

"VA Tech WABAG Limited Q4FY12 Results Conference Call"

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Moderator

Ladies and gentlemen, good day and welcome to the VA Tech WABAG Limited's Q4FY12 results conference call. As a reminder for the duration of the conference all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions at the end of today's presentation. At this time I would like to hand the conference over to Mr. Rajiv Mittal – Managing Director of VA Tech WABAG Limited. Thank you and over to you sir.

Rajiv Mittal

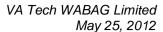
Thank you. It is my pleasure in welcoming you all for this discussion on our annual financial results for FY12. Along with me is Mr. Varadarajan, our Executive Director, Finance and also Mr. Erik Gothlin – CEO of our subsidiary in Austria and our investor relation advisor, strategic growth advisors.

Let me start with the domestic markets. India offers a high growth potential for water and waste water treatment business. The major demand drivers are scarcity of water, urbanization, environment protection. Government understands the importance of this sector and the thrust is visible in various policies and recommendations. The high powered committee report recommends for new improved JNNURM focuses on urban infrastructure development over the next 20 years. Central government allocations have been recommended to increase from 0.1% of GDP to 0.25% of GDP. Water and waste water management forms 20% of the capital expenditure and 50% of the O&M expenses in this. Also the national water policy 2012 encourages to recycle and reuse of water. It encourages public private partnership, PPP models for water projects and development of mechanism for implementation of water tariff system to reduce or eliminate government subsidiaries and thus shift to payment by users rather than tax payers. Now let us move onto the order intake. First on order book, the negative growth momentum which we are seeing in our country and the policy uncertainty we have during the last year FY12 led to deferment of capital expenditure and fresh project decisions. Still, we were able to book sizeable new orders especially in the second half of FY12. Despite all challenges our fresh order intake during the year is 1862 crores. This includes firm orders of 1774 crores an incremental framework contracts of Rs. 88 crores. With this our firm order book now stands at 3731 crores and Rs. 830 crores framework contracts. Of the total firm order book 2/3rd is related to the India business and 1/3rd is related to our overseas subsidiaries. Few industrial orders from oil & gas sector and steel sector totaling to over 300 to 400 crores could not be concluded in the last financial year due to the delay in the project finalization. We expect to receive these orders in the first quarter of this fiscal year. Some of the key projects added in our order book during the fourth quarter are - first, the two BOOT projects which we have translated from the framework contracts to the firm order book as they have achieved the financial closure in Q4 FY12. These are 195 MLD water treatment plant on BOOT basis for Ulhasnagar Municipal Corporation for Rs. 334 crores. EPC portion of this plant is about 100 crores and the balance is O&M order which is 229 crores. Power component of this project is passed through to the municipality and hence it is not included in this order. The second BOOT order is 4.5 MLD waste water treatment again on BOOT basis for the City of Windhoek in Namibia. EPC portion of that project is 6.5 million and it is technically a challenging project where we are using some of our patented processes. Certain other order



intakes are we have one project for sewage treatment plant for Madinah in Saudi Arabia for a Euro 7 million. In this project municipal wastewater will be purified using mechanical and biological treatment and downstream wastewater filtration which will enable the reuse of treated water for agriculture or irrigation purpose and also help to protect the natural water resource in this arid region. The other order is an order from Turkey for new Siverek Wastewater Treatment Plant of €7.7 million, technology offered is again an activated sludge process with anaerobic sludge digestion. We have also won our maiden EPC order from Qatar for design and supply and supervision of installation and commissioning and performance trial for a sea water reverse osmosis desalination plant for €7.5 million. Three other orders we got from Switzerland totaling to €8.4 million. Other order that we have is this third order from Philippines which is a 6 MLD Dona Imelda Sewage Treatment Plant again based on WABAG's patented technology of FLUOPUR for USD 4.8 million. On the O&M side the standalone business we won is worth Rs. 33 crores from customers like Essar Oil, Bangalore Water and Sewerage Board, Indian Oil Corporation among others. In an addition to the firm order book we also have framework contracts of about 830 crores on receipt of advance or letter of credit or notice to proceed or achieving financial closure, we will take these orders to the firm order book.

