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Rating	Reduce
Price	Rs562
Target Price	Rs628
Implied Upside	11.7%
Sensex	34,300
Nifty	10,540

(Prices as on February 12, 2018)

Trading data

Market Cap. (Rs bn)	30.7
Shares o/s (m)	54.5
3M Avg. Daily value (Rs m)	82.5

Major shareholders

Promoters	24.72%
Foreign	26.71%
Domestic Inst.	25.01%
Public & Other	23.56%

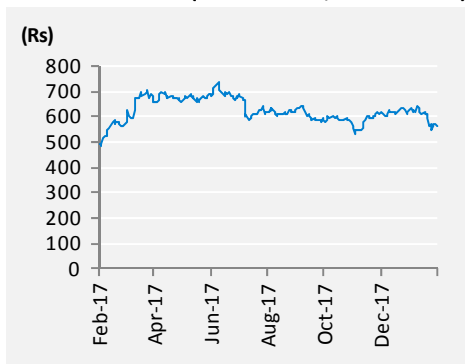
Stock Performance

(%)	1M	6M	12M
Absolute	(9.8)	(9.0)	14.7
Relative	(8.9)	(18.9)	(6.3)

How we differ from Consensus

EPS (Rs)	PL	Cons.	% Diff.
2019	31.4	37.6	-16.5
2020	36.0	43.4	-17.0

Price Performance (RIC:VATE.BO, BB:VATW IN)



Source: Bloomberg

VATW Q3FY18 revenues at Rs8.64bn were above our estimates, however EBITDA margins at 9% (down 208bps YoY) below our estimates. Margins were impacted by higher operating cost and delay in billing due regulatory changes post GST implementation. GST has impacted debtor collection cycle & billing, especially in domestic municipal orders as they are subject to taxation unlike the earlier regime, resulting in increased working capital. However situation is improving & expects normalisation to return by Q4FY18. Management is focusing on Middle East, Africa & LATAM regions as it sees huge opportunity on STPs/desalination front funded by government/multi-lateral agencies. Though domestic order scenario is not robust till now, it expects it to improve with increased number of projects coming for bidding.

VATW, being a leader in the space, would like to participate in Namami Gange projects, however they feel it will stretch the working capital to some extent. Company has passed enabling resolution to raise capital up-to Rs4bn to capture growth and new business opportunities especially for Namami Gange. However, their priority is to grow through internal accrual and if any large opportunity arises then only fund raising will be looked at as an option.

We like VATW for excellent project execution track record, marquee client reference list, asset-light model, debt-free balance sheet & limited options available in water space. However with strain on working capital, it has turned from net cash to net debt company. Over last few quarters, it has disappointed on earnings front for some or the other issue ranging from higher working capital to liquidated damages to higher operating costs. Stock at 15.7x FY20E earnings and 7.8x EV/EBITDA FY20E, seems to have limited upside till key issues like stretched working capital and domestic order scenario are resolved. We maintain REDUCE rating with TP of Rs628 (implying 18x Dec-19E PER)

Key financials (Y/e March)	2017	2018E	2019E	2020E
Revenues (Rs m)	32,079	36,416	40,065	44,563
Growth (%)	27.9	13.5	10.0	11.2
EBITDA (Rs m)	2,966	3,187	3,401	3,832
PAT (Rs m)	1,024	1,632	1,712	1,964
EPS (Rs)	18.8	29.9	31.4	36.0
Growth (%)	15.4	59.4	4.9	14.7
Net DPS (Rs)	4.0	5.0	6.0	7.0

Profitability & Valuation	2017	2018E	2019E	2020E
EBITDA margin (%)	9.2	8.8	8.5	8.6
RoE (%)	10.7	15.4	14.4	14.8
RoCE (%)	13.0	12.5	12.0	12.6
EV / sales (x)	1.0	0.9	0.8	0.7
EV / EBITDA (x)	10.5	10.2	9.4	8.0
PE (x)	29.9	18.8	17.9	15.6
P / BV (x)	3.1	2.7	2.4	2.2
Net dividend yield (%)	0.7	0.9	1.1	1.2

