# "VA Tech Wabag Limited Conference Call"

November 11, 2011

**MODERATORS: MR. RAJIV MITTAL**
**MR. S. VARADARAJAN**

**Moderator:** Ladies and gentlemen good evening and welcome to the VA Tech Wabag Limited Q2 FY'12 Earnings Conference Call. As a reminder for the duration of the conference, all participant lines are 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 the conference call, please signal an operator by pressing "*" and then "0" on your touchtone telephone. Please note that this conference is being recorded. At this time, I would like to hand the conference over to the Managing Director, Mr. Rajiv Mittal. Thank you and over to you sir.

**Rajiv Mittal:** Thank you very much. Dear friends good afternoon, thank you for accepting our invitation and being with us for this concall. It is my pleasure in welcoming you all for this discussion on our unaudited quarterly results for Q2 FY'12. Along with me are my Executive Director, Finance, Mr. Varadarajan and also our Investor Relation Advisor, Strategic Growth Advisors. We would like to first update you on various events during the quarter which are as held up. Let us first start with the order intake. Order intake in the second quarter has been Rs.240 Crores, some of the key projects we have bagged are 13 million Euro order in Switzerland, 5 million Euro order in Iran, and about Rs.55 Crores in India. Our firm order book stand at Rs.3306 Crores, I repeat Rs.3306 Crores, as of September 2011, of this 70% is related to India business and 30% is related to our overseas subsidiaries. In addition to the firm order, as we have mentioned earlier, we also have framework contracts of about Rs.1221 Crores on receipt of advances or letter of credit or notice to proceed or achievement of financial closure we will take these orders to the firm order book. Traditionally order intake is always stronger in the second half of the fiscal year, we expect that two BOOT projects worth Rs.450 Crores which are awarded to us and our water purchase agreement has been signed, will be taken into the order book in the next few months. With regards to the Libya project, we are seeing an overall positive development in the country and we believe that the situation will further improve in the next few months. Over and above the framework contracts at this point we are preferred bidder or at L1 stage in some of the projects totaling to approximately Rs.1000 Crores. Of this Rs.1000 Crores, we are having advance negotiation for closure of a few industrial projects in the Oil and Gas sector as well as in the Steel sector totaling to about Rs.500 Crores. The Chennai Desalination project, which we have been executing, is progressing satisfactorily and we have carried out invoicing of approximately 63% of the EPC portion. Other key projects such as A. P. Genco, Indian Oil Corporation Limited are also making good progress. In the last quarter, we had taken a conscious decision not to go ahead with one of the target merger and acquisition opportunity in Spain due to the current European crisis. However, we are continuing our evaluation with the other two targets we have. Our H1 consolidated revenue is Rs.479 Crores and generally the second quarter contributes about 65% to 70% of the annual revenue and this year is going to be no different. We wish to reiterate our annual guidance of the consolidated revenues of Rs.1400 Crores to Rs.1500 Crores this fiscal. With this I conclude my speech. I would now like to hand over to Mr. Varadarajan to present the results for the September quarter.

**S. Varadarajan:** Good afternoon friends. I believe you must have had an opportunity to see the analyst presentation that we have circulated. We now present the result for the second quarter FY'12. On a consolidated basis for financial quarter ending 30th September 2011, the company recorded revenue of Rs.268 Crores, which is an increase of about 12% as compared to Rs.239 Crores in the corresponding previous quarter. The net profit for the quarter was Rs.7 Crores are compared to net loss of Rs.2 Crores in Q2 FY'11. In terms of execution, the Chennai Desalination project, the IOCL Paradip project, Kerala Water Authority, and Delhi Jal Board projects are the major contributors to the revenue of this quarter. During the first half, we have had utilization of free cash to the extent of Rs.70 Crores towards working capital needs for the Chennai Desalination project. There has been a delay in connection from this project. The working capital requirements for the other projects have not gone up significantly. With this, we now open the floor for questions and answers.

**Moderator:** Thank you very much Sir. We will now begin with the question and answer session. Our first question is from the line of G. V. Giri from IIFL. Please go ahead.