Let us look at some of the orders in our new geographies. The strategy to build a multidomestic decentralized organization in developing geographies has started giving results. We focused on geographies like Saudi Arabia, Turkey, Tunisia, Algeria, Philippines and Sri Lanka after experiencing the Arab spring. We secured an order in these countries with the local team leading the projects. These projects have large potential for water projects and we expect to make further inroads in coming years. Let us look at some of the projects in the pipeline. We are seeing an overall increase in the order inquiries in FY13 and we are in an advanced stage of discussion for various opportunities. The order intake in FY13 will be driven by some key projects like projects aggregating to over 5000 crores for Mumbai Sewage Disposal projects, for BMC and this is for mainly sewage treatment projects located at seven different sites in Mumbai. The second one, we are a preferred bidder with some of the large industrial groups in the oil & gas sector as well as in the steel sector where we expect to get repeat orders shortly worth Rs. 300 to Rs. 400 crores. We are also targeting orders from each of the following municipalities which is in Karnataka, Orissa, Tamil Nadu, Delhi among others and each order is expected to be in the range of Rs. 200 to Rs. 500 crores. Also our joint venture with Sumitomo Corporation is participating in some of the large bids overseas this year and each project is worth between \$200 million up to \$1 billion. We expect to book our maiden order under this partnership in this financial year. Also our overseas geographies are expected to book orders over 125 million in FY13. We also want to share with you some of the business restructuring we have done this year. Based on our experience we believe that focused attention on each product vertical is required to scale up the business, hence after due consideration we are shifting our business model from geography focus to a product focus to effectively utilize our highly skilled technical talents and their experience across geographies. This model will also help us to acquire global dimension and enable us to scale up each business unit. Now EPC business has three product verticals, municipal water, industrial water

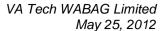




and desalination. Why desalination? Because global water market report of 2011 has clearly identified desalination and water reuse as the fastest growing areas in the water sector mainly due to water scarcity. We also believe that desalination will be a large business owning to consistently increasing demand with limited supply of water, hence to focus on this vertical we have formed a new SBU for desalination. Now after a successful execution of Chennai Desalination Plant, we are forming global competence centre in India which will focus on all desalination projects globally. Towards focus presence in the market, business development is also being centralized under corporate marketing and will have a customer interaction and relationship as their prime objective to develop projects for all business units in different geographies. Let us give you a quick update on merger and acquisition. As you would have noticed we have a cash balance of Rs. 400 crores on our balance sheet. We are continuously evaluating couple of M&A opportunities abroad. We shall keep you updated upon any material development. Also we want to share the dividend. Our Board of Directors have recommended 300% dividend, i.e. Rs. 6 per equity share of face value of Rs. 2 each for the year FY12. This year we expect the international business to contribute significantly to our revenue and order booking. I would now hand over to over CEO of Austrian Business subsidiary Mr. Erik Gothlin and request him to share his view on global business landscape and our strategy. Over to you Erik.

Erik Gothlin

Thank you Rajiv. As you might know out of Vienna we manage WABAG subsidiaries in Europe, North Africa and Middle East and especially if the latitudes are interesting as they are identified as regions in very high growth in all areas of water treatment. So be it sewage treatment, be it drinking water or be it desalination. And as we heard the overall strategy that we are driving hard to implement is to be close to the customer and wherever the market is picking up we will establish an open unit and will call it multi-domestic unit. Looking at FY12 we can say that it started with a challenging geopolitical situation. The Arab spring basically put our business in Libya, Tunisia and Egypt on hold. We reacted very quickly by reallocating resources to other countries. We adjusted the besides of in particular the ocean of recession but it should be underlined that WABAG has a very long history in this countries and we have a firm commitment to our local customers and throughout this entire period, this difficult period we kept our offices open and we remained in close contact with customers and with our partners. And I am convinced that this commitment will pay off as these countries now slowly get back into operation and we see the first signs now that our activities are increasing and business is coming back to the normal stage. In terms of spreading the business we have put a lot of focus in the past year on the fast growing markets of Turkey and Romania. Both countries invest in these European regulations for wastewater treatment and we are pleased to have secured, 20 million of new business in Romania and as Mr. Mittal already mentioned the recently started Turkey subsidiary won its first orders and as we speak we are negotiating for what we believe to be another two orders. To mention also is __15.58 ___ that continues to excel through its technological leadership. We secured a very prestigious order in this key resort of Andaman and this would turn thanks to our newly developed and patented **16.10**_____ technology. In FY12 we also secured new orders in both Saudi and Algeria. If a country is with major investment programs budgets and WABAG thanks to its many

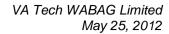




successful references, it is well placed to secure our fair market share and as late as a few weeks ago we were notified for a reward for a 6.8 million Euro of wastewater treatment plant in Algeria. Coming back to where we started, there is a publication called the Global Water Market 2011, they recently released market research on the water sector and they clearly identified water scarcity, urbanization in environmental protection as major growth drivers for the water sector. The country is in the MENA region, South East Asia, Eastern Europe or basically all developing nations. It will grow at higher rate than developed nations. At WABAG we are focusing in these geographies and we are well placed and this past year saw the first maiden orders in several of these markets. Of course our business competition is ever increasing but we look forward to FY13 with confidence and with this I would like to pass to Mr. Varadarajan.

