

Earning's call speech Q1 FY 21

Mr. Rajiv Mittal:

Thank you.....

Dear Friends, Good Afternoon.

Let me welcome you all to the Earnings Call post announcement of Q1 FY 21 results of VA Tech WABAG Limited. Mr. Sandeep Agrawal, our Group CFO joins me today for this earnings call. We hope you all had a chance to go through the results update.

To start with, let me wish you all, the best of health during this COVID-19 pandemic. Let us all hope that we return soon to normal times and carry the lessons learnt during this pandemic into our daily lives to be stronger and healthier.

The COVID-19 pandemic, as you all know, continues to have an adverse economic and health impact on all countries and the governments have been battling to bring the pandemic under control. As mentioned during our year-end earnings call, WABAG is very proud to have contributed in ensuring water security during these pandemic times by making sure that our O&M sites operate as normal. My sincere thanks to our direct and indirect employees and all the stakeholders including our customers, suppliers and bankers for their continued support.

The first quarter of this year was overshadowed by the nation-wide lockdown in India for most part of the quarter and lock downs in some of the other countries where we operate.

Engineering and Procurement activities continued to operate during the lock down with our employees “Working from Home”. Progress on manufacturing at our vendor locations was dependent on the respective country restrictions. The pace of procurement activities are picking up now and we expect to return to normalcy soon.

Activities at some of our EPC sites continued to operate as per the local directives. The site activities are now gradually resuming pace as the workforce is being ramped up at the project sites with progressive relaxation of COVID restrictions. We have implemented best practices on health and safety at all our sites in line with Government directives and Customers’ advisories. We will continue to monitor the developments and provide necessary updates.

I’m very happy to note that even during these tough economic conditions, we have achieved an order intake of over Rs. 440 Crores in Q1, with a major repeat order of 48 Million USD in the Kingdom of Saudi Arabia where we will design and build the 300 MLD Independent Sewage Treatment Plant (ISTP) at Jeddah Airport. The plant will be built by WABAG with the state-of-the-art NEREDA technology for the first time in the region, a sustainable and cost-effective technology. This order further cements our growing presence in the Middle East region, where we now have around 15% of our order backlog under execution.

Our Order book position remains extremely strong at over 3 times annual revenues, with a healthy mix of multi-lateral funded projects from marquee customers with innovative solutions. Our O&M backlog at over 30% of total order backlog is also in line with our strategy of getting to 25% of overall revenues from O&M in the near future.

It gives me immense pride that our 45 MLD Tertiary Treatment Reverse Osmosis (TTRO) Plant at Koyambedu, Chennai recently bagged the Distinction Award under the category of “Wastewater Project of the Year” at the Global Water Awards 2020. The TTRO plant uses a multi-stage treatment scheme and is the first reuse facility in India to use Ozonation for disinfection. The plant will help free up over 16 million m³ of freshwater each year and also helps Chennai becoming the first Indian city to reuse more than 20% of its treated wastewater.

Following up on our commitment to focus on liquidity, our net debt position continues to remain flat from March 2020 at around Rs. 180 Crores despite a tough quarter on cash-flows due to COVID-19. I’m also extremely pleased to inform that as a significant development during the quarter, we have completed our Defects Liability period and fully handed over the Al Ghubrah Desalination plant, which was executed through our JV entity in Oman, and all our guarantees have been returned. This project continues to provide us with one of our best technology references in the Desalination segment.

As a company with technology focus, it is important that we focus on our core strategy of being asset light, grow profitably and execute projects where we add value. In line with this, I would like to leave the investors, analysts and all stakeholders with a few thoughts on our core business. In the past few years, you would have seen that the impact of GENCO projects, which we consider as “non-

core business”, on our profitability and financial position has taken the focus away from the fact that the core business has been growing strongly.

I would like to put forth some key metrics, which will demonstrate the above. For the FY 19-20:

- While our reported EBITDA was 8.9%, the EBITDA of the core business was 11.5%. This shows that we are more in the 10 – 11% range of EBITDA and not in the sub 10% range.
- You would have seen that the reported working capital days was at 130 days, but the core business operates at 78 days, which is much better than many organizations in the EPC space.
- If we see the Return on Capital Employed (RoCE) with the reported numbers, it stands at 12.5%, but the core business delivers 24.3% which is a true reflection of our strategy to remain asset light.

You will also see in our results update presentation, we have included detailed information in this respect.

As you can see the three key metrics of Profitability, Working Capital and RoCE have been on the rise and it is important to recognize that our “core” business, which is water technology, is intact, growing and growing strongly.

I now request Sandeep to take you through the financial highlights. Over to you Sandeep.....

Mr. Sandeep Agrawal:

Thank you Mr. Mittal....

Good evening Friends,

Trust you had an opportunity to look at the result update presentation as circulated and uploaded on our website. Let me quickly take you through the key financial highlights for the quarter ended 30th June 2020.

Our revenue from operations for the quarter stood at Rs. 431 Crore on consolidated basis and at Rs. 282 Crore on standalone basis. Our revenues for the same quarter previous year were Rs. 457 Crore and Rs. 324 Crore respectively.

The O&M revenue has increased by 20% year over year, with key contribution from new One City One Operator projects. The growth in EPC revenue was deferred due to slower progress amidst the lockdown restrictions.

EBITDA for the quarter stood at Rs. 29 Crore on consolidated basis and at Rs. 24 Crore on standalone basis.

Our net interest cost has reduced by 26% on consolidated basis and by 17% on standalone basis because of our continued efforts on cash management and debt reduction. Our gross debt has reduced by ~ Rs. 54 Crore, a 10% reduction from March 20 and net debt has remained flat, despite a tough quarter marred by COVID-19.

Profit after Tax attributable to owners for the year stood at Rs. 5 Crore on consolidated basis and at Rs. 4 Crore on standalone basis.

We will continue our strategy to “wait and watch” approach regarding guidance for FY 21 and will give an update when there is reasonable stability and visibility. Going forward, we expect hygiene and sanitation to be of more focus and be the one of the first few sectors to receive increased government spending and revive in the forthcoming quarters. We are monitoring the evolving situation and we will update as the year progresses.

We continue to work closely with our bankers and are thankful for their continued support throughout the quarter.

With this, we now open the floor for Question-and-Answer.

Concluding Para:

Thank you everyone for your participation in our Q1 FY21 earnings call. We have uploaded the analyst presentation in our website. In case you have further queries you may get in touch with Stellar IR Advisors, our investor relation advisor based at Mumbai or feel free to get in touch with us directly.