



“VA Tech Wabag Limited Q2FY13 Results Conference Call”

November 12, 2012



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GROUP**



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Moderator

Ladies and gentlemen, good day and welcome to the VA Tech Wabag Limited Q2FY13 Results Conference Call. As a reminder for the duration of the conference, all participants' lines will be in the listen-only mode. 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 you may signal for an operator by pressing '*' and then '0' on your touchtone phone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Rajiv Mittal – Managing Director at VA Tech Wabag. Thank you and over to you Sir.

Rajiv Mittal

Good afternoon friends, thank you for accepting our invitation and being with us for this call. It is my pleasure in welcoming you all for this discussion on our unaudited quarterly results of Q2FY13. Along with me, are Mr. Varadarajan, our Executive Director, Finance, and our Investor Relation Advisors, and Strategic Growth Advisors.

Continuing on our initiative of introducing our business heads to you, this time we have Mr. Rahul Jaiswal with us, Rahul is our head of desalination business group and let us start the call by first talking about our key project, which is Nemili Desalination Project in Chennai. We are very happy to inform you that the sea water desalination plant in Chennai has reached its completion state. EPC work on this project has been completed. The trial run for this plant has started and the plant is expected to be fully commissioned in December. The formal inauguration of this plant is expected to be done by Honorable Chief Minister of Tamil Nadu soon after commissioning. We have identified desalination as a growth area and formed a dedicated SBU to give a clear focus on this segment. My colleague, Rahul, will later share with you his views on the opportunity in this segment. Let me now take you through the fresh order intake during this period. Company has received a total order intake of approximately 265 crores during the quarter. With this additional order, our current order book now stands at Rs 4025 crores. Of the total order backlog two thirds is related to India business and one third comes from our overseas subsidiaries. Also of this total order book again two third is related to EPC contracts and one third of this value is for O&M contracts. Some of the key projects we have bagged during this current fiscal year are 80 crores from Surat Municipal Corporation for upgrading its 120 MLD plant and augmenting its 162 MLD and O&M for five years. We also received 20.6 crores order for operation and maintenance of a ETP and reverse osmosis plant at Sterlite Copper in Tuticorin, in Tamil Nadu. We also received an order from Algeria for €8.6 million from a client in Beni Messous for a sewage treatment plant. Our check team received order from a power engineering company for EPC contract of value 7.1 million Euro for setting up an industrial water treatment plant in Turkey. Additionally we have also received a few standalone O&M orders from India contributing to worth of Rs 30 crores during the quarter. Let me also give you an update on the Chinese and the Libyan market too. I am happy to share with you; in China we received our first order of a contract value worth RMB 7.4 million. The first phase of this plant, which is a water treatment plant in Ningbo, China, was executed by Wabag in 2007 and this order is for the Phase II. In Libya also, we received a small order of €20000 for Benghazi multi effect distillation desalination plant, which gives an indication of some positive development happening in the Libyan market. In addition to the



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firm order book, the company has framework contracts of Rs 751 crores on receipt of advances, letters of credit, and notice to proceed, or achieving financial closure, this will form part of company's firm order book. As you are aware, we have a strategic alliance with Sumitomo Corporation with a view to expand further into the concession type business. We have achieved a major breakthrough in this alliance today on Diwali Eve by securing an order of 192 MLD desalination plant in Oman. Details of this order will be shared by my colleague, Mr. Rahul Jaiswal. Our current framework contract of Rs 751 crores are excluding the above mentioned contract, which we received along with Sumitomo today. On the order pipeline, we are working on a strong order pipeline and are in advanced stage of receiving an order from the Municipal Corporation in India. Looking at the strong pipeline, we are confident of achieving our targeted order intake for the current financial year. Further we want to reiterate our annual guidance of consolidated revenues of 1650 to 1700 crores and we are on track to achieve our guidance. I now request Rahul Jaiswal to share with you his view on various new initiatives taken by the company. Over to you Rahul.

Rahul Jaiswal

Thanks Mr. Mittal, ladies and gentlemen, good afternoon. During the previous year, based on our experience and knowledge of the market we have been talking about it, how to get to our one billion Euro vision. We concluded that desalination is a major opportunity sector in the water industry, which will be growing rapidly around the globe specifically in the developing markets. This is due to the shortage of water, due to population growth and industrialization. Also due to the technical advancement, higher efficiencies and lower capital cost have actually contributed to reduction in the per cubic meter cost of water being produced through desalination process. This will make it more affordable in the third world environment. Though we were always pursuing desalination opportunities in each of our business units, in our respective geographies we felt that to take advantage of the opportunity we must have a focused attempt at this sector. Also, the Nemili project was coming to completion in terms of commissioning in 2012-13 and with a 100 MLD reference on our books, we thought that is a major benchmark achievement for us to qualify on mega, mega jobs all around the globe and we wanted to take advantage of that. As Mr. Mittal mentioned that this development in regards to our strategic alliance with Sumitomo Corporation, I am pleased to announce that this strategic move has yielded its first result in the form of success in Algubra. It is a 192 mega liter desalination plant. A plant which will almost double the size of Nemili in the international market so we will be executing this project in partnership with two other companies namely Cadagua of Spain and Galfar of Oman. Though Wabag is one of the few companies that provide membrane and thermal desalination technologies both, we believe the majority of our revenues would come from membrane based desalination plants. In short term we may be partnering with others to bid for large projects in the international market, we believe we can pursue such projects on our own merit in the Indian market as they come up. We are currently actively building capability and capacity in the business unit, the newly formed business unit to enable it to build and execute such major projects. We believe that BBG could grow in due course to a size were Wabag is today, and with this I thank you all for your attention and pass it on to Mr. Varadarajan for taking you through the financial performance for the quarter.



