



“VA Tech Wabag Limited”

August 16, 2011



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Moderator: Ladies and gentlemen, good day and welcome to the VA Tech Wabag Limited Q1 FY'12 Results Conference Call. As a reminder all participant 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. If you should you need assistance during the conference call, please signal an operator by pressing "*" and then "0" on your touchtone phone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to Mr. Rajeev Mittal. Thank you and over to you Sir.

Rajeev Mittal: Thank you. Dear friends, good afternoon. It is my pleasure in welcoming you all for this discussion on our unaudited first quarterly results for FY'12. Along with me is my Executive Director Finance, Mr. S. Varadarajan and also our Investor Relation Advisor, Strategic Growth Advisors. We would first like to update you on the various events during the quarter. Let us start first with the order intake. Some of the key projects back during the Q1 are 80 Crores contracts from Delhi Jal Board for design and construction of interceptor sewers and pumping station and 35 Crores worth contracts added for O&M services. Some of the letter of intents received from our overseas subsidiaries in Q1 are included in the framework contracts. Our firm order book stands at 3333 Crores as of June 2011, of this 73% is related to India business and 27% is related to the overseas subsidiaries. In addition to the firm order book as we mentioned earlier, we also have framework contracts of about 1136 Crores on receipt of advances or letter of credit or notice to proceed or achieving financial closure, we will take these orders to the firm order book. We also expect our subsidiaries in China to book its maiden order during this current year. In addition to that we are also expecting a few soft loan projects from Austria.

Now let us come to the project execution part. Let us start with our largest project, which is the Chennai desalination project. This project is progressing satisfactorily and we have carried out an invoicing of almost 56% of the EPC order. If you remember the EPC order is the size of 533 Crores and this plant is due for completion in June 2012. There is also a seven years operation and maintenance contract worth approximately 500 Crores, which will start after completion of construction and commissioning of the plant. Other key projects such as APGENCO, balance of plant, where we are doing the total water management, the Sri Lanka order and IOCL Paradip orders are also making a good progress. As you are aware we have a significant liquidity in our balance sheet and also we carry a very insignificant debt in our balance sheet, as our business model is asset light in nature.

We are seeing this cash in our balance sheet as strategic cash and we are constantly evaluating various opportunities for inorganic growth. There are a few targets, which we have shortlisted and we will have a detailed evaluation of the same with a view to closing



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this transaction during the current fiscal year. Our business is primarily technology oriented and R&D driven and we focus on cost leadership to ensure delivery of cost efficient technologies with superior water solutions. Water use and desalination business will be our key focus in the coming years and our strategy of technology and cost leadership will be a great advantage for backing this project of high complexity and magnitude.

We wish to reiterate our annual guidance of the consolidated revenues of 1400 to 1500 Crores and Q1 performance is quite satisfactory. We are on track to achieve our guidance numbers. We had earlier planned a 60:40 ratio for India versus Overseas on revenues but as a strategy in view of the current economic trend, we would forecast a 70:30 ratio between India and Overseas. Amidst the global market conditions like downgrading of US and European crisis due to Spain, Italy and Greece, we have a good order backlog and also a good order pipeline in India to make up for the same.. This is a positive scenario that we see emerging in an otherwise not very good global scenario. We are still working in new territories like Turkey and China and we expect to get a good breakthrough. With this I would like to conclude my part of the speech and I would like to hand over to Mr. Varadarajan to present the results for June quarter.

S. Varadarajan:

Thank you Mr. Mittal and very good afternoon friends. I believe you must have had an opportunity to see the analyst presentation, which we had already posted in our website. We will now present the results for the Q1 of FY'12.

On a standalone basis for the financial quarter ending June 30, 2011, the company recorded revenue of 128.1 Crores, which is an increase of about 77% as compared to 72.4 Crores in the corresponding previous quarter. The standalone net profit for the quarter was 5 Crores as compared to a net loss of 4 Crores in Q1 FY'11.

The Chennai desalination project, IOCL Paradip, Korba BOP plant and Nagarjuna oil refineries project are major contributors to the revenue. On the consolidated basis, we achieved a revenue of 211.4 Crores during Q1 FY'12. As you know there is a certain amount of seasonality to our business and therefore the revenues are back-ended towards the second half of any financial year and generally the Q1 is around 15% of the total revenues.

We have mentioned in the past, generally our contribution margins are higher in the international business; however, due to higher total cost of operations there is an overhead cost. The EBITDA margins are lower in comparison to the domestic business. Our EBITDA margin for the standalone business is 5.5% ,whereas the consolidated EBITDA margin is 1.1% on account of this reason for Q1.



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We would also like to inform you that in the annual general meeting, the shareholders have approved dividend of Rs.10 per equity share of Rs.5 each and further they have approved the subdivision of each share of face value Rs.5 to Rs.2 each. Also the company has enhanced the FII limit for purchase of equity shares from 24% to 49% of the total sale of capital. The Reserve Bank of India has also notified the same on May 15, 2011. These are some of the points we thought that we should highlight to you and with this we now open the floor for questions and answers. Thank you.