S. Varadarajan

Thank you Erik . I am sure you would have had the opportunity to see the analyst presentation as it is circulated and uploaded on our website. We will now present the audited annual results for FY12. It gives me great pleasure to announce that WABAG India has crossed the revenue landmark of 1000 crores on a standalone basis in FY 2012. Beginning of FY12 we have guided for a consolidated revenue of Rs. 1400 crores to Rs. 1450 crores. We have met our guidance and our revenues for FY12 stands at Rs. 1444 crores, which is a growth of 16% on a year on year basis. The EBITDA for FY12 was Rs. 130 crores as compared to Rs. 121 crores in FY11. During FY12 we have mailed an additional provision on account of a new variable pay program that we adopted amounting to Rs. 6.6 crores. In spite of incurring high business development expenditure for penetration into new geographies that will generate returns in the coming years, we have maintained the EBITDA margin for the year. Also we had guided for a net profit increase of 30% on reported basis for FY12. Our net profit for FY12 stands at 73.7 crores in comparison with the net profit of 52.6 crores in FY11 which again means a growth of 40%. The Chennai Desalination Project, the Sri Lankan Dambulla Project, the Tehran and Shiraz Projects of Iran, the Delhi Jal Board project etc on the municipal site, the Indian Oil Corporation (IOCL) Paradip and APGenco on the industrial side, some of the major contributors to the revenues for FY12. Looking at the working capital and we have seen a 12days sales increase on a consolidated basis. WABAG has seen an improvement in the current quarter with payments flowing in from the Chennai Desalination Project, working capital for the international business has slightly increased mainly due to retention mining for the project which is spending commercial closure where we have the provisional expectance already with us. We can also see the improvement in the working capital side post securing the advance for the recently bagged projects. We expect to receive the above payments in the first half of FY13. On the liquidity side you heard Mr. Mittal, we have cash and cash equivalents of Rs. 400 crores in the balance sheet. Looking at the project update, the company has achieved a milestone by successfully laying down the water intake and outfall pipeline into the sea during the current quarter. The company has completed 88% of the total EPC work in the project and it expects to complete the mechanical completion as well as the trail run etc in quarter 2 FY13. The O&M revenues will commence in Q3 FY13.Looking at the guidance for FY13. At the beginning of FY13 our order backlog is 3731 crores and we believe for FY13 we expect the





revenue to grow between 15% to 18% over FY12, which is about 1650 crores to 1700 crores. With this guidance let us open the floor for question and answers.

Moderator Thank you very much. Ladies and gentlemen we will now begin with a question and answer

session. The first question is from Naysar Shah of Birla Sun Life, please go ahead.

Naysar Shah So whether there is any guidance on the sales growth 15-18%, what will be the guidance on

the order intake for FY13?

Rajiv Mittal It will be about 20% over FY12, on the order book I am talking about.

Naysar Shah Sir you are saying order book so I can back calculate based on your -

Rajiv Mittal Some 3700 we are talking about an order book at 20%.

Moderator Thank you very much. Our next question is from H R Gala of Quest Investment, please go

ahead.

H R Gala

Just wanted to know that going ahead looking to the composition of orders and the embedded

profitability do we expect to get back to say 10% type of an EBITDA margin in the next year?

Rajiv Mittal Even if you see this year, we are not very far from it. One thing you must remember and I

think in the previous conference call and our interaction with all investors and analysts, we have said that this year we have taken twice a hit of the variable pay. So that means that so far we had a policy of having a variable pay as once in a year as an annual payment but after we got listed we thought it is very appropriate, rather than doing a once in a year kind of thing we wanted to change it to quarterly. So we started recognizing the quarterly variable pay on an accrual basis plus we had last year's cash payment this year. So this is almost about 6.5 crores you have taken an additional hit this year. So if you add that, more or less we are at 9.7-9.6 kind of percentage already. So I do not think that our margins are lower this year and we

expect the same level of margins of 9.5 to 10% even next year.

HR Gala The second question is with the sudden rupee depreciation how are we placed on the FOREX

side? Like in our P&L and balance sheet how much FOREX gain on losses?

Rajiv MittalOne is let me try to understand the question and answer this way, if you look at the translation

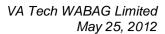
we took about 60 and then at the start we were having 60, it turned out to be 66 so about 10% impact due to translation. Look at the foreign exchange gains or losses we actually suffered a

loss of 1.6 crores which is there.

H R Gala That is for the full year sir?

Rajiv Mittal That is for the full year and if you look at the rate at which we have originally assumed, we

assume 45 or 46 and we actually happened to make the payments at 47-48-49 kind of during





the year and the inflows also came that way and it was at 49-50 and sometimes at the end was 51. So overall some have gone as sales, some have gone as purchases. It depends on this AS11 what we applied but the foreign exchange fluctuation account as per the standard is called that what you have seen in the P&L.

H R Gala

Do we follow the hedge accounting also under AS30?

Raiiv Mittal

No, we do not because we do not go for those kind of hedges, we do only straightforward Forwards.

H R Gala

Okay, sir can you tell what kind of capital expenditure you will have next year and how much we had in the current year?

Rajiv Mittal

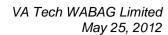
See we have projected this expenditure on our WABAG own building, WABAG House and that is currently shown as the capital work in progress and we expect this to be about 35 crores of investment by the company. It will be capitalized in FY13. It has been a major expenditure and the rest of the expenses are not going to be any significant from the previous where you would seen as an asset light ,we spend about 2-3 crores per annum on this CAPEX and it is not significant.