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Varadarajan

Thank you Rahul. Good afternoon friends, I believe you must have had an opportunity to see the analysts' presentation as we circulated and uploaded in our website. Let me now present the unaudited quarterly result for Q2FY13. On a consolidated basis we achieved revenue of 348.3 crores during Q2FY13 as compared to Rs 265 crores during the corresponding period in the previous year. Net profit for the quarter was Rs 17.7 crores as compared to a profit of Rs 6.9 crores in Q2FY12. Some of the major contributions to revenue include the Dambulla project in Sri Lanka, the Majid Industrial Services project in Oman, the Indian project like APGENCO, Rayalaseema, Reliance project in Dahej, and the Nemili desalination project. On a standalone basis for the financial quarter ending 30th September 2012, the company recorded a revenue of 218 crores INR as compared to Rs 169 crores in the corresponding previous quarter. The net profit for the quarter is Rs 17.6 crores as compared to Rs 7.1 crores in Q2FY12. Our EBITDA margin for standalone business is 12.5% whereas the consolidated EBITDA margin is 9.2%. The company is constantly focusing on efficient management of the working capital. We have collected Rs 785 crores during the first half of this year. The net working capital as of September is 68 days on consolidated basis. Specific to the Chennai desalination project, out of total contract value of Rs 580 crores, we have recognized revenue of Rs 520 crores, an amount of Rs 460 crores is maximum possible collection after deducting the retention money payable on completion of the project. We have already collected Rs 400 crores as of end September and we expect to collect significant part of the contract value before the end of this financial year. As you are aware, we have cash and bank balances in our book amounting to Rs 344.4 crores, which is primarily held for strategic purposes and is intended to be used for inorganic growth. With this we now open the floor for questions and answers.

Moderator

Thank you. Participants, we will begin the question and answer session. Our first question is from the line of Sagar Parikh from Enam Holdings. Please go ahead.

Sagar Parikh

Sir, if you can throw some light on this particular desalination project, if it is in a BOT basis, what sort of economics does it have in terms of what are the ROEs and what is the revenue model of the project.

Management

It is a BOO, Build Own Operate, it will never be transferred, and asset will be owned by a consortium of Wabag, Galfar of Oman, Cadagua, and Sumitomo, and we will be the EPC partner. They will be EPC contractor; they will be selling the water to OPWB, the local water authority at per cubic meter basis. I cannot give you any more details about the financial. Duration is 20 years and the contract period up to commissioning is 2 years, after that 20 years of O&M period.

Sagar Parikh

So is it like an annuity sort of thing for you, what would it be like. What would be the revenue model, only the EPC part, or would you also be receiving some kind of annuity from the project.

Management

Only the EPC part for us.



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Sagar Parikh What is the project size.

Management The total project size is of the order of 350 crores, what the sponsors would invest in this project, as we see from the press release of Sumitomo, 350 million US dollars for it.

Sagar Parikh VA Tech would not be investing anything in it. Right.

Management We would like always to be an asset like company, and if we are not forced to invest, we would always prefer not to invest, because our aim is always to be an EPC contractor and O&M contractor, and in this part the EPC part is already decided as Rahul said, we will be one third partner in the EPC contract, and O&M also, we are sure in the coming days we will be able to discuss with Sumitomo and try to take also a share of O&M, but that is future. Today, we have only the EPC contract.

Sagar Parikh In this Chennai desalination, what is the O&M, on a yearly basis, you will get some kind of fees or something, what is the exact structure?

Management Chennai is a DBO, like Rahul said, Oman is a BOO, Chennai is design, build, and operate. We do not own the asset. This is in the books of our client. We do the EPC construction, and after the construction is completed, we have 7 years of operation and maintenance, which we receive our payments on annuity basis, month-on-month, and is expected about 70 to 75 crores per year, will be the revenue from the Chennai desalination in the O&M contract.

Sagar Parikh 70 to 75 crores per year for the next 7 years.

Management Exactly.

Sagar Parikh What other sort of opportunities are there in this desalination, if you can throw some light in terms of, have you an ordered pipeline. Do you have any other projects which have come up for bidding for this desalination?

Management As Rahul said in his speech, we see a tremendous opportunity if you have seen the research and lot of technical magazines are talking about. Desalination is seen as one of the thrust areas for future. Because so far desalination was always done by industrial houses because they were located near the coastal areas, mostly the refineries, the steel mills, and the power plants because of the coal linkages, the oil linkages, and we had set up a number of plants for industrial purpose. But as Rahul said, over the last decade, the desalination cost of water has come down substantially where people have started thinking of as an alternative to the surface water to provide for drinking, for portable purpose. This is a much bigger opportunity because the size of the plants are much larger, the investments are huge, and this we are seeing globally its happening. Countries like India and Chennai has shown the way, Chennai has already set up two plants and the third one is already announced. So we see a tremendous opportunity of desalination not only for industries, but also for potable purpose. That is the reason we have set



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up a separate vertical to only concentrate on desalination project both on the thermal side and on the membrane side globally. We see this sector to grow at least 15 to 20% year on year.

Sagar Parikh What is the competition like, in terms of number of players who would be bidding for such kind of projects.

Management See there is no dearth of competition. But on any bid, we would expect minimum half dozen competitors, but we are very proud that even being a young entrant to this sector, in Nemili we could beat all of them, and second again, in Oman, we could demonstrate the same. Much larger players, much more experienced players were there, but we could beat them, so we are very confident, whatever competition we face in future, we are geared up to handle that.