Moderator: Thank you very much Sir. Ladies and gentleman we will now begin with the question and answer session. The first question is from the line of Ashwini Agarwal from Demeter Advisors. Please go ahead.

Ashwini Agarwal: Quick questions, one is on Libya, this order of 5.4 billion that you have in the order book, what do you see as a realistic outlook here and can you share with us what equipment is lying there or what receivables are lying there and what is the surety that you have available with you in terms of LCs and what should be the progress on this going forward?

Rajeev Mittal: We just want to highlight here this 540 Crores, which we are showing in our framework contract, this is a contract where we have a signed contract. We have paid our stamp duties to register the contract. Also this contract is awarded to us by the Libyan Government but because the LC was not opened, we have not included this in our order book and as a policy unless the LC is opened, we do not put the orders in the order book. Now the second part of your question was, what sort of exposures we have. I would like to say on this 540 Crores as I said before we have no exposures because we have not started the work and we do not start the work unless the LCs are effective but on the other part of it, we have almost about 300 Crores of order backlog in the order book, which is from Libya and this we have all LCs with us. We have no pending receivables there plus we have an OKB, which is the equivalent of India ECGC and we have a full cover political as well as financial in case any of these things go bad but as I said before we have no financial risks because all our order backlogs are covered by valid LCs.

Ashwini Agarwal: Therefore I assume that in the worst case even if the 300 Crores orders are not executed, if there is a new administration that is in place at some foreseeable future and they resigned all the orders ,you would get paid for the work already done and there would be no loss to you.

Rajeev Mittal: Absolutely and also in case of even some cost in this period, we are covered by an insurance in Austria, which is an export credit insurance by the OKB and just by the side, I would like to inform you that more than us the Libyan government is more concerned that we come and complete the orders. in fact even in this period they are writing to us to continue to support them, continue to extend our bank guarantees, so that when things



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stabilize we go and complete the orders because if we have completed 50% or part of the order, they cannot find another contractor who can come and complete the balance, so I would say there is very likely that whatever happens, whether the rebel government or the existing government continues, the water project will continue and we will most probably be completing our project.

Ashwini Agarwal:

The second question I had was generally on the outlook of the order book. What are you seeing, are you also witnessing a significant slowdown in new inquiries, in new discussions, new negotiations. what are you seeing in terms of comparative intensity, outlook on margins on new business. Can you just give us some sense of how you see the business environment?

Rajeev Mittal:

I will divide this into two parts, one in India and then one overseas. Let us start with India. From India point of view, we see great inquiries. In fact, the last two quarters because of elections and other corruption scandals and other things the inquiries slowed down but in the last few months, we have seen a good flow of inquiries and a very decent size of orders and the pipeline looks brilliant for us, the best in the last one year. so as far as India is concerned, we do not have any doubt in meeting our order booking numbers or order book numbers and at good margins. When we go to international overseas ,we definitely see a bit of slowdown especially in the MENA region, the inquiries are not coming at the pace we would expect it to come and that is the reason as I said before we have reduced the revenues also from the overseas business to 30% from our earlier forecast of 40% and increased in India from 60% to 70%.

Moderator:

The next question is from the line of Ravindra Vashit from IDFC Mutual Fund. Please go ahead.

Ravindra Vashit:

Couple of questions, first on the standalone financials and the consolidated financials, cost of sales and services seems to have increased significantly compared to Q1 FY'11 and Q1 FY'12, if I got to just look at numbers, any particular reason why cost of sales have increased significantly?

S. Varadarajan:

This contribution margin as you were asking is more or less on the same line of the previous year as a year as a whole as we see it from now but if you would see in between the quarters, the margins will keep varying depending upon which project we are executing and the significant part of the revenue comes from which kind of a project. Take for example the Q1 of this year, you would find significant revenues came from an industrial order, this Indian Oil corporation order from Paradip. Generally the industrial orders will have a lesser margin as compared to a municipal order, so we do have 14% to 15% contribution margin against 20% to 22% of municipals. so since this order came



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significantly handy for us, depending upon the timing, the progress of the project etc., so this is just a matter of time and over the quarters by end of the year, we will be more or less the same level of the previous year.

Ravindra Vashit: At the same time on a standalone basis the SG expenses and the employee cost have actually come down, any particular reason for that?

S. Varadarajan: Let me touch upon this employee cost first, there we are talking about some tighter control of overhead expenses as we had mentioned earlier in the European operations specifically in Austria kind of a region.

Ravindra Vashit: I am also talking about the standalone expenses.

S. Varadarajan: Standalone, we would definitely have some planned increase of manpower and you would see this reflecting in the following quarters and one point, which I wanted to mention here is normally we book this variable pay on a payment basis every year and this year we will be booking this variable pay on payment basis for the previous year as well as we will accrue the variable pay for the current year on an estimated basis. Now the charge on account of this variable pay on payment basis will actually happen in the second quarter this year, whereas we have already accrued for one quarter for the current year on an estimated basis, so this means that during this year we can see a double impact, double variable pay getting impacted in this fiscal year and that is something, which I wanted to mention. This you will see as you see the next three quarters. That is on the personal cost as such and selling and general administration expense is more or less under control. The selling expense is more dependent on a specific project outflow, so that would vary between the quarters but on a yearly basis it is more or less comparable with the previous year.

