

November 18, 2022

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Bandra Kurla Complex,
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BSE Limited,
Floor 25, P J Towers,
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Mumbai – 400 001

NSE Symbol: **WABAG**BSE Scrip Code: **533269**

Dear Sir/ Madam,

Sub: Transcript of Earnings Conference Call on Q2 FY23 Financial Results as per SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

Pursuant to Regulation 30(6) and 46 of SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed herewith the Transcript of Earnings Conference Call on Q2 FY23 Financial Results held on Monday, November 14, 2022.

The Transcript of Earnings Conference Call on Q2 FY23 Financial Results is also available on the Company's website.

Kindly take the same on record.

Thanking You,

For **VA TECH WABAG LIMITED**

Skandaprasad Seetharaman
Chief Financial Officer

Sustainable solutions, for a better life



“VA Tech WABAG Limited H1 & Q2 FY23 Earnings Conference Call”

November 14, 2022



MANAGEMENT **MR. RAJIV MITTAL -- CMD AND GROUP CEO, VA
TECH WABAG LIMITED**
**MR. SKANDAPRASAD SEETHARAMAN -- CHIEF
FINANCIAL OFFICER, VA TECH WABAG LIMITED**

Moderator: Good evening, and welcome, everyone, to this Earnings Call Post-Announcement of H1 and Q2 FY '23 Results of VA Tech WABAG Limited. On this call today from the management team, we have Mr. Rajiv Mittal – CMD and Group CEO; and Mr. Seetharaman – Chief Financial Officer.

Kindly note, during this call, the company may make certain forward-looking statements concerning the business prospects and profitability, which may be subject to risks and uncertainties and the actual results could materially differ from those in such forward-looking statements.

The conference call will be archived, and a transcript will be made available on the company's website. The company's results update presentation has been uploaded on the website and Stock Exchange, which provide an overview about core offerings and analysis of the results for the period. We trust that you have an opportunity to look through the same. We will start with the opening remarks from the management, post which we will have an open interactive Q&A session.

I now hand the conference over to Mr. Mittal to take you all through the key business highlights. Thank you, and over to you, sir.

Rajiv Mittal: Thank you. Ladies and gentlemen, good day, and welcome to this earnings call for the quarter and half year ending FY '23. Along with me in this call is Mr. Skandaprasad Seetharaman, our Chief Financial Officer. We continue to build on growth from the previous quarter, delivering another quarter of strong results with profitable growth. WABAG has been on a transformation path with a clear business strategy, and this has been reaping the results as planned.

As a group, our strategy of focusing on international geographies, industrial projects, advanced technology plants and EP, (Engineering Procurement) business with a continued focus on service business, which is O&M, has helped in both execution excellence and improved operating margins.

We are a true Indian multinational player with about half of our revenues consistently flowing from international geographies and projects over the last few years, which has helped in margin improvement, export incentives, foreign exchange realization and gains. Due to our promise of staying an advanced technology business leader, our order intake focus has been on plants in desalination, recycle and reuse and effluent treatment segment. This segment of international presence and technology focus directly reflects on the consistent growth in our core operating margins.

WABAG's business team of being clean and green is reflected in every aspect of our business. On municipal waste water front, our Tertiary treatment plants manufacture clean water from wastewater, which is used for non-potable purpose, thereby releasing the water for potable use.

With the plants of over 2,500 million liters per day capacity that we have built across the globe, we are ensuring global water security converting waste to wealth.

As a pioneer of a circular economy approach, we have built plants, which ensure that the wastewater is converted into resource and all the elements of wastewater is made usable. Water is treated to meet discharge norms or for further use for potable or non-potable use. Sludge is converted to manure, thereby reducing environmental risk from landfills. Biogas from sewage is used to produce green energy, which powers the treatment plant, making them power neutral. WABAG's leadership in green energy production from biogas has been well recognized in the sector. We have built biogas plants in our sewage treatment plants over the last 2 decades, which produces over 35 MW of renewable and green energy per day, thereby reducing the greenhouse gas effects. Presently, we are pursuing some projects for converting biogas to CNG also.

On Wastewater treatment plants, we have built and maintained across the world treating over 27,000 million liters per day of municipal and industrial wastewater to meet the environment discharge norms and thereby contributing to saving the environment and the water bodies from pollution.

On the desalination front, our plants with installed capacity of over 1,200 million liters per day across the world, have been ensuring desalinated water for both drinking water as well as for industrial use. We are among the few recognized top global desalination companies in the world with the capabilities, references and technology to build large-scale desalination plants.

On the industrial wastewater front, WABAG's leadership in oil and gas segment is well known. We have treated most of the complex effluents and secured orders across the globe against the stiffest of international competition based on our technological superiority as in providing world-class solutions at competitive prices.

Our industrial treatment plants for steel and power plants, food and beverage industry ensures process effluent water gets treated for reuse and thereby providing water reliability and security to the industry. Specifically, our zero liquid discharge plant, which is current focus for industries has ensured circular economy approach in the industrial water and wastewater treatment as well. On the drinking water front, over the past 25 years, WABAG has built drinking water treatment plants of over 26,000 million liters per day, ensuring pure, safe drinking water to millions.

Having taken you through our business stream, let me briefly mention a few key business updates...

Starting with the India cluster, which comprises Indian subcontinent and Southeast Asia, India cluster has been the backbone of the group with the Indian government's various initiatives in the water sector like Namami Gange, Har Nal Se Jal, Swachh Bharat, AMRUT, India cluster is poised to keep growing and contributing to WABAG's group significantly.