Sagar Parikh What sort of margins would you be envisaging for desalination SBU.

Management Margins, at least the India level margins, but we expect if we continue to do such projects, larger volume, good BOT, or DBO kind of project, our margins will even be better than India.

Sagar Parikh Can you give us some ballpark figure.

Management I think it is too early to say that because we have just made the announcement to commit on margins, but I can only say the margins will be in double digit, and it will be better than India.

Moderator Our next question is from the line of Jonas Bhutta from Bank of America, please go ahead.

Jonas Bhutta On the landmark order, I had a few questions. Firstly on the order itself from Oman. If I get it right, only 33% of the EPC will be done by Wabag. Is that correct?

Management Yes, you are right, about one third we will be doing it.

Jonas Bhutta Just for our knowledge, will this be executed from the parent or from your international subsidiaries. I understand it will be done by the desal group, but as you are aware, the profitability of both the parent versus the international subs are drastically different, so my question would be pertaining to that.

Management This is a project worked by our Indian team as Rahul said, our vertical desalination business group, and they are fully involved from day one, and it will be under their responsibility, if required we can always take support from our other subsidiary companies, but this is under the responsibility of India Business unit.

Jonas Bhutta So the margins should mirror that of your current standalone operations at least.

Management Yes, your understanding is right.



- Jonas Bhutta** Alright. The next few set of questions were pertaining to the results. You had a phenomenal quarter in your standalone with a top line growth of 30% whereas in your full year guidance you had taken flat revenues for the standalone whereas your international subsidiaries would grow by 40 to 50%. Are you changing that mix now for the second half? Will that run remain the same, how do we factor that in? Secondly what drove the standalone execution and margins and is this sustainable would be second question?
- Management** I think Jonas it is like this, we stand by our guidance. We have shared with you that the international subsidiaries will grow by 40 to 45% over their numbers and India will not be flat, what you mentioned, India will also grow. Whatever is the overseas, the balance will be done by India. If you look at the financial in the previous year, we are not quarter-on-quarter Company. We are year-on-year Company. So, if you see the permutation and combination of the projects, actually give you set of results, which is what we are actually publishing. So, at the end of the year whatever we have guided you that remains the same, notwithstanding the spike or low, or whatever that you may be seen in any of the quarters.
- Jonas Bhutta** And what drove, any particular order or something, which led to this execution, and this spike in margin.
- Management** We had some execution of some of the international jobs from the company in India, one is we had this Sri Lankan project, and then we had an Oman project, so these kinds of international jobs generally carry a better margin.
- Jonas Bhutta** Is my understanding correct; again, this is the first quarter that margins got executed. A large part of it.
- Management** No, we had received all the clearances in the third quarter and then we started the engineering in the previous year and in the fourth quarter we executed almost about 150 crores or something from the same Sri Lankan job last year. Majjis has progressed well in this first half.
- Jonas Bhutta** So is this margin sort of, of 12 to 12.5% sustainable for the balance year.
- Management** 12.5% for India is what we have always guided.
- Jonas Bhutta** Perfect. My third question would be on your balance sheet; basically we have seen some increase in your noncurrent assets, which have become roughly 150 odd crores against 80 odd crores in March. What would that be pertaining to and secondly if you could just again reiterate the kind of receivables that we have at Nemili because I missed out that part.
- Management** See the first part I will take, this noncurrent assets, Jonas, it is nothing but our guideline from the board, the cash we have, we have to invest in the bank deposits, and as per the new schedule six guidelines any deposit which is more than 365 days has to be shown in long term other non current assets and that is what we increased by about 50 crores this bank deposit



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during this last six months because of the cash flow and we were getting a good deposit rate so that is what our deposit was increased by about 50 crores and that is the increase you see.

Jonas Bhutta

So it is basically noncurrent investment?

Management

See the new schedule fixed Jonas, when we shared this in last quarter, 31st March 2012, when we shared the change in the law, the new schedule fixed is prescribed and even if it is one day difference, I mean more than 365 days, it is classified as noncurrent assets. And we had about similar deposits in March, we had in June, and now we have in September.

Jonas Bhutta

Right, and the receivables at Nemili, if you can just highlight.

Management

I shared it earlier during my speech, it is like this. Out of the total 580 crores, the max that is possible to collect is 460, because we have retentions based on the completion of the project, PGCR and many other factors. So out of 460, we have collected 400 by September end. Okay, that is the message which I gave. 60 is in the process of collection, but once the PGCR is collected, under the financial year, we expect to collect significant part of the contract value.

Jonas Bhutta

The Oman project is not built into your FY13 order inflow guidance, right. I ...

Management

The new one you are talking about?

Jonas Bhutta

Yes, the desalination.

Management

What Raghu just said.

Jonas Bhutta

Yes.

Management

That is neither in the order intake nor in the framework contract.

Jonas Bhutta

My question was on whether it is built into your guidance for FY13, the 25%

Management

No.

Jonas Bhutta

So that will flow into only FY14.

Management

Correct.

Moderator

Our next question is from the line of Mr. Charanjit Singh from Axis Capital. Please go ahead.

Charanjit Singh

I would like to understand your outlook for the domestic market order inflow and you have mentioned in the call that first of all that there will be a strong inflow from the Municipal Corporations, can you please highlight how is the pipeline looking like for the second half.