H R Gala

How do you seek improvement in the receivables, because the receivables seem a bit stretched?

Rajiv Mittal

See it is a good question and let me answer it this way, if you look at our balance sheet apparently you would find it is very high if you are going to measure us in terms of number of days sales. This is a normally accepted measure which the market is using but I would not recommend this measure for our kind of business because of the following reason. If you see our sales, we did almost 520 crores. I am not talking about WABAG India because the international market is different. If you look at the Indian business we did almost 520 crores in the last quarter, which is not due to me because as per the contract it is not even due to me and which is 52% of my top-line. And if I am going to do a weighted average of the number of days from the invoice dates, not even the due date, my system tells me I am 1 year 89 days. So if you see the gap between this 89 days what I am getting and at 9 months what you are getting as number of days sale, you will see there is a big gap. So we would like you to understand that these number of days sale should not be a right measure for our kind of business and out of whatever you see as the receivables there it includes about 10% of retention also which is payable only after the commissioning of the project etc and we feel our working capital is a better measure. If you look at the working capital it is about 64 days in India and overall we are on a consolidated 60 days if I remove the cash out. So I think it is pretty comparable with some of the best companies in the market.





Moderator: Thank you very much. Our next question is from Dhaval Shah of Dolat Capital, please go

ahead.

Dhaval Shah Sir any guidance on our overseas operations?

Rajiv Mittal Guidance in terms of?

Dhaval Shah Top line or revenue, whichever you are comfortable.

Rajiv Mittal Yeah revenue wise we will see a good numbers this year, almost about 40% to 50% growth we

are expecting in our overseas subsidiary this year and also on the bottom line because of this growth we are also expecting very good, because they have a small number, small positive this year, so in terms of percentage it will not make sense, but you will see a very decent number in this coming year because they will have a good revenue growth this year because of a good

order intake last year.

Moderator Thank you. Our next question is from Kartik Mehta of Sushil Finance, please go ahead.

Kartik Mehta Sir, I just missed on one part, what was the total order intake for entire financial year FY12?

Rajiv Mittal We said 1862 crores which included firm orders of 1774 crores and an incremental framework

orders of 88 crores.

Kartik Mehta So you said that you are looking at your order book to grow by 30%.

Rajiv Mittal 20%.

Kartik Mehta Okay, 20%, so that means you would be probably looking at just 700-800 crore fresh orders in

the entire fiscal 2013?

Rajiv Mittal See if you have to say if today our order book is 3731 something and just now Mr.

Varadarajan gave a guidance of say 15-20%, so even if let us take 1700 out of this, so we have approximately 2000 left and then to get a 20% growth on this we have to be close to 4500

crores so the order intake will be something between 2300 to 2400 crores.

Kartik Mehta So my worry was that that book to bill would probably fall next year.

Rajiv MittalNo, it will not because we have enough orders. If we book this approximately 2300-2400

crores, I think we will have enough orders to execute next year. Traditionally we have not had a large book to bill, 5% to 10% on the book to bill. What we book generally in the first quarter

we bill.

Kartik Mehta So generally we would be remaining at 2.5 times what we are standing as of now?





Rajiv Mittal

Something like that. Our aim would be something between 2.5 to 3 tons. That is the max because beyond that I think is a stretch because our projects are generally about 2 years duration and if we go beyond 2.5-3 then we are in a danger of getting into liquidated damages.

Kartik Mehta

Sir on the margin front I understand that our overseas orders are probably having lesser margin compared to domestic ones, so if you can just spell out what was the margin difference between these two territories and we also had an impression that eventually we are probably going to see a shift happening in the margin improvement towards the overseas orders. So that would overall increase our blended margin. So any thought on that?

Rajiv Mittal

Yes. I think you must understand that as order intake our overseas orders are having much, much better margin than the orders from India. The reason being their cost of running the operation is high. We have a cost of running the Indian unit as a TCO, which is Total Cost of Operation around 8 to 10% and in our international subsidiaries is anything between 30% to 35% okay so to have a bottom-line their margins have to be substantially higher than us to cover the fixed costs so their net margins, yes are lower than Indian margins. Indian margins are generally at the EBITDA level you will find that about 12% and on an international level you will find that between 6% to 7%.

Kartik Mehta

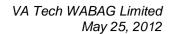
Right I was just referring to that.