Source: Company Data; PL Research

Key conference call highlights

- Management is confident of converting ~50% of ~Rs20bn L1 contracts into confirm orders in Q4FY18E (largely from India) apart from ~Rs10bn from GCC region and ~Rs4bn from Europe
- Management sees plethora of opportunities in India, however for some or the other reason the order awarding is getting delayed.
- Progress on Namami Gange has been lower than anticipated and most of awarded projects were quite small for VATW kind of larger players. However management is hopeful of speedier progress going forward.
- Working capital has marginally reduced to 94 days (vs. 98 days in Q3FY17 and 101 days in Q2FY18)
- PETRONAS (Malaysia) project execution is well on track and expects the execution by end of CY19
- Order backlog from APGENCO project is ~Rs2.04bn (with Receivables + Retention money of ~Rs5bn currently, of which it expects to receive Rs1.5bn in Q4FY18E), Management is expecting COD by Q4FY18E and is confident of receiving the balance money in CY19 as it completes the entire project in next 6-9 months.

Exhibit 1: Current order book split (Rs m)

	EPC		O&M		Total
	Municipal	Industrial	Municipal	Industrial	
Wabag India	21,675	11,198	12,625	169	45,667
Wabag overseas	16,268	2,139	449	687	19,543
Framework contracts					6,807
Total	37,943	13,337	13,074	856	72,017

Source: Company Data, PL Research

Exhibit 2: Key contracts in order book (Rs m)

Dangote, Nigeria-ETP&RWTP	6,046
Polgahawela, Sri Lanka-WTP	5,151
Koyambedu, Chennai-TTP	4,200
K&C Valley, Bengaluru-STP	3,850
Petronas RAPID, Malaysia-ETP	3,143
Integrated Water Supply Project-Barmer, Rajasthan	2,062
APGENCO-BOP with Water management	2,041
La Mesa WTP Retrofit, Philippines	1,563
Tobruk Desalination MED	1,291
LongPhu	1,100

Source: Company Data, PL Research

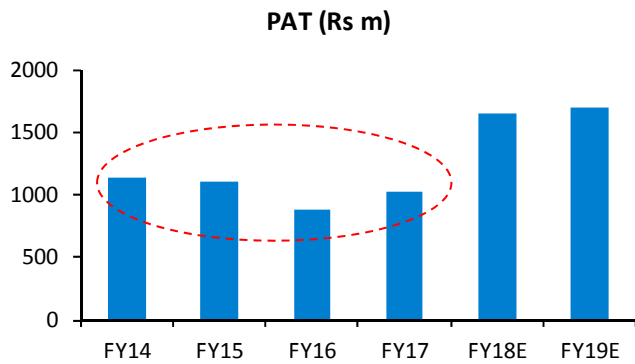
Exhibit 3: Q3FY18 Result Overview - Consolidated (Rs m)

Y/e March	Q3FY18	Q3FY17	YoY gr (%)	Q2FY18	9MFY18	9MFY17	YoY gr (%)
Net Sales	8,647	7,183	20.4	8,865	24,198	20,762	16.6
Expenditure							
Raw Materials	6,851	5,400	26.9	7,105	19,211	16,330	17.6
<i>% of Net sales</i>	<i>79.2</i>	<i>75.2</i>		<i>80.1</i>	<i>79.4</i>	<i>78.7</i>	
Personnel	669	658	1.6	639	1,968	1,858	5.9
<i>% of Net sales</i>	<i>7.7</i>	<i>9.2</i>		<i>7.2</i>	<i>8.1</i>	<i>8.9</i>	
Selling , dist & Other Exp	351	331	6.2	347	1,049	925	13.5
<i>% of Net sales</i>	<i>4.1</i>	<i>4.6</i>		<i>3.9</i>	<i>4.3</i>	<i>4.5</i>	
Total Expenditure	7,870	6,389	23.2	8,091	22,228	19,112	16.3
EBITDA	777	794	(2.2)	775	1,970	1,650	19.4
<i>Margin (%)</i>	<i>9.0</i>	<i>11.1</i>		<i>8.7</i>	<i>8.1</i>	<i>7.9</i>	
Depreciation	43	46	(6.7)	45	133	139	(4.5)
Other Income	8	35		2	30	90	
EBIT	742	783	(5.2)	733	1,867	1,600	16.7
Net Interest	142	137	3.6	143	419	351	19.3
PBT	599	646	(7.1)	590	1,449	1,254	15.5
Tax	248	45	457.0	220	629	340	84.8
<i>Tax Rate (%)</i>	<i>41.4</i>	<i>6.9</i>		<i>37.4</i>	<i>43.4</i>	<i>27.1</i>	
PAT before minority interest	351	601	(41.6)	369	820	914	(10.3)
Share of profit/(loss) in associates	7	(605)	NA	7	17	(586)	NA
Minority Interest	58	22	163.5	42	118	61	93.3
PAT	301	(26)	NA	334	719	267	169.4

