



“VA TECH WABAG Q3 FY13 Earnings Conference Call”

February 11, 2013



MODERATORS: MR. RAJIV MITTAL – M.D., VA TECH WABAG LIMITED
MR. S. VARADARAJAN – ED, FINANCE, VA TECH WABAG LIMITED
MR. PATRICK ANDRADE – HEAD OF INDUSTRIAL WATER GROUP



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Moderator

Ladies and gentlemen, good day and welcome to the VA TECH WABAG Q3FY13 Earnings Conference Call. As a reminder, for the duration of this conference, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions at the end of today's presentation. Should you need assistance during this conference please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rajiv Mittal -- Managing Director, VA TECH WABAG. Thank you. And over to you sir.

Rajiv Mittal

Good afternoon, friends. I welcome you all to VA TECH WABAG Post Results Earnings Call for December quarter. Along with me we have Mr. Varadarajan – our Executive Director, Finance and our Investor Relations Advisors and Strategic Growth Advisors. I will give you a brief overview of the developments, and after that we'll be happy to take your questions.

This quarter we also have Mr. Patrick Andrade, Head of our Industrial Water Group with us from Pune to share his view on the opportunities in Industrial segment with you. Taking you through the business highlights during this quarter, let us first address the Nemmeli Desalination Project in Chennai. At the outset, I am very happy to announce the successful commissioning of our Nemmeli Desalination Project at Chennai. A formal inauguration by the Hon'ble Chief Minister of Tamil Nadu is expected to be announced by customer soon. Completion of this plant is a significant reference for WABAG in the Desalination space. You would recall our announcement of a separate SBU for Desalination in India for company to focus on this futuristic technology. WABAG is now engaged in executing a Seawater Reverse Osmosis Plant of double the capacity in Oman.

Let's shift gears to order book. On the order book front, year-to-date, we have added close to Rs. 2,000 crores of fresh orders, of which close to Rs. 1,000 crores came from this 3rd quarter alone including new framework contracts. I'm sure this is encouraging for all of us as this came in at a time when the market is going through a lot of challenges.

A few words on our Oman Desalination Project – This is Al Ghubra Project. As we discussed last quarter we had secured an order for 191 MLD Desalination Project in Oman. We are happy to inform you that we have completed the registration formalities to form a Special Purpose Vehicle (SPV) to execute the Desalination Project at Al Ghubra in Oman which should be incorporated by this week. We're awaiting financial closure of this project and is expected that it will take place by March this year. In the meantime, based on limited notice to proceed from customer, engineering work on the project has commenced in the month of December 2012.

Let me now take you through fresh order intake during the quarter. The company booked fresh order intake of approximately Rs. 600 crores during this quarter. With the above-mentioned addition our current order book now stands at Rs. 4,264 crores. Of the total, two-third of this order book is related to India business, and the rest is from our overseas subsidiaries. Key orders received during the quarter are Rs. 217 crores order from Bangalore Water Supply and Sewage Board for construction of 60 MLD Wastewater Treatment Plant at K&C Valley with power



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generation and that is the technology we bring to this project. The EPC component of this project is Rs. 194 crores and the balance towards operation and maintenance for a period of seven years. WABAG has also received an order of Rs. 75 crores from Kolkata Metropolitan Development Authority for construction of 140 MLD of Water Treatment Plant at Madhyamgram Municipality. Two orders worth €6 million have been received by our Switzerland subsidiary for innovative and advanced drinking water treatment. With these two orders WABAG Switzerland has once again demonstrated its strong technological position and pioneering role with regards to innovative processes. We also received Rs. 54 crores worth of Industrial order from Damodar Valley Corporation and NCC Ltd. This is an addition order to the order which we booked in the last quarter for Industrial Water; the additional order is for Pumping Station from same client BIDCO for a contract value of Rs. 36 crores. Standalone O&M orders from India contributed additional Rs. 4.5 crores, and our European subsidiaries also contributed €7 million for O&M orders.

In addition to the above firm order book, company has also framework contracts of Rs. 1,260 crores on receipt of advances, Letter of Credit (L/C), notice to proceed or achieving financial closure, this will form part of company's firm order book. I may mention that our framework contracts secured during the last quarter include a contract of Madinaty project in Egypt for approximately Rs. 110 crores; this is for Domestic Wastewater Treatment Plant from a private sector customer upon receipt of the Letters of Credit (L/C) we would take this project into our order book.