Ordering activities have picked up in the cluster with us receiving 53 million liters per day desalination order from Reliance Industries in quarter 1 of this year, and we are also well placed on a few key desalination orders in the region, which are expected to materialize within this fiscal.

The resumption of Sibur has added further impetus to the cluster with the progress of the project moving swiftly. The 53 MLD Reliance desalination project is also underway and in construction and procurement stage. Our current projects in the cluster span across wastewater treatment, recycle and reuse and desalination. Projects in the cluster has been generally progressing well.

Next, let's move to the Middle East and Africa cluster....

MEA cluster has been our growth driver since last few years for the group. The Marafiq sewage treatment plant in Kingdom of Saudi Arabia and Doha South STP being constructed for ASHGAL, Qatar are currently in the final stages and expected to be completed this fiscal. Our 50 MLD Zarat desalination plant in Tunisia, being built for SONEDE funded by KfW Germany is also progressing well and heading towards mechanical completion by end of this fiscal. At our 300 MLD independent sewage treatment plant at new Jeddah Airport in Kingdom of Saudi Arabia, which is being built with the state-of-the-art NEREDA technology, all supplies have been completed and construction is near completion. Our 50 MLD desalination order in Senegal, funded by JICA, Japan which we received this year has started moving on the engineering front and also the procurement activities have started. On the ordering front, we are placed well on some of the bids which we have submitted in the region and expected to receive the results over the next few quarters.

Next to the Europe cluster....

Europe cluster continues to remain our technology hub, incubating new patents and proprietary technologies, which helps us with the early mover advantage in the developing economies, which is our focus market. The significant business of Europe is based out of Middle East and North Africa, and our exposure to projects in European geographies is very limited.

On the capital projects front....

On NMCG, National Mission for Clean Ganga HAM projects...

Our 187 MLD, KMDA, STP projects being built in Arupara, Bally and Baranagar have achieved 75% completion and project is progressing well and is on track. Our STP HAM project being built for BUIDCO, Bihar at Digha and Kankarbagh where we announced the effective date last quarter has progressed 15% as on date. On the 40 MLD, Ghaziabad Nagar Nigam, Tertiary treatment, reverse osmosis, recycle and reuse projects, the project activities have commenced and we have progressed 10% on the project activities.

On our service business....

We have always maintained our strategy to grow the O&M business, and this is evident from the order book of over Rs. 3,300 crore of Indian rupee coming from service business as of H1 this year, which constitutes 36% of our order book. Large DBO, HAM and One City One Operator projects are enabling this growth in the backlog, and we expect to witness the growth in revenue of service business in the next few years as the EPC portion of a DBO and HAM projects get completed and the long-term O&M revenues start flowing. With a consistent high quality order book of over Rs. 10,000 crore and a strong order pipeline visibility, we are confident of continuing to generate value for our stakeholders in our growth story in the years to come.

I would like to express my sincere thanks to our direct and indirect employees and all the stakeholders for their continued support. Now we can move into the financial highlights, and I would request my colleague, Skanda to take you through the same. Over to you, Skanda.

Skandaprasad. S:

Thank you, Mr. Mittal. Good evening, friends. Trust you had an opportunity to look at the results update presentation as circulated and uploaded on our website and stock exchanges.

Let me take you through the key financial highlights for the quarter and half year ended 30th September 2022. Before I start for the benefit of new investors and other stakeholders, I would like to briefly take you through our core offerings as WABAG.

- WABAG is a pure-play Indian technology multinational.
- WABAG is present in India for over 25 years and globally for over 98 years.
- We have presence in over 25 countries across the world and focus on technology-driven projects contributing to water security and sustainability across the globe for municipal and industrial customers.
- WABAG has competencies to deliver projects across the value chain starting from drinking water to desalination to water recycle and reuse to effluent treatment plants for industries as well.
- We operate across all business models: EP, engineering procurement; EPC, engineering, procurement and construction, DBO, design, build, operate; O&M, operation maintenance or service business, HAM, hybrid annuity model and BOOT, build, own, operate, transfer. All of these are done, keeping in mind our asset-light approach.
- We focus on projects with adequate payment securities through letters of credit or projects funded by multilateral agencies and federal governments.
- By nature, our business contributes to a cleaner and greener world.
- Our plants across the world are well recognized and awarded in various global forums.

Our results update presentation has further detailed information about our business, journey and contribution to the water sector. I would urge all stakeholders to find some time to go through the same.

Now moving on to the financial updates....

Our consolidated revenues for H1 FY 22-23 stood at Rs. 1,382 crore and on a stand-alone basis, revenue from operations stood at Rs. 1,058 crore.

Our consolidated revenues for quarter 2 FY 22-23 stood at Rs. 750 crore, which was up by 10% year-over-year. On a stand-alone basis, revenue from operations was Rs. 573 crore for the quarter, up by 14% year-over-year.

The consolidated EBITDA for H1 stood at Rs. 126 crore, up by 30% year-over-year and the stand-alone EBITDA for H1 stood at Rs. 107 crore, up by 52% year-over-year.

The consolidated EBITDA for the quarter stood at Rs. 74 crore, which was also up by 30% year-over-year, and the standalone EBITDA for the period stood at Rs. 61 crore, up by 37% year-over-year.

As Mr. Mittal mentioned, we have delivered another quarter and half year of profitable growth, which is our PAT growing faster than the rate at which top line grows.

