

11 February 2025

India | Equity Research | Results update

## VA Tech Wabag

Capital Goods

### Burgeoning order inflow

VA Tech Wabag's (Wabag) order inflow (OI) in Q3FY25 stood at INR 28bn. The Al Haer Sewage Treatment Plant order (INR 17.2bn) has partially allayed OI concerns post the cancellation of the 300 MLD Saudi Water Authority (SWA) tender worth INR 27bn (which was reopened last week with a bid submission deadline of eight weeks). Total order book (OB) swelled to INR 143bn – especially, EPC OB stands at INR 76bn – 2.5x book-to-bill ratio. Revenue growth during the quarter was +15% YoY with domestic revenues at INR 5bn (INR 6.4bn in H1FY25). Wabag's recent OI indicates a strategic shift towards larger, complex and higher margin projects, indicating potential medium-term margin improvement. We reiterate **BUY** on the stock with a revised TP of **INR 1,820** (vs. INR 1,980) at 25x FY27E EPS.

### Domestic execution up; in-line results

Wabag's revenue in Q3FY25 grew 15% YoY to INR 8bn. EBITDA margin slipped 12.4% (165bps YoY) on account of its execution mix. Largest revenue contributors this quarter were the Chennai, CIDCO and Ghaziabad projects. EBITDA stood at INR 1bn (+2% YoY). Other income was 4x YoY (low base). Thus, PAT was INR 0.7bn (+12% YoY). We see FY25E PAT closing at ~INR 3bn (+13% YoY).

### Continues to receives strong orders from Middle East

OI for the quarter was INR 28bn (+6x YoY), with two major order wins worth INR 24bn (INR 17bn project from Middle East). Wabag was the preferred bidder in projects amounting to INR 35bn last quarter; of these, 75% have been confirmed. This number now stands at INR 25bn. Book-to-bill ratio stood at 4.6x (vs. 4.2x in Q2FY25) with OB closing at INR 143bn.

### Management expects domestic market to pick up in FY26

Building on the domestic execution uptick this quarter, management expects the Chennai and Bangladesh projects to contribute further to the top line. Apart from this, Wabag expects opportunities such as Namami Gange 2.0 (+ off-shoot projects) and Yamuna Action Plan 3/4 to materialise in the medium term.

### Maintain BUY; TP revised to INR 1,820

We revise our earnings on account of the cancellation of the SWA order. Despite that, we believe the international pipeline is robust. We maintain **BUY** with a revised TP of **INR 1,820** per share (INR 1,980 earlier), valuing FY27E EPS at 25x.

### Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	28,564	32,234	39,876	46,954
EBITDA	3,757	4,074	5,742	7,126
EBITDA Margin (%)	13.2	12.6	14.4	15.2
Net Profit	2,456	2,839	3,757	4,522
EPS (INR)	39.6	45.8	60.6	72.9
EPS % Chg YoY	19.3	9.6	36.9	19.6
P/E (x)	33.7	30.8	22.5	18.8
EV/EBITDA (x)	22.9	21.0	15.0	12.1
RoCE (%)	15.1	14.6	17.4	18.7
RoE (%)	14.5	14.5	16.5	16.9

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#### Market Data

Market Cap (INR)	88bn
Market Cap (USD)	1,013mn
Bloomberg Code	VATW IN
Reuters Code	VATE.BO
52-week Range (INR)	1,944 / 650
Free Float (%)	81.0
ADTV-3M (mn) (USD)	12.1

Price Performance (%)	3m	6m	12m
Absolute	(21.3)	12.3	106.3
Relative to Sensex	(17.3)	16.6	99.8

ESG Score	2023	2024	Change
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E	FY27E
Revenue	(3.2)	(4.1)	(5.1)
EBITDA	(9.6)	(7.5)	(8.5)
EPS	(1.8)	(6.9)	(8.1)

#### Previous Reports

11-11-2024: [Q2FY25 results review](#)

09-09-2024: [Company Update](#)

## Outlook and valuation

Wabag's PAT performance and guidance of sustained high EBITDA margin have led us to believe that the company would be in a favourable position going forward. Management has also guided for 15% revenue growth in the medium term, and EBITDA margin of 13–15%. We believe this guidance is well within reach and is likely to fructify. Wabag also guides for an order backlog of three years and has submitted bids worth INR 84bn. However, the lost tender has warranted earnings cuts for FY25E, FY26E and FY27E.

We maintain **BUY** on Wabag with a revised TP of **INR 1,820** (INR 1,980 earlier) based on 25x FY27E.