We are also happy to announce that during this quarter we set up VA TECH WABAG Spain, a wholly owned subsidiary of VA TECH WABAG India to tap into the Mediterranean Desal opportunity and also look at high potential water market of Latin America. Many of the countries in Latin lack water and wastewater infrastructure. Also, the increased water scarcity, lack of new resources and raising cost to preserve current water sources are the key challenges being faced in this Latin American Water market. Most opportunities revolve around expansion and upgradation of existing water supply and wastewater systems. Water discharges and desalination are the major trends in the region considering the overall scenario the growth demand for the drinking water and increase need to renew equipments, control management and technology triggered us to establish our local presence and incorporate a subsidiary to focus on this Water market which would provide a large potential for growth in future.

We would like to mention that our revenues for the last nine months has been Rs. 933 crores which is year-on-year growth of 21% and we would like to reconfirm that our annual guidance given at the start of the year of consolidated revenues of Rs. 1,650 to Rs. 1,700 crores remains. We have been mentioning in our earlier call also our strategy to decentralize our business because Water is a business which is a very local business and hence our proximity to the customer is very important. So over a period of time we have been working on setting up what we call "Multi-Domestic Units" which are profit centres based in the local market and they get support from the central corporate for finance or for technologies. This is to tap the local market especially in eastern parts of Europe, Middle East and North Africa and already we are seeing



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that this strategy is paying high dividends to us. This Multi-Domestic Units are shaping well. In addition we've also appointed senior professionals as country managers in these countries like Sri Lanka, Russia, and Saudi to tap the growth potential in this market. We expect these dividends to also show results in the coming years.

Now, I request Mr. Patrick Andrade, our Head of our Industrial Water Group to share with you his views on Industrial business segments. Over to you, Patrick.

Patrick Andrade

Thank you Mr. Mittal. Dear friends I'm going to talk to you about Industrial Water and Waste Water opportunity space. As you are aware the country is doubling its refining capacity as well as petrochemical capacity and a number of new expansions in refinery and petrochemical complexes are taking off. Almost all the state-owned refineries, the private refineries are going ahead with capacity addition; therefore Industrial Water will see a multifold growth in the coming years.

WABAG has been one of the front leaders in technology. Today in India WABAG is way ahead with respect to Wastewater Recycling Technology with feeding some of the most toughest waste water like refinery waste , cracker waste petro chemical Waste including the toughest petrochemicals like (PTA) Purified Terephthalic Acid or Paraxylene waste. All this waste water is converted into ultra pure water. We have been in this Recycling business for the last one decade, creating good references on Indian market for Water and Wastewater Treatment and Recycle facilities. Proven performance of our plant is facilitating our customers to place repeated orders and addressing the expanding market in the Industrial Water segment.

Environmental Ministry has also tightened the regulation such that all the new power plants, refineries, petrochemical complexes, fertilizers, steel industries expansion are permitted only if significant part of the wastewater is treated and reused and only a fraction of freshwater is given to this industry. This has forced the industry to act fast on recycling the Wastewater. Also due to the scarcity in fresh water in the coastal areas industries are forced to go for sea water desalination. Today, the tenders or bid requests are prepared by power, refinery, fertilizers or the steel industries carry a significant requirement of recycle in Wastewater and we expect in the coming years significant part of the order book of the industrial water group will be with the Recycle facility.

In the overseas market, WABAG India is focusing on a select market in the export countries, mainly focusing on the Recycle market and in Brackish Water and Seawater Desalination focusing primarily on Middle East and South East Asian markets apart from the SAARC countries. We also see a good scope for Wastewater Recycle and for attaining business.

India being a power country, with a number of ultra mega power plants now, yet this industry is facing a challenge at present owing to various reasons. It is however expected that the country comes out of this challenge very soon as they are currently facing acute shortage of power. As a company WABAG is having the right technology, right to address from 50 MW to 800 MW and



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the reference to address the BOP segment along with the strategic alliance partner for BOP. Perhaps you are aware new water policy encourages reuse and recycle for the industry apart from desalination. This is in line with the scarcity that the country is experiencing and this will facilitate more technology-oriented plant to be put up for addressing the needs.

Over 50% of revenue of WABAG India in this year so far has come from the industrial clients. We have consciously worked more on industrial opportunity, considering the market conditions and we have been lucky to get our break through orders to a large extent. WABAG has the advantage of being a technology player whose presence in Industrial, Municipal Water, Wastewater and also on the Fresh Water unlike the other players in the Indian market. I look forward to many such opportunities with you to share the opportunities that comes our way in the Industrial Water segment in the near future. Thank you, and over to our CFO Mr. Varadarajan, for taking you through the financial performance of the quarter.

