

Nov 30, 2025

Company Update | Sector: Capital Goods

VA Tech Wabag Ltd

Margins set to improve amidst better mix and op. leverage; significant opportunities arising in new-age sectors; no impact from JJM issues

We think recent underperformance in Wabag's share price is unwarranted and the company is well on track to take its EBITDA Margins at the upper end of guided range. We believe Q2 Gross Margins were temporarily depressed due to a higher share of construction-related revenues. Our analysis indicates a meaningful margin uptick over the coming quarters as revenue recognition accelerates from the high-margin EP phase of large projects. In addition, we see significant growth potential from emerging sectors such as solar cell manufacturing, data centers, semiconductor fabrication, and green hydrogen in the medium-term. We also note that the company has no exposure to the Jal Jeevan Mission.

Q2 temporarily impacted by mix-change: Gross and EBITDA margins tend to be volatile on a quarterly basis due to shifts in the revenue mix, and management has consistently recommended evaluating margins on a trend basis rather than quarter to quarter. In Q2, gross margins were lower because of a higher proportion of construction-related revenues, which are largely pass-through. This also weighed on EBITDA margins, although FX gains provided some support.

Margins set to improve amidst better mix: WABAG has secured several large projects in recent quarters—including Yanbu al-Bahr, Al Haer, Lusaka, and Indosol—where high-margin EP-related revenue recognition is yet to commence or meaningfully ramp up. We firmly believe margins will improve significantly from current levels, and the company remains on track to achieve ~14% EBITDA margins (excluding FX impact) over the next few quarters.

Raise margin forecast for FY26; slightly lower sales forecast for FY26: We raised FY26 margin forecast by 20bps owing to increase in high-margin EP-related revenues from various projects. We lower our revenue estimates for FY26 by 2% to Rs. 38bn – mainly due to 3% cut to EPC estimate as we believe that substantial part of Yanbu, Al-Haer, Indosol and Lusaka WTP projects will now come into FY27 – once the procurement/construction part starts.

Material opportunities in ultra-pure water market: semiconductors, green hydrogen, data centers: India is on the verge of seeing significant growth in new age sectors including data centers, semiconductor manufacturing, green hydrogen, solar cell manufacturing. All these sectors are water-thirsty and need very high purity water to operate. Management highlighted opportunities for Rs. 3,500 crores just from solar cell manufacturing over the next 3-5 years. India is set to add data center capacity of about 4-5GW by 2030 which is expected to require incremental water treatment capacity of about 600-700 MLD considering 1MW data center can typically consume c70k liters of water per day.

No exposure to JJM: Wabag is primarily operating into water and wastewater treatment space and is not engaged in laying down water supply lines under the Jal Jeevan Mission. Thus, we do not see any impact of recent funding freeze by the Central Government under the JJM program, on WABAG.

Preferred bidder in orders of over Rs. 30bn: Wabag has secured orders of about Rs. 35bn during H1 and is on track to exceed last year's order intake of Rs. 57bn; the company is preferred bidder in projects worth over Rs. 30bn and we believe the company will be able to get total orders of Rs. 70bn in FY26.

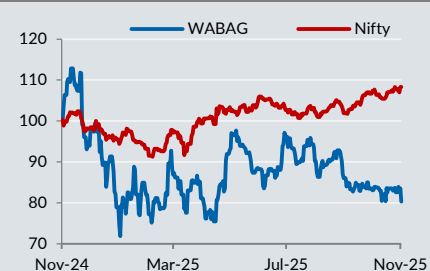
Valuation and View – We roll-forward our valuation year and now value the company at FY28 PE multiple of 22x to arrive at a target price of Rs. 2,100 (vs Rs. 1,900 previously). We maintain our "Buy" rating on the stock.

Recommendation	: BUY
Current Price	: Rs 1,356
Target Price	: Rs 2,100
Potential Return	: +55%

Stock data (as on Nov 28, 2025)

Nifty	26,203
52 Week h/l (Rs)	1,944 / 1,114
Market cap (Rs/USD mn)	86,969 / 973
Outstanding Shares (mn)	62
6m Avg t/o (Rs mn)	363
Div yield (%)	0.3
Bloomberg code:	VATW IN
NSE code:	WABAG

Stock performance



	1M	3M	1Y
Absolute return	-3.4%	-8.1%	-22.5%

Shareholding pattern (As of Sep'25 end)

Promoter	19.1%
FII+DII	22.9%
Others	58.0%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	2,100	1,900

Financial Summary

(Rs mn)	FY25A	FY26E	FY27E
Net Revenue	32940	38191	47695
YoY Growth	15%	16%	25%
EBIDTA	4223	5347	6916
EBIDTA (%)	12.8%	14.0%	14.5%
PAT	2948	3767	4977
YoY Growth	18%	28%	32%
ROE	14.9%	16.3%	18.3%
EPS	47.5	60.6	80.1
P/E	31.1	23.1	17.5
BV/Share	340	401	475
P/BV	4.0x	3.6x	3.0x

Δ in earnings estimates

Rs.	FY26E	FY27E	FY28E
EPS (New)	61	80	97
EPS (Old)	61	78	95
% change	+0	+2	+2

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MARGINS TO BENEFIT FROM BETTER MIX

Margins to improve in coming quarters from higher share of EP revenues; mid-term margin improvement story intact

Sales mix has a significant impact on both Gross and EBITDA margins: Engineering and Procurement typically account for 70–75% of a project's total cost and historically deliver EBITDA margins of 12–15%. Since WABAG outsources its construction activities, the associated revenues largely pass through the books, generating only about 0–3% margins from construction. In contrast, O&M contracts offer the highest margin potential, typically in the 15–18% range.