Ravindra Vashit: Sir my other question was regarding Tecpro, which has now recently acquired a water treatment company Ambika even though it is a small company, so just wanted to understand the arrangement that we have with Tecpro and Gammon for the EPC contract. How would this recent acquisition by the company kind of back the arrangement that we have with the company?

Rajeev Mittal: Our arrangement with Tecpro and Gammon is to bid for a large size balance of plants and I think that to the best of my knowledge this arrangement will continue because what they have acquired according to me is a much smaller company, I do not know much details of it and I do not think they will meet all the prequalification requirement for a large balance of plant, so as of today our arrangement to work together continues but in case of any differences, it is not an exclusive arrangement, we can also work with other partners on the balance of the plant.



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- Ravindra Vashit:** Just one last question in terms of the order book split in India, the 3333 Crores of order book, the Indian leg of that, what is the split between the industrial projects and the municipal body projects, what is the spread?
- S. Varadarajan:** I think this is something, which we have published in the website.
- Rajiv Mittal:** I think as we informed you last year because the municipal activities were a bit slow .we have gone and booked more orders on the industrial side typically the split used to be 80:20, 80 municipal and 20 industrial but this has now changed to 75 municipal and 25 industrial.
- Moderator:** The next question is from the line of Vinay Rohit from ICICI Prudential Life. Please go ahead.
- Vinay Rohit:** Could you tell us about the progress in Sri Lanka project?
- Rajiv Mittal:** The Sri Lanka project was awarded towards the end of last fiscal year and we have started our designs on it. The designs are more or less getting completed. In the meantime, I think all the LCs and other financial formalities are getting established by the EXIM Bank and we expect from the next quarter ,we will start having revenues flow. In the meantime we will finish our basic engineering, detailed engineering, approval of the same and from next quarter we will start seeing the revenues flowing in.
- Vinay Rohit:** What would be the CapEx for this year?
- S. Varadarajan:** CapEx for this year is mainly on account of the office building, which even that could not be capitalized by the end of the year. To me it will be probably first quarter of FY'13 that we could capitalize, so a normal CapEx if you talk about India it is about 3 to 4 Crores which we normally have, that will be the CapEx for this year. We have already capitalized the IT global part of it about 11 Crores, 12 Crores in the last quarter of the previous year. So the depreciation on that larger software part, we will be accruing in this financial year.
- Moderator:** The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.
- Madan Gopal:** My question is on the order flow front. Last year we did close to 1800 Crore kind of order flow. What is the target for this year and where do you think these would come from? Are these going to be more of the municipal type projects or is there any desalination plant that we are eyeing right now?



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- Rajiv Mittal:** I think as always the bulk of the orders will always come from the municipal side especially when last year there has been a little bit slowdown on the municipal side, this year with the type of inquiries we are getting, we see a good flow of municipal orders this year and the pipeline looks very attractive and we are very bullish about meeting our order intake targets, so we are looking at a target at least about 20% higher than last year in terms of order booking and the bulk of this order would come from India and some of these orders will include some desalination plants and internationally also we have already some good order pipeline for desalination plants both on the thermal side and on the reverse osmosis side. We have also received a good order from Tunisia, almost about 9 to 10 million Euros, which is a Swiss financed sewage treatment plant. We have already received that order in this quarter. There are number of good municipal orders from Delhi, from Bangalore, from Patna, these are all going to be contributing to our order intake target this year.
- Madan Gopal:** So when you say municipal similar to the Ulhas Nagar project that we have in the framework right now?
- Rajiv Mittal:** Ulhas Nagar is more where we have to invest our money. These are BOOT projects and what we are talking about is more of an EPC and O&M project, which are cash projects, which do not need investment from our side.
- Madan Gopal:** I am asking from the point of view of the nature of the project, not the investment side, is it going to be more of a water management kind of projects or sewage treatment such kind of projects?
- Rajiv Mittal:** They are both sewage and water and of course there are more projects we see on the sewage treatment side and less on the water.
- Madan Gopal:** What are the typical sizes of these projects that you are looking at right now?
- Rajiv Mittal:** Today the order size over the years has gone up. Most of these orders we are looking at 200 Crores plus.
- Madan Gopal:** In terms of MLD?
- Rajiv Mittal:** In terms of MLD, will be at least about 100 MLD.
- Moderator:** The next question is from the line of Dhaval Patel from B&K Securities. Please go ahead.
- Dhaval Patel:** Good afternoon Sir, regarding your acquisition that you just mentioned, this inorganic acquisition that you plan to do will those be for the domestic market or are these for the



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international market #1 and the second is that what kind of like target you are looking at in terms of acquiring new technology or it will be something kind of same thing that is to grow laterally?

