

# Va Tech Wabag

Rating: ◀▶

Target price: ▲

EPS: ▲

CMP Rs. 377

Absolute Add

Target Rs. 405

Relative Outperform

## Execution to bounce back, order inflow to pick up, Maintain Add / Outperform

VA Tech Wabag's (VATW) 3QFY12 sales de-grew by 6.8% yoy to Rs. 2.9bn with an EBITDA margin of 6.5% resulting in a PAT of Rs. 109mn. Revenue de-growth was on the back of delays in revenue recognition from the Sri Lankan project and a high base yoy (execution of Libya project in 3QFY11). Also, EBITDA margin was below expectation due to forex losses due to rupee depreciation combined with lower pace of execution in a few projects. The management expects execution to pick up going forward as work is expected to be restored soon in both the Libyan and Sri Lanka projects. Order book stood at Rs. 35.3bn and order inflow during the quarter was healthy at Rs. 5.3bn. With ~Rs. 10bn worth of framework orders at hand we expect VATW to maintain order inflow growth of >10% going forward. While there has been a slight delay in orders being awarded by the municipal sector, orders from the industrial segment, especially Oil & Gas, are expected to sufficiently compensated with large orders in the near term.

With execution expected to revive in the international projects, we expect VATW to grow at 16% and 19% in FY12E and FY13E respectively and register ~30% PAT growth. Considering the healthy growth, we value VATW at 12x FY13E earnings to arrive at a TP of Rs. 405 and maintain our Add / Outperform rating on the stock.

### Highlights of the quarter's performance and outlook

- **Execution to bounce bank** – Though execution during the quarter was weak on the back of delays faced in a few international projects, the management expects execution to bounce back from 4QFY12 with Sri Lankan project expected to pick up steam after the clearance delays and Libyan project resuming work soon. The management is confident that VATW is on track to achieve ~Rs.14bn revenue that they had guided for FY12E earlier. Furthermore, execution momentum is expected to result in ~20% revenue growth in FY13E.
- **Order inflows to remain strong** – Order book remained strong at Rs. 35.5bn with an order inflow of Rs. 5.3bn of which international orders were ~Rs. 2bn. While order inflow in past 9M has remained subdued from the municipal sector, it is expected to pick up as a new JNNURM scheme is being planned by the government and other state / central projects are in pipeline. In the international arena, VATW has secured sizeable orders from Turkey, Saudi Arabia and Philippines and is confident of securing more projects from these regions.
- **Due diligence for M&A in progress** – The management has indicated that it is in advanced stages of due-diligence for a possible M&A opportunity abroad.

### Financial summary

Year	Revenue (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E(x)	EV/EBITDA
FY11	12,330	1,122	646	24.8	15.2	6.4
FY12E	14,315	1,245	684	25.9	14.5	5.8
FY13E	17,033	1,584	891	33.7	11.2	4.5

### 3QFY12 Update

Date Feb 13, 2012

#### Market Data

SENSEX	17749
Nifty	5382
Bloomberg	VATW IN
Shares o/s	26mn
Market Cap	9.9bn
52-wk High-Low	641/320
3m Avg. Daily Vol	Rs. 9mn
Index member	BSE MIDCAP

#### Latest shareholding (%)

Promoters	31.0
Institutions	46.7
Public	22.3

#### Stock performance (%)

	1m	3m	12m
VATW	8.1%	8.3%	-29.7%
Sensex	10.7%	3.2%	0.1%
CG Index	13.8%	-3.0%	-18.5%

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# Va Tech Wabag

## Quarterly Financial Results

<b>CMP</b>	<b>Rs. 377</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 405</b>	<b>Relative</b>	<b>Outperform</b>