The profit after tax attributable to owners stood at Rs. 77 crores on a consolidated basis for the half year, up by 85% year-over-year. On a standalone basis, the profit after tax for the first half stood at Rs. 60 crores, up by 99% year-over-year.

For the quarter, the profit after tax attributable to owners stood at Rs. 47 crores on a consolidated basis, up by about 78% year-over-year. And for the quarter, on a stand-alone basis, the profit after tax stood at Rs. 34 crores, up by about 74% year-over-year.

Now a look at our key business metrics for the quarter....

- Core EBITDA stood at 12.7%, double-digit EBITDA margins as we retain our focus on technology, EP and international projects
- Core PAT at 8.3% driven by operating margin improvement and control over finance costs through efficient banking lines management, both on volume and cost front.
- Core return on capital employed that is ROCE at 23.1% in line with our asset-light model and technology-focused approach.
- Working capital on an absolute basis year-over-year for the first half reduced by 14%, and the core working capital days stood at 81 days, driven by focus of the management on working capital and cash management.

- Gross debt stood at Rs. 377 crore on a consolidated basis, a reduction of 22% year-over-year for the first half.
- Improved performance on cash flows year-over-year with net debt at Rs. 75 crore reducing by 68% year-over-year, and we are well on track to continue remaining net cash positive by the end of the year.

In line with our business strategy to remain an international group, 49% of our revenues were delivered from rest of the world and 51% was from India. Our order backlog stands at about Rs. 10,300 crore with almost half of it coming from overseas geographies and projects. The quality of the order book is also enhanced with the majority mix of multilateral and federal government projects, industrial jobs backed by adequate payment securities, largely in the desalination and wastewater treatment space including recycled reuse and effluent treatment plants.

The consistent level of order book over Rs. 10,000 crore in the past few quarters gives us a very good confidence about revenue visibility. We also take this opportunity to express our heartfelt thanks to the bankers, investors, fellow WABAGites and all other stakeholders for the continued support extended to us.

With this, we now open the floor for interactive Q&A.

Moderator: Thank you. We will now begin the question and answer session. We take the first question from the line of Mr. Siddharth Gupta, Voyager Capital. Please go ahead.

Siddharth Gupta: I'm Siddharth Gupta from Voyager Capital. Sir, I have a couple of questions for the management. The first thing I noticed fall in promoter holding from the previous quarter from 21.7% to 19.13%. Has there been a reason for this particular decrease in the promoter shareholding? And secondly, just we have been getting back on track in terms of our growth and with our company's performance over the past few quarters. But this hasn't highly reflected well on the stock price. So, is the management considering maybe a buyback or any other form of rewarding its shareholders given that we're trading at historically low PEs?

Skandaprasad. S: Siddharth, on your first question relating to the promoter shareholding, we have also made this public announcement to the stock exchanges, which we are required to do under the LODR. This is not any sale of shares by any of the promoters. There was 1 promoter who had superannuated and requested for declassification from promoter category to public category, and this was done. And hence, this percentage is reflecting lower. We want to again confirm there is no sale of any shares by any promoter.

Number 2, on the stock price front, of course, you know, we, as management, we can control the delivery of results. You have seen us over the last few years, especially over the last few quarters, delivering good results both on operating margin. Last 2 years have been net cash

positive. We have generated operating cash and we are also hoping that going forward, the market price will also be reflective of it.

Any actions in terms of buyback or any other front is purely the prerogative of the Board. At this moment, we have nothing of that sort to disclose. But we are hopeful and we expect that with a strong set of numbers that we have delivered consistently and also in this quarter, the market will recognize and re-rate us to the right valuation.

Siddharth Gupta: So, if I could just have 1 more question. The projects that are being run in Agra and Ghaziabad, are we putting in bids for other cities as well to have similar projects in place? Or are those the only 2 projects that we are running at this point of time or considering running at this point of time?

Rajiv Mittal: Siddharth, being a leader in this water space, we were the first one to introduce this concept based on our Istanbul City model where we were the one who were running the whole of Istanbul. And this was accepted by the government. And as a pilot project, they introduced 4 such cities and we were lucky to win 2, and we are operating that for the last couple of years.

Based on the success of this model, I'm sure other states are also looking at this model. But you should also recognize there are cities like Delhi, Bangalore and Chennai, though it has not been classified as One City One Operator, but a substantial part of that water infrastructure is managed by us. Going forward, we believe that more states and cities will adopt this model, which will benefit both the state government as well as large companies like us because then it is a performance contract, and they can get 1 contractor to perform the complete city's operation and maintenance.

Siddharth Gupta: Thank you, sir. Thank you for the answer. And just a parting suggestion on my front that I completely agree with what you're saying, that One Operator, One City model makes sense and if the management could make pitches to state governments to possibly induce such more pilot projects, not necessarily if they go to us or not, but as it might benefit us, it's something that we should pitch to the state government. Thank you for your time, sir, and congratulations on the great results. I hope to see markets reward you just as well.

Moderator: We'll take the next question from the line of Mr. Kaushik Poddar from KB Capital Markets. Please go ahead.

Kaushik Poddar: I congratulate the management team for ticking all the boxes on the operational front. Right now, my current worry, if at all, it can be called that, is with the world slowing down. Do you expect the order flow to come down? And on top of that, in the first 6 months, you haven't got substantial order, say, if you're talking of, say, Rs. 3,300 crore or Rs. 3,500 crore with turnover of this company. Can we expect to have an order book of say around Rs. 4,000 crore for this year?