Rajiv Mittal: I will answer the second question first. Our acquisition as we have always said before that we are looking at two criterias when we shortlist the companies for acquisition. One is for new technologies or strengthening our existing technology base and second criteria will be to open up new geographies for us or strengthen again the geographies where we are not #1 or #2. These are the criteria when we shortlist a company for acquisition. Your first question was, are we looking at the domestic or international companies. All the companies we have shortlisted for a detailed review are international companies and we are not looking at any domestic companies.

Dhaval Patel: Regarding the technology will it be on the desalination side or will it be again the same what we have for the municipal water treatment side?

Rajiv Mittal: Today what we have told you earlier that we look at desalination and water reuse as a future focus area, so today our focus will be on these technologies when we shortlist the companies but if we get good companies also which can supplement our technologies on water and sewage we will also look at it but our focus is on desalination and water reuse.

Dhaval Patel: Your interest expense for the quarter versus last year quarter is just one third, any debt repayment that you did or is it because more of it is getting capitalized or something like that?

S. Varadarajan: It is just the same like in the previous year as we explained our interest and finance charge is predominantly bank charges on performance and advance bonds. That in every contract we will have to give, so in this quarter the Q1 we had more income because we had this IPO money with us and that was available for the full quarter, so the interest income was good for us during this quarter and so it is in a standalone basis it is reflecting a negative number, otherwise the interest and finance charges as I have already informed, we are continuously working with the banks to bring the cost down. We had our credit rating improved during the last quarter last year and we have negotiated some good rates with the bank. We have started seeing that impact in the last financial year itself and you will continue to see this in this financial year also.

Dhaval Patel: Your average interest expense for the full year will be somewhere about 40 to 45 Crores.

S. Varadarajan: Last year it was 14.7 Crores on a net basis, where we had about 6 Crores of income also. So the gross was about 21 to 22 Crores of interest and finance charge for us. As I was talking I



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am looking at a number, which is more or less the same lines for an increased utilization of bond because we are talking about growth in the order booking and every order book, we will have to give more bonds and with reduction in expense. So the gross interest charges may be on same line but we will have a higher interest income this year. If our acquisition is taking place by the end of the year or next financial year then I will have this money fully available for earning the interest. In that case the interest and finance charges will take a significant dip over the previous year.

Moderator: The next question is from the line of Pranav Gokhle from Religare Asset Management. Please go ahead.

Pranav Gokhle: I just had couple of questions. One is if I look at your order book mix between Wabag India and Wabag overseas, is there a substantial difference between the execution cycle, when it comes to EPC both municipal and industrial?

Rajiv Mittal: Short answer is no because generally it is similar, it is about an average two years because we are in the emerging market some of these projects do get delayed. so you can say 2 to 2.5 years is the average execution cycle.

Pranav Gokhle: For both the domestic as well as the international piece.

Rajiv Mittal: That is right.

Pranav Gokhle: Is there a substantial difference between the municipal EPC and an industrial EPC?

Rajiv Mittal: Industrial is always shorter, one, the size of the projects are smaller and second I think there is a lot more aggression in an industrial client to complete the projects on time, so there it is only an average of about 18 months compared to 24 to 30 months for municipal.

Pranav Gokhle: So when you spoke about your mix changing from 60:40 earlier between domestic and international to 70:30 then does it mean it has to do more with the industrial EPC orders which we have received in Wabag India or it has to do more with the municipal EPC going slow internationally?

Rajiv Mittal: I think it is a combination of both because as we said to you that the order intake in India is going to be better because of the disturbances in MENA, we are going to have a little bit slowdown on order intake and that is the reason we have opened up other subsidiaries like Philippines, Sri Lanka, Turkey and China to compensate for that and also because we have a better industrial order backlog, which will also get executed faster. so I would say it is a combination of both.



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Pranav Gokhle: You answered in terms of the order inflow outlook and why the business mix will change, but based on the existing project in EPC municipal, which is there about Rs.900 Crores and Rs.600 Crores, I am talking more of that mix that Rs.600 Crores of municipal EPC order book, is there a relative slowdown which is happening there, or delay in execution which is happening may be because of the clientele?

Rajiv Mittal: Because of the municipal order book if you see overseas of Rs.600 Crores as I told you 50% of this overseas is in Libya. this is under standstill and we have informed you in the previous call also that we have not taken any revenue from Libya in this year's forecast.

Pranav Gokhle: Just to take this question in terms of the international business, how much is the fixed cost element and how much is the variable cost element?

Rajiv Mittal: Generally in an international business our fixed cost is higher compared to the variable cost and in other words the cost of goods sold is a lower number compared to India and the contributing margins in international business is always higher compared to the contribution margins in India, but fixed cost internationally is higher compared to the fixed cost in India, as a result the EBITDA margin in India are always better than EBITDA margins internationally.

Pranav Gokhle: If I look at your quarterly numbers Q1 FY'11 versus Q1 FY'12, what I am doing is I am splitting the business or deducting the standalone revenues from consolidated revenues. I see a negative 5.7% EBITDA margin in the balance of the business once I remove the EBITDA of standalone from the consolidated?

Rajiv Mittal: You are right and these things will happen because as I told you some of these revenues have slowed down in our international business because some of the order book we have is non-executable at the moment.

