



Va Tech Wabag Ltd

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CMP (Rs)	Target Price (Rs)	Potential Upside (%)	52 Week H/L (Rs)	Mkt Cap (Rs mn)
293	335	14.3%	413 / 243	16011

Key Highlights:

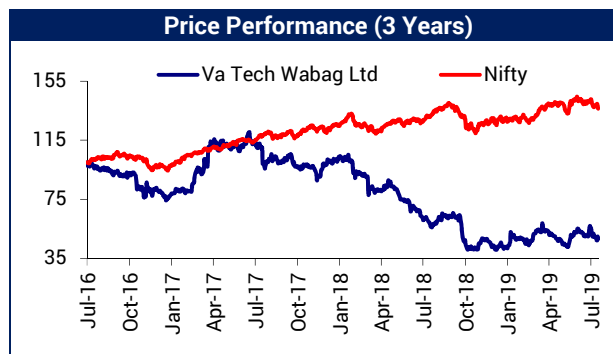
- Consolidated order backlog at the end of FY19 stands at Rs. 85.9 bn as against Rs. 68.0 bn on a y-o-y basis. Order book has improved significantly in FY19 due to accretion of some large orders. The revenue visibility provided by order book has also improved to 37 months of trailing four quarter revenues.
- For FY19, order intake (Rs. 48.7 bn) reported strong growth of 53% over FY18.
- For the current fiscal, the management has given revenue guidance of Rs. 35-37 bn. We are projecting revenue of Rs 31.5 bn, preferring to stay conservative in view of the past slippage in revenue guidance.
- For the current fiscal, the management has given order intake guidance of Rs. 50-54 bn, which implies a growth of 4-13% over FY19 order intake.
- We forecast healthy growth in Q1FY20E with revenue, EBITDA and PAT growth of 13%, 23% and 32% on a y-o-y basis respectively. Order intake should also be good as the company has already bagged a large order worth Rs. 14.8 bn in Q1FY20E from State Mission for Clean Ganga - Uttar Pradesh towards Operation, Maintenance and Management of the Sewage treatment and network infrastructure in the cities of Agra and Ghaziabad for a period of 10 years.
- Such long-term orders provide annuity income which helps the company with improved cash flow and better revenue predictability.
- The VA Tech stock has underperformed the market and the sector peers on account of 1) weak earnings in FY19 and 2) compression in cash flow generation due to elevated working capital thereby leading to increase in debt.
- On account of the stock underperformance, valuations have become reasonable at 13.8x and 11.5x FY20E and FY21E respectively.
- In view of the long term growth potential in water and waste water treatment and reasonable valuations, we move rating to "ADD". We will turn more bullish if 1) receipt of retention money from APGENCO and 2) and improvement in project execution rate.

Financials (Rs mn)*	FY19	FY20E	FY21E
Sales	27,810	31,519	36,800
Growth (%)	(19.6)	13.3	16.8
EBITDA	1,941	2,511	3,110
EBITDA margin (%)	7.0	8.0	8.5
PBT	1,064	1,533	2,129
Net profit	1,050	1,172	1,408
Adjusted EPS (Rs)	19.2	21.5	25.8
Growth (%)	(20.0)	11.6	20.1
P/E (x)	15.2	13.6	11.3
BV (Rs/share)	196	213	234
Net Debt / Equity (%)	54.6	50.3	45.7
ROE (%)	9.5	10.5	11.6
ROCE (%)	8.0	9.4	9.8
Gross debt	5,837	5,837	5,837

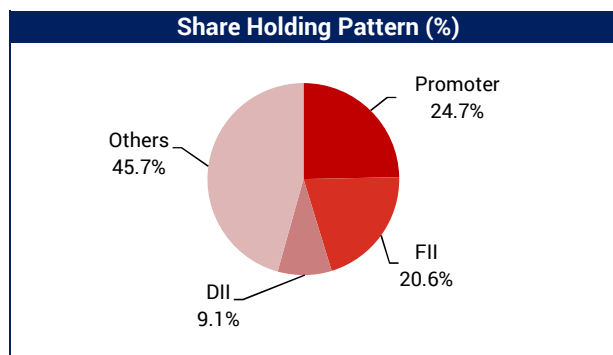
Source: Kotak Institutional Equities *Consolidated

Financials (Rs mn)*	Q4-FY18	Q4-FY19	% Chg
Revenues	10,375	6,793	(34.5)
EBITDA	948	409	(56.9)
EBITDA Margin (%)	9.1%	6.0%	
PAT	596	408	(31.5)
PAT Margin (%)	5.7%	6.0%	
EPS (Rs)	10.9	7.5	(31.2)

Source: Kotak Institutional Equities *Standalone



Source: Bloomberg



Source: Bloomberg

RATING SCALE

Definitions of ratings

- BUY** – We expect the stock to deliver more than 15% returns over the next 12 months
- ADD** – We expect the stock to deliver 5% - 15% returns over the next 12 months
- REDUCE** – We expect the stock to deliver -5% - +5% returns over the next 12 months
- SELL** – We expect the stock to deliver < -5% returns over the next 12 months
- NR** – **Not Rated.** Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
- SUBSCRIBE** – We advise investor to subscribe to the IPO.
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- NA** – **Not Available or Not Applicable.** The information is not available for display or is not applicable
- NM** – **Not Meaningful.** The information is not meaningful and is therefore excluded.
- NOTE** – Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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