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- Management** The pipeline is looking good, what we said, in the last quarter, I think nothing has changed. We still concentrate on finance projects basically financed by all the multilateral agencies like EDB, or World Bank. Today, we have great concrete pipeline for the next 2 quarters and one order we are close, hopefully, if everything goes well within a week to 10 days, we should be able to announce that order and another order also, we are feeling very confident of, which also before the end of this fiscal year, we should have that also. Both of the order of magnitude of 200 to 300 crores, so this is the kind of order pipeline we have, which is absolutely concrete on the municipal side. Other than that there are number of other smaller orders we are working on, and we are very confident to meet our guidance on order intake numbers.
- Charanjit Singh** On the industrial front, how is the outlook, has there been any improvement or are we still seeing a sluggish outlook on the industrial front.
- Management** No, we still are very confident that we will get some sizeable orders in this fiscal year from the industrial side. Most probably from Oil and gas sector and we definitely feel very confident about that.
- Charanjit Singh** Okay and what could be the quantum of these orders from the oil and gas sector.
- Management** Anything between 150 to 300, 350 crores. Because the bids which we have submitted are much more than that.
- Charanjit Singh** These are mainly from the PSUs or the private oil and gas companies.
- Management** A combination of both, PSUs and the private companies also.
- Charanjit Singh** And the other thing, which you had mentioned in the beginning of the call that we are building our capabilities and capacities on the desalination front, and we are seeing a 15% growth rate in the segment, so in terms of building capabilities can you please explain further on that, like what are the capabilities we are building and how it will pan out.
- Management** To begin with, we look at in four main areas, competence, processes, structure, and tools. So, one is the people front, we realized Nemili was the first big one, there are many more big ones to come. Even though, we will draw upon those from the team in Nemili, for executing future projects, we need to build up more and more expertise, larger projects people capable of handling big projects, and in tighter timelines. So, that means, a lot of recruitment and training, and so on. We are looking at tools, design tools in particular, so that we can deliver the designs more accurately, and in a faster mode of delivery. As I said, the timelines are getting tighter. In terms of structuring the team, it is sort of an ongoing process, but we keep doing that depending on the needs of the business as we go, and in terms of business processes, for example, I take this example of Alqubra project, where it is going to be done by an integrated team in overseas environment. We have to come with a different set of business processes, so we will be sending a team across. They are already there. The design is happening. So, the



business processes need to be flexible in the company and which we are all the time looking at. So these are the four areas. We are looking at capability and capacity, both to be able to deliver.

Charanjit Singh

Okay, for the technology, do we require any other additional technology or we have the technologies available with us right now.

Management

I see RO and desalination we have the technology and expertise in-house. We don't own a particular process unit or process step that we want to sell. So, we look at the market, then keep a tab on what is developing in the market, and we keep abreast of that and use it depending on the need of the project.

Moderator

Our next question is from the line of Mr. Sayantan Bhowmik from Pine Bridge Investments. Please go ahead.

Sayantan Bhowmik

I had this one question on the international subsidiaries, the revenues on the O&M side seems to have gone up this quarter. How sustainable is that and could you also comment on the international margins.

Management

See on the O&M front, we are having the revenues coming from the subsidiaries in Rumania and Turkey. We had earlier mentioned about this new MDU in Turkey. They bagged this project in Adana, which we had announced earlier. So, that is one revenue apart from successful projects in Rumania, which are continuing. So these two are contributing to operational and maintenance revenue from the international apart from our Oman, the Zarabi collaborated JV company, there also we are getting regular income from the projects which we are running.

Sayantan Bhowmik

Going ahead, can we expect current quarter sort of numbers to recur for some time.

Management

Are you talking in terms of percentage on the total.

Sayantan Bhowmik

No, absolute numbers. If I really look at, for example ...

Management

It will be somewhere in the region of 14 to 15% like the previous year, by the end of the financial year, on the guided number what we are giving in the market.

Sayantan Bhowmik

Okay, 14 to 15% on the margin basis.

Management

Consolidated revenue.

Sayantan Bhowmik

Could you comment a little bit on international margins, how is that right now, if we look at consolidated PAT and standalone PAT are



- Management** I think you would have seen that our international PAT is also improving. And this is a result of what we have been discussing with you in the last so many quarters that we are rationalizing our structure, we are increasing the people where they are required in the markets, and we are reducing the people where they were more into that head office or corporate sort of function in Vienna. So we are becoming, I think the right sizing is what we are doing. Because a lot of these multi-domestic units like Turkey and Rumania, these are growing units and they are low cost units and that is where we are increasing and investing, and in Austria we are reducing to where they are functional and operational rather than just more of a corporate functions, and over a period of time we have reduced that and making the structure more efficient and that is what you would see that though we are increasing the number of multi-domestic units and subsidiaries, our total cost of operation, which is employee cost and other overheads have not gone up substantially, and this is what is making the whole business more efficient and that was the strategy from day one, when we took the international business from Siemens, that was the strategy from day one, to right size the unit, to put the people where the business is, because water is a very local business, people have to be locally present and that is what I think in the last four to five years we have strategized and done that, and I think now we are seeing the results of that, and going forward you will see more of this where the international subsidiaries will start generating profits.
- Sayantana Bhowmik** Okay, just going back to my first question, just wanted to clarify, you mentioned 15% of the overall revenues will be, is it O&M internationally or overall internationally.
- Management** Overall. In India we will be almost 100% growth, we are expecting from the previous year. We did about 65 crores Indian rupees last year in operational and maintenance in wabag India. We should do anything between 120 to 130 crores, something like that in this fiscal. So, the balance will come from the overseas.
- Sayantana Bhowmik** And you mentioned that the other noncurrent income has, more than 365 days deposits, could you quantify that for the first quarter and current quarter and then how much of the other noncurrent assets are the deposits.
- Management** I think it is at 105 crores for the end of September and the previous quarter it was 60 crores, the end of March.
- Sayantana Bhowmik** End of March it was 60 crores.
- Management** Our deposits went up by 55 crores, which are more than 366 days. Sorry, it was 45 which went up. It used to be 60, now it is 105. Sorry for this, it is 45 that went up.
- Moderator** Our next question is from the line of Mr. Srinivas Rao from HDFC Mutual Fund. Please go ahead.



