Earning's call speech Q2 FY 17

Mr. Rajiv Mittal:

Thank you ………

Dear Friends, Good Afternoon.

I welcome you all to the Earning's Call post announcement of Q2 FY17 results of VA Tech Wabag Limited. I am joined today in the call, by our CFO Mr. Parthasarathy Gopalan.

To begin with, I am very happy to inform you that we have won our maiden order in the LATAM Cluster. We partnered with HeH (Hidalgo e Hidalgo) one of the largest infrastructure development companies in the region and a leader in Ecuador and won the 230 MLD Waste Water Treatment Plant in Guyaquil, Ecuador. WABAG's technical expertise and references played a key role in the winning of this contract. The total project value is about US$ 98 Mn and WABAG's share of the contract is 40%. The project is financed by European Investment Bank (EIB) and International Bank for Reconstruction and Development which is part of World Bank.

WABAG Austria bagged a Water Treatment plant order worth Euro 14.5 Mn for the city of Ismailia in Egypt. The new drinking water treatment plant will have a capacity of 180 MLD and will treat the water from River Nile. WABAG will implement a multi-stage treatment system with the distinctive feature that the treated water tanks are located under the clarifiers and also all pumps are located under the filter cells. This innovative design enables to meet the product requirements with a low footprint. Ismailia represents the 5th order in Egypt within the past 3 years. Currently, the drinking water treatment plants in El Raswa and Suez as well as the WWTP in Port Said are under execution. The water reuse plant at Madinaty near Cairo is almost completed and commissioning is expected to start soon.

WABAG Singapore won a contract for Servicing and Maintenance of Sludge Drying Systems at Changi Water Reclamation Plant for the Public Utility Board in Singapore for a period of 3 years. The value of this contract is about SGD 12 Mn. This plant consists of the world's largest Rotary Drum Type Sludge drying system which makes this as a unique contract. With this contract we have now expanded our Operational capabilities to include this type of Sludge drying systems which are now in talks to implement in major municipal corporations in metro cities and smart cities in India.

WABAG Philippines won a Sewage Treatment Plant rehabilitation order valued around INR 35 Crores. The order, Makati South Sewage Treatment Plant Rehabilitation Project focuses mainly on replacement of the electromechanical equipment and to optimize the Opex cost; Winning of this project is strategically important since it will open doors for direct negotiation of next phase implementation of the Sludge to Energy and also Biological Nutrient Removal Upgrade.

With these major contracts our Order Intake for the half year is now over Rs. 1,500 Crores and our order backlog is over Rs. 7,900 Crores including framework contract of about Rs. 870 crores.

Coming to the order pipeline, we see a good order pipeline in the Indian states of Karnataka, Maharashtra, Rajasthan, Delhi, Orissa and West Bengal. In Tamil Nadu we are also hopeful that tendering of the 150 MLD Desal plant would happen in this financial year. On the Namami Gange program, we are very optimistic that we would see the first set of tendering for the waste water treatment projects to kick start in the current quarter. In the overseas geographies also we see strong pipeline of orders in South East Asia, Middle East and Africa.

Now coming to the execution status of our major projects, our Malaysian Petronas Rapid project is on track as per schedule. Our engineering is progressing as planned and 60% model of the plant which will include overall layout and details of equipment and sub-systems of the entire ETP shall be reviewed by the client during this quarter. We have already completed more than 80% of piling works and the concrete works are in full swing for the super structures.

In the Al-Madina and Al-Shamaliya Sewage Treatment Plant (AMAS) project in Bahrain detailed engineering is in an advanced stage. Construction is happening at a brisk pace. All the engineering required for progress of construction and ordering of supplies are on schedule. Manufacturing clearances have been provided for most of the key equipment's and the manufacturing has also started. The project on the whole is on track as per schedule.

In the APGENCO project in Rayalaseema in the state of Andhra Pradesh the Boiler Lightup has been planned for the next quarter and the synchronization of the plant shall happen mid of next year. Also, in principle approval has been obtained from the South-Central Railways for marshaling yard works. The project is on track for completion by Mar 2018.

