

Equity Research

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BSE Sensex: 54844

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Q1FY22 result review and earnings revision

Capital Goods

Target price: Rs365

Earnings revision

(%)	FY22E	FY23E
Revenue	↑ 3.8	↑ 18.0
EBITDA	↑ 2.4	↑ 8.8
PAT	↑ 3.2	↑ 1.8

Target price revision

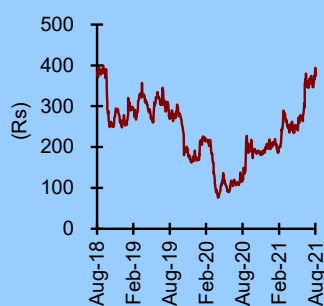
Rs365 from Rs358

Shareholding pattern

	Dec '20	Mar '21	Jun '21
Promoters	21.7	21.7	21.7
Institutional investors	18.2	17.9	19.7
MFs and others	3.0	2.6	3.1
FIs/Ins Co	0.7	0.7	0.7
FIs	14.5	14.6	15.9
Others	60.1	60.4	58.6

Source: NSE

Price chart



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INDIA



VA Tech Wabag

HOLD

Maintained

Rs356

Commodity price increase impact margins

VA Tech Wabag's Q1FY22 revenue at Rs6.6bn was in-line with expectations. However, due to increase in commodity prices, EBIDTA margin was down 170bps YoY to 5%. The company has succeeded in financial closure of two HAM projects, which will commence execution going forward. Chennai 400MLD desalination project ordering activity has commenced and prequalification bids are complete with new state government in charge. Strong orderbook of Rs104bn (3.4x TTM sales) lends visibility; however, 30% orderbook is O&M, which restricts near-term growth. Factoring in healthy order intake and growth outlook, we marginally raise FY22E and FY23E earnings by 3.2% and 1.8%, respectively. Given the Rs1.1bn provision on doubtful debtors in FY21 and Rs130mn in Q1FY22 due to TS-Genco/AP-Genco issue and rich valuation, we maintain HOLD with revised target price of Rs365 (previously: Rs357).

- **Delay in APGenco/TSGenco collection continues:** Although current receivables have reduced slightly to Rs13.5bn in Mar'21 from Rs15.8bn in Mar'20, status on Rs4.1bn receivables from APGenco/TSGenco and Rs695mn from Tecpro remain unchanged. These account for 30% of overall receivables.
- **Performance impacted by commodity prices:** Raw material price to sales increased by 580 bps YoY to 81.4% impacting the overall EBIDTA margin to 5% in Q1FY22. We believe this will impact the overall earnings uptick in FY22E despite recovery in growth. Higher other income at Rs143mn supported in-line PAT at Rs189mn. The company had taken a provision of Rs130-140mn due to bad debts in Q1FY22.
- **High raw material prices and provision towards doubtful debt to limit upside:** Although most projects have price variation clause, we believe, overall gross margin may be impacted by high commodity prices. The overall margin stress is likely to continue until resolution of slow-moving receivables issue due to higher provisions.
- **Maintain HOLD; rich valuation and working capital stress to cap upside:** Financial closure of *Namami Ganga* project and pick-up in domestic execution provide growth visibility. The stress on working capital continues and provision towards doubtful debtors may limit margin upside. Order prospects are promising, which is likely to support FY23E earnings; hence, we maintain **HOLD** on the stock with revised target price of Rs365 (previously: Rs358).

Market Cap	Rs22.2bn/US\$298mn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	VATE.BO/VATW IN	Revenue (Rs mn)	25,572	28,345	31,023	37,963
Shares Outstanding (mn)	62.2	Rec. Net Income (Rs mn)	910	1,101	1,165	1,620
52-week Range (Rs)	394/136	EPS (Rs)	16.6	17.7	18.7	26.0
Free Float (%)	75.3	% Chg YoY	(13.4)	21.1	5.8	39.0
FII (%)	15.9	P/E (x)	21.5	20.2	19.1	13.7
Daily Volume (US\$/000)	4,164	CEPS (Rs)	19.4	19.7	20.7	28.1
Absolute Return 3m (%)	32.8	EV/E (x) (Incl. Indus)	9.7	9.8	9.5	7.8
Absolute Return 12m (%)	160.8	Dividend Yield (%)	-	-	0.3	0.6
Sensex Return 3m (%)	13.3	RoCE (%)	8.9	9.7	10.7	13.4
Sensex Return 12m (%)	44.5	RoE (%)	8.1	8.5	8.0	10.2