Rajiv Mittal

On an EBITDA level yes, on the contribution margin or the operating margin they are much better but once they do that TCO out, EBITDA is lower but now what has happened which we have told you over the last 4-6 quarterly calls that we are decentralizing what we call it multidomestic units so we are reducing in some of our expensive geographies like Austria and shifting our resources and our investments to new geographies like Romania, Turkey, Tunisia, Philippines, Sri Lanka. So if you are doing all that naturally our cost is also going down and our opportunities are going up. Because these countries have a tremendous opportunity in the water sector and that's what we said in this con-call that we have already started getting orders from these new geographies and this is what is going to drive the margin up because we are moving from a high cost location to a low cost location and also from a developed country to a developing country and this are all going to drive our margins plus our operation business which this year is about 14% of our total top-line now we have given already the target that we are aiming to achieve something 17% to 18% of our top-line in the next 3-4 years, this operation business has a better margin as compared to construction business, this will also improve our margins going forward. Also as you have seen we are also in some of the CPP or BOOT type of projects which are also giving us better margins than normal L1 business and these are some of the growth drivers and profit drivers for us.

Kartik Mehta

Okay just to extend the question in line with your answer of the 438 crores of overseas revenue of the last year how much was from the developed nation and how much was from the developing nation and any margin difference you can throw so that it gives more idea?





Rajiv Mittal

See we do not have a breakup because for us developed nations is only Switzerland, rest all are mostly Eastern Europe, North Africa, Middle East so these are our developing or emerging markets. So, already I would say from developed countries we don't get more than 20% to 25%, most of our business is from emerging markets whether it is from India or from our overseas subsidiaries.

Kartik Mehta

So you say that in in developing nations obviously your cost would be less, you are moving from a high cost country to a low cost country, that is developed country to a developing country that has already happened right?

Rajiv Mittal

I think its work-in-progress. We have already started this over a last two year period but this cannot happen overnight, we are into people business this has to be done very slowly and sensitively so that we don't lose our key technical staff so this will take time, probably it's a 5 year program.

Kartik Mehta

Okay so having said this 5 year program reaching from a 6% margin to a realistic 8% or 9% or 10% margins, how much time would you like to buy for that?

Rajiv Mittal

See I think that reasonably if you want to know it will be about 3-5 years.

Kartik Mehta

Okay so it's a long process to implement?

Rajiv Mittal

See we are into people business where each contract of ours takes about 2-3 years to execute so it's not like today I book the order, tomorrow I can get the revenue and the bottom line, it takes time.

Kartik Mehta

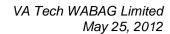
Sir one last question from my side, of this 15% to 20% revenue growth you have guided any specific orders you would like to say contributing, if some of the names?

Rajiv Mittal

See you can understand this is a sensitive information which I cannot but I have already given you an idea that we have Mumbai Sewage disposal project ,there are 7 sites in Mumbai where you do not have sewage treatment plants, you are going to get a sewage system plant. If I have to name a few Colaba. Worli, Bandra, Bhandup, Versova, Malad, these are some of the places Ghatkopar these are the 7 sites where new sewage treatment plants are going to come up. I also mentioned to you oil and gas sector and steel sector we are the preferred bidder. I also mentioned some of the municipalities in Karnataka, Orissa, Tamil Nadu and Delhi. I also told you some of our overseas geography is going to book almost Euro 125 million order plus we are very hopeful of getting a large order with our co-operation with Sumitomo Cooperation.

Moderator

Thank you very much. Our next question is from the line of Shreyans Mehta of Aditya Birla. Please, go ahead.





Shreyans Mehta

One related to your order book. Sir can you if could give us a spread between government and the private, secondly how much of our order book is under the fixed price contract and how much would be under the variable price contract?

Rajiv Mittal

In the presentation which we have given already has the industrial and municipal and most of our municipal orders are with the State Government orders and in the industry we have some of them are in private sectors and some of them are in public sectors so we have not divided the industrial orders into private and public sector.

Shrevans Mehta

Sir in terms of the desalination majority of them would be government?

Rajiv Mittal

No, till today most of the desalination projects came in industry as you know whether it's a refinery or a power plant because of the coal linkage and the crude most of them are located at the coastal sides, and that's where the first desalination concept came whether it's for Krishnapatnam Power Plant, whether it is the Adani Power Plant in Mundra, you talk about any power plant they all have desalination plant but just the volumes are smaller 10 mlD, 20 mlD, and 8 mlD. The major orders if you need like Chennai orders they have to be municipal orders because these are large drinking water orders. But the industry has been using desalination for quite a long time.

Shreyans Mehta

Sir secondly regarding the fixed price contract?

Rajiv Mittal

See, we took a decision almost about 5 years back that most of our long term public sector contracts will have an escalation clause and that we continue to follow both in India and overseas most of our public sector, government municipal orders will be escalation based orders with a variable price and with the shorter duration which are 12 to 18 months, we accept a fixed price contract especially from the private sector.

Shreyans Mehta

When you see there would be an escalation clause, I just want to understand further will it be WPI linked or how is it?

Rajiv Mittal

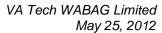
See it depends each contract have a different way of giving an escalation, some of them are directly linked to the RBI indices some of them are star like if we go for steel, they will take a steel order, when we book the order and actually when we are supplied they will take a sale rate and the difference they will compensate to us. So some of them are star rate and some of them are RBI indices.

