

"VA Tech Wabag Ltd. Q4 FY17 Results Conference Call" May 26, 2017





MANAGEMENT: MR. RAJIV MITTAL -- MANAGING DIRECTOR & GROUP CHIEF EXECUTIVE OFFICER, VA TECH

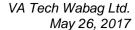
WABAG LIMITED

Mr. Parthasarathy Gopalan – Chief Financial

OFFICER, VA TECH WABAG LIMITED

Mr. Pankaj Sachdeva – Cluster Head (India), VA

TECH WABAG LIMITED





Moderator:

Good Day, Ladies and Gentlemen and Welcome to the Q4 FY'17 Earnings Conference Call of VA Tech WABAG Limited. As a reminder, all participant lines will be in the listen-only mode. Should you need assistance during the conference call, please signal the operator by pressing '*' then '0' on your touchtone phone.

Pooja Dokania:

Good Afternoon, everyone. We welcome you all to FY'17 Investor and Analyst Meet of VA Tech WABAG, an Indian MNC technology company focused on Water and Wastewater Treatment Project across the globe. I am Pooja Dokania from Stellar Investor Relations. I have with me from VA Tech WABAG, Mr. Rajiv Mittal – Managing Director and Group CEO; Mr. Pankaj Sachdeva – Cluster Head for India; and Mr. Parthasarathy Gopalan –CFO of the company.

We will start with the meeting with the senior management taking us through the performance during the year and their vision going forward and thereafter we will open the floor for the Ouestion-and-Answer Session.

I am sure that most of you present here is fairly aware about the story of WABAG. When we think of water treatment, the first name that comes to our mind is VA Tech WABAG and I read somewhere that all the water does with ever 'V' is right now. So WABAG's contribution to the water sustainability is incredible.

Now, without taking any further of your time, I would like to call on stage Mr. Rajiv Mittal, one of the most special global water leaders.

Rajiv Mittal:

Thank you and Good Afternoon and Welcome, Friends. Thank you for those who have to come all the way to attend this meeting. We appreciate your presence and we also welcome those who have joined us on the call they could not make it here.

As I was talking to some of you during the tea session, we try to do the meet at least once a year which is a organized meet and we generally have lot of other investor conferences which my team attend but I personally also like to say 'Hello' to all of you. Thank you for your support and cooperation which you have done. You have been great investors for us as not only you learn from us, we learn a lot of things from all of you because you have always something to give us the guidance, give us the suggestion. As engineers, we always know how to make technology, how to build a project, but also about building the value, building a brand and doing the right things in the business. We learn lot from you. So we appreciate this interaction. Sorry, we could not meet you last year but we will continue our endeavor that we do every year.

To start with this meeting, I think just for some of you who are new, we have to do a recap. We are proudly Indian multinational player in this Water industry. We have today presence in four continents – Asia, Europe, Africa and Latin America. We are one of the very few pure play water companies which provide total water and wastewater treatment solutions and we offer



across municipal, industrial, whether it is affluent, whether it is process water, including we are one of the few players globally who do very well on desalination and reuse of water which we believe is going to be the future technology for water sector.

Again, we would like to say which we have been saying so far, we are not a pure contracting company. Because generally anything in infra, people think contracting, contractors. We are not. Yes, we do contracting also but our main focus is always adding value, adding technology, reducing the cost, reducing the space, reducing the energy and making more efficient, getting more out of less. Our vision and our strategic direction has always been to work with emerging world. Emerging world does not have a lot. We have limited resources and we still need to fulfill lot of things and hence in that limited resources we want to build more. The only way we can do that is to be more efficient, to be more competitive, to be less space taking technologies. That is what we focus on and that is what our endeavor is and that is how we have more than 100 patents in various technologies which is helping us to meet these objectives.