Source: Company Data, PL Research

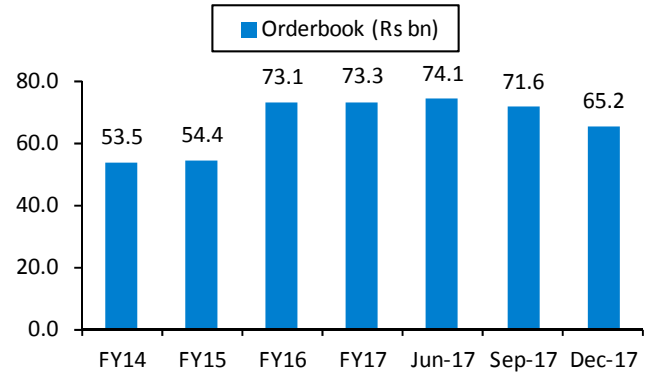
Story in Charts

Exhibit 4: Earnings growth looking up after 4years of consolidation



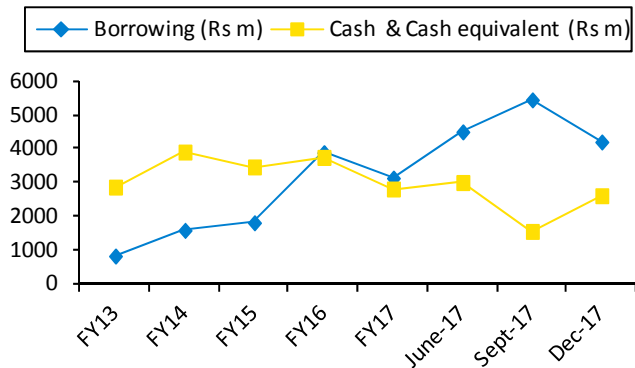
Source: Company Data, PL Research

Exhibit 5: Order-book gives long term visibility



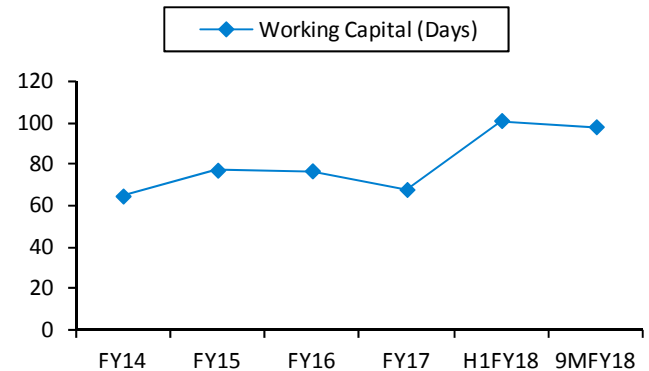
Source: Company Data, PL Research

Exhibit 6: However, resorting to balance sheet to drive growth



Source: Company Data, PL Research

Exhibit 7: Increase in working capital during last 2 years



Source: Company Data, PL Research

Income Statement (Rs m)

Y/e March	2017	2018E	2019E	2020E
Net Revenue	32,079	36,416	40,065	44,563
Raw Material Expenses	25,388	28,569	31,577	35,073
Gross Profit	6,691	7,848	8,487	9,490
Employee Cost	2,440	2,989	3,203	3,554
Other Expenses	1,286	1,671	1,883	2,104
EBITDA	2,966	3,187	3,401	3,832
Depr. & Amortization	191	220	255	273
Net Interest	526	550	587	628
Other Income	112	—	—	—
Profit before Tax	2,362	2,417	2,559	2,931
Total Tax	667	725	783	897
Profit after Tax	1,695	1,692	1,776	2,034
Ex-Od items / Min. Int.	474	(20)	(26)	(20)
Adj. PAT	1,024	1,632	1,712	1,964
Avg. Shares O/S (m)	54.5	54.5	54.5	54.5
EPS (Rs.)	18.8	29.9	31.4	36.0