### Consol Quarterly' Financial Result (Consolidated)

Rs. mn\Period	31-Dec-11	31-Dec-10	YoY Growth	30-Sep-11	QoQ Growth	FY12E	FY13E	YoY Growth
<b>Revenues</b>	<b>2,913</b>	<b>3,127</b>	<b>-6.8%</b>	<b>2,650</b>	<b>9.9%</b>	<b>14,315</b>	<b>17,033</b>	<b>19.0%</b>
Material cost	2,036	2,305	-11.6%	1,887	7.9%	10,292	12,178	18.3%
Employee cost	501	406	23.5%	472	6.2%	1,975	2,316	17.3%
Other expenditure	186	168	10.7%	162	15.0%	802	954	19.0%
Operating Expenses	2,723	2,878	-5.4%	2,520	8.1%	13,069	15,449	18.2%
<b>EBITDA</b>	<b>190</b>	<b>249</b>	<b>-23.6%</b>	<b>130</b>	<b>46.5%</b>	<b>1,245</b>	<b>1,584</b>	<b>27.2%</b>
EBITDA margins	6.5%	8.0%	-143bps	4.9%	163bps	8.7%	9.3%	60bps
Depreciation	16	28	-43.3%	23	-30.1%	142	151	6.4%
Other income	18	36	-50.8%	32	-44.4%	57	66	15.0%
EBIT	192	257	-25.3%	139	38.2%	1,161	1,499	29.1%
Interest	20	47	-56.8%	37	-45.4%	139	169	21.4%
PBT	172	210	-18.3%	102	68.5%	1,021	1,330	30.2%
Tax	62	78	-20.3%	35	80.1%	337	439	30.2%
Effective tax rate	36.3%	37.2%		34.0%		33.0%	33.0%	
<b>PAT</b>	<b>109</b>	<b>132</b>	<b>-17.1%</b>	<b>67</b>	<b>62.6%</b>	<b>684</b>	<b>891</b>	<b>30.2%</b>
PAT margin	3.8%	4.2%	-46bps	2.5%	122bps	4.8%	5.2%	45bps
EPS (Rs. )	4.1	5.0	-17.1%	2.5	62.6%	25.9	33.7	30.2%

# Va Tech Wabag

## Business Overview

<b>CMP</b>	<b>Rs. 377</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 405</b>	<b>Relative</b>	<b>Outperform</b>

### Key estimate revision (Consolidated)

	FY12E			FY13E		
	Old	New	Change	Old	New	Change
Revenue	14,315	14,315	<b>0.0%</b>	17,033	17,033	<b>0.0%</b>
EBITDA	1,331	1,245	<b>-6.5%</b>	1,584	1,584	<b>0.0%</b>
Margin (%)	9.3%	8.7%	<b>-60 bps</b>	9.3%	9.3%	<b>0 bps</b>
PAT	725	684	<b>-5.6%</b>	873	891	<b>2.1%</b>
PAT Margin	5.1%	4.8%	<b>-28 bps</b>	5.1%	5.2%	<b>11 bps</b>
EPS	27.4	25.9	<b>-5.6%</b>	33.1	33.7	<b>2.1%</b>

All figures in Rs. mn, except EPS, which is in Rs.

### Key Contracts

- Chennai desalination project: Rs. 6.4bn
- Water treatment plant and distribution system in Sri Lanka: Rs. 3.6bn
- APGENCO for Kakatiya and Rayalaseema BoP: Rs. 2.8bn
- IOCL Paradip project for total water management: Rs. 1.3bn
- SWRO plant in Oman: Rs. 620mn
- Madinah STP in Saudi Arabia: Rs. 527mn
- Seiverek STP in Turkey: Rs. 500mn

Source: Company data, Spark Capital Research

### Balance sheet ratios

	FY12E	FY13E
Debt to equity (x)	0.1x	0.0x
Current ratio (x)	1.6x	1.6x
Debtor & advances days (Sales)	265	265
Inventory days (Sales)	22	23
Creditor Days (Sales)	181	180
Fixed Assets turnover (x)	10.3x	11.0x
Cash (Rs. mn)	3,133	3,075

Source: Company, Spark Capital Research

### Key Framework Contracts

- 195 MLD WTP for Ulhasnagar Municipal Corporation with O&M for 30 years
  - EPC Rs. 1bn and O&M Rs. 2.3bn
- 192 MLD WTP for Aurangabad Municipal Corporation with O&M for 17 years
  - EPC Rs. 550mn and O&M Rs. 720mn
- 4.5 MLD WWTP for City of Windhoek, Namibia: Rs.700mn
- Libya order – Rs. 6bn

Source: Company data, Spark Capital Research

# Va Tech Wabag

## Financial Summary

<b>CMP</b>	<b>Rs. 377</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 405</b>	<b>Relative</b>	<b>Outperform</b>