**G. V. Giri:** Thank you very much for this call. I have three questions. One the India order inflow was about Rs.55 Crores and the overseas was very strong, but just I would like to know why not stronger traction in India. The second one is that the Sri Lanka Dambulla STP and the A. P. Genco did not contribute to revenues, in fact A. P. Genco I think has not contributed for the last couple of quarters. So what experience in that and when can revenue start from this and third is rather there is a sharp jump in the employee cost from last quarter from Rs.13 Crores to Rs.20 Crores. So in the previous year in the quarter it dropped 20% Q-O-Q, so what happened on the pay out and employee cost.

**Rajiv Mittal:** I would answer these questions. Traditionally we always see a big order intake always in the second half of the year. India order in this quarter I would just like to correct it is Rs.55 Crores, not Rs.14 Crores what we got in Q2. And we have good orders in the pipeline, as I mentioned the framework contracts we have a policy though all this framework contracts are awarded to us, but we do not take it in the order book still we achieve the closure. For our international contracts we wait always for the letters of credit and advances before we take it in the order book, and for BOOT type of contracts though we have signed the water purchase agreement we have still not taken in the order book because we are waiting for the financial closure. This itself is about Rs.1200 Crores, plus I have mentioned that we have Rs.1000 Crores where we are lowest bidder or a preferential bidder. We have started negotiating, of which Rs.500 Crores we expect to close in the next few months. So we still believe that the target or the focus we have given, we will still maintain the order intake because the second quarter is going to be a robust quarter based on the order pipeline we have. Second question on A. P. Genco and Sri Lanka, we are into EPC contracts which generally takes about six to eight months for engineering, both on the basic engineering and the detail engineering. This engineering has to be approved by our client and consultant before we can order and start the construction. We are in that phase and you will see both A. P. Genco and Sri Lanka will contribute significantly in the next two quarters, this quarter and the next quarter. I think the last question was on the employee cost. Generally we have a policy that the bonus or the variable pay, we used to pay on a cash basis and previous years we have always taken it in June where we pay the cash out and then take that into our employee cost, but we changed this policy this year where we said we will do it on accrual basis and hence we will see twice the variable pay this year and it is a transitional year. From next year onwards it will be again normal because on Q-O-Q we will provide the variable pay on an accrual basis, but this year we actually have a cost, which we have already paid out because of the cash, we have paid out this year plus we will also have accrual this year. In India, the salary costs have gone up by approximately 15% to 16% for the employees.

**S. Varadarajan:** I just to add there is also increase in number of people in India, about 14% increase in number of people also from the last year, which you have compared.

**G. V. Giri:** Okay, so that answers. Thank you very much Sir.

**Moderator:** Our next question is from the line of Kiran Chheda from Value Quest Research. Please go ahead.

**Kiran Chheda:** We have a lot of cash on our standalone book as well as the consolidated book, in spite of that we have increased the borrowing so what was the reason for that?

**S. Varadarajan:** It is something like this, it is a temporary borrowing which you are seeing in the balance sheets, part of the borrowing what you see on the group consolidated balance sheet, one is in Algeria where for execution reasons some customs duty local Algerian dinars are required to be paid, so we have borrow money in local currency, we invoice the customer, we get it paid by the customer and we repay this loan. The other one is a temporary short-term requirement on this Chennai Desalination project, so we have locked up our money on a 12-month basis for a better return and against that we took short-term borrowings and that will be much lower in terms of the interest cost that is the reason why we took it that way.

**Kiran Chheda:** Okay, thank you Sir.

**Moderator:** Our next question is from the line of Pranav Gokhle from Religare AMC. Please go ahead.

**Pranav Gokhle:** Good evening Sir, congrats on good set of numbers. Just a question on the order book, do you see this current order inflow run rate of 3.82 billion in line with your expectations, where have you if at all fallen short of your expectations?

**Rajiv Mittal:** No, definitely you know that this is not in line with our expectation, we would have expected at least 30% of our annual targets to be in the first half, which is what we have done in the past, but the good thing is all these orders are getting mature in the next two quarters, as I mentioned that we are already negotiating two industrial orders; one in the Steel sector and one in the Oil and Gas sector, and this should get closed in the next few months plus the framework contracts which we have is Rs.1200 Crores which will also get closed in this fiscal year. So we do not see any pressures on our order intake. We still maintain the guidance, which we have given that our order book will grow at 20% on Y-O-Y, and at the end of this year our order book will be approximately Rs.4000 Crores.

**Pranav Gokhle**: If you are not able to achieve this kind of a run rate do you foresee your revenue visibility next year going down?