Shreyans Mehta

Sir my last question is relating to MENA around 1 or 2 quarters back there were certain projects which were put on hold or we had to take a step back because of the conditions out there, do you see any improvement out there are there renegotiations going on?

Erik Gothlin

I think you refer mainly to the North African markets and maybe I'll just take you through the north coast of Africa, we just start with Algeria which is a country that has been the least





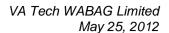
affected in the region and there our business has continued completely as per our expectation throughout the year. Towards the end of business year we have booked the brackish water desalination project called LOS in the middle of the country in the middle of Sahara where they pump up the water and bring it to drinking waterquality. We are just about to close another contract in Algeria that country has remained stable and WABAG's business is proceeding as it should. Then the next country then it is Libya which is second only to Syria, a country that has the most violent revolution of all the countries, what happened there is during early 2011 when this war broke out our projects as well as everyone else's in the country they were declared under the state of force majeure the legal right to put them on hold and we do not need to work to proceed to work under force majeure but we evacuated some 45.50 but we did keep a co-organization in place and they stay there all throughout the turbulence period they have gone to the customer to meet them on a weekly basis and they met the bank on a weekly basis and this has really brought us a lot of esteem in the country and now we are seeing the first signs that they are coming back to normal, what does that mean was they call us for meetings, we are starting to discuss how to re-start the project, we are discussing how shall we be compensated if there have been any damages, we think we are carefully optimistic it will happen during 2012 now this calendar year when it comes to progress. But it depends as you know there has been an election announced here in the end of June and we are carefully monitoring that and we hope and pray that it happens in a good and a peaceful manner that is Libya. You take the next country here is Tunisia ,a much smaller country from geography but we also have WABAG unit. There was the start of this revolution if you remember they call it "The Jasmine Revolution" and that was start of this entire out frame. There the projects have been put on hold for the year but they have restarted now. We have restarted our activities on the work front that is looking good. We are also seeing that the customer is restarting his tendering process and _____ 47.15 process and we are also in negotiation for the new contract. So this is coming back to Tunisia we feel good, let me just ramp up and we will go to Egypt also a country with tremendous potential where WABAG has done many successful projects over the years. Egypt has certainly seen no activity during the year but at least two of these governments, they are having an election. It looks peaceful. We are looking to decide that who is the winner. We are confident that also the Egyptian business environment will come back to normal and we can do business. So this is where we are and we believe that spring will convert into Arab summer and the WABAG references and the good work that we have done in the past and once again the fact we never left our customers, we never left these countries and this will pay dividend as we go forward.

Shreyans Mehta

Correct and Sir have we taken any impairment cost out here?

Rajiv Mittal

No I didn't understand the question. When you make impairment we had mentioned in the previous con calls that as far as the receivable is concerned we were able to receive the money because we had LC enforced. And Africa the work-in-progress maybe the vendors factory, etc., we could not shift we have a claim on the insurance, we have a political and comprehensive cover for the kind of risks that we are taking so we have put a claim on and





that's a smaller value 2-3 million of size, so we don't have any impairment provision in the books because we are well protected.

S. Varadarajan

There is an extra credit insurance protects us even against the goods and the manufacturing which are not shifted yet once it is shift we have to see, no financial risks.

Moderator

Thank you very much. Our next question is from the line of Vinay Rohit of ICICI Prudential. Please, go ahead.

Vinav Rohit

My question is regarding your order inflow of 1000 crores from India, so when we started last year we expected too much order inflow from India so why do you think that it is not happening in India, municipal order you said may probably pick up but it hasn't taken up probably the second question is somewhere in the second quarter you were talking about you have some debt on standalone balance sheet which you said that probably will be repeated but for some reason it has gone up.

Rajiv Mittal

Yeah, let me answer the first question first, see as far as order intake is concerned we are more or less on track except this orders which I said to you about 300-400 crores and I also mentioned that these are orders in the oil and gas sector and steel sector where we are already a preferred bidder but there has been a slight delay from our customer's side and these orders will get finalized in this quarter and we are very hopeful that we will book these orders. We are a few months late than what we expected but such things we can't control, client has to take the decision. The other order was the Aurangabad BOOT order which we expected to financially close. There is again some delay we expect that in next month or so that should get closed so that's anyway an order which is awarded. It's the process of financial closure should happen in a month or two. So other than that I don't think we have missed any order and the large municipal orders which I told in my earlier speech we have already got from Delhi Jal Board which was almost 250-300 crores order and Ulhasnagar and all we have already achieved the financial closure any way. The second part of your question was on the debt.

S. Varadarajan

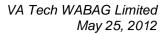
That is the question from you on the debt, the answer is see we have a very short term requirement particularly if you see the fourth quarter I mentioned to you we do almost 520 crores of volumes 52% volume we do in that kind of a thing what we did, we took a loan against our own fixed deposit because we were going to collect the money in the following few weeks and then we can repay that, that is the idea. So these are temporary loans which are taken and get repaid.

