & working capital to improve ROCE: The company reported ROCE of 19% in FY24 and Free cash flow of ₹168 crore 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 19% in FY24 to 21.3% in FY26E.

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 ~14%, ~22% and ~25% CAGR respectively over FY24-26E. ROCE to be at 21.3% in FY26E from 19% in FY24
- Focus on improving return ratios and asset light model can lead to rerating. We value the company at ₹ 1550 i.e. 25x FY26E EPS.



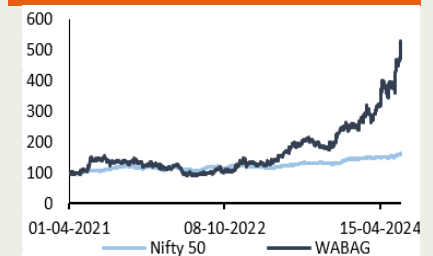
Particulars

Particular	Amount
Market Capitalisation (₹ Crore)	7,977
FY24 Gross Debt (₹ Crore)	281
FY24 Cash (₹ Crore)	512
EV (₹ Crore)	7,746
52 Week H/L (₹)	1348/436
Equity Capital (₹ Crore)	12.4
Face Value (₹)	₹10

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	19.1	19.1	19.1	19.1
FII	16.7	15.6	13.1	12.5
DII	3.5	3.5	5.9	5.6
Public	60.7	61.7	61.9	62.8

Price Chart



Key risks

- (i) lower than expected order inflows;
- (ii) 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	2 Year CAGR (FY24-FY26E)
Revenues	2,834	2,979	2,960	2,856	0.3%	3,243	3,700	13.8%
EBITDA	219	237	318	376	19.8%	467	555	21.6%
EBITDA Margin (%)	7.7	8.0	10.7	13.2		14.4	15.0	
Net Profit	110	132	201	246	30.7%	315	384	25.1%
EPS (₹)	19	21	32	39		51	62	
P/E (x)	68	60	40	32		25	21	
Price / Book (x)	5	5	5	4		4	3	
EV/EBITDA (x)	36	34	25	21		17	14	
RoCE (%)	12.2	13.2	20.3	19.5		20.9	21.3	
RoE (%)	7.8	8.6	12.8	13.5		14.8	15.2	

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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