Exhibit 1: Typical margin profile as per type of activity

Type of Activity	Share in revenues	Margin profile
Engineering and procurement	70-75%	12-15%
Construction	25-30%	0-3%
EPC	NA	10-15%
O&M	NA	15-18%

Source: Company, YES Sec

Q2 was impacted by higher civil construction-related revenues: WABAG's management consistently emphasizes tracking margin trends rather than focusing on a single quarter, as margins can vary sharply depending on the sales mix. Therefore, evaluating only Q2 may lead to a misleading conclusion, given that the quarter was influenced by a higher share of construction-related revenues from the Perur Desalination Plant (around 20% of total revenues).

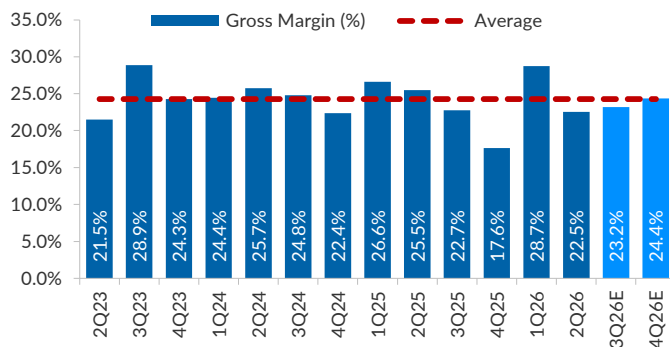
Margins to improve in coming quarters: The company has secured several large projects in recent quarters, but the high-margin phases of these projects are yet to meaningfully contribute to revenues. For example, Engineering and Procurement revenue recognition for Yanbu-al-Bahr, Indosol, and the Lusaka Water Supply project (Zambia) has not yet commenced, while material procurement-linked revenues for the Al Haer project are also pending. We believe margins will see a significant uplift led by revenue recognition for these higher-margin components as well as operating leverage – which can take margins above the historical ranges.

Exhibit 2: Key project updates

Project	Current status
300 MLD Yanbu Mega Desalination (Saudi Arabia)	Project plan is ready; pending client submission; key personnel deployed and procurement of long lead equipment has started
400 MLD Perur Desal	Marine works completed; equipment delivered; prefab to start soon
200 MLD Al Haer	All project activities in full swing
Lusaka sanitation project, Zambia	Construction drawings for major structures are being finalised; purchase orders for key equipment getting issued and civil subcontractors getting mobilised to the site

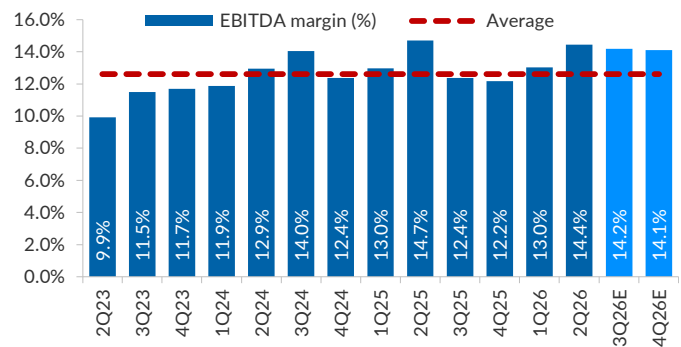
Source: Company, YES Sec

Exhibit 3: Gross margins to improve towards long-term average...



Source: Company, YES Sec

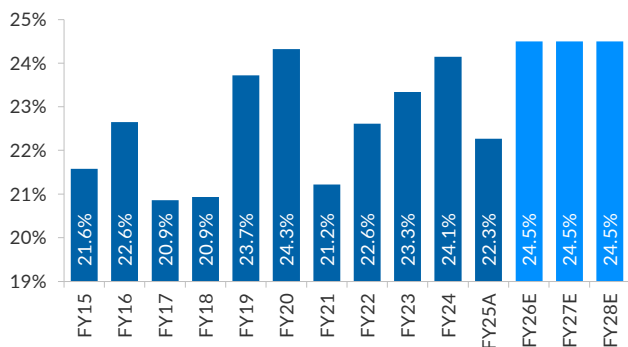
Exhibit 4: ...while operating leverage and higher share of EP revenues to help EBITDA margins



Source: Company, YES Sec; Q2FY26's margin supported by other income of Rs. 31 crores