Rajiv Mittal: Yes. I think we have said in our speech that we have already received close to Rs. 1,500 crore already. We are already on that. And the second half is always a better half because some of the decisions do get postponed, but still to use the budgetary allocation, you can see the speed up in activities in the third and fourth quarter in placement of orders. So, we are very bullish that it's going to be a great order book by end of this year. And as I said, we have a very, very strong order pipeline for the next 2 quarters.

Kaushik Poddar: But can we reach a fresh order of, say, Rs. 4,000 crore for this financial year? Is it possible? You're looking at that kind of number.

Rajiv Mittal: More to say Kaushik, because as I said, we can even surprise the market. But let's wait for it.

Kaushik Poddar: And once again, congratulations on the operational front with your EBITDA. Core EBITDA having gone up. It's wonderful for the shareholders.

Moderator: We take the next question from the line of Naysar Parikh from Native Capital. Please go ahead, sir.

Naysar Parikh: And I think amazing performance, especially on the margin front as well. A couple of questions. One is on the margins, obviously, they have improved, but how do you see the margin guidance going forward? Is there any scope for further improvement? And how would you look at that? Secondly, for FY '24, '25, what would be your revenue growth guidance or target, if you can talk a bit about that?

Rajiv Mittal: I think since the COVID times, we don't give guidance. But I think you have seen us enough that on an average, we grow at about 10%, 15% year-on-year, and you have seen even in last few quarters, that trend is continuing. Now COVID is behind us, life is back to pre-COVID level. So, there is an enhancement of the execution, activities, supply chain has improved. So, definitely, you will see activities getting picked up and we will continue to grow in the coming quarters.

Regarding you're saying, what is '24, '25, it's too far to say. But I'm sure you have enough data with the kind of order backlog we have and the contract execution period we have, we can easily calculate that how much it should be a run rate to meet the contractual expectation of our client. So, just in short, we have good days coming ahead of us. Things are looking good. Change of strategy to move to EP player from an EPC player to focus on advanced technology, which is proprietary in nature, international geographies, industrial plants. These have already started giving results, as you can see from the last few quarters. And going forward, our order book is consisting of all this, which my colleague Skanda mentioned. So, you can expect the operating margins continuing to grow as we go forward.

- Naysar Parikh:** Got it, sir. And you mentioned on municipal, the share of central government is increasing. So, for the order intake of this first half to Rs. 724 crore. What is the mix between central government or between central government and local or state municipalities, if you can give some kind of a break up?
- Rajiv Mittal:** Generally, we don't take any state municipal jobs unless they are multilaterally funded. As I said, a lot of projects are World Bank, JICA Japan, KfW, ADB funded. These are the projects which are on our books, and this is the orders which we have got other than the Reliance project, the desalination project, which we brought, which is funded by Reliance themselves.
- Moderator:** We take the next question from the line of Rishikesh Oza from RoboCapital. Please go ahead.
- Rishikesh Oza:** Sir, my first question is the other income looks high for the last 2 quarters actually. So, is there any one-off here?
- Rajiv Mittal:** No one-off. There's nothing extraordinary. Otherwise, we would have declared it.
- Rishikesh Oza:** So, we can expect this to be a sustainable run rate?
- Rajiv Mittal:** It should be. I don't see anything because the projects are under execution, and they are sustainable margin projects.
- Rishikesh Oza:** Sir, my next question is regarding the EBITDA margin. If you could please guide on the EBITDA margins for second half of FY '23 and going ahead in FY '24?
- Rajiv Mittal:** See, guidance is a couple of years back we have stopped giving guidance because the markets have been so uncertain. And because of COVID, we didn't know what is going ahead. Once things stabilizes which looks like we are in that phase, I think from next year, we can start giving guidance. But today, we are not giving any guidance. But I'm sure you all have seen enough that you can put your best judgment.
- Rishikesh Oza:** Okay. No problem, sir. And sir my third, if you could indicate what kind of order inflows are we going to do for this year?
- Rajiv Mittal:** Just now I told one of our friends that we have a very strong order pipeline for next 2 quarters. And if there are no delays in the decision, we expect all this to be converted and we should be having a pretty good order intake this year, which should surprise all of us.
- Moderator:** We take the next question from the line of Mr. Nikhil Abhyankar from DAM Capital. Please go ahead, sir.
- Nikhil Abhyankar:** Sir, in your earlier remarks, you mentioned about the ZLD product. So, I just wanted to know about what our capabilities are? How much water recovery we take it? What is the kind of

CAPEX required to set up, say, 100,000 liters per day of plant? And what kind of margins are we expected to make on these products?

Rajiv Mittal:

Nikhil, very good and apt question in today's environment. See, generally, the world is moving over to zero liquid discharge. It serves multiple purposes. One, you know globally, the discharge of any waste outside the battery limits of the plant is well monitored. And there are very steep penalties going up to imprisonment and shutting down the plant. When you are in zero discharge, you get rid of that risk that you are not discharging anything. So, you have no fear of being pulled up for discharging noncompliance based and being penalized or being asked to shut down your plant. That's number 1 advantage.

Number 2, you have a reliable source of water because then your plant becomes water neutral, you don't take any water from outside, you don't discharge any water. So, internal recirculation brings in a huge amount of reliability of operating the plants. We have all heard that during a drought, the municipal authorities cut down first on industrial water supply to give it to the domestic users. That risk you're eliminating when you have an internal recycle, which is a great economic benefit to the industries.

