



BUILDING A WAY OUT OF THE COVID CONSTRUCTION TRAP

AS VA TECH WABAG RECOVERS FROM THE PANDEMIC'S IMPACT, CEO RAJIV MITTAL
OUTLINES HIS STRATEGY TO TAKE INDIA'S LARGEST WATER EPC BACK TO THE TOP

CAN EGYPT SELL ITS \$15BN DESAL DREAM?

AS CAIRO OUTLINES A 30-YEAR BUILDING PROGRAMME,
IT WILL NEED TO PERSUADE WARY PRIVATE INVESTORS

WHERE NEXT FOR FRÉROT'S SUEZ BID?

ACTIVIST INVESTORS ARE THREATENING TO UNDERMINE
BOARD RESISTANCE TO VEOLIA'S TAKEOVER OFFER





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Cover picture: VA Tech Wabag

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CORPORATE STRATEGY

Wabag outlines post-COVID company revitalisation

India's largest water specialist is looking to beat the global construction slump. Armed with new equity backers, it is hoping an asset-light approach will see share prices recover.

India's largest water EPC contractor, VA Tech Wabag, is heralding a return to pre-pandemic performance levels as it celebrates ten years as a publicly listed company this month, in the middle of a global pandemic that has severely hit water construction work around the globe.

However, with the shares still trading well below the peaks seen just a few years ago, the company is still in sore need of a financial rethink. Following the completion of a key fundraising move this month, Wabag managing director and CEO Rajiv Mittal sat down with GWI to talk about the company's new strategy for the next 2-3 years, in which it aims to focus on its core business, reduce construction exposure, and shore up cashflow.

"In the first place, we remain with our core," Mittal explained to GWI. "We have been and will always continue to be a pure-play water technology company. Second, we will continue to have our focus on developing markets. And third, we will improve and increase our focus on the industrial and O&M business. That would mean less construction and more engineering technology. So, we plan to be an asset-light, knowledge-based business rather than a hardcore construction business."

The stronger focus on core parts of the water business and profitability has come about after a difficult period for the company that saw the share price decrease by more than 75% from early 2015 to early 2020. Wabag had its share of profitability-related issues before the COVID-19 pandemic, when investors raised concerns about the company's receivables from state-owned power utilities in India. The company had taken on non-water treatment work including ash handling and coal handling in two power sector projects, and when its consortium partners faced financial difficulties, Wabag as the minority partner had to take over the projects to see them through to completion. "We had to invest a lot of money, and 50% of the receivables [at that time] were due to that. Minus this, our net working capital is best in class in our peer group," Mittal emphasised.

A recent infusion of \$16 million from

REACHING A MILESTONE

Rajiv Mittal, managing director and CEO of VA Tech Wabag, saw the company hit ten years as a publicly listed company this month. Now, he faces the challenge of a pandemic-induced slowdown in some of the company's key markets, including the developing world.



Source: VA Tech Wabag

equity investors (see *GW* weekly briefing, 27 August) has improved investor sentiment, but has also raised questions on the timing and purpose of the fundraising programme. Mittal told *GW* the fundraising round announced in late August will help the company to execute its historically high order book of more than \$1.5 billion (see chart, facing page). "Fundraising has been on our agenda with the shareholders for three consecutive annual general meetings," Mittal said. "In our existence in India for the last 25 years, and now in ten years of listing, we have not raised any funds from the market. The fundraising, which was approved, was an enabling resolution just in case we need funds for a large build-own-operate-transfer or hybrid annuity model project. The investments will also be used in executing our order

book, which is at an all-time high."

The strategy to focus on the existing order book aims to lower cashflow risk in the next two years, when developing markets are likely to see a dip in new projects due to slower tendering and a lack of infrastructure-led stimulus efforts. While the impact on global water utility spending from the pandemic has in some ways been less severe than originally predicted, the developing world markets and industrial customers that account for many of Wabag's key orders have been particularly hard-hit by the slump in business activity.