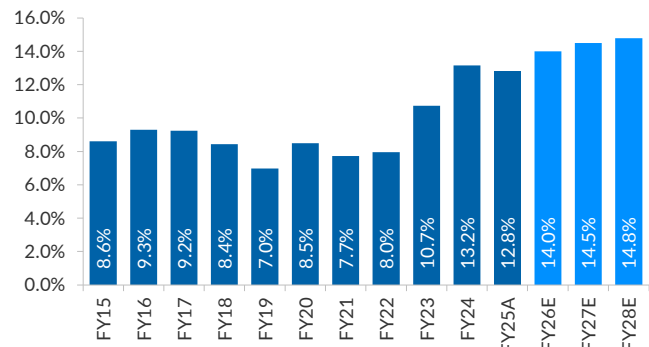
Mid-term margin improvement story remains intact: WABAG's EBITDA margin has risen meaningfully from 10.7% in FY23 to 12.8% in FY25, despite only moderate revenue growth during this period. We believe the company is well-positioned to reach the upper end of its guided 13-15% margin range by FY28, driven by operating leverage, a rising contribution from O&M (targeting 20% share), and an increased mix of EP, international, and industrial projects.

Exhibit 5: Annual Gross Margins likely to remain stable in 24-25% range



Source: Company, YES Sec

Exhibit 6: ...while EBITDA margins to benefit from operating leverage, and sales mix



Source: Company, YES Sec; Q2FY26's margin supported by other income of Rs. 31 crores

Raise margin forecast for FY26; slightly lower sales forecast for FY26: We raise FY26 margin forecast by 20bps owing to increase in high-margin EP-related revenues from Al Haer, Yanbu al-Bahr, Lusaka and Bangaluru WWTP project.: We lower our revenue estimates for FY26 by 2% to Rs. 38bn – mainly due to 3% cut to EPC estimate as we believe that substantial part of Yanbu, Al-Haer, Indosol and Lusaka WTP projects will come into FY27 – once the procurement/construction part starts.

Exhibit 7: Marginal changes to estimate

	New			Old			Changes to estimates		
	FY26	FY27	FY28	FY26	FY27	FY28	FY26	FY27	FY28
Orders	70,851	79,664	89,705	70,851	79,664	89,705	0%	0%	0%
EPC	53,568	58,925	64,817	53,568	58,925	64,817	0%	0%	0%
O&M	17,283	20,740	24,888	17,283	20,740	24,888	0%	0%	0%
Revenue	37,895	47,395	56,063	38,768	47,175	55,898	-2%	0%	0%
EPC	30,793	38,506	45,494	31,666	38,286	45,329	-3%	1%	0%
O&M	7,102	8,889	10,569	7,102	8,889	10,569	0%	0%	0%
Adj. EBITDA	5,347	6,916	8,342	5,391	6,884	8,317	-1%	0%	0%
Margin (%)	0	0	0	0	0	0	20bps	0bps	0bps
Adj. EBIT	5,294	6,850	8,261	5,338	6,818	8,236	-1%	0%	0%
Margin (%)	0	0	0	0	0	0	20bps	0bps	0bps
Adj. PAT	3,767	4,977	6,043	3,808	4,950	6,023	-1%	1%	0%
Margin (%)	0	0	0	0	0	0	11bps	1bps	0bps
Adj. EPS Diluted	61	80	97	61	80	97	-1%	1%	0%

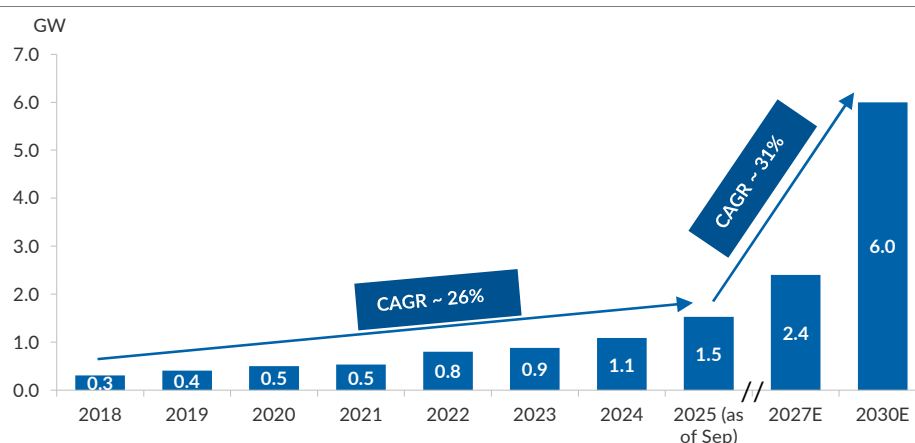
Source: YES Sec

MATERIAL OPPORTUNITIES IN NEW AGE SECTORS

Data center boom to require quality water infrastructure

India on the verge of data center boom: India is on the cusp of a major data center boom, with players such as Google and Reliance announcing gigawatt-scale facilities, each entailing investments of \$10–15 billion. These data centers will be equipped with high-density GPUs that generate substantial heat, driving a significant surge in demand for advanced cooling infrastructure. Water-based cooling, being one of the most cost-efficient solutions for large-scale data centers, is expected to play a critical role in meeting this requirement.