Pranav Gokhle: I understand but I just wanted to add up, your cost seems to have also gone down, so definitely you have taken some cost measures despite that this is a negative sort of number, so if the situation becomes more fluid, do we expect these kind of numbers in the international business to continue?

Rajiv Mittal: As you rightly said we have taken some measures and the one measure as you have mentioned that we are trying to control our cost and shift our focus to other markets which we said before like Philippines, Sri Lanka, Saudi, Turkey,, these are the new markets we have opened up and shifted our resources there and once we move people out of our expensive European operation to these markets naturally our cost will come down, but we are investing in low cost markets like Turkey, Philippines, China where we are growing the



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establishments and we are reducing it in Vienna ,that is the reason already the cost is coming down and the new business will start coming from these new subsidiaries. as you know we have already started executing in Philippines, we have started executing in Sri Lanka, as they pick up naturally this trend will not continue and hopefully by end of this year you will see that even our international business will not show this kind of negative margins.

Pranav Gokhle:

Just one more last question in terms of the O&M mix, is it more towards Wabag India, is it more related to accounting it in India or is international business in terms of O&M not so remunerative that you are not going for these orders?

S. Varadarajan:

It is not like that. In terms of O&M orders overseas, the significant part of the O&M orders earlier was that of DBO, Design, Build, Operate contract from Algeria, the contract had a fixed period and most of these contracts period is over, that is the reason why it is got executed and we are seeing a lower number, but we are building up the O&M orders in this financial year, in India more significantly than the overseas as such because the trend in India is more favorable towards DBO as against the international contracts where we are focused in place like Romania. even in international area like in Romania, we have a good success previous year, so we are intensifying the marketing there so we expect to get more results in this place and some of the place like what Mr. Mittal mentioned like Turkey or Philippines etc., we are targeting new O&M jobs, which are good signs I would say even in Oman market where we signed a JV with Zawawi Group, we have already got one order in the first quarter that is for the reverse osmosis plant operation maintenance in the first quarter. we have bid for some larger plants in this Oman territory, we expect some positive results in the next three quarters.

Pranav Gokhle:

And O&M is more over five year average execution cycle, will that be a fair estimate?

S. Varadarajan:

Four to five years could be a fair estimate because it is a mix of one year, two years, five years, ten years kind of thing.

Moderator:

The next question is from the line of Bhavin Vithlani from Enam Securities. Please go ahead.

Bhavin Vithlani:

Good evening Sir, three questions one is could you help us expand on the Sumitomo strategic tie-up, number two is could you help us with the working capital on the standalone as well as on the consolidated levels in the current quarter and third is could you also help us with the execution timelines on the industrial business. specifically also if you can give details on what is the proportion of the order book from the power sector and we keep



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hearing a lot of power projects are getting delayed because of coal and other EXIM related issues, so your take on the same?

Rajiv Mittal: Let us start with your first question of Sumitomo. I would say that this relationship is going strong day by day, you must have seen that they have already also bought shares in our company, when ICICI sold, Sumitomo was the single buyer .today they are having almost close to 5% in the company. They are also working with us on number of projects and we are also working on some of these acquisitions together, so we feel very bullish about this relationship and we think over a period of time this will become a strong relationship and can be a good source of topline and bottom line.

Bhavin Vithlani: Before that on the relationship with Sumitomo, you said we have the good potential on the topline, if can expand better in terms of how would the Sumitomo relationship help in aiding the topline for VA Tech, is it like they would be projects on joint venture basis, if you can help us expand further?

Rajiv Mittal: As you know the Sumitomo MOU with us is to develop projects together, which require financing namely the PPP models or the BOOT models and this project we are developing together where Sumitomo takes the lead on the financial side and Wabag takes the lead on the technical side. so we have identified a few projects where we are working together and I am sure over a period of time you will see some of these projects we will announce, which we have signed and we will soon achieve some financial closures. This arrangement is for complete Asia but excludes China, even for China we are trying to find a way how Wabag can work with Sumitomo for the China market also and I think something good will develop in the next couple of quarters, which we will able to announce to you.

Bhavin Vithlani: And this relationship with Asia ex-China, which means a large part of this would be limited towards the Indian subcontinent, would I be right in that?

Rajiv Mittal: Yes of course you are right and like even in India we are already working on a few projects, developing it together .I hope in the next few quarters it will take some shape.

Bhavin Vithlani: Just to clarify let us say Sumitomo gets the PPP project or BOT project. the complete equity infusion in the financing of the project will be Sumitomo's headache and execution will be with VA Tech?

Rajiv Mittal: Let us put it that way, predominantly the equity will come from Sumitomo and predominantly the execution responsibility will be with Wabag, but Wabag will also take a minority shareholding to show their commitment and also Sumitomo will take a small



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portion of the execution and operation and maintenance, so that there is really a team work in all aspects of the project execution.

Bhavin Vithlani: So which means the asset-heavy potential of the business has been done away with this relationship, am I right?