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- Srinivas Rao** Can you tell us about what was the final margins on this project and what was the learning from this.
- Management** On Nemili.
- Srinivas Rao** Yes Sir.
- Management** We are in the process of commissioning and as of now I think our margins are steady and we have not made any improvement or deterioration of the margin what we announced last time, so we are more or less at the same margin, which we are very happy to see, that the project is coming to a conclusion and we could retain/maintain the margins, and we just have the commissioning to go, which I believe in the next couple of months, all this will be completed and handed over to O&M because we believe in quarter 4 we will have the O&M going where we will have a annuity model and at that point we will see the final margins, which is when we close the project. The EPC part.
- Srinivas Rao** I was referring to the EPC part only.
- Management** The margins are same as we have said earlier. There is no difference; there is no improvement or deteriorations in the margins.
- Srinivas Rao** The second question is on the order that you announced today, what will be the scope of work for Wabag and how is that decided.
- Management** For the three players.
- Srinivas Rao** Yes.
- Management** You see, it is good to be integrated really. Basically there are three partners. We have the Cadagua, Galfar, and Wabag. We had to set up a local company as per the requirement of the sponsors, which will be signing the contract. There is no particular scope that. We will be participating in design; we will be participating in the construction, procurement, and commissioning, the whole lot.
- Srinivas Rao** I though given the complexity, the three of you share, you know, somebody will do...someone else will do....so there is no such thing decided as of now.
- Management** Of course there will be, because each party has come together with her set of competences. Like Galfar is a local company, they have a certain set of competences and that is what they will do. They will be focusing more on the local construction part. Wabag has come with a lot of experience on pretreatment. We did a very successful outfall. So these are some of the areas where we would concentrate, and procurement also has been our strength, so we have taken the leadership. So there are areas, which are decided, that who has strength there, and we are trying to bring the strength of each company into this special purpose company so that we can



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maximize the strength and achieve a good result because this has to be done in a record time of 24 months. So we have to be efficient and quick.

- Srinivas Rao** Who will be the lead player. Who is responsible for timely completion and parameters.
- Management** All three parties are equally responsible; it is a joint and separately liable project. I don't think one company can be responsible more or less. We are all three equally responsible.
- Moderator** Our next question is from the line of H R Gala from Quest Investments. Please go ahead.
- H R Gala** I just wanted to know that sometime back we had announced that the way in which we have signed a JV with Sumitomo, we also tied up with Tecpro and Gammon for the BOP in the power projects. So have we been able to make any headway in that segment.
- Management** See, let us not confuse because the tie up with Sumitomo has been more on a strategic level where we have agreed to develop this kind of finance projects globally with particular focus on Asia whereas the relationship between Tecpro and Gammon was mainly to work as a consortium partner for BOP of the power plants. Because again we are complementary to each other, because Tecpro does something, which we don't do, and what we do, the other two partners don't do. Our Chhattisgarh Power Plant, the Korba site, we have got the AP Genco, the Kakatia project, which is in the advanced stages of construction. We also started the Rayalaseema, again an AP Genco power plant together. So these are three projects where we are working together. Recently we won one more smaller project where we will work together, so this more concentrated on one particular business and it is mainly the EPC, whereas Sumitomo is a more strategic more on a shift project where they have to own it, and we will be active as their EPC and an O&M contract.
- H R Gala** I understand. This BOP part will again deal with the water related treatment for the power plant I believe.
- Management** Our scope will be for water treatment, and Gammon can do what they are good at, chimney and cooling tower, and Tecpro can do the coal and ash handling.
- H R Gala** I understand. This Sumitomo project, which we have talked about in detail, which is \$350 million, will it be appropriate to presume that our share might be about one third out of that?
- Management** No, it is not, because 350 is not the EPC value, as you know any BOOT project is not only the EPC value, there are a lot of other things which are involved in it, like even legal, company set up, cost of the capital during construction, the interest cost during construction, so all that, may be that our portion will be smaller than that.
- H R Gala** In the first quarter we had a substantially higher other operating income of around 6 crores, I probably missed that in the last conference call, what was it due to?