"Not just the water sector, but business in general will take time to recover," according to Mittal. "I think for the next two quarters, the recovery is going to be slow, because people are still scared and very cautious. Although business has ▶

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started improving and it is much better than the last two quarters, I have my own doubts as to whether it will pick up speed. Some countries have taken action to create security nets, but other than that, I have not really seen money coming into projects yet.”

Mittal stressed that Wabag’s focus within developing markets is likely to be on projects backed by multilateral development funds, and he strongly believes their role is set to increase. “As governments are starved of funds and water and wastewater is in the social sector, the time is apt for these multilaterals to fund,” he said. “I have no doubt that South Asia is going to be a major beneficiary of these funds going forward. Multilaterals also bring in good governance, best practices, and international consultants. Most of our orders are multilaterally backed projects, and we are not depending on state-funded projects that entail payment risks.”

More than 80% of Wabag’s order book consists of municipal projects, and the mix is unlikely to change, given that the company’s historical industrial focus markets – oil & gas and power – are both struggling. “We do not have a target with respect to how much we want to be in the industrial sector,” Mittal told GWI. “Industrial investments have been low in the last few years, and thus our order intake has been low. Oil

& gas requires very high standards, and we have been very comfortable with it. It has been our leading industrial business where we would like to focus. If there are opportunities, we will be the first one to be there.”

Wabag is also the leader in the growing market for wastewater hybrid annuity model (HAM) projects in India, having picked up two HAM projects and one large one-city-one-operator project. Under the HAM PPP structure, 40% of the project cost is paid to the developer during construction, and the remaining 60% is paid along with O&M costs. In the one-city-one-operator model, multiple wastewater projects in a city are bundled into one package to bring scale to the project. Both developments sought to bring more private capital into a sector that has been historically shunned by investors.

“PPP never picked up because projects were always dependent on government subsidies and were not self-sustaining,” Mittal said. “It’s very important to go for a resource recovery model. Each plant, whether it’s wastewater or water, has to be financially self-sustaining. HAM or any project will only become viable when there is revenue generated from the project. Once we have these kinds of models working, then HAM-like models will definitely be more successful. The government took

“We plan to be an asset-light, knowledge-based business rather than a hardcore construction business.”

Rajiv Mittal, CEO, VA Tech Wabag

a fantastic step in providing a sovereign guarantee for the National Mission for Clean Ganga. But ultimately, I think this has to move to the state level. And nobody is going to depend on a state guarantee if plants are not going to be self-sustaining.”

Beyond its largest market, India, Wabag plans to expand in South Asia, ASEAN, Latin America, the Middle East, and Africa. “We don’t want to concentrate risk on India, which we have been saying for years. And that’s why when we formed our clusters, we gave a special emphasis to the Middle East and Africa. We think that the next level of growth will come from this region. And that’s where we are setting up our teams, our projects, and you will see us focusing on this market,” Mittal explained.

With the company’s sights clearly on services and on large projects, Mittal said that Wabag hopes to strengthen its position by advocating for larger-scale bids and focussing on cost-competitiveness. “We were one of the leaders when we started O&M around 20 years ago,” he said. “But slowly the market has become very competitive. Now we have moved one step ahead by advocating ‘one-city-one-operator’. It needs a certain capacity and capability to handle a city with the kind of complexity where you have an annual revenue of \$20 million from one project. We will also set up more engineering centres like the ones in Istanbul, Baroda, Pune and Chennai that will serve the global Wabag entities. Our focus on cost-competitiveness remains, and we will utilise every opportunity to reduce our cost.”

Mittal concluded by explaining that digital will form a core element of Wabag’s service offering. “Digital is definitely part of our strategy, which you’ll see us doing more of in the future. We are working on models for remote monitoring, leak detection and non-revenue water reduction. Wabag has always been a company that believes in organic growth, and our aim will be to develop more in-house. We would acquire some start-ups to partner with, but the growth will be mostly organic.” ■

BALANCING THE BOOKS

Wabag is emerging from a dip in investor confidence caused by dropping revenues, and concerns over the company’s receivables. To lower cashflow risk for the next two years, it will use proceeds from a recent fundraising round to execute its order book, which has hit a record high.