Rajiv Mittal: You are very right, as you know that we are asset-light company and we like to continue to be asset-light and that is the reason we are taking minorities in terms of equity investments, but at the same time because it is a large part of this business, which we cannot ignore the BOOT and PPP ,so we also want to take part in this, but investing as minimum as possible.

S. Varadarajan: Working capital the Q1 was sometime like this, normally a big chunk of the sales comes in the last quarter, which is the fourth quarter and we also get a big part of it collected in the first quarter and subsequently this is more reference to India because this 44.40 is more in India, but in Q1 we saw in India there are many places, which has just got the elections finished and new governments assumed, new management of the water boards and the executives got changed, so there was some delay in the processing of the invoices by these municipal bodies, as a result we had some delay in the collections for us, our working capital for previous quarters about 36 days on a consolidated basis it got increased by about 10, 11 days. We expect good amount of collections happening in this quarter because the new government, the new officers all have taken charge, processing has happened and we have starting receiving the collection, so this is the working capital situation as such.

Bhavin Vithlani: On the working capital, couple of other companies said that because of the high interest rate scenario while the debtors have been largely constant, it is the creditors which have fallen because they need to take care of the smaller or the lesser subcontractors in a greater way and hence there was an increase in working capital, has VA Tech also observed a similar side?

S. Varadarajan: I do not think so because if you see the nature of our business model a predominant part of the direct cost is all outsourced goods and services, it is bought out components and materials, most of this is where we get used on periods, we have credit period more or less on a back to back basis, if it is a service like construction company could be L&T, Shapoorji kind of companies. we have a back to back arrangement with them. so you will always see in Wabag if the debtors move up the creditors also will move up.

Bhavin Vithlani: So the Rs.490 Crores odd debtors, which are under standalone balance sheet as on March, what would be that number as on June?



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- S. Varadarajan:** This is slightly higher than the quarter ended March 31 for the simple reason, which I explained. We have this delay in the municipal collections due to the change with the government etc., and significant part of course from the sales for the last quarter came from Chennai desalination itself which is a very large project .so now we have started receiving the collections, so the situation is changing back.
- Bhavin Vithlani:** So has the Rs.490 Crores moved in the band of like Rs.520 Crores, Rs.555 Crores odd?
- S. Varadarajan:** Yes.
- Bhavin Vithlani:** Third question pertaining to the industrial specifically with respect to the power plant side of the activity?
- Rajiv Mittal:** Today we have few power plants like Damodar Valley Corporation, Korba, which is Chhattisgarh and APGENCO. As far as the DVC is concerned, we are on track, we have started commissioning our plant, the project is on track and I believe that within this fiscal year we will completely come out of this project and the client has been paying on time, there has not been any issue receiving the payment. Korba in Chhattisgarh we are almost at about 50% to 60% in terms of execution and almost 80% of our supplies are complete and we have been getting payments on time, there has not been an issue, there is no slowdown in this project also. APGENCO, we just started the project, the Kakatiya is little bit ahead of Rayalaseema, Rayalaseema there have been little bit issues on the land acquisition, but as far as the design and engineering is concerned we are ahead on that. Kakatiya we have also started the site, the execution has started, so we are also not seeing any delay on the APGENCO projects except for Rayalaseema where there is a bit of land acquisition still balance from the client side.
- Bhavin Vithlani:** Turnover target of Rs.1400 to Rs.1500 Crores does it also take into account the delay in the APGENCO order?
- Rajiv Mittal:** As I said out of these two projects Kakatiya is on track and Rayalaseema will be slightly behind, but I do not think that it will make any effect to the target we have for Rs.1400 to Rs.1500 Crores. even if there is bit of slowdown on Rayalaseema, we will still meet these targets without an issue.
- Bhavin Vithlani:** On the other part, the other question is more on the full year basis, what would be your outlook on the margins front and for the current quarter we have seen tax rates slightly on the higher side. so could you explain us more on that?



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- S. Varadarajan:** On the tax rate let me just touch upon. It is more or less the full tax rate, which we have been providing. If you take standalone basis we have been providing the full tax rate for last year and this year will not be any different, it will be the same. Unlike last year where we had some permanent disallowance like goodwill amortization etc., we do not have that hit in this financial year, so the tax rate will be just the full tax rate as such in India. Internationally the tax rate has not gone up, but if it is a mix of some of the permanent establishments where we pay tax because there is a profit there and on the consolidated basis we may have a negative marginal fill so you are seeing a tax, which is seen as a higher proportion or something like that. On an annualized basis, the tax rate I would expect to be on a consolidated basis on similar lines for the previous year.
- Bhavin Vithlani:** And on the margin?
- S. Varadarajan:** Margins as I explained in this quarter, we had a bigger sale coming from the industrial project IOCL and so which normally the industrial project we will have a lesser margin compared to the municipal project. so the contribution margin was less compared to the previous year June 2010, 5% to 6% less but on an annualized basis by the end of the year, we expect the same contribution margin levels as that of the previous year because we will have all the mix changed completely.
- Bhavin Vithlani:** So we do not expect any deterioration in the margin profile despite the pressure on the material cost front because of high input cost?
- Rajiv Mittal:** Not really because almost 60% to 70% of our contracts have escalation formulas and if there is any escalation in the market our contract price also will escalate and secondly as soon as we get our orders, we also try to tie-in our subcontractors and sub-suppliers on a fixed price basis. so we do not expect any major change in our margins because of generally the inflation in the country.
- Bhavin Vithlani:** Is it possible because the mix is better towards the domestic? Is it possible that the consolidated margins may be a tad better than last year?
- Rajiv Mittal:** Yes this will depend, we definitely are planning for it, but it depends how quickly the international subsidiaries can bring in the order and start executing because a lot of the subsidiaries are in their formative stage where there is more cost and less revenue. so it all depends how quickly we can start booking revenues, so that we can cover some of this startup cost in those smaller subsidiaries.
- Moderator:** The next question is from the line of Nitin Bhasin from Ambit Capital. Please go ahead.