We are one of the very few such companies, especially Indian companies who invest in R&D. Again, it is leading from a purpose we exist, that we want to add value, we want to remain as a technology company and if we do not invest and innovate and be creative, how can we meet our objectives. Hence, we have R&D centers, and you can see two of these are in the most advanced countries globally – Switzerland and Austria. Why? Because there is a local requirement of this technology, a local requirement for improved water and wastewater treatment technology. That is the backbone for developing something new, something creative. We continue doing that. Near Zurich, we have our office in (Inaudible) 7:16 which is the largest generator of this patent. The second one we have is in Vienna. About four years back, we also started doing some work in Chennai with help of some institutes and universities We have been using their labs and research scholars to do some joint development process.

I think one side is always good to have a good order book, we are all focused on orders. But I think more important is execution and we pay a lot of attention to execution and that is where I think we have a tremendous record of completing 2,300 projects in the last three decades, and that goes to say that management is not only looking at winning businesses, but also completing the contracts to our clients satisfaction and handing over the business.

We are and we will remain a professionally managed company. This is very clear that we want to add value and all the promoters and the senior management of the company have more than 30-years of experience in this put together. So we are very proud that we have the best team in this sector, not only in India but also globally.

I think the market trends, we all know rapid urbanization, industrialization is happening. There is a tremendous need for this water and wastewater treatment especially from the emerging economies. That is west we are faced.



I think again both utilities which are of municipal bodies and industries are focusing on alternate sources of water. The normal source of water that god-given rain water is not predictable. Where we come from? Chennai. You know, year and a half back November-December we had floods in Chennai. The whole city was floating on water. Six months back, we do not have any rain. Last monsoon, we have no rain. All our catchment areas are born dry. This is one of the worst droughts for Chennai. That shows how nature can be so unpredictable. But can we only leave it to nature our existence, our economic development. I think god has given us lot of mind, lot of good intelligence...of course, we are all very hard working, and why do we not put altogether and build up a Plan-B. Plan-A happens? Great, we thank god. If not, we must have a Plan-B. That is where this desalination and water use where we create a source of water. Sea water is perennial. It is not going to dry down. So why not do research and get seawater treatment and convert that into potable water at an affordable price? It is not impossible. We have done it in Chennai. We have demonstrated it. It is being used. It is a safe drinking water. It is better than getting tankers to your house. They do not know where the tanker is coming from. I think these are some things which we need to work on and there are opportunities today globally, not only in India to have such opportunity to demonstrate these technologies and these are our future technologies. This is what your company is very good at.

Oil & Gas. Some of you may think why I am talking about oil & gas. Because it has been a low year for oil & gas. With the crude prices, some 80-100 we are at 45-50. Why then investment in oil & gas? I think you can Google it, see it. Especially on downstream, there are a lot of investments happening. Just look at the future 3-5-years, the refineries and petrochemicals in India alone which lot of investment happening plus upstream where you get the produce water from the crude which is coming in. The environmental norms are becoming so strict without treating that water you cannot pump it back into the sea. So the more oil you extract, whether onshore or offshore, the water which comes along with the oil, you have to treat it and then throw it back into the receiving water bodies. These are great opportunities for us. I am sure you have seen the company in the last year and a half to two, it has been a year of oil & gas for the company.

I am sure you remember that about 18-20 months back we got Petronas order in Malaysia which is in peak of its execution now and that is worth close to about Rs.1500 crores order. But we did not stop there. We went on to bag a number of orders as we do normally from Reliance. We completed an order in a record time of 8.5-months in Dahej. Some of you I am sure remember last year Dahej plant had to be closed by Reliance because the water they were taking from that Narmada, because the water levels had gone so low, the sea water had entered that area and they could not take raw water from that source, as a result, they had to close down the plant. This year they said, they want to make a Plan-B. In case this year it happens, they have a desalination plant. Even if that water becomes saline, they will treat it and keep their plants running. One or two days shutdown of that plant cost Reliance hundreds of crores, which it was given to us and I am very happy to say we have created a record 8.5-months we completed that plant, and that some people were asking me, "Why board meeting was delayed?" That was one of the reasons yesterday we called the team which was our 50-guys



who were involved in this and board gave them the recognition, appreciation and rewards and that is also one of the reasons the board meeting got delayed yesterday.

