

20<sup>th</sup> November 2012

### Key Take Away

CMP 528  
Recommendation HOLD

### Scrip Details

Market Cap (Rs Mns) 13783  
P/E (FY14E) 13x  
Equity Capital (Rs Mns) 53  
Face Value (Rs) 2  
52 Week High/Low (Rs) 564/270

Website: [www.wabag.com](http://www.wabag.com)  
NSE Code WABAG  
Sensex 18340  
Nifty 5574

### Shareholding Pattern (%)

As on 30<sup>th</sup> September 2012

Promoters	30.93
MFs, FIs & Banks	17.94
FII	39.34
Other Bodies corporate	3.35
Public and others	8.45

Particulars (mlns)	2011-12	2012-13E	2013-14E
Net Sales	14382	16412	18580
% Growth	16.64%	14.11%	13.21%
PAT	731	922	1091
EBIDTA %	9.04%	9.77%	9.99%
PAT %	5.08%	5.62%	5.87%
EPS	27.6	34.9	41.3
PE	16.7	15.1	12.8
ROCE %	13.49%	16.06%	16.85%
ROE %	11.39%	12.89%	13.53%

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Consolidated order backlog for H1FY13 stood @Rs.40bn - a yoy growth of 21% with major growth from the international market forming 1/3<sup>rd</sup> of its total order backlog. Order inflows stood for the first half stood @Rs.8.6bn as compared to Rs.3.8bn in its previous qtr. Cons. sales have grown by 20% with operating margins @7.4% higher by 300bps & net profit margins @3.4% higher by 255bps considering higher contribution from the O&M segment.

### Q2FY13 Performance analysis

- The domestic to international mix of the order book is in the ratio of 2:1 with the domestic market registering a growth of 11% whereas the international market has registered a growth of 49%. Similarly the EPC segment contributes 66% to its total backlog whereas the remaining portion comes from the O&M segment. The order backlog from the Municipal division has been to the extent of 74% & the remaining from the Industrial division.
- Key orders which have contributed to revenue have been from the Dambulla Municipality project-Rs.521mn, Majis Industrial services-Rs.428mn, APGENCO Rayalaseema project-Rs.309mn, RIL Dahej ETP-Rs.283mn whereas the Nemmeli Desalination plant has contributed Rs.274mn.
- Net sales for the qtr have grown by 31% of which the Indian market has delivered a flat growth yoy whereas the International market has delivered a yoy growth of +82%. Revenue contribution from the International market has been 56% while the rest coming from the Indian market with higher margins @33% as compared to the Indian counterpart with margins @22%.
- Adopting decentralized approach & Multi-Domestic Unit concept to increase local presence which has been implemented to focus on improving margins has started reaping benefits. Employee cost has reduced drastically from 18% to 14%yoy which has increased its operating margins from 6% to 9%yoy. With low interest & depreciation cost PAT has grown by 157% with margins up by 244bps.

### Valuations

Increased revenues from the O&M segment & from the international market would deliver a high margin contribution going ahead. At its CMP of Rs.528, the stock trades at 13x FY14E EPS of Rs.41, hereby we retain our *HOLD* call on the stock.



## Key Concall Updates

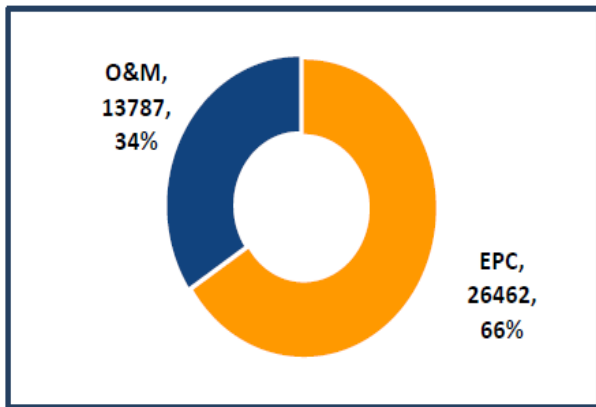
- The Nemmeli desalination plant has been completed in Chennai with trial runs currently on which is expected to be commissioned by the end of December.
- The Management sees a rapid growth in Desalination plants across the world due to water shortage and improved technologies.
- Some of the major order won during the quarter include Rs.800mn order from Surat Municipal Corporation, Rs.206mn order for O&M at Sterlite Copper in Tuticorin, Euro 8.6mn order from Algeria, Euro 7.1mn for setting up a industrial water treatment plant in Turkey and also received few standalone O&M orders from India worth Rs.300mn. Received first order from China worth RMB 7.4mn and in Libya, where it won an order for a Multi-effect Distillation plant.
- The company's order framework includes orders worth Rs 7.5bn which is not included in the order book of the company. The order pipeline includes many municipal orders in India which are in the advance stages and the management is confident of meeting the order flow guidance for the full year. Two orders worth Rs.2bn are expected to be finalized in the 2H13.
- The company has stated the International subsidiaries to grow at 40-45% for the full year and the India business to grow moderately. The International business from India in Sri Lanka and Oman has higher margins which lead to the higher margins for the quarter in the India business.
- The consolidated margins for the full year to be at 9.5-10%.
- VATech Wabag along with Galfar and Cadagua has won the EPC contract for the 192 MLD SWRO project in Oman. The project size is \$350mn with the EPC portion at \$250mn. VA Tech share of the EPC contract is estimated at Rs.2.5-3bn and the order is expected to be booked by Q413 post financial closure. Gulfar is expected to do the construction work while VA Tech would be in charge of the procurement, design and technology.