**Risks:** 1) Continued lower order execution in FY25; and 2) increased operating costs leading to lower EBITDA levels.

### Exhibit 1: Quarterly financial highlights (INR mn)

INR mn	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)
<b>Total Revenue</b>	<b>8,110</b>	<b>7,044</b>	<b>15%</b>	<b>7,003</b>	<b>16%</b>
<b>EBITDA</b>	<b>1,004</b>	<b>989</b>	<b>2%</b>	<b>936</b>	<b>7%</b>
Margin (%)	12.4	14.0	-12%	13.4	-7%
Depreciation	13	21	-38%	13	0%
Finance Cost	203	167	22%	190	7%
Other Income	148	37	300%	138	7%
Extraordinary income	936	838	12%	871	7%
PBT	936	838	12%	871	7%
Tax	207	207	0%	221	-6%
tax rate	22.1	24.7	-259bps	25.4	-326bps
Reported PAT	729	631	16%	650	12%
<b>Adjusted PAT</b>	<b>702</b>	<b>629</b>	<b>12%</b>	<b>706</b>	<b>-1%</b>
Margin (%)	8.7	8.9	-27bps	10.1	-143bps
<b>EPS</b>	<b>11</b>	<b>10</b>	<b>12%</b>	<b>11</b>	<b>-1%</b>
Order Book	1,42,635	1,18,655	20%	1,23,035	16%
Order inflow	27,680	4,447	522%	22,397	24%

Source: Company data, I-Sec research

### Exhibit 2: Earnings revision

(INR mn)	FY25E			FY26E			FY27E		
Particulars	Previous	Revised	% chg	Previous	Revised	% chg	Previous	Revised	% chg
Revenues	33,310	32,234	-3.2	41,601	39,876	-4.1	49,492	46,954	-5.1
EBITDA	4,509	4,074	-9.6	6,205	5,742	-7.5	7,785	7,126	-8.5
PAT	2,890	2,839	-1.8	4,036	3,757	-6.9	4,920	4,522	-8.1

Source: I-Sec research, Company data

## Q3FY25 conference call highlights

### Breakup of order intake

Total order intake for the quarter came in at INR 28bn, of which:

- EPC is INR 26bn; O&M is INR 2bn
- Municipal is INR 25bn; industrial is INR 3bn
- India is INR 2bn; international is INR 26bn

### Breakup of order backlog

Total OB for the year came in at INR 143bn, of which:

- EPC is INR 76bn; O&M is INR 55bn, framework is INR 12bn
- Municipal is INR 110bn; industrial is INR 21bn (framework does not get classified)
- India is INR 78bn; international is INR 53bn (framework does not get classified)

### Other highlights

- The company has recently secured consortium order with Mutlaq Al-Ghowairi Contracting company ('MGC') worth INR 33bn for Al Haer Sewage Treatment plant in Saudi Arabia (Wabag's share being INR 17.2bn).
  - The company shall design and build the 200 MLD treatment plant while the MCG shall undertake the work pertaining to the transmission pipelines and construction of reservoirs.
- Last quarter, the company had won an SWA tender worth INR 27bn for development of 300 MLD Mega Sea water desalination plant in Saudi Arabia; however, the same order was cancelled during Q3FY25 pursuant to the tender authority's call for change in scope and certification of the project.
  - This tender was reopened last week with a bid submission deadline of eight weeks.
  - Wabag is evaluating the order and shall place their bid for the same.
- The recently won 73 MLD Lusaka project has a construction period of 36 months, followed by 24 months of O&M.
- The Chennai Petroleum Corporation order has an execution timeline of 12 months.
- Management expects some domestic river cleanup projects to be on the horizon in the medium term, namely:
  - The third and fourth phase of the Yamuna Action Plan
  - Further projects on Namami Gange
  - Post the success of the Namami Gange, the government is mulling other projects for the tributaries and neighbouring rivers of the Ganga.

**Exhibit 3: New order wins (INR bn)**

Particulars	Order Value (INR bn)
Lusaka Water Supply and Sanitation Company	7.0
Chennai Petroleum Corporation Limited	1.5
BAPCO Refining Industrial Wastewater Treatment, Bahrain	1.2
Al Haer Environmental Services Company	17.2
<b>Total</b>	<b>26.9</b>

Source: I-Sec research, Company data; Orders were announced between the two quarterly concalls