This kind of results, after that we got Aramco, normally Aramco kind of organization in Saudi Arabia will never look East to give orders. They will always look West to give orders. But because the reduction in oil prices are coming up big handy for us that they are forced, it is not out of choice, that they also have to reduce their cost of executing the project they are looking at East and we got Aramco order which was more than US\$80 million.

Recently, we also signed Dangote which was a repeat order. We completed a plant for them for fertilizer, now we are doing refinery, both raw water and affluent treatment with complete recycle and also we got Pertamina, another oil & gas from Indonesia.

You can see how a company is changing gears depending on what opportunities are. We know in India things are dried up but this is the opportunity we take to expand our business and continue our growth story.

Another thing with not only India but all the emerging world is lot of water being wasted. This is (NRW) Non-Revenue Water. Either it is through leakages, illegal tapping. What is sent from the source does not reach point of use. Especially in countries like India and other emerging countries, our pipelines are not pressurized 24x7. So when once those pipes are tap or leakage, moment the depressurization happens in the pipeline, the dirty water get into the pipeline. It is not that anybody at the treatment plant to do things dirty water. It is the water which is produced at the treatment plant is still according to the world best treated water. But as it is getting transmitted because the pressurized region is not there, under depressurization conditions, the outside water gets into the pipe. Then when it is transported, it is polluted water. If you drink, you become sick. That has to be stopped. That is the major opportunity for the emerging world to reduce this 'Non-Revenue Water.'

I think last year also we shared with you not in person but through our presentation that we continuously look at building organization. When you want growth, this growth has to be supported with the organization, with the people. Our business is all about people business. So it is very-very important that we have right people and organization structure supporting that. That is how we have done our organizational realignment about two years back where we went up from multi-domestic units and strategic business units (SBUs) to clusters. They said we have become big.

Now, we will talk about only four regions and one was the India region, so it is India and Southeast Asia, the other one was (MEA) Middle East and Africa, the third one was more a legacy business which we bought from Siemens, mostly European business and the fourth one which was newly started by us is Latin America business. That is how we divided the whole thing to four clusters. This was done to bring local, to bring new senior experienced



management for them to be attracted to the organization and we can have the services of some of the best talent available in the country and globally to run our business.

That is one of the reasons you met Pankaj Sachdeva who has taken over from me the India business. So he is heading the India cluster which is one of the largest cluster in the group. From this financial year, he will have the P&L, balance sheet and further growing that cluster responsibility with him.

You remember Mr. Varadarajan who about two years back is to be our CFO. We decided that it is very important to have a person who has certain longevity, who has a certain culture of WABAG, people respect a person because he has been there for a long time and he also understands our business and understands our culture. So we decided that Mr. Varadarajan will take the charge of the human capital, not only in India but globally and build the organization for future. That is how he moved into as a Director for Human Resources and we gave him a title of Chief Growth Officer. That is one of our key resources is there in building the human capital and human capital is one of the most important assets for your company. Because at the end of the day, everything is becoming very competitive and you have to survive and you have to have not only the best talent and get the best efficiency and utilization of those capacities which we are building. It is very easy to build capacities, but if you do not utilize them, I think it becomes a very inefficient organization. So that is the role which he has been.

This is where I would like to say my colleagues here -- Mr. Parthasarathy and Mr. Sachdeva -- are through lateral entry. They are not home-grown talent, but they have come with lot of experience behind them, they are bringing lot of value to the organization from their past experiences, and that is how we are building the additional management bandwidth. Through internal restructuring and reorganization, I talked about Mr. Varadarajan, Rajneesh Chopra, he used to run our strategic business unit, operation and maintenance, today, he is heading our global business development. It is very important that we are close to our customers and we build a brand so that when they think 'Water', they think about 'WABAG.' We also have a new Chief Information Officer looking at our systems and IPs. We have head of execution, we have head of quality. These are also new lateral recruitments and through our internal restructuring and reorganization, we have Chief Operating Officer, Head of Procurement and Head of Proposals. These are the guys who are taking new responsibilities based on our realignment.