**Rajiv Mittal:** We are very confident of achieving this order intake and maintaining approximate Rs.4000 Crores of order book by end of this fiscal year and we still maintain our guidance for Y-O-Y top-line growth of 20% and bottom-line growth of 30%.

**Pranav Gokhle:** Okay sure thank you sir, and this 30% on the reported number right Sir?

**S. Varadarajan:** Yes.

**Moderator:** Our next question is from the line of Ravi Kanth from Unicon. Please go ahead.

**Ravi Kanth:** I have a specific question related to framework contract. In one of the slides, it shows that 195 MLD WTP Ulhasnagar Municipal Corporation contract EPC is worth Rs.1 billion. Just below that there is another one Aurangabad Municipal Corporation contract is worth Rs.55 Crores of EPC. What is the difference here Sir because the quantum is almost same 195 and 192, why is there are large difference in EPC?

**Rajiv Mittal:** Yes, good observation. All the contracts have a different condition and different scope of work, and you are very right that the treatment capacities are similar but the scope of works are not similar because in some of them you have some additional unit like pumping stations and reservoirs, and also the ground conditions are difficult so it will need little extra civil works for doing the piling and other things. So that is the reason for the same capacity the construction cost is different.

**Ravi Kanth:** Okay, thank you Sir.

**Moderator:** Our next question is from the line of Ranjit Shivram from B&K Securities. Please go ahead.

**Ranjit Shivram:** Hello, good afternoon sir. I just wanted to understand in a normal EPC contracts for municipal and industrial both, what is the scope of our manufacturing equipment, in the EPC?

**Rajiv Mittal:** Our capability is in using our patented or trademarked technology and then putting this technology in a complete system to design a treatment plant to achieve the desired result. In this process, some of the products we use our manufactured products which are made by various companies, like pumps, motors, electric panels and things like that, and some are our proprietary equipment where we provide the drawings and designs, and get it fabricated at some of our nominated workshops. So, it is a combination of both. As you know we do not have any manufacturing facility we are asset light company and more of a project management and engineering company, so we always get this fabricated at our nominated workshops. So it is a combination of buying standard products combining with some of our proprietary design products and put together we put a plant, which gives the desired performance.

**Ranjit Shivram:** So if my understanding is right the basically we do the design and the manufacturing is done by third parties and we assemble that as an integrator, so in that scope if we compare ourselves with a more technologically intensive player like Thermax or some other company, so do we have any plans to scale up to those level so that we will be able to improve upon our operating margins?

**Rajiv Mittal:** Yeah, I just want to correct the impression here. One of the key differences between us and some of the competitors you mentioned that we are a technology player and we have three research and development operations in our group; one is in Switzerland, one is in Vienna, and one is in Chennai. We hold 150 patents and another 50 more are under registration and that's the big difference we offer to the market and we create that differential to win our project at a decent margin. What I meant that we use our technology, we have our designs, which are suitable for our technologies and this product we get it manufactured. That does not mean our plants are run-of-the-mill technologies. Generally we will not bid for projects which does not have some of our proprietary technologies and if any company in India has technological edge I am sure it is VA Tech Wabag who has the maximum number of technologies and all the technologies have been used in India and we have a number of reference plants of using this technology and constructing plants in India.

**Ranjit Shivram:** Okay, and if we want to get a margin picture comparing municipal people contract and the industrial, what kind of margins we enjoy in municipal and how is margin profile in an industrial order, assuming that the scope of these project is the same?

**Rajiv Mittal:** Generally industrial product or the plant we would not be expected to do lot of construction work, and in municipal we do construction work and hence the construction is like a pass through for us. If there is a private sector industrial plant our margin will be better than the municipal plants, but if it is a public sector, which includes also the civil works, in the public sector industrial plants our margins will be slightly lower than the municipal plants.

**Ranjit Shivram:** So roughly in our order book what we have around 1500 municipal EPCs, in that what percentage will constitute to the civil?

**Rajiv Mittal:** Generally about 20% to 25%.

**Ranjit Shivram:** Okay and if you work on EBITDA margin, what kind of EBITDA margins do the municipal works can have?

**Rajiv Mittal:** Generally in municipal works EBITDA would be something between 12% and 14%.

**Ranjit Shivram:** Okay about industrial?

**Rajiv Mittal:** About 10% to 11%.

**Ranjit Shivram:** You mean to say that municipal is having a higher EBITDA margin. Because before we had a discussion in which you had mentioned that because of the higher civil content the municipal margins can be depressed.