S Varadarajan

Thank you, Patrick. Good afternoon, friends. Let me take you through the financial highlights for Q3FY13. On consolidated basis during Q3FY13 we achieved a revenue of Rs. 354 crores, an EBITDA of Rs. 22 crores and PAT of Rs. 10 crores. On a standalone basis for the quarter ending 31st December 2012, the company recorded revenue of Rs. 226 crores. The net profit for the quarter is Rs. 17 crores as compared to Rs. 13 crores in Q3FY12. In nine months on a YTD basis this year we achieved revenue of Rs. 933 crores as compared to Rs. 772 crores reflecting a year-on-year growth of 21%. EBITDA has also grown 65% to Rs. 65 crores from Rs. 39 crores previous year. The net profit is Rs. 30 crores as compared to Rs. 13.4 crores in the corresponding previous year representing a year-on-year growth of 124%.

The projects significantly contributing to the revenue during the quarter, includes the Dambulla Municipality Project in Sri Lanka, Reliance Dahej ETP project, Majis Industrial Services Project in Oman, APGENCO project in India and the Nemmeli Desalination Project in Chennai.

As mentioned by Mr. Mittal our annual guidance for revenue of Rs. 1,650 crores to Rs. 1,700 crores remains unchanged. We have already secured Rs. 14.6 billion worth of fresh order intake this year despite the challenging context around us, and we expect to have a good order book by end of the year.

On the receivable side, with the successful commissioning of the Nemmeli Desalination Project, we would endeavor to collect a major portion of the outstanding amount on this project before the end of this financial year. The cash balance as at end of December 31st 2012 was approximately Rs. 310 crores. With this, we now open the floor for question-and-answers.

Moderator

We will now begin the question-and-answer session. The first question is from the line of HR Gala from Quest Investment Advisors. Please go ahead.

HR Gala

I just wanted to know, which are the specific areas in which we are facing the cost pressures, looking at the way in which the EBITDA margin has dropped sequentially between Q2 and Q3?



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S Varadarajan

It is not necessarily an indicator of pressure on the margin, in fact, all the order book what we are now getting in is all without any compromise on the margin. Now if you see the way we have been in the past as well, the mix of the order which is contributing to the revenue will determine what will be the contribution margin of the project for that quarter, because if you are looking at the EBITDA margin that is just a function where the cost of operation or the overheads will be moving almost uniformly whereas the contribution margin will be more depend upon the projects, which contribute to that revenue and the volume of revenue for that quarter. So it is just a mix of what you are actually seeing and it is not necessarily reflecting a pressure on the margins we are facing because of the context of whatever we are seeing in the market.

HR Gala

But is there any element of cost which has gone up, that is what my question was, cost of material as a percentage to sales seems to have gone up?

Rajiv Mittal

I just want to add to what Mr. Varadarajan said. We are operating in multiple geographies and there are at least 60 to 70 projects at any point of time on a consolidated basis that we are handling and this revenue is coming from all those projects. Now, all projects will not have same margin; some of the projects will have higher margin, some of the projects will have lower margins. So it is the mix of projects what gets done during that quarter determines the margin in that quarter. Just a general question, do we face any special challenges? Answer is 'no,' because normal business our margins are protected and also, as we said our guidance for the year is not changing, the margins are not going to change, and the yearly margins will still be secured because at the end of the year more or less all the projects which we want to achieve certain progress, we will achieve that is our expectation as of today.

HR Gala

What will be any capital expenditure plan this year?

Rajiv Mittal

We are an asset light company, the business model which we are running does not require any specific capital expenditure other than normal working capital which we need for our business. We do not expect that this year will be any special year where we will require any additional capital. The only thing which we had done is to invest in our corporate office which we have been telling. So that is only the expenditure which we are building our corporate office, but other than that there is no capital expenditure required for running our business or growing our business.

HR Gala

How much will that corporate office cost totally?

Rajiv Mittal

I think we had given some estimate. So I do not know the latest number, but it should be anything between 30 to 40 crores. We are not going to spend thousands of crores on our corporate office.

HR Gala

What is the net cash that we have?

S Varadarajan

You are talking about net cash, the borrowing is about Rs. 60 crores so you can reduce that.



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HR Gala Rs. 300 crores is the gross cash?

S Varadarajan Rs. 310 crores less by Rs. 60 crores.