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- Nitin Bhasin:** Good evening, somebody asked you about Sumitomo a while back, just wanted to know from you, we understand that your relationship with them, you also guided that you are possibly looking an acquisition, but have you already paid for some projects with Sumitomo in the last six months, if you could give us a sense on what regions, what kind of jobs and why possibly you did not get the jobs or is the award yet pending, what kind of jobs that one can get a clear picture on what kind of jobs you are targeting here?
- Rajiv Mittal:** I think the jobs both our international and some of the Indian projects as we had informed earlier there are two projects, which we have signed in Gujarat, which we bid together and these being development type of projects, it is not that we submit our bid and the L1 gets the bid because there is lot of development effort is involved like doing surveying, doing the analyses, preparing a technical bid, having a discussion with the consultant, doing the financial modeling, agreeing with the rates .so all these things take a long time because these are not normal EPC projects, where you bid and the evaluated L1 gets the order, this normally is about one year to one and a half year it takes for the order to materialize and then another six months for the financial closure because these are all PPP or BOOT type of projects. internationally also we have bid for a couple of projects, some of them are awarded to us, they are in the process of financial closure, which probably will take another six months or less, but definitely we will see at least one or two orders in this fiscal year.
- Nitin Bhasin:** Given that Sumitomo is balance sheet scale because this business has to make meaningful sense to them as well are they are targeting a minimum investment scale size when they are bidding for these projects with you, something like at least the capital outlay of \$15 million or \$20 million something on those so that we can get a sense of if you were to participate between 10% and 20% of equity participation, what would it mean to your balance sheet requirements?
- Rajiv Mittal:** You are right, being the size they are, their preference always is to bid for at least 100 million projects or above and going up to \$500 million, but they do not mind starting some projects, they are willing to look at smaller projects, even a 100 Crore project they are willing to look at so that at least to kick start the relationship, so we are bidding for projects, which are in the range of Rs.500 to Rs.1000 Crores, but also we are looking at a couple of projects, which are even less than that. so that at least we start the relationship and start working together rather than waiting for large mega projects to come after two years.
- Nitin Bhasin:** One more thing in terms of you mentioned earlier in the call that you are looking at a revenue split moving to about 70-30, 70 India, 30 international, two parts to it, one when you say 70% in India, so within India what do you look at apart from India as a region, which are the others. so what could India as a region just contribute to that 70% is it 70% or



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50% get 70% because you may have Sri Lanka, you may have Philippines also. so where do you see that 70% taking the split?

Rajiv Mittal: If you just want the standalone India, 70% to 80% will be India alone about 20%, 25% will be the neighboring countries.

Nitin Bhasin: Given this that you have scaled down your international business portfolio contribution to your total revenues. does that mean that the growth also in the near term will be more closer to the band of the lowest head of the band that you have been saying, closer to Rs.1400 Crores rather than Rs.1500 Crores?

Rajiv Mittal: Not really because this is temporary because of the MENA region which has slowed down because of various issues we all know and hence we have started Turkey, Philippines, Sri Lanka and Saudi Arabia in a larger force. so I am sure over a period of time whatever we have scaled down it will pick up, our ultimate aim is to have India about 50% to 60% and about 40% to 50% coming from overseas subsidiaries and I do not think today whatever number we have given Rs.1400 to Rs.1500 Crores is considering that we do not have even \$1 revenue coming from Libya. so I think we have already built in enough safety. so we think that whatever we have given a range, we are very confident that this year we will achieve this range.

Nitin Bhasin: Last one, since you brought up Libya, if the Libya business does not come back to you in one year and possibly it is already six months you may not be executing in Libya. so any kind of cost realignments that you have do of fixed cost or working capital cost because certain region is not performing, which is supposed to give you a very high revenue share .so any sense on the fixed cost or variable cost realignment in the near term?

Rajiv Mittal: Libya as an office, we have already withdrawn all our expats. so all the cost has been redeployed in other regions. there is a very small cost, which is basically some of the locals to keep the office going from an administrative point of view and that is only existing. in case we really have to close this, I do not think there will be a major reduction and also we have told you that even in Vienna, we have reduced our cost and we have deployed this people in the new regions, which we are developing, so that already the actions have taken place, now we just have to wait for this new regions, which we have opened up for them to be successful with order bookings and revenues.