On the Koyambedu, Chennai and Polghawella, Sri Lanka projects which we bagged towards end of last year, we have started the engineering works and we expect billing to commence from the current quarter.

Now for an update on the organization structure, with a view to optimize the resources and synergize the strengths of the entities we have commenced a restructuring of the

Austria and Turkey MDU’s which shall now function as a single entity at the operational level. Mr. Mahmut Gedek, our young leader who has been heading the Turkey MDU will lead the combined entity to driving it to a profitable growth.

I am also happy to inform you that Mr. Pankaj Sachdeva will join us very soon as the Chief Executive Officer for India cluster. Pankaj is a visionary leader with over 30 years of global experience leading major companies in the field of infrastructure, power, energy and asset creation domain. He was earlier associated with Skipper International, Dubai as the Joint Group President and Group Director , with ABB as the President, Power Systems and Director-Sales with Areva, earlier Alstom.

With this I now hand over to Mr. Parthasarathy for taking you through the financial highlights of the quarter.

Mr. Parthasarathy Gopalan:

Good afternoon everyone.

I believe you must have had an opportunity to look at the result update presentation as circulated and uploaded on our website. Now, I would take you through the financial highlights for the quarter and half year ended 30th Sep 2016.

On a consolidated basis, we achieved Sales of Rs. 777 crores in Q2 FY17 as compared to Rs. 592 crores in Q2 FY16 registering a growth of 31%. Net Profit for the quarter rose to Rs. 24 crores as against Rs. 14 crores in Q2 FY16. For the half year, consolidated sales stood at Rs. 1,356 crores, an increase of 30% over previous year. Consolidated net profit for the first half increased from Rs. 4 crores to Rs. 29 crores.

Our Standalone Sales for the Quarter grew by 38% and stood at Rs. 449 crores as compared to Rs. 324 crores in Q2 FY 16. Net Profit stood at Rs. 28 crores as against Rs. 24 crores during same period last year recording a growth of 18%.

As you would recall, we had given you a summary of the changes that our financials have undergone as a result of transition from the erstwhile IGAAP to IndAS. To recap on IndAS convergence key areas of effect are:

1. Accounting of Investment in Joint Ventures: While the erstwhile IGAAP allowed proportionate line by line consolidation, Ind AS requires consolidation of profit or loss only, under equity method of accounting. This change has effect on disclosure of financials in consolidation of the results of the Al Ghubrah project which was executed by our IWT JV. Results of Al Ghubrah project have now been regrouped

and reported in one line under the head “Share of Profit/(Loss) of Associates”. This is only a disclosure change and has no effect on profits.

2. Concept of Expected Credit Loss (ECL): The provisioning for receivables under the erstwhile IGAAP was based on an “Incurred loss model” whereas the Ind AS now requires adoption of an “Expected loss model”. We have adopted a structured approach through a blended matrix ECL model which considers various parameters like customer profile, regulatory risks, geo-political risks, customer credit worthiness, delay losses expected etc. in evaluating the expected credit loss provision. The ECL assessment is required to be done for FY16 and FY 15 as well which has been carried out.

   As you would recollect, in WABAG, we already have a provisioning policy and accordingly we have been making provisions for bad and doubtful debts. Hence we are not seeing any major impact to our current year results due to the ECL model.

   Going forward, we would continue to assess our receivables periodically using the new ECL model and we believe that the incremental impact in the current financial year will not be significant as against our earlier assessment model under IGAAP.

   We have provided a reconciliation of the profits of Q2 FY16 due to the adoption of IndAS in the detailed quarterly financial results which is available on the stock exchange website and also on the company website.

I would also like to update that, based on our periodic review of the Group structure, the Company liquidated its subsidiary in Algeria.

To summarize, Good opening order backlog followed through better execution in the first half led to a good growth in the topline and bottom-line for the group. The good margin projects secured last year in International projects from the IIU's enabled us to maintain a healthy Operating margin. With continued and focused efforts on the working capital front, we believe that the results will continue to improve.

With this we now open the floors for the Q&A session.