Moderator The next question is from the line of Jonas Bhutta from Bank of America. Please go ahead.

Jonas Bhutta I have a couple of questions. Firstly, if we see your O&M revenue in the international subsidiaries that has seen a sudden drop from Rs. 30 crores to Rs. 50 crore quarterly run rate that we have done in the first half, it has declined to roughly Rs. 16 crores. What does that pertain to? Has a major order got completed? And how do we sort of forecast this going forward at least till the next set of orders come on stream?

Rajiv Mittal We will have to come back, let somebody analyze it and maybe later in the call we will give you an answer.

Jonas Bhutta My second question would be even without a formal opening of Nimmeli have you started to bill the client on O&M?

Rajiv Mittal No, we cannot because unless this water is given to the domestic and the commercial users we will not be able to start our billing. Today this water is being produced, it is given to the pipeline contractor, they are using this water to flush their lines and disinfect their lines and after they have done that and formal inauguration will take place and then I think we can start billing. Billing can only happen once the client takes over the EPC part and hands it over back to us for operation & maintenance which is expected next month.

Jonas Bhutta I also have a question on your visibility for the next year order inflows given that you are practically done with FY13, what would be your strategy for FY14 in terms of focus between Municipal, Industrial, Domestic and International given that we have our general elections coming up. So does that typically impact ordering on the Municipal side so you would probably want to have a greater weightage towards Industrial, how do you see that?

Rajiv Mittal Our strategy over the years has remained the same and the coming years we see no difference. We do not need a lot of orders as we have said before to fill up our order books. And our concentration will be on a few targeted orders where we see clear technology advantage, so that we are the preferred contractor for our clients. Also, we pick up orders where the financing is assured, either they are industrial projects where we see the financing is more secure or which are multilaterally or central government funded projects. So this year also our strategy is going to remain the same and some of these projects which are already approved and in the process of bidding because some of these bids we have already submitted which will get decided only next year I do not think elections would stop them going forward. So, we are very hopeful of achieving our targeted order booking next year also based on the visibility we have as of today. It is a combination of both industrial and municipal and also home market in India plus international market.



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Jonas Bhutta

My last question would be on the Spanish subsidiary that you have set up this quarter. Can you just give us a feel of how that market operates given that, at least on my knowledge, you have not done major work in Latin as of yet, so there is no local PQs for you. So is there a local PQ required to enter that market, or will it be based on the Austrian PQs, how do you see that?

Rajiv Mittal

Latin we all know is an emerging market, there is huge potential like any other emerging market for the Water sector and that is what I said we see a major thrust on the Wastewater Treatment and on Desalination. Yes, you are right, we are not present there, it is an entry for us into Latin, but we have also seen some of the pre-qualification requirements and there is no specific requirement in that market that you should have worked in that country or region to prequalify for the projects. We have enough experience globally to prequalify for most of the projects. And as we have done in the past, areas where we feel we will be short of certain pre-qualifications we do not hesitate in tying up with some of the other contractors and together we can meet the pre-qualification requirements. So, it will be the same strategy for Latin market, we will try to push our references for pre-qualification and if we are falling short, we will tie up with somebody else and bid as joint-venture.

Jonas Bhutta

Today, who are the major players there, are they primarily European or there is Chinese competition or what is the market like?

Rajiv Mittal

The market which we are going to address is again going to be a technology market, we do not see Chinese companies in the technology market, they are more into general construction. So today majority of them are Spanish companies with some of them from other European countries.

Moderator

The next question is from the line of Ankur Sharma from Philip Capital. Please go ahead.

Ankur Sharma

There is a loss of 7 crores on the overseas subsidiaries, which is obviously a very high number compared to the last few quarters. What's happened there and even the execution was a little weaker at about 20% YoY growth relative to about 40% as what we have said we would do for the full year. So just trying to understand what were the reasons behind that?

Rajiv Mittal

I think the major reasons, as you rightly pointed out that the top-line growth was not in line with what we expected and when you do not have the top-line as Mr. Varadarajan said, the fixed cost remains same. So naturally you will see the effect on the bottom line. We are executing a few projects which are financed by various institutions and one such project typically is Czech government finance is like Czech Exim, financing a project in Iran. So there was a default from the client side in paying some interest back to Czech Exim and they had stopped or put the project on hold for a few months saying that till the interest payments come from Iran they will not allow us to ship further. So that was one reason that there is a shift of certain sales. The second one was again in Tunisia, which is financed by a Swiss Exim and this again they opened L/C but we wanted a certain change in L/C parameters and that also we had to shift our sale from the 3rd Quarter to 4th Quarter, and now we have already got this LC



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amended and now we can start our shipment. One more project in Saudi which we are executing a Sewage Treatment Plant. There was some delay on the customer side in approving certain document, as a result we could not supply some of the equipments which were planned to supply, we believe that some of these documents are now getting cleared and we hope that at least part of that we will meet in this quarter.

