

Va Tech Wabag

Rating: ◀▶

Target price: ▼

EPS: ▼

CMP

Rs. 1,255

Absolute

ADD

Target

Rs. 1,352

Relative

Outperform

In line results; Robust order book, solid pipeline

VA Tech Wabag's (VATW) FY11 sales remained flat yoy at Rs. 12.3bn which was inline with our expectations. While the depreciating Euro had a negative translation impact on international revenue growth during FY11, execution improved in the domestic projects (Chennai desalination and Delhi Jal Board (DJB) projects) during 4QFY11. EBITDA margin for FY11 remained stable at 9.1% and underlying PAT (excluding exceptional items of Rs. 129mn which were due to litigation liabilities) grew by 31% to Rs. 612mn on a yoy basis. Order book stood at Rs. 34bn (20% growth yoy) and order inflow during the year was Rs. 18bn. The order inflow pipeline is around Rs. 13bn which provides strong visibility.

While the strong order book and solid order pipeline (both domestic & International) remains, margin in international business is yet to show any improvement. Given the uncertainty in Libya (~ Rs. 3bn book), we conservatively revise down our FY12E EBITDA margin estimates from 10.1% to 9.5% (FY11 margin was 9.1%). Further, housekeeping changes in depreciation and other income led to 13% reduction in PAT for FY12E. We value VATW at 15x FY13E earnings to arrive at a TP of Rs. 1,352 (Rs. 1,467). Maintain Add / OPF.

Highlights of the quarter's performance and outlook

- **Comfortable order book:** Current order backlog of Rs. 34bn with an average execution cycle of around 24 months provides strong visibility for growth. Management is positive on securing sizeable international orders from China, Turkey and Philippines; and domestic markets are also likely to remain robust.
- **JVs to supplement growth:** The Joint Venture(JV) agreements with Sumitomo Corp and Zawawi Group of Oman have already started yielding results with the JV with Sumitomo signing two MoUs with the Gujarat govt.(for a waste water recycling plant and a sea water RO plant). Also the Zawawi JV, in which VATW has a 70% stake, has already bagged an O&M order in Oman.
- **In the lookout for new acquisition:** VATW is comfortably poised with a cash balance of Rs.3.2bn to pursue strategic acquisition which would either improve its geographical or technological scope.
- **Margins to improve:** In spite of uncertainty over projects in Libya, profitability is likely to expand on 1) Operating leverage; 2) Decentralization in Int. biz; 3) Lower BG charges (Eur 10mn renegotiated at 1.25% from 2.5%)
- **Receivables stretched:** While overall working capital at 50days remained under control, receivables stretched to 219days from 189days in FY10 which is a concern.

Financial summary

Year	Revenue (Rs. mn)	EBITDA (Rs. mn)	PAT (Rs. mn)	EPS (Rs.)	P/E(x)	EV/EBITDA
FY11	12,330	1,122	526	61.6	20.4	8.2
FY12E	14,272	1,356	793	75.6	16.6	7.0
FY13E	17,081	1,622	946	90.1	13.9	5.5

4QFY11 Update

Date: May 30, 2011

Market Data

SENSEX	18266
Nifty	5476
Bloomberg	VATW IN
Shares o/s	11mn
Market Cap	Rs. 13bn
52-wk High-Low	Rs. 1,807-1,000
3m Avg. Daily Vol	Rs. 4mn
Index member	BSE MIDCAP

Latest shareholding (%)

Promoters	31.0
Institutions	44.1
Public	24.9

Stock performance (%)

	1m	3m	12m
VATW	2%	-1%	N/A
Sensex	-6%	2%	8%
CG Index	-4%	5%	-5%

Mayur Patel

mayur@sparkcapital.in

+91 44 4344 0037

Va Tech Wabag

Quarterly Financial Results

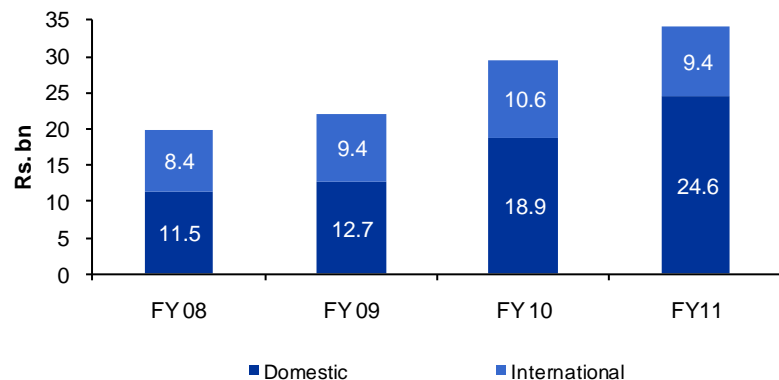
CMP	Rs. 1,255	Absolute	ADD
Target	Rs. 1,352	Relative	Outperform