Thirdly, the prices of this water, which is being supplied by various local bodies are continuously going up. That way also, you can control your OPEX of your plant by doing an internal recycle.

Coming to the cost of zero liquid discharge, see, the initial setup cost is always going to be higher. The best option is to discharge up. We don't need to invest anything. But that's not applicable relevant at this stage when the authorities have tightened the discharge monitoring and control and with consequences also if you don't follow that. Hence, the cost has to be looked at a life cycle cost rather than the initial CAPEX cost.

Third, you asked what is our capability. As I mentioned, there is nobody bigger than us in terms of recycle and reuse. With the kind of plants, we have built both for local bodies as well as for industries, we're one of the leaders, not only in India, but globally, having a capacity of 2,500 million liters per day of recycled plant capacity, what we have built till date. So, I think capacity cost and what is the application, I think I've answered all your questions.

Nikhil Abhyankar:

Sir, just a final question on that. Do we have any order yet for ZLD?

Rajiv Mittal:

Yes. We are just completing NMDC plant. We have many orders, but the one which we are just completing the plant is going for commissioning is at NMDC for their iron ore plant. And this Russian project, the Sibur project, oil and gas is also ZLD. So, at the moment, 2 large projects, 1 is under execution, other is under commissioning.

Nikhil Abhyankar: And sir, now to the second question. Sir, a lot of investment announcements are being done in semiconductors and hydrogen domestically. So, are we seeing any inquiries for the same in this sector?

Rajiv Mittal: Yes, we are. In fact, we are bidding for a few projects, but it has to be seen like solar was 20 years back. Economically, it's still not very attractive though the governments are giving soft loans and some money for setting up a pilot project. But a full-scale commercial exploitation of this technology will need at least 5 to 10 years.

And this is something we are very much on track. As you know, whether we produce hydrogen or we enable production of hydrogen, we are always going to be part of this cycle because no hydrogen can be produced without water and we produce pure water. We have already demonstrated a few plants, even 1 in Qatar, where our pure water is used for producing hydrogen or for a semiconductor industry, which is a pure water because you have to have a pure water so that scaling of these conductors does not take place or it is reduced. Hence WABAG comes into play either to produce hydrogen or to supply clean water for production of hydrogen. So, we will be in this game.

Nikhil Abhyankar: Okay. And sir, just a final question, if I may.

Moderator: Sorry to interrupt Mr. Nikhil, may we request you to return to the question queue, sir, as we have several participants waiting for their turn. We'll take the next question from the line of Mr. Manoj Dua from Geometric. Please go ahead, sir.

Manoj Dua: Our company gets Rs. 5,000 crore of order hypothetically, what are the limiting factor for WABAG to execute much higher order, the kind of orders we've earned? Is this working capital or what? I'm just thinking the tailwinds are too huge. What are the limiting factor, which will stop our company, okay, that much order we can take per year?

Rajiv Mittal: See, one thing if you know this company, when 25 years back we started, we started as a startup with only 6 people. And we had a fantastic order book at that stage for 6 people company with Reliance Jamnagar greenfield plant biggest order in the water sector at that time was awarded, Haldia Petrochemicals, Mitsubishi Heavy Industries, which they gave us the orders.

So, this company is not new to the situation that we have a huge order backlog, and it has demonstrated over years and years that we are very fast to ramp up our capabilities and capacity. This will not be the first year where we'll have a Rs. 5,000 crore order. If you see in our history, there are years in the past where we have had Rs. 5,000 crore of order, and we have successfully executed that.

Manoj Dua: What is normally project life cycle of these kind of orders? Any ballpark?

- Rajiv Mittal:** On paper, it's 2 to 2.5 years. On reality, it's 2.5 to 3 years.
- Manoj Dua:** The last question is, how is the status of how the government receivables are having these days and cities are paying on time, much better than earlier or worse than earlier? How is the situation these days?
- Skandaprasad. S:** Mr. Manoj, you would have seen our opening speech as well. More than 90%, 95%, I would say, of our order book is either funded by multi-laterals, funded by Central Government or backed by payment securities. And also, we are participating in HAM projects where it is World Bank funded and NMCG, National Mission for Clean Ganga is directly funding the relevant authority.
- So, we do not today face any issues. And this was the primary reason why we went for such projects, why we chose the strategy of going only for payment security-backed projects so that we don't have delays in receivables. There is no question of whether we will recover. It is only that we focus on our execution and delivery. And we have seen consistently our receivable days has been coming down over a period of time. Our cash flows have improved, and this is why over the last 2 to 3 years, we have been able to have positive cash flows, net cash positive, positive operational cash flows. So, whether it is government receivables, or industrial receivables, the rate of turnover is much, much better, and our selection of projects has directly impacted the performance here in terms of this becoming better than before.
- Manoj Dua:** So, our intention to do industrial and outside India orders is basically for the margin thing, not for the receivables thing. Am I right?
- Skandaprasad. S:** There are 3 factors here. Number 1, when you go international, you get export incentives and you get various other benefits of performing these projects. And also these projects in a way help us bring foreign exchange back to the country. So, this brings foreign exchange back to the country and also give gains.
- Number 2, when we go for technology projects, industrial projects, international projects, these are shorter term than the EPC projects because these are usually E&P. When there is E&P, which is our core and not including construction, our margins are much better. Our turnaround is much better. Our collection profiles are much better.
- And number 3, when we go more international, when we go more industrial, we are able to actually exploit our technology better. We bring value to the table of customers and we are able to bring our technology superiority to the front. So, our strategy of going international, going EP and going industrial will be there going forward for the purpose of all these fronts of margin growth, cash growth and better receivables turnover.
- Moderator:** We take the next question from the line of Mr. Shirom Kapur from Prabhudas Lilladher. Please go ahead.