**Rajiv Mittal:** Yes, but I also mentioned that if it is a public sector where also we have civil works the margin can be lower than municipal, and if its private sector where we do not have civil works the margin can be higher.

**Ranjit Shivram:** So in this municipal what percentage is constituted by private?

**Rajiv Mittal:** In municipal everything is government.

**Ranjit Shivram:** Okay, and industrial?

**Rajiv Mittal:** There is a portion which is a smaller portion at the moment in private and there is more on the public sector so that's the reason little bit the margins are lower.

**Ranjit Shivram:** Okay and in the O&M order book, what kind of margin we should be having?

**Rajiv Mittal:** EBITDA of about 20%.

**Ranjit Shivram:** Okay, roughly whatever you are talking your EBITDA margin should be quite higher but what I have in front of me is a single digit margin for the first half, is it because of the earlier things because in Q4 you booked most of the revenues, is it because over the full year you will be able to come out with 10% to 13% margin?

**Rajiv Mittal:** Exactly, you have answered your own question.

**Ranjit Shivram:** Okay that's fine that was helpful. I will come back for more questions.

**Moderator:** Our next question is from the line of Gaurav Malik from Locus Investments. Please go ahead.

**Gaurav Malik:** I just had a similar question. I just wanted to understand exactly the same question on EBITDA margins, is it more of an allocation issue, which is why you have such low EBITDA margin in the first two quarters and then all sudden it ramps up, what is the basics behind that?

**S. Varadarajan:** It is something like this, if you look at the cost of operation, which is the overhead cost that will be less evenly spread between the four quarters. Whereas if you look at the revenue part, we are doing only one-third in the first half and we are doing almost two-thirds in the second half. So the contribution from this one-third comes to cover my fixed cost, it is not good enough for me. Whereas in the second half almost two-thirds contribution is coming down, whereas I have only 50% of the fixed cost to be covered, so always the EBITDA will be significantly different because of this revenue factor.

**Gaurav Malik:** Okay, it is basically 33% to 67% rate; everything is kind of evenly spread over the year. All right, thank you so much.

**Moderator:** Our next question is from the line of Shashank Abishek from BNP Paribas. Please go ahead.

**Shashank Abishek:** Good evening Sir and thank you for taking my question, I wanted you to talk a little bit about where you see the entire municipal market going and broadly what kind of actions happening and which particular municipal corporation you see orders coming in from. Secondly in terms of the order inflows, you are talking about 4000 Crores of order book by the end of FY'12 then that would imply roughly about 1800 to 2000 Crores of new orders in FY'12, so where exactly do you see those coming from?

**Rajiv Mittal:** I think what we are seeing generally are the large metros, we see that they have a multilateral agency loans which are already sanctioned, the projects are designed, some of them have even expression of interest where we are prequalified and these are the municipalities which are going ahead with order placement. In some of the tier-2 cities also we are seeing some of this movement happening, but generally we prefer to work on the tier-1 cities, where their loans and financials are available for smooth execution of these projects. Regarding second part of the question, yes we need about 1700 to 1800 Crores in the second half to get this. As I said before, out of this 1200 Crores of the framework contract we expect both the Ulhasnagar and Aurangabad contracts will get closed in this fiscal year. In addition, also I have mentioned there is a 1000-Crore orders we are already a preferred or L1 bidder which we are negotiating. We also expect some these orders will get closed in this fiscal year plus we are expecting about 100 Million Euro orders coming from our international subsidiaries. Again, we see a very robust order intake from Switzerland, some of these orders will also come from Turkey where you remember we opened the office last year because of the Libya slowdown, and the Turkey business is shaping up well. We have already three projects, where we are a preferred bidder and I am sure we will close two projects in that. So we are bullish about order intake in the second half and we are confident that we will maintain this number of 4000 at the end of this year.

**Shashank Abishek:** One more follow up question on that, are you seeing anything happening on the Libya front with the new government taking over?