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Management	It has two segments in that, one is duty drawback what we get as export incentive that is close to about of a crore of rupees and we have balance as foreign exchange gain.
H R Gala	How much foreign exchange gain do we have in this quarter 2 and half year if you can guide us?
Management	The second quarter we have reported it is almost flat.
H R Gala	In H1?
Management	5.75 crores.
H R Gala	So that is included in other the income? This was against H1FY12 how much, corresponding to 5.75 crores sir?
Management	We will take this offline
H R Gala	Okay, any capital expenditure plans when you get into these large size projects execution and all that, any major CAPEX plans?
Management	One of the strengths and our USP is that we are asset like company, the business model which we have does not require a huge working capital for our growth, so if the larger projects come that doesn't mean that we need to do any capital investment because we do not own any construction equipment neither we have any workshops to produce this and that is the beauty of our model. Our return on capital employed is very high because we could not employ lot of capital and if you see our fixed assets, they will of the order of 70 to 75 crores for this kind of a balance sheet. Going forward also you can assume that one odd project where we can make a small investment on a BOOT project, but overall our business model will remain very, very cash efficient and we are not going to invest a lot in fixed assets.
H R Gala	We report the receivable numbers now under this revised Schedule-6, if there is any receivable which is more than a year old, will appear somewhere else in balance sheet, I believe?
Management	That will be noncurrent assets.
H R Gala	That will be noncurrent assets, so how much would it be?
Management	35 crores, we also have a policy very few companies, I believe, have some policies that anything which is more than one year, as per our internal policy, we have the policy of making a provision for those receivables, so we follow very conservative way of accounting for such receivables.
H R Gala	But say like retention money, etc., and may be there could be some issues where it might get delayed by over a year, does it happen quite frequently?



Management	Yes, it does happen in the industry we are in and that is what you heard there is 35 crores which is more than one year, so it happens and we make a provision for that, but retention money we don't think that it is really we need to make a provision, because as per the contract, this money is only due after certain period, but the money which is due and we have not received, we make a provision for that.
Moderator	Our next question from the line of Sameep Kasbekar from Almondz Global, please go ahead.
Sundar Subramanian	This quarter we have had a strong EBITDA margin, what is our guidance for EBITDA margins for full year on a consolidated level?
Management	I was answering the previous call for Jonas, it is the same. In India we will do 12.5% and on consolidation we will do between 9.5% to 10%.
Sundar Subramanian	Could we have the breakup of gross interest cost in other income?
Management	Are you talking about in September?
Sundar Subramanian	Yes, you have knitted off both?
Management	The interest and finance charges if I add, it is about 13.3 crores this is the cost part of it and in the income part, it is 8.5 crores.
Moderator	Our next question from the line of Kirti Dalvi from Enam, please go ahead.
Kirti Dalvi	First question a bit of clarification on your O&M part. You did mention that we target generally 14% to 15% of our consolidated revenues to be your O&M revenues for the current fiscal and then we mention that we for a domestic standalone entity we are looking at around 130 odd crores, am I right on that part?
Management	You are right, about 120 to 130 crores at the end of the year.
Kirti Dalvi	So in the first half in O&M we had done only 43 crores, so large part will come in probably in the second half, is that the conclusion?
Management	You are right.
Kirti Dalvi	But generally in O&M, margins tends to be higher, so in the first half itself you have done good margins in your standalone entity, so sequentially there should be a margin improvement in your domestic side?
Management	Margin improvement in the domestic on the O&M.



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- Kirti Dalvi** Yes since O&M is contributing to a large extent to your standalone revenues in the second half, so margins tend to look up in second half in the standalone entity?
- Management** See the O&M, what we have done is this, the last quarter of India revenue will include this Nemili desalination income also. So there we have the power component which we have shared with you earlier. So on an average if you see the India income, O&M will about 18% to 20% EBITDA.
- Kirti Dalvi** That means balance probably would come from your international subsidiaries, O&M I am talking about, where in the first half you have already done almost 87 crores, so there is a little bit downward movement in the second half compared to the first half in the international companies?
- Management** How did you get that?
- Kirti Dalvi** I just did 15% of your guidance what you have done it, assuming that 250 to 260-crores comes in the O&M, 120-130 crores if I assume in your standalone O&M, balance equal amount would be towards your international where you have already done almost 87 crores, so even if you do the exactly same amount should be higher, actually that is what I was thinking about, so just wanted a clarification on that part?
- Management** You are right, actually it can be higher, but at the moment the contract need to get renewed and things like that or it could be again competitive tendering, etc., even for renewal, so we would assume around 14 to 15, but if there is any upside possibility probably in quarter 3, we will be able to share it with you.
- Kirti Dalvi** In this quarter, our staff cost has actually gone down in spite of a higher execution in standalone results, so any particular reason?
- Management** Permanent cost, I think you must remember that we are more or less flat Kirti on the staff cost and the reason we had a little bit increase in the salaries from the first of April, but not much, but on the number side, we have not increased, but last year you remember that we had paid this variable pay in the year we had to take twice ahead because earlier we were on the cash mode and later on we moved to the accrual mode.
- Kirti Dalvi** So it is primarily the base impact?
- Management** Yes, because of that.
- Kirti Dalvi** The project which you spoke about in Oman, just wanted one clarification, this 350-crores is the EPC, in that we have a one-third our share, am I right?
- Management** No, we just explained before. That I think USD350 million is what the sponsors which is what we said at Sumitomo's level, they will have the cost, but as you know very well that is not only



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the EPC cost because in a BOOT project a lot of things in as a cost, it will be their own cost, it will be their surveys, it will be their lawyers, it will be their financial closures, the fees paid to the banker and also the cost of financing this money during the construction period.

Kirti Dalvi So how much would be the EPC component for us?

Management We are just finalizing the scope, it will be around 250 crores, but we will give you as soon as we have that number, we will announce that, but approximately USD250 million.

Kirti Dalvi US\$250 million would be the EPC contract?

Management Approximately.

Kirti Dalvi Yes, in that we will have a one-third share?

Management Yes.

Kirti Dalvi Probably this will come through in FY14 or you expect by Q4FY13?

Management We are expecting a closure and order in FY13 and the revenues will come from FY14 onwards for two years.

Kirti Dalvi If you could give the order inflow breakup for the first half, the way you have given your revenue breakup in your presentation?