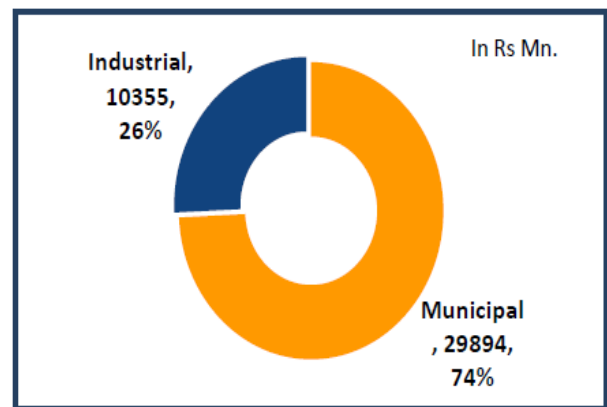
**Order Backlog details**

Rs. Millions	EPC		O&M		Total
	Municipal	Industrial	Municipal	Industrial	
Wabag India	7,504	7,519	11,019	823	26,865
Wabag Overseas	10,063	1,376	1,308	637	13,384
<b>Total</b>	<b>17,567</b>	<b>8,895</b>	<b>12,327</b>	<b>1,460</b>	<b>40,249</b>

**EPC vs O&M**



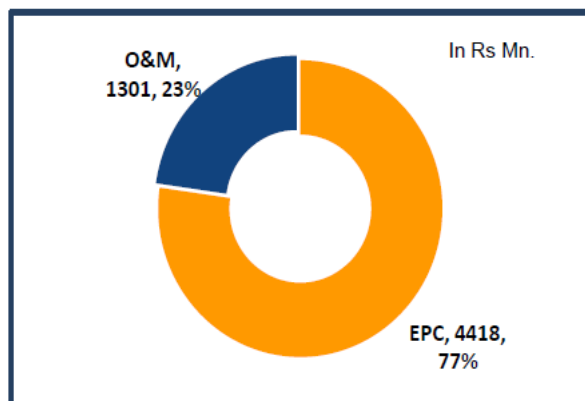
**Municipal vs Industrial**



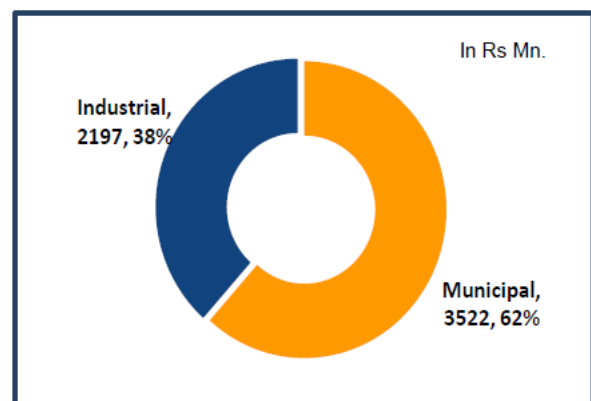
**Revenue Break Up**

Rs. Millions	EPC		O&M		Total
	Municipal	Industrial	Municipal	Industrial	
Wabag India	1,383	1,351	235	197	3,166
Wabag Overseas	1,287	397	617	252	2,553
<b>Total</b>	<b>2,670</b>	<b>1,748</b>	<b>852</b>	<b>449</b>	<b>5,719</b>