I think we were also talking outside what we have to focus on. Clearly, there was a time when we said, company has to grow, company has to achieve 1 billion, company has to grow 25% on top line. All that is good, but above all, we believe cash needs to be focused, and there is a special team which focuses on cash led by no other than our own Chief Operating Officer -- Mr. Patrick Andrade at the highest level, monitor and ensured that our cash is in our bank.

Another big issue is always with companies like us. You can start a project, but you never close the project. If you do not close the project, there is always leakage happening, you always have



few people, you have few cars, you have few guest houses, you have few work always happening at site. So you must have concentrated efforts in closing the site as you are opening new site, you have to close old site. As I told you Reliance site in 8.5-months, not only we finished the plant, got the certificate from Reliance, but we also closed the site. That is important to get your retention money back, get your bank guarantees back.

Namami Gange is definitely going to be a special focus. We sincerely believe that three years the government has not done enough. They have next two-three years to do a lot and we have to have a special team focusing on only that and we assure this is going to happen.

We talked about some big opportunities and that is where we would like to recap saying that today, we are one of the companies globally to have one of the best references. This is 181 MLD, close to 200 MLD, double the size of Chennai which we completed in Oman. Unfortunately, this is the same project where we have to pay liquidated damages. Yes, that is the business saying that we lost the money there, but also going long-term, we are today one of the top ten desalination companies globally, we have the best references, we can qualify for any project we want and get this done.

This is our Nemili plant which is the next, some of you have seen it also, this is going well and new expansion is coming.

Effluent Treatment Plant: We have been talking about Dahej. This is something which we have built.

Rapid Petronas: I talked to you which is almost about Rs.1500 crores project for us. You can see lot of construction happening there and we believe that towards end of the year we will start installation.

Sewage Treatment Plant: We are one of I think a preferred contractor. We have done so much. We have powered neutral technologies where we produce power from sewage. So those are our own technologies which we bring in. This is the AMAS project, again, you can see very-very advanced stage of construction, and from July, we will start installation, and by end of this year, we will start commissioning.

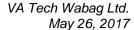
I think city wastewater management are the projects where we not only build but also operate and maintain those assets and that is how we can get into making the environment clean. Otherwise, we build assets and they do not operate, you really do not get return on your investment. This is something we did in Istanbul, where we had whole of Istanbul operated by us 24/7, about 16 million inhabitants live in Istanbul. So that is the asset we were managing. Almost 120 units which we were operating, some of them tree treatment, some of them biological treatment and some of them are pumping stations. So the whole Istanbul is something we are managing and Namami Gange or other river where cities are nearby, whole



city management has to come to some of the private operators like us to bring in efficiency in the performance.

If you see India, the opportunities we are talking about, this is the kind of sewage which you see is generative 62,000 MLD. How much we have built? About one-third 23,000 million liters. How much of that is really operating? Only 64% of them are operating. One-third of the assets built are not even in operations. Of that 64%, how much of that are performing? They maybe operating but are they performing? That is another question to be asked. All this is a great opportunity for us. This is where I think government is talking about where our judiciary also comes into picture. So makes difficult for the government not to perform. They have given a very split guidance and instruction that all industry should have their own affluent treatment plant. The waste generated should be treated, just cannot be throwing into Nala or the rivers or into tapping water. They have given three years to be set up for small industry who cannot put their own plant, they can put a common affluent treatment plant. For this, the government has come with a model which is called "Hybrid Annuity Model." So far three years we have not seen much happening on it though lot discussions, lot of it was under policy making, DPR studies, appointment of consultant, all that work was going on, but post UP election we have seen some projects coming up immediately I must say, and we have seen some projects in Uttarakhand, we have seen some projects in U.P., which have come under this Namami Gange initiative of the government. Here, central government is going to fund these projects. 40% of the capital and the rest of it the annuity payments are all going to be dealt by the central government. This is one of the reasons you would have seen that we have gone through a board to take enabling resolution approval if required to raise some capital. So far your company has been growing for last decade or even if you take from IPO 7-years, we have not raised even Re.1. That was the promise those who have attended the IPO presentation I made to all of you. We had promised that we will not raise capital. There was no need for it. The company has grown very well through our internal accruals. Whatever we make, we give some dividends every year, at least you can see for last six years and even this year the board has recommended that and the balance amount we use it for our growth. So there is no real need for capital for our normal business which is the asset light business, we have told you, if you see we do not own assets and we have no intention of owning assets.