Shirom Kapur: I just want to see, looking at your trend going back a few years, we're seeing your rest of the world revenue contribution declining, while the India revenue contribution has been rising though your rest of the world margins tend to be higher than the India margins. So, are we going to continue to see this? I know your focus is on international expansion. So, are we going to see this trend reverse and again, see an increasing share of rest of the world contributing to your revenues?

Rajiv Mittal: I think you have to just see that our international revenues have not come down, but the Indian revenues have gone up. This is directly an impact from the Indian government's initiatives of focusing on water, the initiatives like Namami Gange, in initiatives like Har Nal Se Jal, Swachh Bharat, AMRUT. These have all opened up a huge opportunity in the Indian water sector. And we have been part of it. And why not? We are a leader in the country, and we are taking our share. As Skanda said, after it goes through our scanning of the various criteria, if it fits in, we go for it, and we pick up projects.

So, our strategy also is very clear that we want to continue to be equally in rest of the world and in India. So, this will continue, our focus will continue equally for Indian projects and for the rest of the world projects. So, I don't think you have to worry about where the margins are higher or lower because generally in international geographies, we have been doing mainly EP, that has been our strategy, which when we did about a couple of years back, we've made our strategy document. We said, even in India, we'll focus on mainly EP. So, you will see gradually that margins are going up in India also. As a result, you're seeing the overall operating margins have gone up and the cash flows have improved. So, we will continue in the future also equally focusing on international geographies as well as rest of the world.

Shirom Kapur: That's very helpful. And my next question would be on between municipal and industrial. Could you kind of give an idea of where the margin is and where the realizations tend to be higher, one, municipal versus industrial? And also, within your EP and O&M, from my understanding, EP tends to be a higher margin business. Am I correct?

Rajiv Mittal: Let me answer your second question first, and then we'll go to industrial versus municipal. See, both are high-margin projects. Because in our EP business, we don't have to see the construction. Generally, we have told you before the construction is mostly pass through in our books. So, basically, it gives us a top line, but not adequately giving us the bottom line because it's mainly pass through. We don't have a big margin on the construction portion. So, as we are reducing fee from our business, our overall margin is expected to die. So, both EP and O&M will be almost of a similar margin going forward.

Regarding industrial and municipal, generally, industrials will have a better margin. But mainly, the most important thing of doing an industrial job, it is timely completion and a great cash flow compared to municipal. So, industry gives us a technological leadership because they recognize

the good life cycle cost, and that allows us to use some of our proprietary technology. And that's the reason we want to focus on industrial projects.

So, even the municipal projects, as we said, we have no exposure to state government and this we said a couple of years back, we don't want any exposure to state government. If they are funded multilaterally, then only we'll go for municipal projects.

Moderator: We'll take the next question from the line of Aruna Chakraborty, Investor. Please go ahead.

Aruna Chakraborty: I've got 2, 3 questions, like every time we claim that we are a technology-driven company. But the EBITDA percentage is just like another manufacturing unit. Any manufacturing in that we either have got some technology. We have got our own special technology for the water. But EBITDA percentage-wise, it is not coming as it comes for a technology player. And the composition of the cost also, like our cost of materials is 80%. But normally, the technology-based company is not 80% labor cost or the employee cost goes much higher. First question is this.

Secondly, market is going gung ho about that the EBITDA percentage has gone up. But it has not gone up that much because sequentially, it has gone up by 0.6%, 600-650 basis points. Now any specific reason for that because material costs came down drastically according to my limited knowledge. So, for the material costs, I thought it would have come down, but it didn't come very much.

Rajiv Mittal: So, you have 2 questions.

Aruna Chakraborty: Another one. The employee cost overseas jobs. The employee cost percentage is always double of Indians, but Indian employees give a higher turnover as compared to the overseas because overseas turnover is around 1/3 of our total turnover. For last 2 quarters, it has come 1/3 of the total turnover for that quarter but in 3 quarters, is there any specific reason for that? Or any 1 or 2 highly paid and employee salaries being debited overseas. That's why these reforms come or any specific reason behind this?

Rajiv Mittal: I think you've already asked 3 questions. Let me answer before I forget your questions.

Aruna Chakraborty: I'll remind you.

Rajiv Mittal: Okay. I think the first thing you talked about technology versus margin. See, we have always been a technology player. We demonstrate that. We bring in so many technologies into the water sector that we have been rewarded, appreciated, recognized for our technology leadership in this water sector. Now it does not meet your expectation of margin, very true because we are not in a technology where there is only you play with other technologies. Unfortunately, fortunately, we are in the water sector, which is a very critical sector and it's all tendered business, huge

scale, even if you are using your technology, you still have to be a lowest bidder. And there is always a cost which is involved in developing and maintaining the trademarks, patents and all that.

But saying that, you have seen over the last few years and quarters, continuous improvement is there in the technology. The main reason, as we said, we remain as a technology player, but our top line, we are systematically planned way reducing it. As a result, our construction portion is coming down. And hence, you can see there is an improvement in margin. As we go along as we said profitable growth, our margin growth will be far better than the top line growth.

Aruna Chakraborty: Yes, but that will take how long?

Rajiv Mittal: It's still in our life span, don't worry.