Ankur Sharma

So just a follow-up therefore, I don't know if you can quantify, but how much of sales would you possibly have lost because of these three specific projects? And as you said you would be making it up in Q4. So are you on track to meet your guidance of close to 40% to 45% growth on the top-line for FY13 on the overseas subs?

Rajiv Mittal

Two-three questions in one and I will answer one-by-one. So I think the first one, yes, there is a drop and we must have lost close to about €4-€5 million because of this on the top line, which we believe that most of it we will be able to recover in this quarter and achieve some sales, but some of it we will probably not, will get shifted to next year maybe first 1st quarter. The second, we have always given a guidance of approximately 30% to 40% growth in our International business and because of this drop we may see 5% to 10% drop in that, so we are now looking at close to about 25% to 30% growth in our International business. So I think with a little bit of luck and pushing it up we may be able to push it to 35% but say average of about 30% to 35% we can expect. So there will be about 5% to 7% drop from what we had said earlier.

Ankur Sharma

And at the PAT level again, I guess, the earlier guidance was to do close to about €1-€2 million of PAT and if I look at the YTD number, we are looking at about 9 crores loss actually if I look at the nine-month '13 number. So any guidance if possible on the PAT level as well for FY'13?

Rajiv Mittal

We have never given PAT guidance, but I think more or less we would have some effect but all this investment which we are making in all these new subsidiaries like whether it is Turkey, China, Romania and all that they are all starting to pay off and even in the 4th quarter you will see some of the sales will go up in all the subsidiaries and we will see a good top-line. And if we have a good top line, automatically the PAT number also will be achieved. Now, the important thing is that we have to somehow recover from this quarter where we miss certain sales, if we can push all of this or at least most of it in this quarter.

Ankur Sharma

If you could just update me on three specific projects which I was looking at, one was on the Chennai the third desalination plant which is obviously supposed to come up for tendering. When did you see that happen, if you just give us an update on that?

Rajiv Mittal

That is very positive news for the country and especially for Chennai and being a water company we encourage such announcements and you will be glad to know that the government has moved really fast and they have already awarded the consultancy on this project. So the



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work has commenced. Generally it takes about a year. So one would expect this tender to be coming out next year.

Ankur Sharma You mean next financial year or?

Rajiv Mittal Next financial year.

Ankur Sharma By this calendar year or would that slip into CY...?

Rajiv Mittal At least it should come out for bidding in this calendar year, may not get awarded this calendar year.

Ankur Sharma The second was any update on the Mumbai sewage treatment plants where we were also prequalified, any update there?

Rajiv Mittal I don't know, Mumbai has moved very slowly, probably Mumbai doesn't want to treat its sewage and want to pollute the waters, they want to continue doing that. So we have been waiting for this project for almost 2 years and last year the pre-qualifications were announced at least for three projects; Colaba, Bhandup and Ghatkopar. Colaba tenders have come and we are bidding for it but Ghatkopar and Bhandup are yet to come and we are also equally concerned that why it is a delay because these are coming out then they will have to come out with the rest which is Worli, Bandra, Versova, Malad. So this is obviously a one-year delay.

Ankur Sharma Any progress on the Aurangabad project where we were still waiting for financial closure the last time we had spoken to you?

Rajiv Mittal I understand the financial closure has taken place very recently but before I confirm and announce it we need to be doubly sure and hence we have not announced it. So it is very recently and we want to reconfirm it before we announce it.

Ankur Sharma My last question would be on the Oman Desalination Plant which we had announced last quarter. Would that plant be booked in this financial year or do you think that could slip into Q1 of next year?

Rajiv Mittal We are very much hoping that it will be booked in this financial year because we are expecting a financial closure in March because this is a very fast track project. Though technically we have time up to April to achieve the financial closure which the sponsors are doing in this case -- Sumitomo and team, but we think that they would achieve it definitely a month in advance. So we are very hopeful that this will get booked this year.

Ankur Sharma If I could just squeeze in one last bit on the situation in Libya because we were hopeful that we could start booking some revenues starting from Q4 of this year. So any change on the ground there?