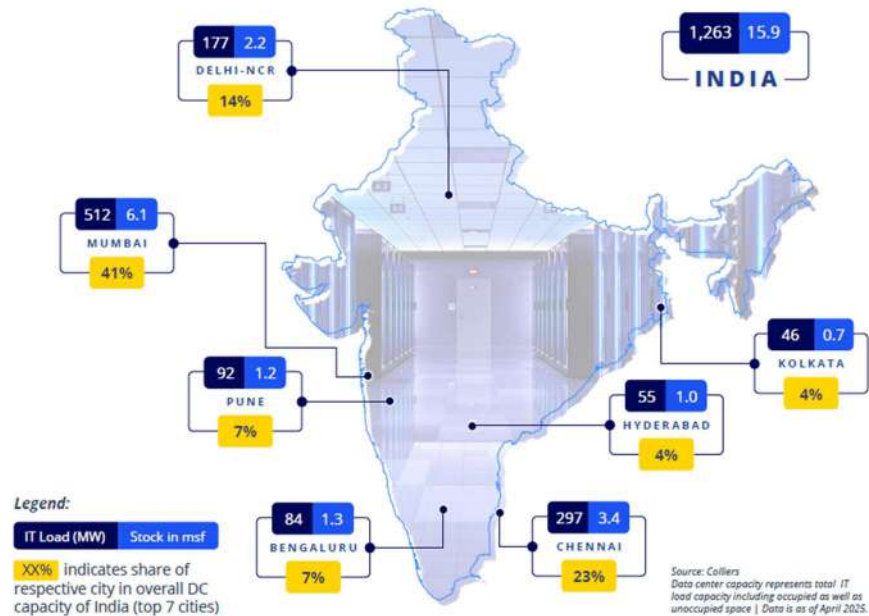
Exhibit 8: Data Centre upcoming capacity in India



Source: CBRE, YES Sec

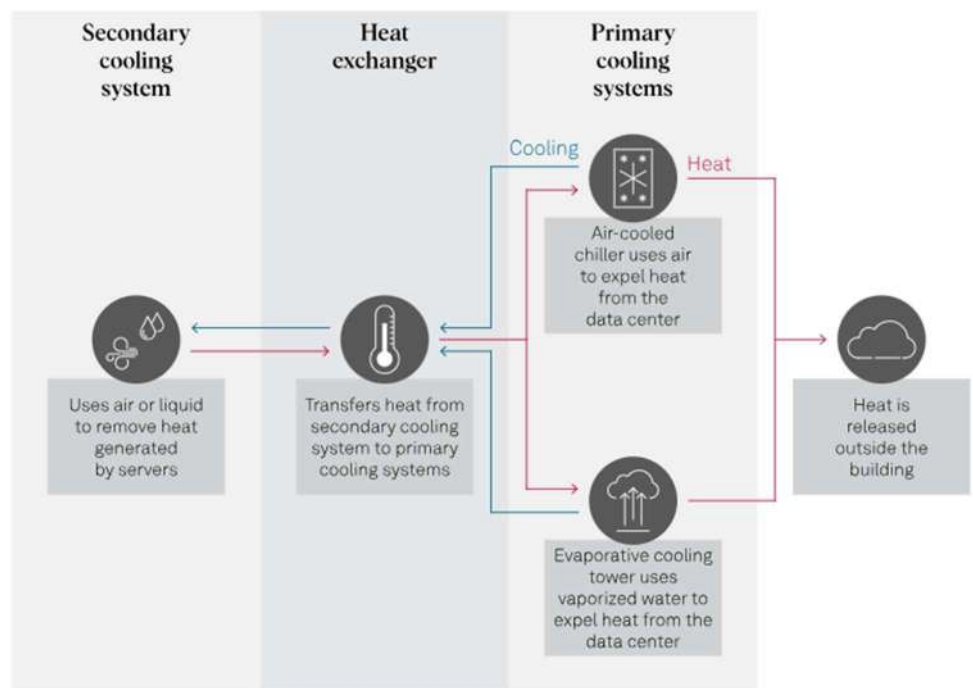
Data center cooling needs massive amounts of water...: Studies suggest that a 1 MW data centre typically consumes ~70,000 litres of water per day, translating to ~70 million liters per day (MLD) for a 1 GW facility. We believe that a data center may require water treatment facility of upto 150 MLD - considering these treatment facilities usually operate at 40-50% efficiency. With India set to add ~4–5 GW of new data centre capacity by 2030—mainly in Mumbai, Chennai and Visakhapatnam—this implies an incremental requirement of ~600–700 MLD of water-treatment capacity.

