

Va Tech Wabag

Reco: Buy

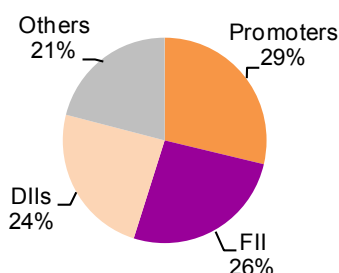
Stock Update

Strong order backlog provides healthy earnings visibility; reiterate Buy
CMP: Rs675

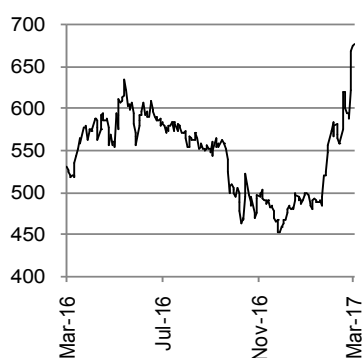
Company details

Price target:	Rs800
Market cap:	Rs3,679 cr
52-week high/low:	Rs737/449
NSE volume: (No of shares)	1.4 lakh
BSE code:	533269
NSE code:	WABAG
Sharekhan code:	WABAG
Free float: (No of shares)	3.88 cr

Shareholding pattern



Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	20.1	47.8	21.4	24.8
Relative to Sensex	17.8	30.5	17.8	6.0

Key points

- Swift implementation of Namami Gange programme provides order inflow visibility:** In March 2017, the Executive Committee (EC) of National Mission for Clean Ganga approved 20 projects worth Rs1,900 crore for building new sewerage treatment plants (STP), upgrading existing STPs and laying sewerage networks across Uttarakhand, Bihar, Jharkhand and Delhi. This is in addition to the Rs1,050 crore orders awarded in February 2017. We believe that the change of government in Uttar Pradesh and Uttarakhand will give full control to the Centre over the ongoing projects, besides facilitating better centre-state coordination and advance monitoring. This will expedite the implementation of projects, resulting in higher order inflow trajectory for companies like Va Tech Wabag. The government has allocated Rs20,000 crore over FY2016-FY2019 towards the Namami Gange programme, which translates into huge opportunities for contractors like Va Tech Wabag.
- Supreme Court directive on compulsory effluent treatment plant to be positive:** The Supreme Court of India has directed polluting industrial units across the country to set up primary effluent treatment plants to stop the release of untreated waste into rivers and other water bodies within three months of the issue of notice. After the stipulated time, there would be physical inspection of the industrial units, post which the units will be shut immediately if found to be in violation of the SC order. We believe that Va Tech Wabag will benefit in the short term from the apex court's directive, as orders for effluent treatment plants will increase.
- Strong order backlog provides decent revenue visibility; margins to remain stable; retain Buy:** On the back of a positive business outlook and reiteration of revenue & order inflow guidance by the management, we have built in a 24%/35% CAGR for the company's order book/earnings over FY2016-FY2019E. Also, with the completion of low-margin orders from AP Genco and Turkey STP, we expect margins to remain stable in the range of 8.5-9% during FY2016-FY2019E. Therefore, we retain our 'Buy' rating on Va Tech Wabag, with a revised price target of Rs800 (20x FY2019E), given that it is a quality engineering company with niche expertise, professional management and a play on the structural growth story of the water treatment industry.

Valuation (consolidated)

Particulars	FY15	FY16	FY17E	FY18E	FY19E
Net sales	2,435	2,549	3,020	3,577	4,087
YoY growth (%)	8.8	4.7	18.5	18.5	14.2
Operating profit (Rs cr)	209	221	260	311	373
OPM (%)	8.6	8.7	8.6	8.7	9.1
Net profit	110	89	139	174	218
Adjusted EPS (Rs)	20.2	16.3	25.5	32.0	39.9
EPS growth (%)	1.3	(19.3)	56.6	25.3	24.8
P/E (x)	33.4	41.4	26.4	21.1	16.9
P/B (x)	4.1	3.7	3.3	3.0	2.6
EV/EBITDA (x)	16.1	16.0	13.3	11.1	9.1
Dividend yield (%)	0.6	0.6	0.8	0.9	1.2
RoCE (%)	19.8	17.0	17.9	19.9	21.9
RoE (%)	12.6	9.4	13.3	15.0	16.5
RoIC (%)	30.8	24.2	24.1	26.1	29.1

Order book and order inflow

Order book mix (%)	FY14	FY15	FY16	FY17E	FY18E	FY19E
EPC	71	64	74	76	76	76
O&M	29	36	26	24	24	24
Municipal	78	73	70	68	67	67
Industrial	22	27	30	32	33	33

Order inflow mix (%)	FY14	FY15	FY16	FY17E	FY18E	FY19E
EPC	85	68	89	84	81	81
O&M	15	32	11	16	19	19
Municipal	73	59	60	53	56	56
Industrial	27	41	40	47	44	44

Book to bill ratio	FY14	FY15	FY16	FY17E	FY18E	FY19E
Order book (Rs cr)	5,436	6,128	8,726	10,065	11,759	13,611
Book to bill ratio (x)	2.4	2.7	3.4	3.3	3.3	3.3

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