Please refer to important disclosures at the end of this report

Outlook and valuation

VA Tech Wabag currently trades at 13.7x FY23E earnings. High receivable days impacting overall cashflow continues and is expected to keep RoEs at lower levels despite the company being asset light. Financial closure of HAM projects under *Namami Ganga* project with a financial partner who will fund majority stake provides relief in terms of near-term growth prospects. The provision towards doubtful debtors and high commodity prices is likely to cap margins.

Factoring in near-term growth due to healthy order intake of Rs14.4bn in Q1FY22 and current orderbook of Rs104bn, we marginally raise FY22E and FY23E earnings by 3.2% and 1.8%, respectively. We value the stock assigning 14x P/E multiple to FY23E earnings. Despite building-in optimistic earnings, we believe the stock is trading at rich valuation, and hence, we maintain **HOLD**.

Any favourable judgement on AP-Genco, TS-Genco and Tecpro legal case can act as a re-rating catalyst for the stock.

Table 1: Earnings revision

(Rs mn)

Rs mn	FY22E			FY23E		
	Earlier	Revised	YoY (%)	Earlier	Revised	YoY (%)
Revenue	29,876	31,023	3.8	32,180	37,963	18.0
EBIDTA	2,450	2,509	2.4	3,121	3,395	8.8
PAT	1,129	1,165	3.2	1,591	1,620	1.8

Source: I-Sec research

Table 2: Quarterly financial trend (consolidated)

(Rs mn)

	Q1FY21	Q1FY22	YoY(%)	Q4FY21	QoQ(%)	Isec Est	Var(%)	FY20	FY21	YoY(%)
Total Revenues	4,309	6,580	52.7	9,993	(34.2)	6,471	1.7	25,572	27,810	8.8
EBITDA	289	327	13.1	764	(57.2)	469	-30.3	2,170	1,941	(10.5)
Margin	6.7	5.0	-174bps	7.6	-268bps	7.2	-228bps	8.5	7.0	-150bps
Depreciation	29	27	(8.0)	27	(1.8)	30	-11.3	154	168	9.1
Finance Cost	215	198	(7.9)	222	(11.1)	210	-5.9	1,090	753	(30.9)
Other Income	13	143	998.5	16	815.4	15	852.0	352	44	(87.6)
Extraordinary income	-	-		-		-		-	-	
PBT	58	245	320.2	530	(53.7)	244	0.6	1,325	1,064	(19.7)
Tax	23	57	146.5	107	(47.1)	61	-7.0	486	205	(57.8)
Tax rate	39.4	23.1	-1628bps	20.2	288bps	25.0		36.7	19.3	
PAT	35	189	433.1	423	(55.4)	183	3.2	792	859	8.5
Share of profit in Associates and JV	15	(43)		15		15		(23)	33	(244.5)
Reported PAT	50	146	189.1	438	(66.7)	198	-26.4	910	892	(2.0)
Adjusted PAT	51	152	198.0	465	(67.3)	198	-23.1	910	892	(2.0)
Margin (%)	1.2	2.3	113bps	4.7	-234bps	3.1		3.6	3.2	-35bps
EPS	0.9	2.4		8.1		3.4		16.6	15.8	(5.1)
Orderbook	4,309	6,580	52.7	9,993	(34.2)	6,471	1.7	1,10,452	95,841	(13.2)
Order inflow	289	327	13.1	764	(57.2)	469	-30.3	43,704	13,121	(70.0)

Source: Company data, I-Sec research

Table 3: Quarterly segmental revenue trend (consolidated)