Aruna Chakraborty: That's a good answer.

Rajiv Mittal: You and I will still be on the call, don't worry.

Aruna Chakraborty: The main technology, which has been given that is you. You are the main technology, behind the whole company.

Rajiv Mittal: No. I have almost 2,000 colleagues.

Aruna Chakraborty: Anyway, I have got regard for you.

Rajiv Mittal: Second thing you are saying our margins, though everybody is gung ho about it, our margins have not that gone up. I think you should see this is an EPC contract with almost 3 years life cycle of a project. Overnight, we cannot and we will not be able to do because even if there is an improvement in the project, so see the direction rather than looks for a destination in a hurry. This is going to take time. It will be stepped improvement and it's better to have a step improvement rather than having peaks and troughs.

Aruna Chakraborty: No, that I agree, yes. But only thing is what I could have made out that is it's basically in this quarter, we got the economies of scale.

Rajiv Mittal: I don't think, throughout this company, we always had economy of scale.

Aruna Chakraborty: No, no, since the turnover went up pretty high.

Rajiv Mittal: It gone 10%, 14%. The quantum jump was not there, it's 10% to 12% of turnover went up, not much.

Aruna Chakraborty: No. 10%, but that won't go straight to the profit.

- Rajiv Mittal:** I hope you are right. There is a direct cost subject to the profit.
- Aruna Chakraborty:** Yes, the fixed cost portion. So, that is a good thing. So, we have to keep on increasing the turnover.
- Rajiv Mittal:** And we will not do it at the expense of margins, which I clearly explained our construction will come down. If you tell me improve the speed of execution, I fully agree. But our focus is not on top line, our focus is on getting to the bottom line.
- Aruna Chakraborty:** No. I am not. Yes, whatever contract you have got for that execution, if it is a little faster, at least it should be on positive side every quarter henceforth. So, that we keep on getting the benefit of that scale.
- Rajiv Mittal:** Okay. First, we will do, you said the commodity prices have substantially reduced, not at all my friend. The Rs. 35 to Rs. 40 kilo a steel went up to Rs. 60, Rs. 65, now it is Rs. 58.50. So, yes, 10%, it has come down. But don't forget, it went up 50% and came down Rs. 10, okay?
- Aruna Chakraborty:** It didn't come down after imposing the export duty also?
- Rajiv Mittal:** No, not at all. You can see, go through the website of SAIL or RINL or anybody and see what is the price of steel, not gone off, cement has not gone off.
- Aruna Chakraborty:** No, I believe you, sir.
- Rajiv Mittal:** Molybdenum, nickel nothing. So, we have not used this as an excuse for our margins because for us, that's the business we run. It's our job to manage this. Some of it we manage by negotiating contracts with escalation formula based on commodity index that is perfectly managed by optimizing the engineering and optimizing our procurement.
- Aruna Chakraborty:** I believe it. I believe you on all this. And sir, the employee cost
- Rajiv Mittal:** Last question you had was on employee cost.
- Aruna Chakraborty:** Overseas employee cost. Per capita employee revenue is much, much less than our Indian guy. That's a fantastic thing, but Indian guys are doing really good. But what are they doing? Because you see, in this quarter, we paid almost Rs. 23 crore for Rs. 177 crore turnover. There's an incremental revenue consolidated and the standalone. We paid Rs. 23 crore for Rs. 177 crore and in India, we paid Rs. 42 crore for Rs. 572 crore. So, per capita output, so that's why I asked you if any 1 or 2 people, those were top-level guy, are they being overseas so that that cost doesn't come to India and it has been debited from overseas jobs.
- Rajiv Mittal:** We don't shift cost. We are not in a business of shifting costs from India to overseas or overseas to India. It's very simple. See the guys what they earn in Europe or in any Western world, any

time between 5 to 7x of a guy who earns in India, almost doing a similar job. So, hence, if you see this company since we have taken over our erstwhile parent in 2007, continuously, we have reduced the overseas cost and increased in growing geographies like Egypt, Turkey and India. So, these are making us very competitive. But the overseas cost will remain like if we are doing a business in Switzerland, we do not send Indians to Switzerland and execute the project.

Aruna Chakraborty: No. In that case, tenders should have been quoted like that. But it doesn't permit. I'm sure you know much better than me about the tendering processes there. So, is there being paid more, so the tender should support that tender enterprise. I don't know. I don't know much about that.

Rajiv Mittal: Operating margins in Switzerland are at a level of 40%, whereas we do it in India 20%. So, operating margins are 40%. But then there is a higher cost of running the organization.

Aruna Chakraborty: Because our operating margins, the EBITDA overseas business is bringing down overall EBITDA.

Rajiv Mittal: It's been always like that and it will remain like that. The only thing which we have done, which you have probably noticed, and you will continue to notice going forward that less and less would be done from Europe and more and more will be done from developing geographies.

Aruna Chakraborty: Developing geographies. I just wanted to know these things. And the final one, my dearest one.

Rajiv Mittal: Very soon coming up, very soon coming up. Just have a few more months' patience.

Moderator: The next question is from the line of Sriharsha KJ from Gardner. Please go ahead.

Sriharsha KJ: I would like to know about the update on the Chennai desalination order since you were one of the 4 bidders who are shortlisted for that project?