Exhibit 9: India Data center capacity (As of April 2025)



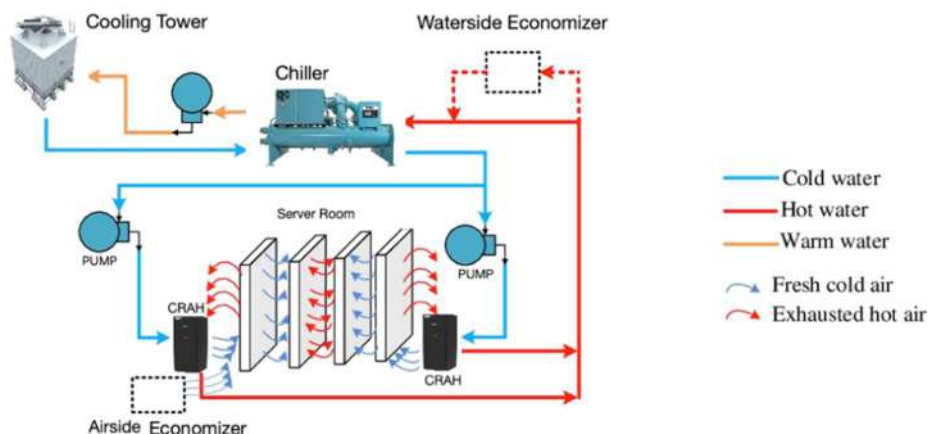
Source: Colliers, YES Sec

Exhibit 10: Data Center Cooling procedure



Source: Equinix, S&P Global, YES Sec

Exhibit 11: Cooling system in a Data Center



Source: Mynetworkinsights, YES Sec

...but India is already water stressed: Most data centers still rely on evaporative cooling, where nearly 80% of the water consumed is lost as vapour, with only a small share discharged as wastewater. Given that over half of India is already classified as medium-to-high water stressed, large data center developments in hubs such as Mumbai, Chennai, Hyderabad, Kochi, Visakhapatnam, and Kolkata now require reliable and sustainable water sources. This is essential not only to ensure uninterrupted data center operations but also to safeguard water availability for surrounding communities

Desalination is one of the options: India's groundwater is already depleting rapidly and is unlikely to meet massive demands from data centers. As most of the data centres are being planned near the coastal areas (e.g. Mumbai, Vishakhapatnam, Chennai, Kochi) – we believe Desalination could be one of the most preferred-way for supply of required water; this desalinated water could be further processed to pure water - as per the requirements from the data centres.

Rs. 3,500 crore opportunity to meet rising solar cell manufacturing in India

Solar cell manufacturing to require 100-150MLD of UPW treatment plants – translating into market opportunity of Rs. 3,500 crores over the next 3-5 years

5x growth seen in solar cell manufacturing in India...: Solar cell manufacturing capacity is seeing considerable growth in India led by “China+1” strategy and government's push for backward integration in solar PV manufacturing. The capacity is expected to rise from current 25GW to about 130 GW by 2030 – implying addition of over 100 GW capacity over the next 4-5 years.

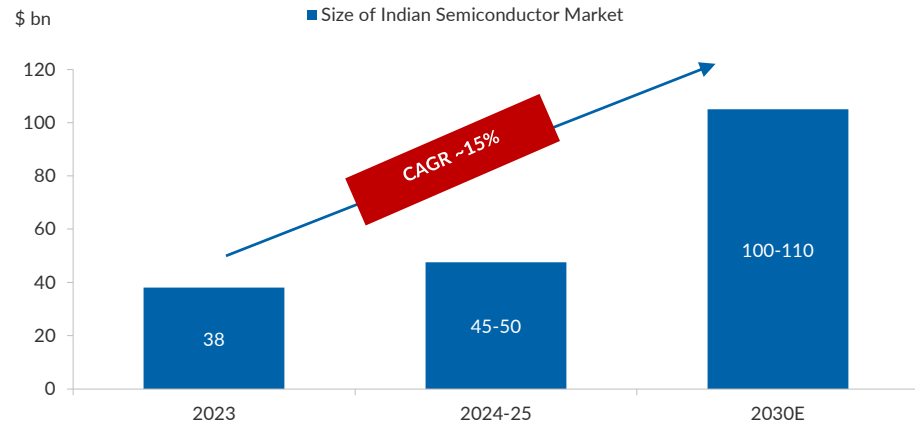
...creating Rs.3,500 crore opportunity in water and wastewater treatment space: WABAG's management indicated that approximately 1 MLD of ultra-pure water is required for every 1 GW of solar cell manufacturing capacity. Therefore, an additional 100 GW of capacity would create incremental UPW demand of around 100–150 MLD. Based on this, the company estimates a total market opportunity of roughly Rs. 3,500 crore over the next 3–5 years.

Wabag well-placed to capitalise on growing solar cell manufacturing: The company has already secured a Rs. 46.5 crore UPW/ZLD/ETP order from RenewSys' solar cell manufacturing facility in Hyderabad. We believe Wabag possesses the necessary technology, execution capabilities, and customer credibility to win additional orders in this fast-growing segment.