Management We can give you an order backlog breakup.

Kirti Dalvi I have that in your presentation.

Management The only other thing maybe we have to just add, can we take it offline?

Kirti Dalvi Sure sir, we will do.

Moderator Our next question from the line of Jonas Bhutta from Bank of America, please go ahead.

Jonas Bhutta I had a follow up on the Nemili project. You mentioned that the total project cost for the EPC part was roughly 580 crores?

Management Order value you are saying?

Jonas Bhutta Yes, something that needed to be executed, of which receivable is 460 crores?

Management No, what I said was, we have 580 crores contract value, recognized revenue is about 520 crores, the maximum possible receivable excluding the retention is 460.



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Jonas Bhutta So 60 crores is the retention, right?

Management Yes, at the moment.

Jonas Bhutta On the O&M portion of Nemili, we were trying for a 3Q commercialization in the third quarter, which is now likely to only happen in the fourth quarter, I know that was built, it was already built this kind of fourth quarter commissioning was already into your revenue target, but do you envisage any possibility of delay that can further take this project commissioning only in the first quarter next year?

Management No, definitely not as we said, we are definitely commissioning in this calendar year because the trial runs have already started and the process is going on as it is the massive plant and a membrane, we have to go slowly and carefully to ensure that each and every unit is checked as this is drinking water it also needs to be disinfected each and every part of the plant before we really start producing water which is good for portable purpose and then we will have to give it to the pipelines and the pipelines have to flushed also and that is the reason we are saying it December and we are very confident that the water will be produced in December and after depending on the availability of the Hon'ble Chief Minister of Tamil Nadu, we will declare the commercial production and we are very confident in the first quarter, we will start our O&M.

Jonas Bhutta The question was with the background that we have done roughly 9.3% EBITDA margin on our standalone for the first half, so to match with the 12.5% EBITDA margin target, our asking rate is upwards of 14 to 14.5%, which is like an expansion of 100 to 150 basis points year-on-year and the last part of it in this on the O&M revenues that we get from Nemili, what I concur of what you just said that we see no risk to that, because the asking rate as high as 14.5 to 15% of margins in the second half from your standalone operations?

Management But you know that this is not at all a problem because in the first quarter or first half, we have done approximately only one third of our total revenue. Now two-third has to come in the next two quarters, but our fixed cost will remain fixed. The fixed cost, already we have absorbed 50% and for the second half we only 50% against 66% revenue, so naturally the margins will be much better in the second half compared to the first half.

Management Every year it happens like that.

Jonas Bhutta My last question on the Oman plant, pardon me for my view on this, we typically see procurement as a low margin activity. Given that WABAG has a technology on the membrane side, on the RO side, so basically just wanted to understand within the scope of roughly 400-450 crores worth of EPC revenues that you will get, can you then further segregate it into what kind of procurement activity would it be related to and what would be your technology portion, I know it is very sort of tentative as of now, but that would just help us see this project in a better light?



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Management

I think today you have to see if we talk about technology, reverse osmosis plant we have done many, we have the technology, heart of the process is the pre treatment and that is where our water treatment experience comes in very handy. We have 90 years of experience of treating waters and we have even done lot of pre treatment plants even for sea water, so these are some of the technology elements which we bring into the thing and additional technology which we used in laying the outfall and intake pipeline in the Nemili that gave us more confidence in doing it in this project, this is almost double the size, you can imagine, it is almost two pipes of Nemili size, which we will have to put in this plant, so the technology side, I think, more or less we have all the competences to do that and so is some of our partners whether Cadagua from Spain, they also have such experiences. And Galfar mainly their local presence and their construction skills of executing the plant in a good methodology which is cost effective and also we will be able to do it on time. Now procurement of course we all have to team up and we will have a common cell of procurement and see wherever we have the best relationship is Cadagua or Galfar has a better ability to buy a certain component of the plant, we will leverage that and if we have better connections and better price we will do that, so I think it is best basically taking the best of each company and pulling it into the joint venture company so that we can maximize the profit for all of us.

Moderator

Our next question from the line Mohamed Riyazuddin from Moneyore, please go ahead.

Mohamed Riyazuddin

I would just like to touch on the current situation in Libya and how this is spanning out incrementally

Management

I think the good news is as I told that we see some activities happening and good thing is we never put the country even in the most difficult times, our office in Tripoli was running and that has given a lot of brownie points for our company, They are confident about us, we have shown our loyalty and support to them even during the most difficult times, we were available to them in case there were some problems in their plant operation. Now I think things are going well. We are seeing the election is done, administration is getting their act together to go forward. We definitely see our projects are being reassured to us by the government; even they have given us in writing that our project will start pretty soon. So, we definitely see a very positive move in Libya, as you know we have not taken any order intake or revenue in this fiscal year in our forecast or guidance number, but we already got a small order and we are very hopeful and keeping our fingers crossed that we will see some more orders before end of this financial year itself, but these are not included in the forecast numbers. And also if we are lucky, in the last quarter, the fourth quarter, we will also see maybe some revenues flowing in, maybe small, but at least it is a good sign that things are normalizing and becoming good for us because this is one of our key markets.

Mohamed Riyazuddin

We tried several other companies who are providing services in EPC segment for oil and gas, they had very tough competition earlier from companies in Korea, so do you face any significant mentionable competition from any particular region or any particular company, which might make the competitive environment a bit tough for us?