But coming to this opportunity of Namami Gange, this is one of the life-time opportunities for a company who is the leader in the Indian markets and top few companies globally. Can we close eyes on this Namami Gange opportunity if this is going to be real, if this is going to happen, if this is going to make business sense? I am sure you all will agree with us, we cannot close our eyes to this opportunity. So we are just preparing ourselves to say that if this happens in next 4, 6, 8 months, are we ready? That is the only enabling resolution we want to take in our annual general meeting in July when we reach you to say that we want to keep that approval, trust us and you have seen us last 7-years we will not do anything which you do not expect us to do, but if this opportunity really becomes big in terms of country and the government is talking about Rs.20,000-25,000 crores of projects under this scheme in next 2, 3, 4-years, we want to take part in it obviously, and for that we need to minimum as a technology





player invest 26%. That will be our equity. So 60% of 26% equity is not a lot but there will be some money, some equity we will have to invest. Yes, we can always walk out.

Deepak Narnolia:

I am Deepak Narnolia from Birla Sun Life Insurance. I just ask how much you said some percentage about the equity investment?

Rajiv Mittal:

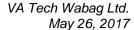
That is a guideline from the authorities, it is not our guideline. Because they do not want just a financial investor to come or a construction company to come and just take these projects. They want a company who can build a plant which can work. They also want a company who can maintain and operate this asset for the next 15-years. Hence they want a company who is technologically competent to have minimum 26% equity share and they must have it up to COD plus three years.

This is a kind of opportunity it is. How much sewage is generated and how much is treated. Maximum is generated in West Bengal and Uttar Pradesh. You know these are the two most populous states. Bihar, Uttarakhand and Jharkhand very low. That is the kind of sewage we need to treat and you can understand what kind of opportunity this will translate for companies like us. Existing LCPs and this is what is getting treated. From India, if we move to global outlook, as I said, we have these four clusters. If you look at first the MEA cluster, MEA is Middle East and Africa cluster.

Number of desalination plants coming because they have alternate sources of water. The fresh water is very limited, and lot of water gets reused in that area. Also, there are many industrial zones like in Abu Dhabi, they have economic region of 20, 30, where they want to create lot of employment for their own people and also build up new industries. This is same happening whether you go to Saudi, Qatar, everywhere.

I think I told you this. Oil prices reduction is not a threat to us, it is opportunity to us. North Africa: We have been doing business, we have been the market leaders in this but all that we do through letter of credit business. Some of you may be surprised that even today we are doing business in Libya. Our plants are getting built, our money is flowing in, our letters of credits are coming in and we never stop a single day of doing business. Yes, the only difference is we have no expats there. We support them with engineering and procurement from Austria and local people are doing the work and some of the installation, commissioning activities is subcontract to the local contractors. So we have no assets in that country. We supply and get our money.

Sub-Sahara: Wonderful opportunity. That is the next goal mile. Untapped, not many people go there, historically you know we have one of the best references globally which is recognized is direct portable reuse. Wastewater is treated and sent to taps for drinking. Globally, there are only two plants and ours is the first plant we build about 15-years back is working, people are surviving in Namibia, capital city of Windhoek drinking that water. That kind of brand we have. We have done lots of projects after that – Nigeria, Tanzania, we are looking at countries





like Ghana, Uganda. Most important is treated as all underdeveloped countries. All the countries including India have funds to support such underdeveloped countries through G2G. Even recently you must have seen EXIM talking about supporting Bangladesh, Myanmar and Sri Lanka. Same kind of funds also go to Africa. That is the fund which we want to tap and build water treatment plants which can give safe drinking water to the people.