(Rs mn)	Q1FY21	Q1FY22	YoY(%)	Q4FY21	QoQ(%)	Isec Est	Var(%)
Revenues							
EPC	3,243	5,550	71.1	8,708	(36.3)	5,500	0.9
Municipal	2,128	3,920	84.2	6,463	(39.3)	4,000	-2.0
Industrial	1,115	1,630	46.2	2,245	(27.4)	1,500	8.7
O&M	971	968	(0.3)	1,179	(17.9)	971	-0.3
Municipal	859	863	0.5	981	(12.0)	859	0.5
Industrial	112	105	(6.3)	198	(47.0)	112	-6.3
Total revenues	4,214	6,518	54.7	9,887	(34.1)	6,471	0.7

Source: Company data, I-Sec research

Table 4: Financial assumptions (consolidated)

(Rs mn)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22E	FY23E
Order Inflow									
Municipal EPC	9,588	25,839	14,757	17,463	30,764	21,239	7,892	23,320	25,652
Growth(%)	-53.0	169.5	-42.9	18.3	76.2	-31.0	-62.8	195.5	10.0
Industrial EPC	10,603	19,717	15,765	8,537	13,279	2,117	722	18,000	18,400
Growth(%)	32.9	86.0	-20.0	-45.8	55.5	-84.1	-65.9	2,393.1	2.2
O&M	9,576	5,845	5,676	5,931	4,742	20,348	4,507	6,127	7,062
Growth(%)	86.1	-39.0	-2.9	4.5	-20.0	329.1	-77.9	35.9	15.3
Total	29,767	51,401	36,198	31,931	48,785	43,704	13,121	47,448	51,114
Growth(%)	-11.2	72.7	-29.6	-11.8	52.8	-10.4	-70.0	261.6	7.7
Orderbook									
Municipal EPC	25,741	39,857	37,632	36,090	52,616	59,472	44,995	49,823	55,016
Growth(%)	-15.3	54.8	-5.6	-4.1	45.8	13.0	-24.3	10.7	10.4
Industrial EPC	11,301	21,026	22,495	17,029	18,657	13,475	6,654	17,012	22,813
Growth(%)	43.2	86.1	7.0	-24.3	9.6	-27.8	-50.6	155.7	34.1
O&M	17,344	12,199	13,157	14,967	14,650	31,441	32,766	34,397	36,983
Growth(%)	13.6	-29.7	7.9	13.8	-2.1	114.6	4.2	5.0	7.5
Total	54,386	73,082	73,284	68,086	85,923	1,04,388	84,415	1,01,231	1,14,812
Growth(%)	1.6	34.4	0.3	-7.1	26.2	21.5	-19.1	19.9	13.4
Revenues									
Municipal EPC	12,961	10,178	12,782	14,460	11,892	14,383	17,488	18,492	20,459
Growth(%)	16.2	-21.5	25.6	13.1	-17.8	20.9	21.6	5.7	10.6
Industrial EPC	6,534	10,050	14,210	15,727	11,794	7,299	6,342	7,642	12,598
Growth(%)	-3.8	53.8	41.4	10.7	-25.0	-38.1	-13.1	20.5	64.9
O&M	4,789	5,193	5,072	4,103	3,545	3,557	4,164	4,497	4,475
Growth(%)	9.9	8.4	-2.3	-19.1	-13.6	0.3	17.1	8.0	-0.5
Total	24,352	25,486	32,162	34,573	27,810	25,572	28,350	31,023	37,963
Growth(%)	8.8	4.7	26.2	7.5	-19.6	-8.0	10.9	9.4	22.4

Source: Company data, I-Sec research

Financial summary (consolidated)

Table 5: Profit & loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Total Income	25,572	28,345	31,023	37,963
Operating Expenses	23,402	26,157	28,514	34,569
EBITDA	2,170	2,188	2,509	3,395
% margins	8.5	7.7	8.1	8.9
Depreciation & Amortisation	154	121	125	130
EBIT	2,016	2,066	2,384	3,265
Gross Interest	1,090	903	1,148	1,405
Other Income	352	82	100	100
PBT before exceptional	1,277	1,245	1,336	1,960
Add: Extraordinaries	-	-	-	-
/Exceptionals	-	-	-	-
Add: Share in associates	48	58	60	60
PBT	1,325	1,303	1,396	2,020
Less: Taxes	486	295	321	490
Less: Minority Interests	(70)	(93)	(90)	(90)
Net Income (Reported)	910	1,101	1,165	1,620
Adjusted Net Income	910	1,101	1,165	1,620