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- Management** Are you talking general or in Libya?
- Mohamed Riyazuddin** In general and in Libya and North African countries in specific.
- Management** If we are talking about general contractors, we all know Korean contractors are good, they are all over the globe. Even in this job which we won in Oman, there were some Korean contractors and we could beat them. If we talk about Libya, we have not seen really a very tough competition from Korean contractors, once a while we see one or two contractors are competing with us, but we think we are much better in terms of technology and also in terms of our costing, so we have never had difficulties in beating them.
- Mohamed Riyazuddin** But most of the other EPC players have been complaining that they might be getting some kind of support from the government, which makes them defeat their bids by around on 30 to 40%, so nothing of that sort has ever come for you?
- Management** I think probably when we start losing the orders; we will start giving this as an excuse.
- Moderator** Our next question from the line of Vinay Rohit from ICICI, please go ahead.
- Vinay Rohit** My question on standalone EBITDA margin, if I look this year our 1Q and 1Q our margins are higher, there also seems to be higher gross margin, so if you could help me understand what is the difference between the work we are executing last year and this year and that is why our margin this year ahead?
- Management** This is similar answer to the previous question one of the participants was asking. If you see the EBITDA margin improvement is because the contribution margin which has improved and as I explained, we had higher revenue from two international jobs, one is from the Sri Lankan one and another one from the Oman job, since international jobs have a better margin than the Indian jobs, a combination of that in that particular quarter is giving you that result.
- Moderator** Our next question from the line of Shreyas Devalkar from BNP Paribas, please go ahead.
- Shreyas Devalkar** Would you like to share more details about the order pipeline with Sumitomo and what order of line it would and when the next would come if any?
- Management** This is a very, very difficult question. Yes, there is good pipeline of orders. As you know these are all finance projects, there is certain confidentiality in these orders, but what we can tell you that we are bidding and we have submitted some bids in South East Asia along with Sumitomo, we are having some large bids which we are working together even larger than the Oman bid in the Middle East market where we are again working together with them, so I think things are looking well because almost one and half to two years back, we signed this corporation agreement with them, it took us some time to understand each other, in the meantime there was this Arab spring, things went on very slow, but things are reviving and I am sure as the market



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is reviving and we both have also certain amount of understanding of our working relationships, things are looking better. In the coming years, we expect to see at least one or two orders per year from this relationship.

- Moderator** Our next question from the line of Charanjit Singh from Axis Capital, please go ahead.
- Charanjit Singh** Can you please give some clarity on the outlook for working capital cycle whether you see for the full year as a whole and whether we see receivables going up significantly because we have seen a reduction in receivables versus March, so how do you see in the remaining half?
- Management** Our working capital as you see, it has been hovering between the quarter between 50 to 75 days or something like that and this is a range within which we will be working, our receivable it depends upon the quantum of billing that we make in the quarter and significant possible billing again comes from the fourth quarter every year and if you see we have done against our guidance something around 30 to 35% one third and a significant part that is the two thirds comes in the second half, so we expect to collect significantly for whatever receivable on the balance sheet, but we also expect to bill, so I would expect that the range within which what we are guiding we will remain within that, we would not like to exceed the working capital, we would like to manage it if possible efficiently, so it should be on the same line as of March last year.
- Charanjit Singh** So we don't see any major increase in working capital as of now?
- Management** We don't anticipate any major increase in the working capital.
- Charanjit Singh** Other question which I would like to understand is on FY14, if you can give some clarity in terms of how do you see the market panning out both in domestic as well as the international side, which could be the major growth areas and if elections are going to happen so still the municipalities will continue to place orders, how is the outlook for '14?
- Management** I think we must look at as a group WABAG and this will be a little bit longish answer because I think one of the things which I think you have to recognize, as a group WABAG we are present in 3 continents and about 20 countries. Sometimes I think we get to ask a question if there is a problem in Libya or in Tunisia or in Egypt, we say that "you have a problem there, will it affect your company?" sometimes it is European crisis, we are asked again the same question, whether this being an European company, will it affect? And now in India, we are seeing a slow down again back, but on the other side look at the advantage, because we are so well spread out, we do business in so many continents and different countries and different currencies, so we can always switch our resources which we demonstrated in the Arab spring also that we can switch our resources from this North Africa market to new markets like Saudi and Turkey and Philippines and Sri Lanka, and which really gave us the advantage to still meet our guidance numbers and still grow the business at 15 to 20% what we have guided for, so election is an event in India. I don't think first the approved projects will slow down, yes there



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will be a quite period where they will not award any contracts, maybe two to three months, but water being a state subject once the financing is in place, whether it is multilateral, whether it is local financing, whether it is JNNURM once the financing is in place, I don't think we have to wait for a center to approve our project, because it is all done at the state level or the municipal corporation level and also one-third of our business comes from industries, which also does not get affected because they are not really waiting for this quiet period to place orders, so we do not see that this kind of event will have any negative impact on our work numbers.

Charanjit Singh So it means that we are still expecting around double digit growth in the order inflow in the FY14?

Management Definitely, and I would say why double digit, we have always guided about 20% growth in our order book and we would like to maintain that.

Moderator That was the last question, would you like to add any closing comments?

Management From my side, I would like to thank everyone for the participation in this Q2FY13 earning call. As you would have noticed from this call, we are definitely seeing a very robust year ahead of us and we are very confident of meeting our guidance numbers. We also would like to inform you that we have uploaded the analyst as well as the investor presentation of our company on our website. In case of any queries, you may get in touch with strategic growth advisors, our investor relation advisor, or feel free to get in touch with us directly. Thank you once again.

Moderator On behalf of VA Tech Wabag that concludes this conference. Thank you for joining us, you may now disconnect your lines.