**Rajiv Mittal:** Definitely, I think the answer the yes. Our people have started going in, some of which expats we have removed. They are visiting at least and meeting the people. The good thing is though there is a political level change, but at the bureaucratic and the working level, the engineering levels and the decision makers, there is no change. So there is a familiarity. People who were working with us are still in their chair and they want to organize this quickly. Already the Austrian Government had released about 150 Million Euros, which was locked up during this civil war and of which 25% they allowed the Libyan Government to use it for water infrastructure. We are in discussion with Libyan Government and they have expressed their keenness to use this money to at least restart the projects, which are incomplete at the moment, and that volume of order book from Libya is approximately Rs.300 Crores. We believe in the next quarter we will see some positive action and if we are lucky, we can start on some of the projects next quarter.

**Shashank Abishek:** One more housekeeping question, basically our loan and advances have come down about 26.4 Crores since March 2011?

**S. Varadarajan:** Basically you are taking about the asset part, where we give advances to our trade creditors and if they have executed then job then it gets adjusted.

**Moderator:** Our next question is from the line of Vinay Rohit from ICICI Prudential. Please go ahead.

**Vinay Rohit:** Good evening Sir, is there any impact of ForEx on the subsidiaries sales and profits?

**Rajiv Mittal:** I think you have to understand a little bit the business for that I'll explain and then I will answer your question. In Vienna, we do mainly business in Euro, our expenditure is all in Euro and our earning is also in Euro, so we have no open ForEx risk. In Switzerland, most of our business gets done in Swiss Frank, also the cost is in Swiss Frank and very little comes from other currencies. In India again, almost 85%-90% of the business gets done in Indian Rupees and cost is also in Indian Rupees, a small portion which is either in Euro or in US Dollar, where part of the cost is also in Euro or US Dollar only the difference between our revenues and our cost, we cover the forward. So the currency exposure for India or its subsidiaries is very negligible.

**Vinay Rohit:** Thanks. That’s all.

**Moderator:** Our next question is from the line of Jonas Bhuta from Bank of America. Please go ahead.

**Jonas Bhuta:** Just one question on the balance sheet, I see the debtors on the consolidated level sort of short up, if I get the number the right 255 days against 220 days as of March, why is that? If you are seeing some sort of stickiness in terms of collection from the Chennai Desalination plant that should have short of reflected in your stand-alone data debtor’s days, I would understand which have in fact declined against March. So if you can just sort that out for me please?

**S. Varadarajan:** If you look at the receivables, as I mentioned earlier on this Chennai Metro Desalination job, we have some of the receivables which we could not collect, that is something which is there in the debtor, though as a number of days if I am going to annualize there you would see a drop, but if you look at the consolidated, you will find that it reflected again, the 219 days the previous year comes down to 206 days if I am going to annualize it.

**Honas Bhuta:** Okay, all right that’s all from my side, thanks.

**Moderator:** Our next question is from the line of Arti Shah from Morgan Stanley. Please go ahead.

**Arti Shah:** Thanks, my question has been answered.

**Moderator:** Thank you Sir. Our next question is from Madhan Gopal from Sundaram Mutual Fund. Please go ahead.

**Madhan Gopal:** Good evening Sir, at the beginning of last quarter also we were highlighting projects in the framework agreement and speaking about those as an opportunity that could increase our order flows. At the end of this quarter as well we are at the same level. Is that complete dry up in the order flow front from the government side; is that the thing that you are looking at?

**Rajiv Mittal:** I think just to say what we were talking about last quarter, yes they were still in the framework, but in this last quarter we have moved. Both these contracts have moved and we have today signed both of these contracts, the water purchase agreement, so we have moved a big step forward on both of these contracts, now the ball is back in our court to financially close it. As Ulhasnagar is comparatively a smaller order, we would close this in this quarter itself and Aurangabad will get closed in the next quarter. Second part of your question, whether we see a complete dry up in the municipal sector, I would say no, we don't see a complete dry up, but yes we definitely see a slowdown in the municipal sector and hence we have shifted our gear to the industrial sector, because as you know we are equally strong in municipal as well as industrial sector because of our technology expertise and the engineering expertise which we have. We are comfortable in executing projects in both the sectors and now looking at these industrial sector opportunities, we see a great opportunity both in the oil and gas sector and the steel sector. As I mentioned, in both the sectors we are in advanced stages of negotiation and you will see some of the announcements coming very soon, where we have a good visibility of order intake. Also on the municipal sector, there are a couple of orders, which are in advanced stages of negotiation that also should get closed in the next few months.