Semiconductors manufacturing – a water thirsty process

Semiconductor market to more than double over the next 5 years: The government has launched SEMICON India Program with a budgetary outlay of Rs. 76,000 crores to setup semiconductor and display ecosystem in India. Domestic semiconductor market is expected to grow at 13% CAGR from current \$45-50bn to \$100-110bn by 2030.

Exhibit 12: Indian Semiconductor market to reach \$100-110bn by 2030 from \$45-50bn in 2024-25



Source: PIB, YES Sec

Exhibit 13: Semiconductor plants in India

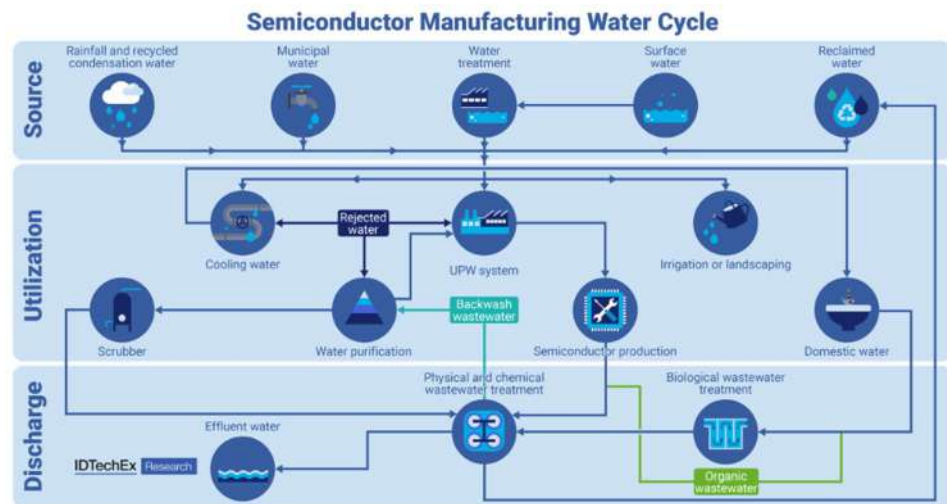
Date	Company	Location	Status	Investment (INR Cr)	Output capacity
Jun-23	Micron Technology	Sanand, Gujarat	Ongoing	22,516	ATMP facility, with phased ramp-up
Feb-24	Tata electronics (TEPL) in partnership with powerchip semiconductor manufacturing corporation (PSMC) of Taiwan	Dholera, Gujarat	Ongoing	~91,000	Fab: 50,000 wafers/month
Feb-24	CG Power and Industrial Pvt Ltd in partnership with Renesas and Stars Microelectronics	Sanand, Gujarat	Launched one of the country's first end-to-end OSAT pilot line facilities. First 'Made in India' chip expected to be rolled out from this pilot facility	~7,600	ATMP - 15 million chips/day
Feb-24	Tata semiconductor Assembly and Test Pvt. Ltd (TSAT)	Mizoram, Assam	Phase 1 expected to be commissioned by April 2026	27,000	ATMP - 48 million chips/day
Sep-24	Kaynes Semicon Pvt Ltd	Sanand, Gujarat	Pilot facility operational	3,307	OSAT - 6.33 million chips/day
May-25	HCL - Foxconn JV	Jewar, Uttar Pradesh	Ongoing	3,700	20,000 wafers/month (36M units/year)
Aug-25	SicSem Private Limited	Bhubaneswar, Odisha	Recently approved	2,066	60 thousand wafers per year, ATMP capacity: 96 million units/year
Aug-25	3D Glass Solutions Inc.	Bhubaneswar, Odisha	Recently approved	1,943	Glass panels: 70 thousand units/year. ATMP 50 million units/year

Source: PIB, YES Sec

Semiconductor manufacturing – a very thirsty process: Semiconductor manufacturing is notorious for its immense water consumption of millions of liters daily. As per studies, a 12-inch fab can require 6500-9500 liters of ultra-pure water (during etching, cleaning, rinsing) and 1,000-1,600 liters of non-ultra-pure water (for cooling and other purposes) – translating into 10-15 MLD UPW demand from a 50k/month chips manufacturing fab.

Water management techniques can help reduce water requirements: Water management for semiconductor manufacturing is complex, due to extreme water purity requirements. However, adequate usage of water management techniques can reduce the amount of water required.

Exhibit 14: Semiconductor manufacturing water cycle



Source: IDTechEx, YES Sec

Green hydrogen

Water is a primary input for green hydrogen, which is produced through electrolysis and is expected to play a significant role in industrial decarbonization. The International Energy Agency (IEA) estimates that producing 1 kg of green hydrogen requires 9 litres of water, underscoring the sizeable water footprint of the process. India aims to produce 5–6 MMT of green hydrogen by 2030, similar to its current grey hydrogen consumption. As per the OMI Foundation, producing 6 MMT would require 132–192 billion litres of water, depending on the energy source used. Solar-powered electrolysis consumes ~32 litres per kg, while wind-based systems need ~22 litres. On an average utilization rate of 40-50% this converts to need of 1,000-1,400 MLD of water treatment plants.