**Exhibit 4: OB positions of key orders at the end of Q3FY25 (INR mn)**

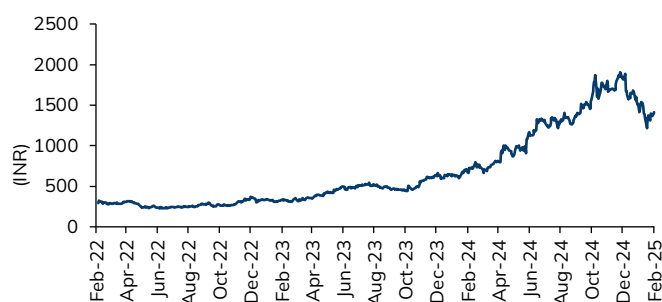
Orderbook (Key orders)	Details	Nature	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
MLD Perur, Chennai – Desal	400 MLD	EPC	34,975	33,295	32,440	30,705	28,825
MLD SWA, Yanbu al-Bahr, KSA – Desalination	300 MLD	EPC				23,130	-
UPJN O&M of Agra and Ghaziabad	-	O&M	12,142	11,693	11,244	10,795	10,329
Indosol, Andhra Pradesh – Desalination	100 MLD	DBO				10,000	9,631
MLD Al Haer ESC, KSA- ISTP	200 MLD	EPC					16,946
MLD Lusaka Water Supply and Sanitation Company - WWTP	73 MLD	DBO					6,983
AGCC Russia	-	EPC	6,089	4,067	1,891	-	-
STP and network at Digha and Kankarbagh	150 MLD	EPC	6,817	6,386	4,701	4,511	4,285
Pagla, Bangladesh – STP	200 MLD	EPC	6,527	6,049	5,854	5,091	4,835
MLD CMWSSB, Chennai – Desalination	110 MLD	O&M				4,106	4,009
CIDCO Maharashtra WTP	270 MLD	EPC	3,960	3,874	3,824	2,203	-
KUKL, Nepal	69 MLD	DBO	-	3,621	3,621	2,900	2,643
GNN TTRO Ghaziabad	40 MLD	EPC	3,184	2,775	2,648	2,608	-
Senegal – Desal	50 MLD	EP	2,190	1,474	-	-	-
RIL, Nagothane & Dahej – ETP & TTP	53 MLD	EP	-	-	-	3,420	2,846
Koyenbu Chennai	45 MLD	EPC	1,743	1,697	-	-	-
MLD Sonede Tunisia - WTP	345 MLD	DBO	2,625	2,535	2,067	2,034	-
Ras Tanura Refinery Complex, KSA - IWWTP	20 MLD	EPC	2,782	2,660	2,590	2,146	-
Others			23,832	22,683	24,247	7,492	39,694
<b>Total</b>			<b>1,06,866</b>	<b>1,02,809</b>	<b>95,127</b>	<b>1,11,141</b>	<b>1,31,026</b>
<b>Framework Projects</b>							
Libya STP			6,114	6,114	6,114	6,114	6,114
Bomba MED, Libya			5,436	5,524	5,522	5,780	5,495
Others			239	35	-	-	-
<b>Sub-Total</b>			<b>11,789</b>	<b>11,673</b>	<b>11,636</b>	<b>11,894</b>	<b>11,609</b>
<b>TOTAL</b>			<b>1,18,655</b>	<b>1,14,482</b>	<b>1,06,763</b>	<b>1,23,035</b>	<b>1,42,635</b>

Source: I-Sec research, Company data

**Exhibit 5: Shareholding pattern**

%	Jun'24	Sep'24	Dec'24
Promoters	19.1	19.1	19.1
Institutional investors	16.2	18.3	20.9
MFs and others	4.0	2.9	1.5
FIs/Banks	-	-	0.3
Insurance	0.7	0.3	0.3
FIIIs	11.5	15.1	18.9
Others	64.7	62.6	60.0

Source: Bloomberg

**Exhibit 6: Price chart**


Source: Bloomberg

## Financial Summary

### Exhibit 7: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Net Sales</b>	<b>28,564</b>	<b>32,234</b>	<b>39,876</b>	<b>46,954</b>
Operating Expenses	3,140	3,404	3,669	3,955
<b>EBITDA</b>	<b>3,757</b>	<b>4,074</b>	<b>5,742</b>	<b>7,126</b>
EBITDA Margin (%)	13.2	12.6	14.4	15.2
Depreciation & Amortization	84	65	118	128
EBIT	3,673	4,009	5,624	6,998
Interest expenditure	711	806	997	1,409
Other Non-operating Income	434	521	573	630
<b>Recurring PBT</b>	<b>3,396</b>	<b>3,724</b>	<b>5,200</b>	<b>6,220</b>
<b>Profit / (Loss) from Associates</b>	<b>(95)</b>	<b>(10)</b>	<b>(95)</b>	<b>(95)</b>
Less: Taxes	797	875	1,300	1,555
PAT	2,599	2,849	3,900	4,665
Less: Minority Interest	48	-	48	48
Extraordinaries (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>2,456</b>	<b>2,839</b>	<b>3,757</b>	<b>4,522</b>
<b>Net Income (Adjusted)</b>	<b>2,456</b>	<b>2,839</b>	<b>3,757</b>	<b>4,522</b>