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- Rajiv Mittal** I think we have said this many times on this con call that we have not budgeted any revenues or any fresh order intake from any of the Libyan projects which we have. So it was never planned to achieve any revenues or order intake this financial year, but things are moving well, as you said, we were also hopeful that something will happen faster than later, but I think we have all read in news that Libya is looking like it is going back, there has been a lot of violence in Benghazi and we heard that about all this violence and again back to killing. So we are less hopeful that anything will happen in this quarter. Let's hope that things will change for good, and we will see something in the next financial year but we have just finished our budgeting exercise, and again next year we have not taken any revenues in our estimate for next year's budget also.
- Moderator** The next question is from the line of Sanjeev Zarbade from Kotak Securities. Please go ahead.
- Sanjeev Zarbade** I wanted figures for receivables and the other income segregated between interest cost and other income?
- S Varadarajan** Receivables, I will tell you, in terms of number of days as of end of December it is 193 days, annualized basis. And working capital stands at 65 days annualized basis without cash.
- Sanjeev Zarbade** And the interest cost for the quarter?
- Rajiv Mittal** On a consolidated basis, net interest is about 10 crores.
- Sanjeev Zarbade** That is the expense?
- Rajiv Mittal** Yes, that is the expense, Rs. 10 crores.
- Sanjeev Zarbade** Regarding this framework contracts, what visibility do we have in terms of when these projects could get financially closed and when execution could start?
- S Varadarajan** There are two framework contracts about which Mr. Mittal was talking about; one, he was talking about a job in Egypt which is Madinaty project. Once we get the L/C, we will take that as order intake so anytime in Q4 is what we are expecting. Similarly, he was talking about the financial closure which is expected on this Al Ghubra Oman job Sea Water Reverse Osmosis Plant. That is also expected in March. So these are the bigger numbers what we're talking about. The other job in Libya. He already mentioned Libyan situation has not improved in this quarter.
- Moderator** The next question is from the line of Chhavi Agarwal from Ambit Capital. Please go ahead.
- Chhavi Agarwal** You mentioned that the cash is about Rs. 310 crores. Does this includes part of non-current deposit that you have in other current asset or is it excluding that?



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- S Varadarajan** It includes the total cash. If it is 366 days fixed deposit, we classify as current and non-current, I am talking about total deposit.
- Chhavi Agarwal** It is non-current bank balance also?
- S Varadarajan** Yes.
- Chhavi Agarwal** In the “Analyst Presentation” you have mentioned that the framework contract in the EPC Municipal is about Rs. 371 crores. So does it include the Oman job also?
- Rajiv Mittal** Yes, it includes the Oman Job. We have said that 191 MLD Sea Water RO Al Ghubra Oman.
- Chhavi Agarwal** So we can say that the EPC works for that job would be somewhere in the range of Rs. 350 crores? Because what I'm saying is, I know that in the framework contract you have mentioned 191 MLD Oman Project but if I go to Slide #11, there the framework contract under the municipal is Rs. 371 crores. Does that mean the Oman Job is for that much.
- Rajiv Mittal** We have taken approximately about \$70 million to \$80 million as a framework contract for Al Ghubra, I don't have the exact number but it is something in that range which we are just freezing as I said, just freezing the company and we will just freeze the individual values for each of the partner. So it will be in that range, about \$70 million to \$80 million.
- Chhavi Agarwal** The total Industrial revenues have declined sequentially in Q3 compared to Q2. Any specific reason for that given that Q2 you had booked very high revenues of about Rs. 270 crores in the total Industrial segment? Is just a one-off where the last quarter booked larger revenues?
- Rajiv Mittal** It is a mix of the projects which gets booked as a sale because you see that as the order backlog, we still have a very substantial industrial order book. So it will definitely get executed because if you see our Municipal versus Industrial we still have about 25% of the Industrial order in the total order book and Industrial normally we normally don't have a lot of O&M as you can see from there. So it is mainly the EPC work.
- Chhavi Agarwal** Is there any large project which you can share with us, which is more than Rs. 100 crores either in India or in the international market which you are awaiting in the next two or three months other than the Oman Job?
- Rajiv Mittal** As we said that we are very hopeful of further booking good orders in this quarter and there are at least two or three such orders which comes under this definition which are our target projects to be booked by end of March but obviously you can understand we cannot name those orders, but these are at least minimum three orders which we are expecting to book in this quarter.



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Chhavi Agarwal In the key contract there is one order from Sri Lanka, which is Water Treatment Plant and Distribution System. You have mentioned earlier of about Rs. 350 crores that you were expecting from Sri Lanka. Is that the same project or is it a different project?