LATAM: It is a very new region for us. Again, emerging world, great opportunities, long-term potential in this market and we are doing everything ready to make this cluster ready for future business. Presently, we have won contract. You must have heard that Equador contract which is World Bank funded, Sewage Treatment plant which we have started to work on it, we are working on Brazil, Argentina, Mexico. Again, Mexico more on the refinery oil & gas side. Normally we do whenever we get into a new region, we always collaborate with the local players. We want to go there, learn from local players. Build a strong local chief before we directly taking exposure to the clients. Otherwise, we would like to go with existing players and provide them engineering technology support.

You see this, our order backlog, as I said earlier, we have more than Rs.8,000 crores or INR8 billion and our revenues are growing on a back of this wonderful order backlog. We believe in future this trend will continue, whatever we have told you before, 20-25% growth YoY, we do not see anything is coming in our way. We are well placed to achieve this for the years to come. You can see since we came to you for IPO and we told you the same numbers; 20-25% increase in their notes, today we are delivering almost 26% CAGR growth. What we are saying is we are achieving it.

Rajiv Mittal:

Also, margin improvement. We believe more and more the India international units from India we are doing work outside India, is great margins, good cash flow and we just have to make sure our teams are well geared up, capable to manage this international challenges. That is something we are working on and our HR side learning and developing team is working on developing people, hiring people to make us ready to do more and more international projects.

This is also when we say our profitable growth, we not only talk about our top line growth, we also talk about almost equal bottom line growth. This is again to say that against 26% CAGR of top-line, we are very close to that in the bottom line also as EBITDA. So we are true, in the sense, when we say profitable growth. We are not only working on top line, we are also equally focused on bottom line.

I think this is again as I was saying that more go international or go export, whether you export from India or you move to the other territories like Sri Lanka, Bahrain, Nepal, where we do lot of business. You can see all this today is part of our backlog. Whether it is Petronas, new EXIM funded project, Polgahawela we finished Dambula, which we had about 3-years back, Bahrain which is AMAS project, Saudi Arabia which is Aramco project and Nigeria the Dangote project because we finished the fertilizer project, this is a remainder project. If you see here the backlog, on the domestic side, we have 46%, on the overseas or export projects we



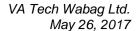
have almost 54%. You see how these things have shifted because that is the advantage of your company that we are not dependent on one geography. If India is not giving us enough opportunities, we can change our gear, we can move our direction and go where we get proiftable cash-rich projects. That is where you can see that 54% is in the overseas market. Good to know and we have been talking about it that is continuously the size of projects are going up. This 90% of this overseas or export projects are under the category of high value or higher ticket size projects. That is very important for us to get a big size project because we become more efficient, manpower required is less, focus is more rather than focusing on 20-projects, we can focus on 6-projects. I think this is becoming the key to our success and key to our improving the margin profile.

I think there has always been a question about working capital. You can see again we have given you last 5-6-years of working capital profile. You can see that today we are coming down and hopefully with the kind of projects, with the kind of special focus on cash, I am sure next year when we stand here, you will see further reduction of working capital.

This is some of the reasons for that. As I told you there is a special focus. High working capital projects are moving towards closure. Higher share of export projects again, I told you, which has a better working capital cycle. More and more focus when we go to industrial projects especially export projects, we do not take the sea construction part, we only focus on what is our strength – Engineering and Procurement. The last retention money comes faster. That is also a focus when we go international we shy away from sea. That will also improve our margins because as we told you before it is almost like a pass-through for us. We do not do it ourselves, because the client wants to give a single point responsibility. We are forced to take to see but immediately we subcontract the business. It is better if we do not have the sea, we are very happy, we do not have the responsibility, we do not have the headache of managing the sea, because today not many good civil contractors are left. So it is definitely a tough job and especially when you go international, you have international issues. So we focus on more E&P and this also helps to bring the working capital down.