Rajiv Mittal: Good. I think that was also a question from the last person who was asking question. See, the point here is it's been going on for almost 1.5 years. Prequalifications were over, technical bids were submitted, the revaluations are completed. Now we are waiting for the price bids to be opened, which I believe any time, very soon within this month, the price bid will be open, and the government will announce the preferred bidder. After that, it's all about approvals and negotiating the contracts with the preferred bidder. So, it should happen within a quarter or so.

Sriharsha KJ: Other than this project, is there any other project in India, which is coming up for the desalination project?

Rajiv Mittal: Many, many, many projects. I think, as I said, the future is belonging to desalination because this is 1 manufactured water, as I call it, it's not a God given water. We don't depend on rains for this. We have a large, long, long coastline and we are blessed with long coastline in our country.

So, anywhere in the coast, we can put in a desalination plant and manufacture this water. And your company WABAG is very much capable of doing it. We have a demonstrated track record. We have technologies. We have experienced. We have references. So, we will be a candidate for all desalination plants, especially medium to large desalination plants, we will be doing. And you will see that going forward, there will be a few projects if we are lucky within this fiscal, we can announce that. And we are also classified as one of the top 10 desalination companies globally.

Moderator: The next question is from the line of Omkar, an individual investor. Please go ahead.

Omkar: I just wanted to update, as you said the price bids are yet to come for that 400 MLD JICA order. But I just gone through one of the articles where we have seen early January next year, the work of that product may start. So, it will still take a couple of months or order may get declared end of this calendar year?

Rajiv Mittal: No. As I said, the price bids will be opened maybe this month, if everything goes well and we get all the approvals to do that. But after that, there's a long process because it's a multi-laterally funded project. One is the state government approval, then it has to go to the funding agency, JICA, Tokyo to get the approval, then they have to negotiate the contract with us and sign the contracts. Definitely, it's the next 2, 3 months process.

Omkar: It is a multilateral JICA funded. So, it will take time. Sir, I just wanted to quick update, nothing else. Really appreciate your feedback.

Moderator: The next question is from the line of Manish Shah, an individual investor. Please go ahead.

Manish Shah: One thing I wanted to know that the margins in the O&M business are higher compared to the normal margins?

Rajiv Mittal: Yes. It's always as a service business, it is always higher. It's more on the expertise, the process expertise, the technology expertise you have where you can add value to your clients, and then you can share those savings which you can bring to the plant. So, naturally, the service business margins will remain attractive and also the risk will remain lower.

Manish Shah: It is now at 33% of our total order book, right, approximately.

Rajiv Mittal: Don't know the numbers. Maybe Skanda can tell you that?

Skandaprasad. S: Yes, out of our order book, almost 36% is O&M today which is comprising of O&M from our design, build, operate projects, from our HAM projects, from our One City One Operator projects. All of this ranging anywhere between 7, 10 to even 15 years and as mentioned during

my opening speech that these revenues will unwind over the next couple of years when the EPC gets completed and the projects move into the on O&M phase.

Manish Shah: Sir, another thing was that the raw material prices have started coming down recently. So, in this quarter season, the margins are already, have gone up. So, I think the benefit of raw material prices should start coming in from now onwards?

Rajiv Mittal: Let's keep our fingers crossed. Why not? Let's see what this new quarter brings it to us.

Manish Shah: But at least these kind of margins are sustainable, right?

Rajiv Mittal: Yes.

Manish Shah: And sir, 1 last question about the order intake, in the half year, it is Rs. 1,500 crore, in this quarter, sir?

Rajiv Mittal: See, I think it's not in our hand as we discussed. Once the order gets done, we are already Rs. 3,000 crore, Rs. 4,000 crore. So, it all depends because we are in the project business, which is a lumpy business, it doesn't matter this quarter or next quarter. As long as we are on track and on an annual basis, at least we can pull up our books. It doesn't matter which quarter because business will remain a lumpy business.

Manish Shah: So, you're confident that actually in this fiscal year, you should get that Rs. 4,000 crore order book at least?

Rajiv Mittal: You are putting words in my mouth. I will not disagree with you. That's all I can say.

Moderator: Thank you. Ladies and gentlemen, this was the last question for today. I hand the conference over to the management for the closing comments. Over to you, please.

Rajiv Mittal: Thank you for a good discussion. A few words before we close, just to summarize what we discussed and because a number of questions came up again and again.

- We want to just tell you we delivered another quarter of profitable growth.
- Our order book stays above Rs. 10,000 crore.
- Our order pipeline looks strong with desalination, water reuse and wastewater treatment orders.
- Our business strategy is to focus on international, EP and technology projects has helped margin grow and keeps us on track to remain cash positive by end of the year.
- For the period, our core operating margins are at 12.7%. Core PAT is at 8.3%, signifying healthy and consistent improvement in profitability.

- Our focus on debt reduction has ensured gross debt reduction by 22% and net debt by 68% on Y-o-Y basis in H1.
- Our business is clean and green, ensuring water security and sustainability through water recycle, reuse, desalination and renewable energy production from biogas.
- The future looks bright for the water sector and WABAG is well placed to be a key global player in contributing to world's water sustainability and security.

Thank you, everyone, once again for your participation in our H1 Q2 FY '23 earnings call. We have uploaded the analyst presentation in our website. In case you have any further queries, you may get back to Stellar IR Advisors, our investor relation advisor based in Mumbai, or feel free to get in touch with us directly. Thank you very much. Enjoy your evening. Bye-bye.

Moderator:

Thank you very much, sir. Ladies and gentlemen, on behalf of VA Tech WABAG, that concludes this conference call. Thank you for joining us, and you may now disconnect your lines.