Source Company data, I-Sec research

### Exhibit 8: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Total Current Assets	36,253	40,837	48,098	56,010
of which cash & cash eqv.	5,097	5,678	4,604	4,795
Total Current Liabilities & Provisions	20,595	23,241	28,751	33,855
<b>Net Current Assets</b>	<b>15,658</b>	<b>17,596</b>	<b>19,347</b>	<b>22,155</b>
Investments	671	671	671	671
Net Fixed Assets	689	719	749	779
ROU Assets	-	-	-	-
Capital Work-in-Progress	-	-	-	-
Total Intangible Assets	36	-	-	-
Other assets	5,304	5,986	7,404	8,719
Deferred Tax Assets	799	877	1,303	1,559
<b>Total Assets</b>	<b>25,150</b>	<b>27,842</b>	<b>31,468</b>	<b>35,876</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>4,185</b>	<b>4,024</b>	<b>3,870</b>	<b>3,724</b>
<b>Deferred Tax Liability</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
provisions	128	128	128	128
other Liabilities	2,598	2,728	2,864	3,008
Equity Share Capital	124	124	124	124
Reserves & Surplus	18,062	20,777	24,410	28,808
<b>Total Net Worth</b>	<b>18,186</b>	<b>20,901</b>	<b>24,534</b>	<b>28,932</b>
Minority Interest	53	61	72	84
<b>Total Liabilities</b>	<b>25,150</b>	<b>27,842</b>	<b>31,468</b>	<b>35,876</b>

Source Company data, I-Sec research

### Exhibit 9: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Operating Cashflow</b>	<b>(644)</b>	<b>1,764</b>	<b>1,191</b>	<b>2,698</b>
Working Capital Changes	(3,999)	(1,357)	(2,825)	(2,617)
Capital Commitments	(1,400)	(59)	(148)	(158)
<b>Free Cashflow</b>	<b>756</b>	<b>1,823</b>	<b>1,339</b>	<b>2,856</b>
<b>Other investing cashflow</b>	<b>2,027</b>	<b>(161)</b>	<b>(846)</b>	<b>(684)</b>
Cashflow from Investing Activities	628	(220)	(994)	(842)
Issue of Share Capital	(1)	-	-	-
Interest Cost	(711)	(806)	(997)	(1,409)
Inc (Dec) in Borrowings	651	(162)	(153)	(146)
Dividend paid	(124)	(124)	(124)	(124)
Others	2,544	128	4	13
Cash flow from Financing Activities	2,359	(964)	(1,270)	(1,665)
<b>Chg. in Cash &amp; Bank balance</b>	<b>2,343</b>	<b>581</b>	<b>(1,074)</b>	<b>191</b>
Closing cash & balance	5,097	5,678	4,604	4,795

Source Company data, I-Sec research

### Exhibit 10: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
<b>Per Share Data (INR)</b>				
Reported EPS	41.9	46.0	62.9	75.2
Adjusted EPS (Diluted)	39.6	45.8	60.6	72.9
Cash EPS	41.0	46.8	62.5	75.0
Dividend per share (DPS)	2.0	2.0	2.0	2.0
Book Value per share (BV)	293.3	337.1	395.7	466.6
Dividend Payout (%)	4.8	4.4	3.2	2.7
<b>Growth (%)</b>				
Net Sales	(3.5)	12.8	23.7	17.8
EBITDA	18.2	8.5	40.9	24.1
EPS (INR)	19.3	9.6	36.9	19.6
<b>Valuation Ratios (x)</b>				
P/E	33.7	30.8	22.5	18.8
P/CEPS	34.5	30.2	22.6	18.9
P/BV	4.8	4.2	3.6	3.0
EV / EBITDA	22.9	21.0	15.0	12.1
P / Sales	3.1	2.7	2.2	1.9
Dividend Yield (%)	0.1	0.1	0.1	0.1
<b>Operating Ratios</b>				
Gross Profit Margins (%)	24.1	23.2	23.6	23.6
EBITDA Margins (%)	13.2	12.6	14.4	15.2
Effective Tax Rate (%)	23.5	23.5	25.0	25.0
Net Profit Margins (%)	9.1	8.8	9.8	9.9
NWC / Total Assets (%)	0.1	0.1	-	-
Net Debt / Equity (x)	(0.1)	(0.1)	(0.1)	(0.1)
Net Debt / EBITDA (x)	(0.4)	(0.6)	(0.2)	(0.2)
<b>Profitability Ratios</b>				
RoCE (%)	15.1	14.6	17.4	18.7
RoE (%)	14.5	14.5	16.5	16.9
RoIC (%)	15.1	14.6	17.4	18.7
Fixed Asset Turnover (x)	40.6	45.8	54.3	61.5
Inventory Turnover Days	5	5	5	5
Receivables Days	250	270	281	275
Payables Days	129	139	145	142

Source Company data, I-Sec research

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