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Assets				
Total Current Assets	33,307	33,048	34,624	39,463
of which cash & cash eqv.	3,205	3,713	1,267	(1,356)
Total Current Liabilities & Provisions	23,670	24,555	25,842	31,137
Net Current Assets	6,432	4,780	7,515	9,683
Investments	153	153	153	153
Other Non-Current Assets	5,913	7,549	8,221	10,066
Net Fixed Assets	863	863	866	896
Goodwill	-	-	-	-
Total Assets	16,566	17,057	18,022	19,441
Liabilities				
Borrowings	4,825	3,052	2,986	2,923
Deferred Tax Liability	20	41	41	41
Minority Interest	(23)	(134)	(144)	(158)
Equity Share Capital	109	124	124	124
Face Value per share (Rs)	2.00	2.00	2.00	2.00
Reserves & Surplus	11,635	13,973	15,014	16,510
Net Worth	11,744	14,098	15,139	16,634
Total Liabilities	16,566	17,057	18,022	19,441

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
Operating Cashflow	2,321	1,865	2,162	2,735
Working Capital Changes	975	1,366	(2,861)	(2,299)
Capital Commitments	471	(121)	(128)	(160)
Free Cashflow	3,766	3,110	(827)	276
Cashflow from Investing Activities	(173)	(1,505)	(546)	(1,575)
Issue of Share Capital	-	1,178	-	-
Buyback of shares	-	-	-	-
Inc (Dec) in Borrowings	(1,013)	(1,772)	(66)	(63)
Interest paid	(1,090)	(903)	(1,148)	(1,405)
Dividend paid	-	-	(62)	(124)
Extraordinary Items/Others	(75)	400	203	267
Chg. in Cash & Bank balance	1,415	508	(2,446)	(2,623)

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
Per Share Data (in Rs.)				
Diluted adjusted EPS	16.6	17.7	18.7	26.0
Recurring Cash EPS	19.4	19.7	20.7	28.1
Dividend per share (DPS)	-	-	1.0	2.0
Book Value per share (BV)	214.7	226.7	243.4	267.4
Growth Ratios (%)				
Operating Income	(8.0)	10.8	9.4	22.4
EBITDA	11.8	0.8	14.7	35.3
Recurring Net Income	(13.4)	21.1	5.8	39.0
Diluted adjusted EPS	(13.4)	21.1	5.8	39.0
Diluted Recurring CEPS	(12.7)	14.9	5.6	35.6
Valuation Ratios				
P/E	21.5	20.2	19.1	13.7
P/CEPS	18.4	18.2	17.2	12.7
P/BV	1.7	1.6	1.5	1.3
EV / EBITDA	9.7	9.8	9.5	7.8
EV / Operating Income	0.8	0.8	0.8	0.7
EV / Op. FCF (pre -Capex)	8.6	6.6	(34.1)	60.3
Operating Ratios				
Raw Material/Sales (%)	75.7	78.8	78.8	79.3
SG&A/Sales (%)	6.6	6.5	6.4	5.8
Other Income / PBT (%)	27.5	6.6	7.5	5.1
Effective Tax Rate (%)	38.0	23.7	24.0	25.0
NWC / Total Assets (%)	21.8	17.8	23.4	24.9
Inventory Turnover (days)	3.8	3.8	3.8	3.8
Receivables (days)	226.9	173.8	185.0	185.0
Payables (days)	253.8	231.3	238.3	240.5
Net D/E Ratio (x)	0.1	(0.0)	0.1	0.3
Return/Profitability Ratios (%)				
Recurring Net Income Margins	3.6	3.9	3.8	4.3
RoCE	8.9	9.7	10.7	13.4
RoNW	8.1	8.5	8.0	10.2
Dividend Payout Ratio	0.0	0.0	0.1	0.1
Dividend Yield (%)	0.0	0.0	0.3	0.6
EBITDA Margins	8.5	7.7	8.1	8.9

Source: Company data, I-Sec research

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