**Madhan Gopal:** Okay, these talks of desalination plants coming up in Gujarat, Maharashtra is completely out of question as of now, is it postponed for some leisure period?

**Rajiv Mittal:** I think the Chennai has been a great example. We already have two desalination plants, one is under operation, other is coming close to completion, and the third project is on its way, which is going to be double the size of the first two projects, so that being a good example, Gujarat is moving definitely ahead with the desalination projects. In Maharashtra, you are right, with the change of Chief Minister we have seen a bit of a hold on the desalination plants.

**Madhan Gopal:** When you are speaking about the industrial sector, particularly oil and gas, is it to do with projects, which are already running, or is it to do with new projects coming up?

**Rajiv Mittal:** You must have also seen that there is a big investment which is happening in the oil and gas, especially if you see the private sector and a little bit also on the public sector. For example, if you see even on Reliance and Essar, they are investing a big time in all their locations, whether Dahej or Jamnagar or Hazira and Silvassa, all these projects are on and there are already projects, which are awarded, so we see a big opportunity in this sector over the next six to eight months.

**Madhan Gopal:** Okay, these projects the main equipment would have been placed two years before, they are pricing the water treatment equipment now, is that the way happening?

**Rajiv Mittal:** Normally in the private sector they don't take that differential because its just 6 to 8 months differential between the main equipment and the utilities, yes lot of this main equipment have been already placed and now they are placing some of the packages on the utility side and some of the smaller equipment.

**Madhan Gopal:** Okay, on the steel side, which are these projects that you are referring to?

**Rajiv Mittal:** As I said before most of this were already multilateral funding available or the past JNNURM funding is available. These are the states, whether it is Delhi or Karnataka or we are talking about some of the projects even in Gujarat, even in Orissa there are some projects which are financed by JICA, Japanese Bank. These are the projects, which are happening. Some of the projects also in Punjab, which is also financed by JICA

**Madhan Gopal:** My question was you said some projects on steel; I was referring to that which projects in steel sector that you are looking at as an opportunity?

**Rajiv Mittal:** If you see, Tatas are investing big time in Kalinga Nagar. They are also investing in Gopalpur. NMPC is investing, they have already placed all the big orders, blast furnace and strip mills and all that you can see that, there is also some expansion in SAIL happening, VSP is going for expansion. So these are all the projects, which are available to us.

**Madhan Gopal:** Just a last question on the JNNURM, are you seeing momentum picking up in JNNURM equity because I think last year government stopped in this particular program any disbursement?

**Rajiv Mittal:** They have not stopped the disbursement, they stopped approving new projects, so all the approved projects, they will continue to disburse because they are obliged to disburse, because once they have approved it is an obligation on the part of the government to disburse the funds to take it to completion.

**Madhan Gopal:** Any new projects that the government is ready to sanction now?

**Rajiv Mittal:** You are absolutely right, no more fresh sanctions, but what they have approved, they will provide the funds for those approved projects and we are waiting for the 12th five-year plan to be announced and we will see what is that new mechanism central government is going to support the state and the municipal corporations to go ahead with the infrastructure expansion.

**Madhan Gopal:** Thanks for taking my questions and best of luck.

**Moderator:** Our next question is from the line of Vinay Rohit from ICICI Prudential. Please go ahead.

**Vinay Rohit:** Sir you said that you are looking for 100 million Euro order in subsidiaries, could you tell me where do you expect these to come from, it is municipal or industrial?

**S. Varadarajan:** Predominantly our international business is a municipal business unlike India where we do equally well in industrial and municipal, so about 80% to 85% of these 100 Crores will come from municipal sector.

**Vinay Rohit:** So this 100 million Euro is for the rest of the year?

**S. Varadarajan:** Yes, 100 million Euro is for the rest of the year.

**Moderator:** Our next question is from the line of Ranjit Shivram from B&K Securities. Please go ahead.

**Ranjit Shivram:** Just to get some clarity on your ordering flow guidance, you have guided around 1800 to 2000 Crores of further orders, am I right in that?

**Rajiv Mittal:** We have said about 17 to 18 and what we have guided is 4000 Crores of order book at the end of this fiscal year.

**Ranjit Shivram:** Majority of this 1700 to 1800 Crores of what percentage will be in municipal, you said largely municipal?