Vinay Rohit

Sir on orders inflow from overseas business this year it has been pretty good so next year given the austerity, every thing happening in Europe are you confident that you will be able to sustain this next year as well?

Rajiv Mittal

See, I think you must understand again I want to repeat that Europe has nothing to do with our business because 80% plus of our business is outside Europe and only about 10% to 15%





comes from Swiss, and a little bit comes from other European countries. Most of this European business comes from Eastern Europe which is Czech and Romania and the rest of it comes from other emerging geographies in the North Africa or Middle East like Saudi Arabia and other things. So, we are very confident of the guidance which we are giving you both on the order intake and on the revenues because revenues will come from the orders which are already in hand and in the order intake we have a pretty good amount of visibility and we are confident that we will achieve the numbers which we are guiding you.

Vinay Rohit

Earlier we were looking to acquire some technology company so what is happening on that front?

Rajiv Mittal

I think you would agree that if you are looking for technology company of course we cannot get in India or in the neighboring countries, we have to look towards west and especially in Europe things have not been so good and we have not been able to find a company which we would like to acquire, we don't want to take companies which are in distress and also the currency is not very stable, their home market is not stable, so we have looked at some of the companies we were going ahead with it but then we saw what was happening in Europe, we have slowed down our process. But other than Europe we are looking at some other two or three geographies and I am sure if there is a further development where we are putting in our binding offer and we are progressing on our negotiations, we will definitely keep you informed. But one thing is sure we are definitely going to go for an acquisition. We have the cash on our balance sheets which we have told you it is strategic cash. We have this as a part of our long-term growth plan where we have said that we want to be growing at a very rapid pace and acquisition is definitely part of our blueprint.

Vinay Rohit

You said apart from European geography so is that Africa or MENA?

Rajiv Mittal

See it is Latin America and some of the company's we are looking at also in Southeast Asia.

Moderator

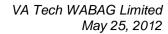
Thank you. Our next question is from the line of Abhishek Gupta of Goldman Sachs. Please go ahead.

Abhishek Gupta

Mr. Mittal to start with you, can you update us on the status of the Chennai Desalination Plant because what I understand is that there will be monsoon which will be arriving soon probably it may have struck already and then the work may get postponed, so in such a situation how much work needs to be completed are we on course to complete the work before the monsoon sets in?

Rajiv Mittal

Abhishek, I think an important thing to know that in Chennai we don't get the monsoon like you get in Mumbai, you have Southwest monsoon we have northeast monsoon so our monsoon is from October to December and the second part is in Chennai Desalination we have almost 88% job is complete and as you would have noticed that our pipeline work which is the most critical milestone in this project, we have achieved that both the intake pipe and the





outfall pipe both we have laid so I think that is the biggest headache which is out of way because this is something which doesn't depend only on our capability we also need blessings from the weather god because the sea condition is very important for us to do this operation, we were lucky and our team was very capable in one shot they could put both the pipes. We really are proud of them and I think the rate at which the work is proceeding in next 2 to 3 months we should be ready to start our trial operations and as I said before towards the end of this second quarter we should be ready to commission and deliver water.

Abhishek Gupta

Because that was my concern, given that tide becomes a little violent even as we approach August just thinking pipe should perhaps been already laid otherwise it becomes difficult, because I recollect last time, that was what was the concern on this site right?

Rajiv Mittal

Absolutely Abhishek, I repeat we have already laid pipes last month. Both the intake pipe is done and the outfall pipes both are in place on the seabed buried safely under the seabed.

Abhishek Gupta

That's great, Sir in terms of receivables because obviously we had elongated receivables it was actually impacting our working capital so can you throw some light on Chennai Desalination plant?

S. Varadarajan

See if you look at the Chennai Desalination Plant, we mentioned about the delay which was happening and if you look at post the last con call the inflow started flowing because the state government took the decision that they will pay out of their funds and they will not continue to wait for the inflow of funds from Delhi. The good news is the Delhi funds have now arrived recently, state government did pay us out of their funds partly and we were having almost, if I take out the retention part of the outstanding as of 31st March, we would have about 100 crores outstanding to be collected and we have collected almost 40% to 50% of this in the last 1.5 to 2 months and we expect to collect the balance in few weeks from now.

Abhishek Gupta

So the cycle is eased now, it's back to normal?

Rajiv Mittal

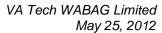
Yes, I think that's important because 59.10 has even the next tranche of payment and now slowly I think in the next few weeks the cycle of our payment will become normal. All the outstanding will be cleared slowly over the next few weeks.

Abhishek Gupta

Mr. Varadarajan it is being asked earlier also given that we recognized 30% or more revenue in the international currency, if you can just probably elaborate a little more that how doesn't it impact our P&L because we haven't seen an evident sign of that and you always have been suggesting that it does not impact our margins that much, so what is the currency conversion that we take? How do we translate our revenues in to the P&L, which does not impact?