Cash Flow Abstract (Rs m)

Y/e March	2017	2018E	2019E	2020E
C/F from Operations	(663)	(1,166)	1,395	1,685
C/F from Investing	459	12	25	(25)
C/F from Financing	(991)	(371)	(556)	(1,032)
Inc. / Dec. in Cash	(1,195)	(1,525)	863	628
Opening Cash	3,695	2,500	975	1,838
Closing Cash	2,500	975	1,838	2,466
FCFF	(564)	(738)	1,266	1,280
FCFE	(1,207)	(769)	1,166	780

Key Financial Metrics

Y/e March	2017	2018E	2019E	2020E
Growth				
Revenue (%)	27.9	13.5	10.0	11.2
EBITDA (%)	27.3	7.5	6.7	12.7
PAT (%)	15.4	59.4	4.9	14.7
EPS (%)	15.4	59.4	4.9	14.7
Profitability				
EBITDA Margin (%)	9.2	8.8	8.5	8.6
PAT Margin (%)	3.2	4.5	4.3	4.4
RoCE (%)	13.0	12.5	12.0	12.6
RoE (%)	10.7	15.4	14.4	14.8
Balance Sheet				
Net Debt : Equity	0.1	0.2	0.1	—
Net Wrkng Cap. (days)	103	107	67	63
Valuation				
PER (x)	29.9	18.8	17.9	15.6
P / B (x)	3.1	2.7	2.4	2.2
EV / EBITDA (x)	10.5	10.2	9.4	8.0
EV / Sales (x)	1.0	0.9	0.8	0.7
Earnings Quality				
Eff. Tax Rate	28.2	30.0	30.6	30.6
Other Inc / PBT	4.8	—	—	—
Eff. Depr. Rate (%)	7.1	7.9	8.9	9.1
FCFE / PAT	(117.8)	(47.1)	68.1	39.7

Source: Company Data, PL Research.

Balance Sheet Abstract (Rs m)

Y/e March	2017	2018E	2019E	2020E
Shareholder's Funds	9,931	11,238	12,559	14,067
Total Debt	3,131	3,100	3,000	2,500
Other Liabilities	2,236	2,714	2,929	3,184
Total Liabilities	15,298	17,052	18,488	19,751
Net Fixed Assets	1,744	1,614	1,434	1,286
Goodwill	—	—	—	—
Investments	225	1,033	1,380	1,380
Net Current Assets	13,082	14,135	15,384	16,775
<i>Cash & Equivalents</i>	<i>2,617</i>	<i>1,180</i>	<i>1,803</i>	<i>2,362</i>
<i>Other Current Assets</i>	<i>28,673</i>	<i>34,004</i>	<i>36,791</i>	<i>40,156</i>
<i>Current Liabilities</i>	<i>18,208</i>	<i>21,050</i>	<i>23,210</i>	<i>25,743</i>
Other Assets	247	270	290	310
Total Assets	15,298	17,052	18,488	19,751

Quarterly Financials (Rs m)

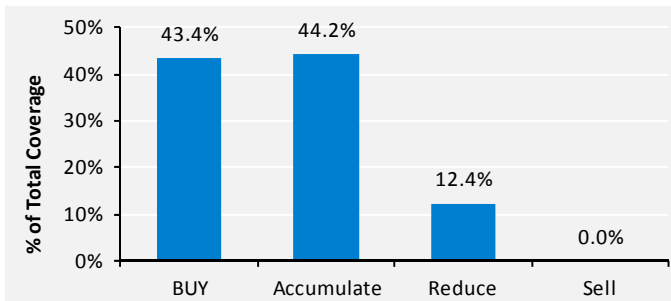
Y/e March	Q4FY17	Q1FY18	Q2FY18	Q3FY18
Net Revenue	11,317	6,686	8,865	8,647
EBITDA	1,317	418	775	777
<i>% of revenue</i>	<i>11.6</i>	<i>6.3</i>	<i>8.7</i>	<i>9.0</i>
Depr. & Amortization	52	45	45	43
Net Interest	157	114	141	134
Other Income	3	20	2	8
Profit before Tax	1,108	259	590	599
Total Tax	326	160	220	248
Profit after Tax	757	84	334	301
Adj. PAT	757	84	334	301

Source: Company Data, PL Research.

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