Rajiv Mittal Which contract you are talking about now?

Chhavi Agarwal This is on Slide #12, Water Treatment Plant and Distribution System Sri Lanka, Rs. 170 crores.

Rajiv Mittal But this is an order backlog you are talking about?

Chhavi Agarwal Backlog, I think this order was booked last quarter or quarter before that?

S Varadarajan This is the balance order in the order book which is an unexecuted part and this refers to that Sri Lanka Job Dambulla Project.

Chhavi Agarwal You mentioned about working capital days on a gross total basis of 65 days. Can you tell me the working capital days for the standalone entity?

S Varadarajan 78 days.

Chhavi Agarwal And how was it compared to last year?

S Varadarajan September it was 81 days. So 2-3 days it has come down. And on a consol basis again 2-3 days it has changed; 65 days is what as of December 2012, March 2012 it was 63 days.

Chhavi Agarwal At the end of this March '13 what is your plan to get back your working capital days to 63-65 days or would it be slightly higher than that?

S Varadarajan It is somewhat closer to what we were at March '12 we should be there in March '13. And even after increasing the sales we expect to have some good collection. My objective is to collect good parts from this Nemmeli job if the commissioning, inauguration, etc. takes place then we should....

Chhavi Agarwal How much money is due from Nemmeli Chennai Desalination Plant now?

S Varadarajan At least more than Rs. 100 crores we can collect as to commissioning that is a target for us.

Moderator The next question is from the line of Ankush Mahajan from KR Choksey. Please go ahead.

Ankush Mahajan In terms of EBITDA margins, the consolidated EBITDA margins that is endeavor to reach up to 9.5% as in the 2nd quarter con call that we had. So if I check out that for the nine-month EBITDA margins in the range of 6.7%. So if we need to bring it at 9.5% of the consolidated margins the 4th quarter we need to get 18% of EBITDA margins. So would you throw some



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light on what would be the situation of the EBITDA margins at the end of the year? As you said that the order book doesn't have any compromise with the margins but due to the revenue mix is there any change in EBITDA margins?

Rajiv Mittal

Generally, we are in that range, and this year is not going to be any different that we will be what we were even last year with after even higher sales because we have told you that we are looking at least about 15% to 20% increase of sales from the last year in that range. So even after that we would still have a margin of closer to that 9% - 9.5%, I have not done the calculation which you have done but our target still remains the same that we will be in that range of 9% - 9.5% for this year also because last quarter is where we do a big sale and our fixed overheads are the same. So naturally the EBITDA of last quarter is always the highest.

Ankush Mahajan

So we can say in terms of revenue mix, our endeavor would that we can reach at the range of 9% - 9.5%?

Rajiv Mittal

So far whatever guidance we have given, we have stuck to it and I'm sure that this year also the guidance whatever we have given in that range we will be, because there is nothing which has happened which forces us to change our guidance.

Moderator

The next question is from the line of Vinay Rohit from ICICI Prudential Life Insurance. Please go ahead.

Vinay Rohit

In FY12 if I look on subsidiary basis we have 3.3% EBITDA margin. So given that you are expecting (+25%) growth in subsidiaries, what is the expectation on EBITDA margins?

Rajiv Mittal

You are only talking about subsidiaries or consolidated?

Vinay Rohit

Subsidiaries.

Rajiv Mittal

I think, EBITDA will remain around that per cent what you said. We don't have the exact numbers. So I cannot confirm to you but it is expected to be in that same 3% - 3.5%.

Vinay Rohit

But given that you are doing 25% higher sales, shouldn't it be much higher than last year?

Rajiv Mittal

Naturally, this question should come to you, but you also heard that we are investing in the new markets because there is also an investment cost because whenever we invest in new markets like last year we have invested in Turkey, Romania, Sri Lanka and Philippines kind of countries so slowly they will take time to be positive. So there is always an investment portion which is also getting included in our fixed cost, which will over a period of time start giving us a positive result but initial year or two we will have to support them.

Vinay Rohit

Could you help me with the standalone debt and cash number?