My last slide, you all of course would like to know what is the guidance you want to give. So we want to remain in what you expect us to deliver 25% growth. We again would like to tell you though lot of you may think that it may be difficult, that is not the industry who are feeling that they can achieve 25% growth, they are giving you that as a guidance and you can trust us that we never let you down and this year also we do not expect you to let you down. Same is on the order intake. We are talking about 43-45 million, Rs.4500 crores is the guidance for FY'18.

You must have heard and seen in the press release and the notes we are sending to SEBI and also on our website that this year also our Board of Directors have recommended to the shareholders, share dividend of 200%, Rs.4 per face value of Rs.2 share, in line with what we have done in the past years, almost 26% dividend payout.





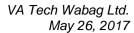
I think I would like to close here but the house is open. This is the time to have that interactive, we have just set a base, I would like you to ask us things which we have covered and have any questions, comments, suggestions to me and my colleagues here, we are willing to take. Also, in case you expected something from this presentation and you think we have not covered, please also tell us if we have the information, we will also share that with you. Thank you very much.

Chatterjee:

This is Chatterjee from B&K Securities. Sir, you talked a lot about the technology, we being as more of a technology player and the kind of jobs also we have got from the sectors like oil & gas and those kind of complex sectors, so if you can give more details in terms of what kind of technologies you would have provided in these sectors and how was the competition, who are the guys you are competing with that you will be able to get these jobs fine?

Rajiv Mittal:

I would just like to say that we do not really talk about technology, we demonstrate in every project, in fact, our board also wanted that you talk so much about technology, tell us last ten projects which technology you used and how it helps you to win the business or improve your margins. You mentioned oil & gas Petronas, let us start with that. We are having global competition; we had competition from Europe from the best of the companies; we had even competition from companies in China, from one spectrum you have European companies, more or less similar to technology companies like us, other side you have Chinese companies who can be very-very competitive. So we had both the types of companies. I think the key there was differentiation in terms of technology and more important about your engineering capability. For us, Petronas maybe a high value project, but it is not the first time we are building affluent treatment plant for a refinery. Whether it is for Reliance, whether it is for Essar, whether it is for Indian Oil Corporation, whether it is for HPCL, we have done a number of them. So the kind of familiarity and the knowledge we had about that affluent, definitely give us a edge. The technology which we propose, none of them even could think of to remove some of the constituents of that affluent from the refinery. As a result, when we made our technical presentation, because we were coming from India, and the consultants were from Europe and US, because that is where most of the refineries and most of the consultants are, they thought this Indian company will not even qualify. Believe me, and you will all proud because we are all Indians, we are patriotic. At the presentation, we were the last one to make the presentation. The consultant who initially was discouraging us to make even a presentation had to stand up and agree to us that "This is the best ever presentation I have seen, this is the most comprehensive presentation, please can I have a copy of your presentation." That is the feeling which gives you a job already one though the result was not even announced. So that is where your experience, your engineering skills and plus of course with your technology is a combination of all which brought this technology. Here is a new Dangote job which we recently won. The water which is coming from is like a polluted lake and that water they want to use for process and same water we had built a fertilizer plant for them, same client, same source. So the familiarity and the technology was proven and the other competitors who were coming from all over the world, they were not even called for the final negotiation though they were present in the same office of Dangote was finalizing the order, we were the only company





called, hand was shaken, order was given, others were asked to go home. So it is not the price which gave us a job, it is the confidence of the customer that this company knows what it says and can build the plant to a specification. So those kind of reputation and recognition we have built from a small Indian company, today we are globally recognized and respected. That is the position your company has moved in the last one decade.

Chatterjee:

Other question would be on the domestic market front, a lot of policy discussions and everything has happened. But do you see that the tender pipeline improving or U.P. is one state which kick start in terms of some of the projects that you mentioned, so do you see the other states also showing some kind of response in terms of tendering kicking up, what would be the size of this pipeline for the domestic markets specifically?