Moderator: The next question is from the line of Ranjeet Sivaram from B&K Securities. Please go ahead.



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- Ranjeet Sivaram:** There was one Delhi Jal Board order for the Yamuna River, this has gone to Pratibha Industry, did we participate in this tender? Reduction of pollution in Yamuna River?
- Rajiv Mittal:** I think you are talking about an interceptor project where EIL was the consultant, is that the project you are talking about?
- Ranjeet Sivaram:** It went to Pratibha Industries, in consortium with a Russian Industry.
- Rajiv Mittal:** There were six packages, two packages went to Pratibha, two went to somebody else and two came to our consortium and that is the booking we have shown in the first quarter which we call the Delhi Jal Board interceptor sewer, there were total six packages of which two packages we are a consortium partner and we have won those two packages.
- Ranjeet Sivaram:** Regarding this margin profile for example when we take desalination project and take this Chennai desalination, there is some amount of construction in the order book of Rs.1000 Crores for example, so the Rs.500 Crores is the construction and the Rs.500 Crores is the O&M, so how is the margin profile if you can guide us for the construction part and for the O&M part? Sir when we take a desalination project ,we will take it for the construction and the O&M, for the construction part we have a certain margin profile and O&M we have a certain margin profile. so how is it like generally which is higher?
- Rajiv Mittal:** In India generally the EPC, the construction business is about 12%, 13% EBITDA business and O&M is generally about 18% to 20% EBITDA business.
- Ranjeet Sivaram:** And for the likelihood of getting this O&M for the construction is generally we see that across the industry in India?
- Rajiv Mittal:** Yes I think more and more trend over the last few years has been towards DBO, design, build and operate, so the client gives a contract, which the contractor will have to construct a plant and then will have to operate for next five to ten years as a part of a single contract.
- Ranjeet Sivaram:** Is this the reason that the Indian projects command a higher EBITDA margin compared to international or there is something else?
- Rajiv Mittal:** One it is possible that is the reason, second is also the fixed cost in India comparatively is lower than the fixed cost internationally because of the wages, which are higher internationally and also the fixed other costs or other operating costs are higher, though the contribution margin as I said before is higher in the international business compared to the Indian business, the cost in India is much lower like overheads in India to run the business is about 8% to 10% and internationally will be almost about 20% to 22%.



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- Ranjeet Sivaram:** Coming back to Chennai desalination, we have a joint venture with IDE Technologies of Israel, am I right in that?
- Rajiv Mittal:** You are right.
- Ranjeet Sivaram:** How does it work? Equipments are supplied by them and is it some kind of an EPC contracting we do or do we manufacture some of these equipments?
- Rajiv Mittal:** Mostly it is all about technology and the joint venture with IDE is to get their support and experience because in Israel there are a number of large projects and we wanted to de-risk such a large project, Rs.1000 Crores project first time being awarded in India. we wanted to de-risk bring in somebody who has executed such large magnitude projects and that was the reason we brought them as a partner, they are mainly a technical partner to us, most of these equipment are supplied by us and we do not manufacture these equipments other than a few proprietary equipments where we give our design and get it fabricated, otherwise most of this is a bought out for us based on our design and engineering capability.
- Ranjeet Sivaram:** What does IDE do? Do we pay royalty or how do we compensate them?
- Rajiv Mittal:** They are almost about a 10% to 15% partner for us and they are fully involved in guiding us and helping us with the design, engineering and checking what we are doing and ensuring that their international experience they bring into this project. so it is not only about constructing the plant, but also ensuring that the seven years of O&M, we have a smooth O&M and we manage the O&M cost within the estimated cost. so they are involved throughout this project up to the operational maintenance of this project.
- Ranjeet Sivaram:** My question was regarding the compensation for them is it like do we pay royalty for the services or like how is it, just to get the color on that?
- Rajiv Mittal:** For the services they give us they raise the bill whether it is the engineering service, design service, supervision services or they supply some of the key components or whatever service they provide they raise the invoice on a monthly basis and we pay them accordingly.
- Ranjeet Sivaram:** There is no technology transfer as such?
- Rajiv Mittal:** No, there is no technology transfer, technology we also can do it as I said we wanted to de-risk it and bring their international expertise. that was the reason we have them as a partner and they regularly put their invoices for the work they are doing and we pay them as we get paid from our client.



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- Ranjeet Sivaram:** My last question, going forward if we get another order, are we confident enough that we can do it ourselves or should we still depend on joint ventures?
- Rajiv Mittal:** It will depend on the type of the project the magnitude of the project and the technical challenges we have and if we feel that we need a partner ,we will not hesitate to always bring in a partner to reduce our risk and improve our capability, but that we will take a decision nearer the time when we know the technical details of that project.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I would now like to hand the floor back to Rajiv Mittal for final remarks. Thank you and over to you Sir.
- Rajiv Mittal:** Thank you I think it was an interesting discussion and we again thank you all to join us for this conference call.
- Moderator:** Thank you Sir. Thank you members of the management. On behalf of VA Tech Wabag Limited that concludes this conference call.