Quarterly financial results

Rs. mn\Period	31-Mar-11	31-Mar-10	yoy Growth	31-Dec-10	qoq Growth	FY11	FY12E	yoy Growth
Revenues	5,092	4,787	6.4%	3,127	63%	12,330	14,272	15.8%
Cost of Goods Sold	3,639	3,324	9.5%	2,305	58%	8,820	10,219	15.9%
Employee Costs	472	438	7.8%	406	16%	1,716	1,927	12.3%
Other expense	155	189	-17.9%	168	-8%	673	771	14.6%
Total operating expense	4,266	3,951	8.0%	2,878	48%	11,208	12,916	15.2%
EBITDA	826	836	-1.1%	249	232%	1,122	1,356	20.9%
<i>Margins</i>	16.2%	17.5%	123 bps	8.0%	827 bps	9.1%	9.5%	40 bps
Depreciation	16	51	-68.0%	28	-42.2%	100	132	32.2%
EBIT	810	785	3.2%	221	267.0%	1,022	1,224	19.7%
Other income	7	32	-78.1%	52	-86.6%	88	170	92.3%
Interest expense	27	60	-54.5%	63	-56.8%	148	186	25.5%
PBT (underlying)	790	757	4.3%	210	276.0%	963	1,208	25.5%
Exceptional items	-129	-4	3115.0%	0	#DIV/0!	-129	0	
PBT	661	753	-12.2%	210	214.8%	834	1,208	44.9%
Tax	202	198	2.1%	78	158.6%	316	423	33.8%
effective tax rate %	31%	26%	0 bps	37%		38%	35%	-291 bps
Minority interest	0	0		0		0	0	
PAT (Reported)	459	605	-24.1%	139	230.1%	526	793	51.0%
PAT (Adjusted)	546	562	-2.8%	139	292.0%	612	793	29.7%
Margins %	9.0%	12.6%	362 bps	4.5%	457 bps	4.3%	5.6%	130 bps
EPS (Rs.)	55.0	59.1	-6.9%	14.23	286.2%	61.6	75.6	22.6%

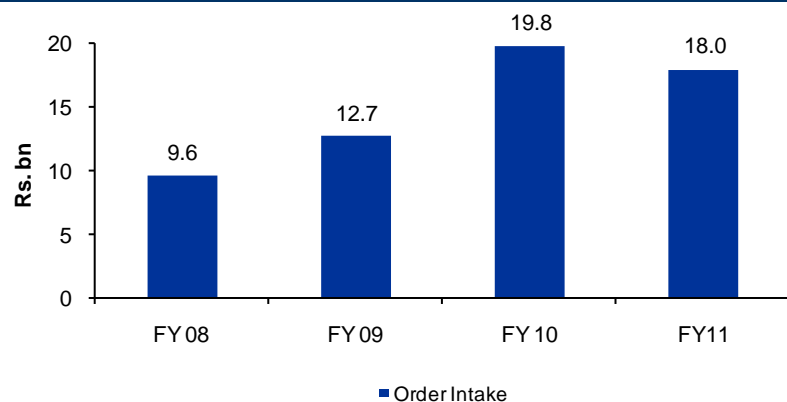
CMP	Rs. 1,255	Absolute	ADD
Target	Rs. 1,352	Relative	Outperform

Order book continues to grow strong



Source: Company, Spark Capital Research

Order intake remained robust in FY11



Source: Company, Spark Capital Research

Key order inflows

- Water treatment plant and distribution system in Sri Lanka: Rs. 3.6bn
- APGENCO for Kakatiya and Rayalaseema BoP: Rs. 2.9bn
- IOCL Paradip project for total water management: Rs. 2.5bn
- SWRO plant in Oman: Rs. 620mn
- Two STPs in Philippines: Rs. 450mn
- Repeat order from Reliance: Rs. 200mn

Source: Company, Spark Capital Research

Key Framework Contacts*

- 195 MLD WTP for Ulhasnagar Municipal Corporation with O&M for 30 years
 - EPC Rs.1bn and O&M Rs. 6bn including power
- 192 MLD WTP for Aurangabad Municipal Corporation with 17 years - O&M
 - EPC Rs. 550mn and Rs. 720mn for O&M