**Rajiv Mittal:** I think in India about 30% will be municipal and international about 80% to 85% will be municipal.

**Ranjit Shivram:** In international you have this 100 million Euro that is municipal and how much will be around domestic?

**Rajiv Mittal:** You can take approximately 50-50 on a consolidated basis.

**Ranjit Shivram:** Okay, 50% municipal and 50% industrial, and in this 50% further municipal order because of the drying up of orders do not you feel anymore pricing pressures and because of that margins will come down in the additional orders which you are going to build in, and also as a continuation of this question in the further execution of orders because of this macro economic environment don't you see further margin pressures or if so like what are the actions we are taking so that you will be able to maintain the margins and what is your outlook on that?

**Rajiv Mittal:** You are right and we all discussed that municipal sector we all are seeing a bit of slowdown, but we also discussed that is the reason we have shifted our focus on the industrial sector and because we as a company are comfortable in working in both the municipal and industrial sectors, we do not see that there is any margin deterioration in our municipal contracts because yes, the orders which are available in the market on the municipal side they are low margin and hence we are going to go 70% for the industrial order, and we will only focus on very few municipal orders where the margins are still decent. Second part of your question about the general margin pressures, this will continue and we have been facing this for a number of years now because of competition and also the raw material price change, but we have a clear demonstrated track record in the last two to three years where we have continuously improved our margins and the way we are doing it is we are decentralizing our operation, reducing the cost and some of our expenses subsidiaries, shifting those man powers in the local subsidiaries and making them much more efficient and also this is much more cost effective and this is how we plan to not only maintain margins also to improve margins.

**Ranjit Shivram:** Finally a last question from my side will be international, how the climate because I am asking on the backdrop of all these events happening, so how do you see the international market orders and margins?

**Rajiv Mittal:** As I said before our Czech operation, our Romania operation, Swiss operation are doing well, in fact Swiss will book this year all time high order intake. From Austria, where we focus more on the Eastern Europe, we still see there are opportunities and we also focus on MENA countries, Middle East and North Africa. Last 12 months, there has been a low order intake from this because of the disturbances we had in this Arab world, but now all these disturbances are behind us the last one was Libya and we have already started receiving orders from Tunisia recently, we got an award which was a Swiss finance project in Tunisia. So definitely we are seeing good order inflow plus as I mentioned earlier in this concall that we have seen a very good progress in Turkey. We have three orders, which we are expecting to book and I am sure, at least two we will book in this fiscal year.

**Ranjit Shivram:** 4000 order book which will be having roughly what will be the execution period?

**Rajiv Mittal:** Generally our execution period is anywhere between two to two-and-a-half years.

**Ranjit Shivram:** Thank you Sir that is it from me.

**Moderator:** We will take our next question from Sundar Subramaniam from Almondz Global. Please go ahead.

**Sundar Subramaniam:** Good evening Sir, thanks for taking my question. There seems to be significant improvement in our operating margins of our international operations, what are the key reasons?

**S. Varadarajan:** The operating margins if you are talking about the international scenario it is basically on account of the combination of the projects, which we are executing, and some of the projects they have taken to completion. When you take the projects to completion whatever provisions, they have for risk, etc., get released. As a result you will find the operative margin of their project level is better.

**Sundar Subramaniam:** Because even on the sequential basis negative 5.7 margin seems to be 4.6% during the second quarter?

**S. Varadarajan:** There is also some O&M contribution. There are some orders about 30% to 35% of their revenue comes from operational maintenance and that has a higher margins that is also one of the reasons I can attribute to.

**Sundar Subramaniam:** So we expect this trend to continue from the rest of the year and we will have a robust international margin also?

**S. Varadarajan:** We would love to have that and one point which I want to mention here between international and India on a consolidated basis, the contribution margin or the project gross margins what you are asking will vary depending upon which project how much of products that are executed in the second half. So at EBITDA level we would say the same 9% to 10% on a consolidated basis going forward for end of the year, it is what we are looking at. There are some smaller subsidiaries like Oman and Philippines; they have opened their account for the first time in this quarter. Philippines and Oman both were profitable to start with because both of them had revenue to participate and that is one of the reasons.