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- S Varadarajan** I just mentioned the numbers over to you, we're talking about Rs. 310 crores of cash on a consolidated basis, in India if you want the gross cash it is somewhere about Rs. 190 crores.
- Vinay Rohit** Debt in India business?
- S Varadarajan** Debt is Rs. 60 crores.
- Vinay Rohit** So overseas we do not have any debt?
- S Varadarajan** Overseas I do not see any debt, we have repaid most of it almost. It must be negligible; it must be very small amount.
- Vinay Rohit** If I look in the order book Ulhasnagar Municipal has been there from the start of this financial year but we have not started any work. So is there any issue with the project?
- Rajiv Mittal** Yes, I think as far as the Water Treatment Plant is concerned we have a clear site, we can start tomorrow, we have done our analysis, the designs are done, everything is ready to start at the treatment plant site, but somehow the customer has not been able to give us the site at the water intake which is a very small site, where we have to pick up the water from the river and bring it to the treatment plant. Because we are not getting that we do not want to start our construction and do the investment and then we have to pay the interest costs on the investment till we get the site. So that is the reason we have not physically started the work though the design work and other things are completed.
- Vinay Rohit** So site need to be provided from Municipal Corporation?
- Rajiv Mittal** Correct.
- Moderator** The next question is from the line of GV Giri from IIFL. Please go ahead.
- GV Giri** Just wanted your view over the next 12 months, some color on what type of expansion in various countries you are going to do? Obviously, you will do it within the limits of keeping an eye on the EBITDA margins also. But how will you balance between the two objectives and which are the geographical areas that you are targeting?
- Rajiv Mittal** Definitely, I think we are aware of it, and when we do investments we take baby steps to take our investment because unless we make investments we cannot secure our future. So we are also balancing the profitability with the investment needs, whether it is investment in our research & development program or it is investment in our new businesses. Now, you have heard that we have done a new investment in Spain, but again we are not going to grow Spain just overnight without projects. So we are very aware that the overheads have to be controlled. So we are going to have only few guys to start with and they will be supported from other international subsidiaries to start with some of the proposals. Once they win projects, then we will grow on back of that, like we have done in Turkey, we have done in Romania and now we're doing it in



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Sri Lanka that we always wait for some order booking to have a major investment. In the meantime it is basically investment in the sales and marketing team and to some extent into the proposal team if we have to set up a small proposal team locally. I do not think in the coming year we have any plans to open any new subsidiary unless it is required by the business for executing a project but not from approaching new markets. The markets which we were missing was LATIN. Now we have opened that by opening our Spanish subsidiary. So now our focus next year would be to see if we can win some projects in the LATIN market.

GV Giri

And what about the JV with Sumitomo, is that targeting any more large wins in Calendar '13?

Rajiv Mittal

Sure, I think it is alive, it is kicking and we are working on large projects both in the Gulf market and in South East Asia market and we believe that we will be able to win at least one more project in this coming financial year.

Moderator

The next question is from the line of Vinay Rohit from ICICI Prudential Life Insurance. Please go ahead.

Vinay Rohit

Just wanted to know, you said that there was a project in Iran which has been put on hold. So what is the value of the remaining work to be done in that project?

Rajiv Mittal

I would say that it was only a temporary hold, I want to repeat if I have not conveyed it right that this is a project which is financed by Czech Exim Bank, and we are doing a Sewage Treatment Plant in Iran. Most of the supplies have been done and we have utilized the L/C. The last portion I think it was about €1.5 million-€2 million was left which should have been invoiced last quarter. Because of the interest which the Iranian client would have to pay to the Czech Exim there was some delay in payment of interest and they had put this project on hold for a few months till they get the interest. I'm told that this interest has been paid by the Iranian client and we should be able to invoice this amount in this quarter.

Moderator

As there are no further questions I would now like to hand over the floor back to Mr. Rajiv Mittal for closing comments.

Rajiv Mittal

Thank you. I would first like to make a small correction of what I had said, there was one question on the interest and I had mentioned wrongly 10 crores, it is not. The interest and financing charges for this quarter is 1 crores 29 lakhs. This is the total interest during this quarter at a consolidated basis. That correction I want to make. Before concluding let me recall some of the key messages which we gave today. I want to emphasize that your company has done well on the order booking despite the challenging context in the market. The company did not compromise on margins to achieve our order book growth. The company had shown growth on year-on-year and we are maintaining our guidance to the market. These are the key messages which we have given. And now I would like to thank all of you for participating in our Q3FY'13 Earning Call. We have also uploaded our "Q3 Analyst Presentation" of our company on our



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website. In case you have any queries you may get in touch with strategic growth advisors, our investor relations advisor or please feel free to get in touch with us directly.

Moderator

On behalf of VA TECH WABAG we conclude this conference. Thank you for joining us and you may now disconnect your lines.