**EPC vs O&M**



**Municipal vs Industrial**





## Consolidated Q2FY13 Result Update

Consolidated Qtr Financials								
Particulars	Q2 FY 12-13	Q2 FY 11-12	Y-o-Y %	Q1 FY 12-13	Q-o-Q %	H1 FY 12-13	H1 FY 11-12	Y-o-Y %
Closing Order Backlog (blns)	40.3	33.3	20.9%	41.1	-2%	40.3	33.3	20.9%
Domestic	26.9	24.3	10.6%	27.6	-3%	26.9	24.3	10.6%
<b>% of Total</b>	67%	73%		67%		67%	73%	
International	13.4	9.0	48.7%	13.5	0%	13.4	9	48.7%
<b>% of Total</b>	33%	27%		33%		33%	27%	
Order Inflow (blns)	2.6	2.41	8%	6.0	-57%	8.6	3.80	126%
Net Sales	3469	2650	31%	2250	54%	5719	4757	20%
Operating Income	14	32	-56%	60	-77%	74	39	92%
<b>% of Sales</b>	0.41%	1.21%		2.67%		1.30%	0.81%	
Gross Income	3483	2682	0	2310	51%	5793	4796	21%
Changes in Work in progress	-114	-21	452%	25	-557%	-89	19	-575%
<b>% of Sales</b>	-3.29%	-0.78%		1.11%		-1.56%	0.40%	
Other Expenditure	191	162	19%	187	2%	379	353	7%
<b>% of Sales</b>	5.52%	6.09%		8.32%		6.62%	7.41%	
cost of sales and services	2598	1907	36%	1493	74%	4091	3319	23%
<b>% of Sales</b>	74.87%	71.98%		66.38%		71.53%	69.76%	
Staff Cost	488	472	3%	500	-2%	988	920	7%
<b>% of Sales</b>	14.07%	17.81%		22.24%		17.28%	19.35%	
Total Expenditure	3163	2520	26%	2206	43%	5369	4592	17%
<b>% of Sales</b>	91.17%	95.10%		98.05%		93.87%	96.52%	
Operating Profits	321	162	98%	104	208%	425	204	108%
<b>% of Sales</b>	9.24%	6.11%		4.62%		7.42%	4.29%	
Interest	27	37	-26%	21	33%	48	48	0%
<b>% of Sales</b>	0.79%	1.40%		0.92%		0.84%	1.01%	
P/L Bef Dep. & Taxes	293	125	135%	83	252%	377	156	141%
Depreciation	26	23	12%	24	5%	50	46	9%
<b>% of Sales</b>	0.74%	0.86%		1.08%		0.87%	0.96%	
Exceptional Items	0	0		0		0	0	
P/L Before Tax	268	102	163%	59	354%	327	110	196%
Prov. for Taxation	95	35	174%	35	175%	129	68	92%
<b>% of PBT</b>	35.46%	33.95%		58.47%		39.62%	61.25%	
Net Profit(+)/Loss(-)	173	67	157%	24	605%	197	43	362%
<b>% of Sales</b>	4.98%	2.54%		1.09%		3.45%	0.90%	
Share of Profit/loss from associates & Min	4	2		(2)		2	4	
Pat after extraordinary item & share from :	177	69	156%	22	-93%	199	46	330%
Face Value of Share (in Rs.)	2	2		2		2	2	
Paid-up Equity Share Capital	53	53		53		53	53	
Basic EPS (in Rs.)	6.68	2.62	155%	0.85	690%	7.52	1.75	330%

## Segmental Revenues

Segment Revenues	Q2 FY 12-13	Q2 FY 11-12	Y-o-Y %	Q1 FY 12-13	Q-o-Q %	H1 FY 12-13	H1 FY 11-12	Y-o-Y %
India	1519	1574	-4%	657	131%	2176	2847	-24%
<i>% of Sales</i>	43.7%	59.4%		29.1%		38.0%	59.9%	
Rest of the world	1956	1076	82%	1599	22%	3554	1910	86%
<i>% of Sales</i>	56.3%	40.6%		70.9%		62.0%	40.1%	
<b>Total</b>	<b>3475</b>	<b>2650</b>	<b>31%</b>	<b>2255</b>	<b>54%</b>	<b>5730</b>	<b>4757</b>	<b>20%</b>
<b>Operating Profits</b>								
India	337	337	0%	114	195%	451	609	-26%
<i>% Margins</i>	22.2%	21.4%		17.4%		20.7%	21.4%	
Rest of the world	649	426	52%	617	5%	1266	811	56%
<i>% Margins</i>	33.2%	39.6%		38.6%		35.6%	42.5%	
<b>Total</b>	<b>986</b>	<b>763</b>	<b>29%</b>	<b>731</b>	<b>35%</b>	<b>1717</b>	<b>1420</b>	<b>21%</b>
<i>% Margins</i>	28.4%	28.8%		32.4%		30.0%	29.8%	



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- |   |                        |
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