FINANCIALS

Exhibit 15: Balance sheet

Balance Sheet	FY22	FY23	FY24	FY25A	FY26E	FY27E	FY28E
Non-current assets	10,386	10,175	9,492	9,864	11,056	13,157	15,161
PPE	766	718	689	636	666	701	739
Intangibles	33	36	36	31	29	28	28
Investments	376	458	671	694	719	759	799
Others	9,211	8,963	8,096	8,503	9,643	11,669	13,596
Current assets	29,638	30,717	36,253	42,809	50,060	59,839	70,330
Inventories	320	353	359	358	471	588	695
Trade receivables	13,255	15,068	19,911	20,129	22,496	26,788	30,112
Cash and cash equivalents	3,210	1,806	4,399	7,177	9,819	11,578	15,344
Other balances with bank	1,076	948	698	2,269	2,269	2,269	2,269
Others	11,777	12,542	10,886	12,876	15,005	18,616	21,910
Total assets	40,023	40,892	45,745	52,673	61,116	72,995	85,491
Equity	15,259	15,746	18,239	21,450	24,964	29,564	35,109
Equity share capital	124	124	124	124	124	124	124
Other equity	15,134	15,622	18,115	21,326	24,840	29,440	34,985
Non-current liabilities	3,071	2,136	5,956	6,014	6,572	7,312	8,260
Borrowings	984	582	1,934	1,786	1,786	1,786	1,786
Trade payables	1,551	1,332	1,283	2,274	2,302	2,875	3,397
Others	536	222	2,739	1,954	2,484	2,651	3,077
Current liabilities	21,693	23,009	21,549	25,209	29,581	36,120	42,123
Borrowings	3,375	1,608	955	1,831	1,831	1,831	1,831
Trade payables	9,853	10,697	10,283	10,458	13,079	16,334	19,303
Other current liabilities	7,229	9,154	8,648	10,972	12,603	15,739	18,600
Others	1,236	1,550	1,663	1,948	2,068	2,216	2,390
Total equity and liabilities	40,023	40,891	45,744	52,673	61,117	72,996	85,492

Source: Company, YES Sec – Research

Exhibit 16: Income statement

Profit and Loss	FY22	FY23	FY24	FY25A	FY26E	FY27E	FY28E
Revenue from sale of services	29,463	29,463	28,269	32,760	37,895	47,395	56,063
y/y growth (%)	5%	0%	-4%	16%	16%	25%	18%
Gross profit	6,736	6,909	6,897	7,335	9,357	11,685	13,809
Margin (%)	22.6%	23.3%	24.1%	22.3%	24.5%	24.5%	24.5%
Adj. EBITDA	2,370	3,177	3,757	4,223	5,347	6,916	8,342
Margin (%)	8.0%	10.7%	13.2%	12.8%	14.0%	14.5%	14.8%
Adj. EBIT	2,269	3,089	3,673	4,164	5,294	6,850	8,261
Margin (%)	7.6%	10.4%	12.9%	12.6%	13.9%	14.4%	14.7%
Interest	-877	-658	-711	-788	-836	-904	-904
PBT	1,684	3,060	3,301	3,844	4,956	6,463	7,848

Tax	-363	-59	-797	-896	-1,190	-1,487	-1,805
Net profit	1,321	109	2,504	2,948	3,767	4,977	6,043
Margin (%)	4.4%	0.4%	8.8%	8.9%	9.9%	10.4%	10.7%
Adj. Net profit	1,321	2,109	2,504	2,948	3,767	4,977	6,043
Margin (%)	4.4%	7.1%	8.8%	8.9%	9.9%	10.4%	10.7%
Adj. EPS (Diluted)	21.2	34.2	39.5	46.8	60.6	80.1	97.2
y/y growth (%)	13%	61%	15%	19%	30%	32%	21%
DPS	0.0	0.0	0.0	4.0	6.1	8.0	9.7

Source: Company, YES Sec – Research

Exhibit 17: Cash Flow Statement

Cash Flow statement	FY22	FY23	FY24	FY25A	FY26E	FY27E	FY28E
Net profit before tax	1,684	3,060	3,301	3,844	4,956	6,463	7,848
D&A	101	88	84	59	53	66	81
Others	1,335	-2,516	1,092	390	-21	25	95
Changes to working capital	-2,817	491	-2,882	76	-1,010	-3,005	-1,983
Direct tax paid	-186	-275	-260	-817	-1,190	-1,487	-1,805
Cash flow from operations	116	848	1,335	3,552	2,788	2,063	4,235
PPE	-26	-17	-110	-40	-80	-100	-118
Interest and dividends received	146	78	262	239	473	477	451
Others	-459	97	689	-1,409	0	0	0
Cash flow from investing activities	-340	158	841	-1,210	393	377	333
Increase/(decrease) in borrowings	808	-2,119	685	673	0	0	0
Share issuance	0	0	0	0	0	0	0
Finance cost paid	-364	-281	-249	-333	-286	-304	-304
Dividend paid	2	0	0	0	-252	-377	-498
Cash flow from financing activities	446	-2,400	436	340	-538	-681	-802
Net increase/(decrease) in cash and cash equivalents	223	-1,394	2,612	2,682	2,643	1,759	3,766
Others	-51	-11	-19	96	0	0	0
Cash at the beginning of the year	3,038	3,210	1,805	4,398	7,176	9,819	11,578
Cash at the end of the year	3,210	1,805	4,398	7,176	9,819	11,578	15,344
	3210	1805	4398	7176	9819	11578	15344