Source: Company, Spark Capital Research; *- Contracts wherein Advance/LC awaited

Va Tech Wabag

Business Overview

CMP	Rs. 1,255	Absolute	ADD
Target	Rs. 1,352	Relative	Outperform

Key estimate revision

	FY12E			FY13E		
	Old	New	Change	Old	New	Change
Revenue	14,509	14,272	-1.6%	-	17,081	-
EBITDA	1,465	1,356	-7.5%	-	1,622	-
Margin (%)	10.1%	9.5%		-	9.5%	-
PAT	905	793	-12.4%	-	946	-
PAT Margin	6.2%	5.6%		-	5.5%	-
EPS	86.3	75.6	-12.4%	-	90.1	-

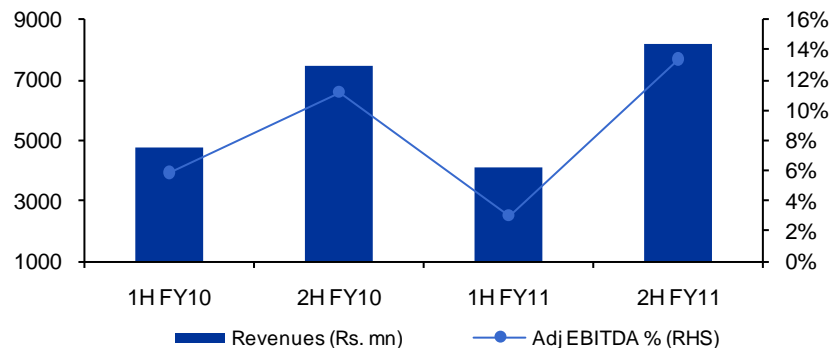
All figures in Rs. mn, except EPS, which is in Rs.

Balance sheet ratios

	FY11	FY12E
Debt to equity (x)	0.1x	0.1x
Current ratio (x)	1.6x	1.6x
Debtor & advances days (Sales)	261	261
Inventory days (Sales)	22	22
Creditor Days (Sales)	234	234
Fixed Assets turnover (x)	24x	25x
Cash (Rs. mn)	3245	3655

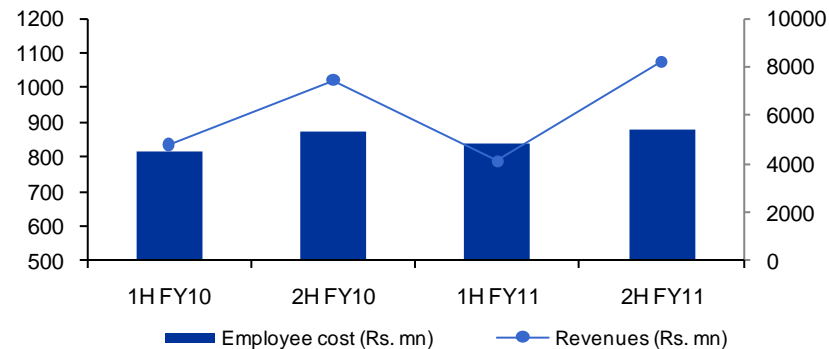
Source: Company, Spark Capital

Revenue momentum has picked up in 2HFY11



Source: Company data, Spark Capital Research

Leverage on employee cost kicking in



Source: Spark Capital Research

Va Tech Wabag

Financial Summary (Consolidated)

CMP

Rs. 1,255

Absolute

ADD

Target

Rs. 1,352

Relative

Outperform

Abridged Financial Statements				
Rs. mn	FY10	FY11	FY12E	FY13E
Profit & Loss				
Revenues	12,237	12,330	14,272	17,081
EBITDA	1,114	1,122	1,356	1,622
Depreciation	139	100	132	149
EBIT	975	1,022	1,224	1,472
Other Income/Exp	26	(40)	170	210
Interest	257	148	186	239
PBT	744	834	1,208	1,443
Net Profit	494	526	793	946
Adjusted Net Profit	479	612	793	946
Balance Sheet				
Shareholders Equity	4,016	5,710	6,503	7,449
Total debt	391	427	427	427
Total Netw orth & Liabilities	4,407	6,136	6,930	7,876
Net fixed assets	399	484	462	630
CWIP	58	77	87	(123)
Investments	134	437	445	453
Current assets	10,174	12,816	14,733	17,459
Current liabilities	6,539	7,894	9,137	10,936
Net current assets	3,635	4,922	5,596	6,523
Total Assets	4,407	6,136	6,815	7,761
Cash Flows				
Cash flow s from Operations	(558)	302	484	496
Cash flow s from Investing	350	(413)	50	173
Cash flow s from Financing	(54)	1,285	(123)	(123)
Cash Generated	(262)	1,174	410	546
Opening Cash	3,145	2,185	3,244	3,202
Closing Cash	2,185	3,244	3,655	3,747