Abridged Financial Statements (Consolidated)				
Rs. mn	FY10	FY11	FY12E	FY13E
<b>Profit &amp; Loss</b>				
Revenues	12,237	12,330	14,315	17,033
EBITDA	1,114	1,122	1,245	1,584
Other Income	57	88	57	66
Depreciation	139	100	142	151
EBIT	1,032	1,110	1,161	1,499
Interest	257	148	139	169
PBT	775	963	1,021	1,330
<b>PAT</b>	<b>472</b>	<b>646</b>	<b>684</b>	<b>891</b>
<b>Balance Sheet</b>				
Net Worth	4,016	5,710	6,274	7,009
Deferred Tax	(181)	(216)	(216)	(216)
Total debt	391	427	395	255
<b>Total Networth and liabilities</b>	<b>4,226</b>	<b>5,920</b>	<b>6,453</b>	<b>7,048</b>
Gross Fixed assets	807	994	1,394	1,544
Net fixed assets	399	484	742	741
CWIP	58	77	0	0
Investments	134	437	437	437
Inventories	351	736	863	1,073
Sundry Debtors	6,353	7,413	8,628	10,266
Cash and bank balances	2,185	3,245	3,133	3,075
Loans and advances	1,285	1,422	1,778	2,093
Current liabilities	6,539	7,894	9,128	10,637
Net current assets	3,635	4,922	5,274	5,871
<b>Total assets</b>	<b>4,226</b>	<b>5,920</b>	<b>6,453</b>	<b>7,048</b>
<b>Cash Flows</b>				
Cash flow s from Operations	(559)	271	502	557
Cash flow s from Investing	351	(130)	(323)	(150)
Cash flow s from Financing	(54)	1,218	(291)	(464)

Key metrics				
	FY10	FY11	FY12E	FY13E
<b>Growth ratios</b>				
Sales	8.0%	0.8%	16.1%	19.0%
EBITDA	81.3%	0.7%	11.0%	27.2%
PAT	33.7%	37.1%	5.9%	30.2%
<b>Margin ratios</b>				
<b>EBITDA</b>	<b>9.1%</b>	<b>9.1%</b>	<b>8.7%</b>	<b>9.3%</b>
PAT	3.9%	5.2%	4.8%	5.2%
<b>Performance ratios</b>				
RoE	12.2%	13.3%	11.4%	13.4%
RoCE	14.6%	14.1%	12.1%	14.4%
RoA	5.2%	7.0%	5.8%	6.5%
Fixed asset turnover (x)	15.2	12.4	10.3	11.0
Total asset turnover (x)	1.1	0.9	0.9	1.0
<b>Financial stability ratios</b>				
Net Debt to Equity (x)	(0.4)	(0.5)	(0.4)	(0.4)
Current ratio (x)	1.6	1.6	1.6	1.6
Inventory and debtor days	238	283	287	288
Creditor days	147	179	181	180
<b>Working capital days</b>				
<b>Interest cover (x)</b>	<b>91</b>	<b>105</b>	<b>107</b>	<b>108</b>
Interest cover (x)	4.0	7.5	8.3	8.9
<b>Valuation metrics</b>				
Fully Diluted Shares (mn)	23.4	26.4	26.4	26.4
Market cap (Rs.mn)	9,953	9,953	9,953	9,953
<b>EPS (Rs.)</b>	<b>20.5</b>	<b>24.8</b>	<b>25.9</b>	<b>33.7</b>
<b>P/E (x)</b>	<b>18.4</b>	<b>15.2</b>	<b>14.5</b>	<b>11.2</b>
EV (Rs.mn)	8,159	7,135	7,214	7,132
EV/ EBITDA (x)	7.3	6.4	5.8	4.5
BV/ share (Rs.)	171.6	216.3	237.7	265.5
Price to BV (x)	2.2	1.7	1.6	1.4

<b>CMP</b>	<b>Rs. 377</b>	<b>Absolute</b>	<b>Add</b>
<b>Target</b>	<b>Rs. 405</b>	<b>Relative</b>	<b>Outperform</b>

## Absolute Rating Interpretation

<b>BUY</b>	<b>Stock expected to provide positive returns of &gt; 15% over a 1-year horizon</b>
<b>ADD</b>	<b>Stock expected to provide positive returns of &lt;=15% over a 1-year horizon</b>
<b>REDUCE</b>	<b>Stock expected to fall &lt;=15% over a 1-year horizon</b>
<b>SELL</b>	<b>Stock expected to fall &gt;15% over a 1-year horizon</b>

## Relative Rating Interpretation

<b>OUTPERFORM</b>	<b>Stock expected to outperform sector index /sector peers in our coverage</b>
<b>UNDERPERFORM</b>	<b>Stock expected to underperform sector index/ sector peers in our coverage</b>

## Recommendation History

Date	CMP	Target price	Absolute Rating	Relative Rating
14-Nov-11	350	397	Add	O-PF
23-Sep-11	373	409	Add	O-PF
17-Aug-11	485	521	Add	O-PF
12-Jul-11	511	541	Add	O-PF
30-May-11	502	541	Add	O-PF

### Analyst Certification

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