Source: Company, YES Sec – Research

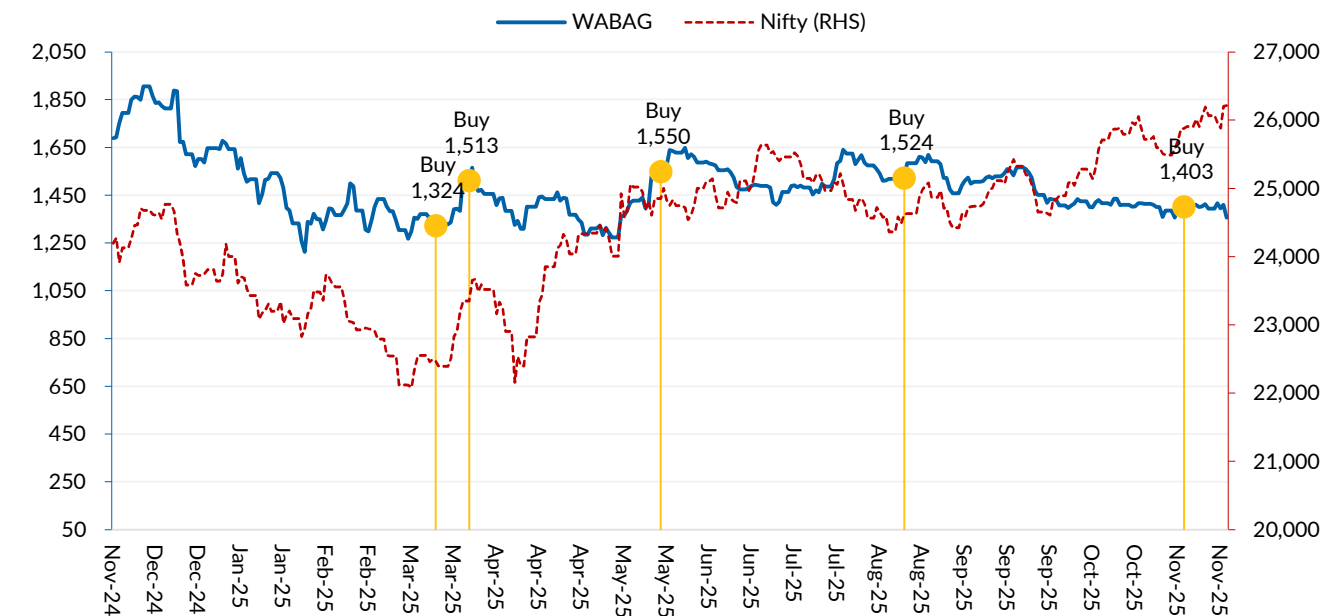
Exhibit 18: Ratio analysis

Ratios	FY22	FY23	FY24	FY25A	FY26E	FY27E	FY28E
Profitability ratios							
Gross margin	22.6%	23.3%	24.1%	22.3%	24.5%	24.5%	24.5%
Adj. EBITDA margin	8.0%	10.7%	13.2%	12.8%	14.0%	14.5%	14.8%
Adj. EBIT margin	7.6%	10.4%	12.9%	12.6%	13.9%	14.4%	14.7%

PAT margin	4.4%	0.4%	8.8%	8.9%	9.9%	10.4%	10.7%
Payout ratio	0.0%	0.0%	0.0%	8.5%	10.0%	10.0%	10.0%
Leverage ratios							
Debt/Equity	0.3x	0.1x	0.2x	0.2x	0.1x	0.1x	0.1x
Net debt/Equity	0.0x	0.0x	-0.1x	-0.3x	-0.3x	-0.3x	-0.4x
Net debt/EBITDA (adj.)	0.0x	-0.2x	-0.6x	-1.4x	-1.6x	-1.5x	-1.7x
Interest coverage ratio	2.6x	4.7x	5.2x	5.3x	6.3x	7.6x	9.1x
Return ratios							
ROCE	12.3%	16.5%	18.9%	18.1%	19.8%	22.2%	23.0%
ROE	9.0%	0.8%	14.5%	14.9%	16.3%	18.3%	18.7%
NWC days							
Receivable days	254	270	322	289	280	270	260
Inventory days	4	4	5	4	5	5	5
Payables days	140	148	148	141	147	147	147
Other days	42	14	9	-1	3	5	6
NWC days	160	140	188	151	140	132	123

Source: Company, YES sec

Recommendation Tracker



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