Key metrics				
	FY10	FY11	FY12E	FY13E
Growth ratios (%)				
Sales	8.0%	0.8%	15.8%	19.7%
EBITDA	81.3%	0.7%	20.9%	19.6%
Adj. Net Profit	31.9%	27.8%	29.7%	19.2%
Margin ratios (%)				
EBITDA	9.1%	9.1%	9.5%	9.5%
EBIT	8.0%	8.3%	8.6%	8.6%
Adj. Net Profit	3.9%	5.0%	5.6%	5.5%
Performance ratios				
ROIC (%)	40.0	26.8	26.6	13.0
RoE (%)	12.4	12.6	13.0	13.6
RoCE (%)	14.2	13.1	13.9	14.8
Sales / Total Assets (x)	2.8	2.3	2.2	2.3
Fixed Assets Turnover (x)	26.7	24.2	24.6	31.6
Financial stability ratios				
Total Debt to Equity (x)	0.10	0.07	0.07	0.06
Inventory & Debtor days	200.0	241.2	241.2	241.2
Creditor days	195.0	233.7	233.7	233.7
Valuation metrics				
CMP (Rs.)		1,255		
Market Cap (Rs.mn)	13,178	13,178	13,178	13,178
Fully Diluted Shares (mn)	10.5	10.5	10.5	10.5
EPS (Rs.)	52.3	61.6	75.6	90.1
P/E (x)	24.0	20.4	16.6	13.9
EV (Rs.mn)	10,527	9,200	9,504	8951
EV to Sales (x)	0.9	0.7	0.7	0.5
EV/ EBITDA (x)	9.4	8.2	7.0	5.5
P/B	3.28	2.31	2.03	0.80%

CMP	Rs. 1,255	Absolute	ADD
Target	Rs. 1,352	Relative	Outperform

Absolute Rating Interpretation

BUY	Stock expected to provide positive returns of > 15% over a 1-year horizon
ADD	Stock expected to provide positive returns of <=15% over a 1-year horizon
REDUCE	Stock expected to fall <=15% over a 1-year horizon
SELL	Stock expected to fall >15% over a 1-year horizon

Relative Rating Interpretation

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

Recommendation History

Date	CMP	Target price	Absolute Rating	Relative Rating
31-Mar-11	1,210	1,467	Add	O-PF
21-Feb-11	1,331	1,467	Add	O-PF
15-Feb-11	1,331	1,467	Add	O-PF
6-Jan-11	1,555	1,847	Buy	O-PF
16-Dec-10	1,498	1,847	Buy	O-PF

Analyst Certification

The Research Analyst(s) who prepared the research report hereby certify that the views expressed in this research report accurately reflect the analyst(s) personal views about the subject companies and their securities. The Research Analyst(s) also certify that the Analyst(s) have not been, are not, and will not be receiving direct or indirect compensation for expressing the specific recommendation(s) or view(s) in this report.

Spark Disclaimer

This document is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Nothing in this document should be construed as investment or financial advice, and nothing in this document should be construed as an advice to buy or sell or solicitation to buy or sell the securities of companies referred to in this document. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. This document is being supplied to you solely for your information and may not be reproduced, redistributed or passed on, directly or indirectly, to any other person or published, copied, in whole or in part, for any purpose.

This document does not constitute or form part of any offer for sale or subscription or incitation of any offer to buy or subscribe to any securities. This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. Spark Capital Advisors (India) Private Limited makes no representation or warranty, express or implied, as to the accuracy, completeness or fairness of the information and opinions contained in this document. Spark Capital Advisors (India) Private Limited, its affiliates, and the employees of Spark Capital Advisors (India) Private Limited and its affiliates may, from time to time, effect or have effected an own account transaction in, or deal as principal or agent in or for the securities mentioned in this document. They may perform or seek to perform investment banking or other services for, or solicit investment banking or other business from, any company referred to in this report. This report has been prepared on the basis of information, which is already available in publicly accessible media or developed through the independent analysis of Spark Capital Advisors (India) Private Limited

Copyright in this document vests exclusively with Spark Capital Advisors (India) Private Limited.