S. Varadarajan

See let me elaborate a little bit for your understanding. If you look at the way we have structured we have multiple subsidiaries for WABAG in Austria and subsidiaries use different currencies as their prime currency, now we use IFRS methods and the convert all this into





Euros and that is the currency in which we receive the consolidated level ,I can say Austrian level we receive it here. So we use Euros to INR Conversion it was Rs. 60 last year and this year we are using Rs.66, Rs.6 or 10% difference you will see in terms of translation what you are talking about. If your question is not on translation but if your question is on what is the kind of foreign exchange risk in the overseas subsidiaries then the answer is different and we had answered this question before it's something like this, when we contract out of our European subsidiaries, they do predominantly international business now whenever it is an international business we have a policy to follow as much as possible we will try and get this done. Whatever is the international part, the offshore part that we negotiate in Euros because that's the base currency for European subsidiaries, whatever is the local job to be done in the country say Algeria, Tunisia whichever country so we negotiate that part in Algerian Dinars or the local currency of that country, where we work. So, what we try to do is effectively we do a natural hedge against the foreign exchange risks. This has been WABAG's policy for many years even before our acquisition.

Abhishek Gupta

I was referring to translation gains only because that will obviously boost our margins on the recorded basis

Rajiv Mittal

But there is no margin, if you see the international business, if you put all together our standalone margins for 75 crores and international and when you consolidate the whole thing it is a 73.7 or something. So in fact there is a slight loss if you see consolidating all the subsidiaries. So it doesn't I think on two parts, one is on translation margin wise it has not made any effect to this year's result that is number one. Number two as the currency that is the reason they have number of geographies to reduce our risks, we receive our orders in Europe, we pay to our suppliers in Euro so there is no risk we take of a cross currency exchange rate and a small portion of work which we do locally, our client pays us in local currency and we also spend in local currency.

Abhishek Gupta

This variable pay out you mentioned that you have been hit twice. So I remember in Q1 we took one provisioning for the variable pay out and now in Q4 we are taking that Q1 provisioning was it for the last financial year which we took in Q1 and hence we are saying we have taken twice the hit and next year onwards we will normalize?

Rajiv Mittal

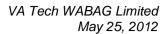
Perfect. Exactly.

Abhishek Gupta

Okay should in that case this 6.6 crores of number should be one-time for us to be assumed or any kind of wobbling moderation then how should we normalize it?

Rajiv Mittal

No need to normalize just take out 6.6 crores because that is for the last year we had to pay cash that was our policy so far because it was an annual payment. If you remove that the rest of it is on approval basis QOQ because we are evaluating all the employees and key staff based on quarterly results. So what we have other than 6.6 crores already in the employee costs going forward that is what you will see, you will not see this additional 6.6 crores.





Abhishek Gupta

But again just correct me if am wrong, if it was pertaining to last year and it is just a cash outflow this year then it should not have hit us on P&L right, it would have been a cash outflow but not on the P&L side?

Rajiv Mittal

That is what Abhishek I am saying that so far we had a policy where only after annual results we will know our results and hence we will pay to the staff only in May or June. And that is how we were recognizing it and that we have corrected it, now we do it on quarterly basis and hence there is a double hit this year, going forward we will not see this.

Moderator

Thank you very much. Our last question is from the line of Jonas Bhutta of Merrill Lynch. Please go ahead.

Jonas Bhutta

Just had a question now since Ulhasnagar has been financially closed wanted to understand what kind of impact it will bring on to us, though we are a minority shareholder in that but just wanted to understand how will the transaction be routed in case what is the debt-equity required and stuff like that?

Rajiv Mittal

You are talking about Ulhasnagar. Ulhasnagar our equity is 10% and we have closed this deal with 30% equity and 70% debt. Debt has come from ICICI Bank and 30% equity is from the two partners. So our total contribution to this will be of the tune of about five crores only as a 10% contribution, so it will not have a major impact we can imagine an EPC contract of more than 100 crores, the five crores is going to be immediately covered. So it will not have any major impact on our investment and on our fixed assets.

Jonas Bhutta

And what is the completion timeline that you have for this project Sir?

Rajiv Mittal

2.5 years, 30 months.

Jonas Bhutta

So 2.5 years after fin closure?

Rajiv Mittal

Yes 2.5 years.

Moderator

Thank you very much, as there are no further questions from the participants, I would now like to hand the conference back to Mr. Rajiv Mittal for closing comments.

Rajiv Mittal

Thank you everyone for your participation in this FY12 earnings call. We have uploaded the analyst as well as the investor presentation on our website. If you have any further queries you may get in touch with us or with our investor relations adviser strategy.

I would just like to close this call by saying we believe we are in a sunrise industry, water sector is a sustainable business. Our business has a long term visibility and predictability. Our business generates cash and has a low asset requirement which makes it very interesting for it



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to grow without going to the market to raise fresh capital. Further our presence in the fastest growing market offers us a huge business opportunity and gives us lot of attractiveness for this business. With this I would like to close this call.

Moderator

Thank you very much. On behalf The VA Tech WABAG Limited that concludes this conference call.