**Sundar Subramaniam:** Thank you so much Sir, best of luck. That is it from my side.

**Moderator:** The next question is from the line of Gaurav Malik from Locus. Please go ahead.

**Gaurav Malik:** Just one more question around your contracts, most of your contracts are pass-through or are they any fixed price contracts?

**Rajiv Mittal:** There is a combination of fixed and escalation-based contracts. In 2007 and 2008, we had taken EBITDA profit because of the commodity price increase, especially the steel increase and since then we have made it a policy that the Indian contracts which are long-term contracts, that means more than 18 to two-year execution cycle, and on large contracts we will have our escalation formula in this contracts and since then we have signing contracts which have an escalation formula, so this has reduced. Some of the smaller contract or contract which have less than 18 months execution cycle we have a fixed price contracts.

**Gaurav Malik:** Could you share the split in the current order book of that?

**Rajiv Mittal:** Most of these contracts will have an escalation formula. A very small portion, I do not have the split, but we can come back to you on that, but it is not going to be a big number, also I think just to give you that comfort, even the contracts which we execute if there is a civil work we immediately go to civil contractors and hedge our risk by placing the contract on a fixed price basis and also the equipment if you have to buy in the first six months as soon as the designs are approved, we go and place our orders to the sub-suppliers for supply of this equipment again on a fixed price basis, so we do not have a lot of open exposure even on a fixed price contracts.

**Moderator:** We will take our last question from the line of Pranav Gokhle from Religare Asset Management. Please go ahead.

**Pranav Gokhle:** This question is pertaining to the Q4, the other overheads seem to be always lower, at least this is what the last couple of quarters trend is, could you just highlight us to what is this other overhead and why are they lower in the Q4?

**S. Varadarajan:** Actually if you look at the other overheads which is the SG&A, if we you are comparing the YCD September, November, in September 2010 we had a reduction because, I will explain like this, we have policy of providing for receivables based on number of days which is 365, two years or three years like that, and when we collect it we will reverse it and that has provided a reverse in SG&A, so the previous year was different.

**Pranav Gokhle:** Every last quarter you will have provision reversal, which happens?

**Rajiv Mittal:** I think what we have as we said in some of these quarters because of the variable pay which comes in sometimes in the first and second quarter, in the past you have seen a big chunk of this variable pay coming in first or second quarter. Generally in the fourth quarter we just have the normal salaries, we do not have the variable pay, hence you may feel that this is lower.

**Pranav Gokhle:** Sir my question is pertaining to other overheads, not personal cost, other overheads as you classify you have three headings, raw material, personal cost, and other overheads, which you do on a quarterly basis. This question is pertaining to the other overheads, if you go a quarter-by-quarter basis, the March quarter always the number tends to be lower on a consolidated basis, that is what the trend has shown at least for the last couple of years?

**Rajiv Mittal:** We do not have this information, you have that can you give it to us or we can take this question offline?

**Pranav Gokhle:** Okay sure Sir. Just a follow-up question pertaining to the subsidiaries, has there been any EBITDA correction because of translation of currency issues this quarter?

**S. Varadarajan:** In terms of P&L we have an 8% offside and on the turnover and 8% downside on the bottom line. If it is a loss, in international, you will find take a higher hit, if it is topline it is anyway an upside, which you will see.

**Pranav Gokhle:** On the consolidated numbers, there is a topline, which has gone up by 8% because of the currency impact positively, and the EBITDA level there is 8% loss or whatever because of the currency moving against to it?

**S. Varadarajan:** If you are talking about currency then it is only applicable to the international portion, not the domestic portion. On the international portion the topline has gone up by 8%, on the international since we have a loss you will find that we have taken a higher hit. I think if you see on the standalone, it is about 300 Crores of revenue and international part is about 180, so that 180 you see there is 8% higher, because of this translation part which you are talking about. Same way if you see in India there is PAT of 121 and on the consolidated it is about 2.28 million, so approximately 100, on that we have a higher loss of 8%.

**Moderator:** That was the last question. I would request Mr. Rajiv Mittal to add a few closing comments here.

**Rajiv Mittal:** Thank you very much friends. I would like to conclude by saying that we see a very strong and robust second half in terms of order intake, and we also maintain our revenue guidance for the current fiscal year of Rs.1400 to Rs.1500 Crores. Thank you very much.

**Moderator:** With that we conclude this conference. Thank you for joining us. You may now disconnect your lines.