Rajiv Mittal:

I think there is clearly a intent of the government. A I said, judiciary is coming in. We have never seen that National Green Tribunal is calling the public utility CEOs to attend the darbar and answers for non-performance. I think these kind of pressures for implementing what is supposed to do will put pressure on every one to achieve what is expected of them to achieve, whether in discharge standard or drinking water standard or environmental protection and that we are seeing throughout the country. This Green Tribunal thing is not only in Delhi or in Mumbai, it is all states have that and that is really helping to bring more compliances to the regulations, and that definitely will result in more business.

Rohit:

Myself Rohit from KDA Strategic Advisors, LLP. I wanted to know, are you looking to grow inorganically in Europe by acquiring water treatment plants in Eastern Europe or any part of Europe?

Rajiv Mittal:

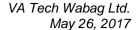
Not at all, that has not been our strategy to acquire assets. When we started our IPO discussion, at least we said if we can acquire some companies which are technology companies or which gives us access to the new markets. But today, we are more or less in all the markets. Last one was LATAM and that also we have done it organically. So I do not see a big chance of this company to get into any acquisition. Our home grown story has developed very well, maybe it has taken one or two years extra but we know we are on the proper path which cannot go wrong. So at the moment, no plan for acquiring any assets, not at all. Yes, in case some small company comes up which has its unique technology which we value, we will definitely look at it. But answer is 'no' to asset acquisition.

Nikunj Doshi:

This is Nikunj Doshi from Bay Capital. Is there any significant difference in margin profile of projects that you take say in affluent treatments, sewage treatment or desal?

Rajiv Mittal:

Generally, I would say there will be some difference but I think more important is the difference is whether it is a municipal client, whether it is a industrial client, whether it is India, whether it is different geographies and whether we have been able to sell our technologies there. If we have been able to specify our technologies, naturally we limit competition, we





improve our margins. If we are not able to specify technologies and we run with mill technologies, obviously, the margins will be lower because the competition will be higher.

Nikunj Doshi:

Another related question is since you have got Rs.8,000 crores plus order book, incremental orders, are we bidding at slightly better margins or we will still continue to maintain the margin profile that we have?

P Gopalan:

If you look at it today there is an order book of Rs.8,000 crores that it has been continuing with the CAGR of say 20-25% growth. Clearly, gives you visibility that we can continue that kind of growth momentum. Say that with the order book, what we have, there is absolutely no pressure where we need to just go and take order for the sake of taking orders. Obviously, we are extremely focused on taking only those orders where it meets our criteria. Internally we have set criteria and which we will evaluate project, we set criteria at what margin we will look at project. So that is a key area where we would look at growing the margin and part of growing the margin is to look at projects which gives you more margin. Of course, at the same time, for any strategic reasons and something has to be done, you can look at it but those who will be a one-off exceptional cases, which again I think today with the geographic spread what we have, with the kind of different types of projects what we have done, I do not see that there is any such thing which is going to come where we need to take projects where it does not meet our margin criteria.

Alok Agarwal:

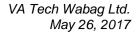
Hi, this is Alok Agarwal from Bonds & Equities. Sir, if you can throw some light on competition profile in the Indian market as well as the international market since you are present both in a big way?

Rajiv Mittal:

I think the competition as far as India is concerned, I am sure some of you know. If you look at pure water companies, there are very small proprietary-driven companies which are into this business, all put together will not even do a total turnover what we do here. The other side of the competition is some multinationals who have their branch or subsidiary in India, they tend to do but again because of their decision-making, lack of understanding of Indian markets and Indian business, they also do limited business here though they are capable of doing business, but once on their cost, they are higher because their headquarters are based in Europe. Second, risk appetite is also very limited, and hence they do not do a lot of business here, they pick and choose maybe one or two projects here and that is all they do. Third category is general construction companies who want to come into water because general infrastructure is going slow and they tie up with some international companies to get the technology or get qualified or get references and they want to get into that. So these are the three broad categories of competition we face in the country, and depending on the size of project, depending on the technology which is required for the business.

Alok Agarwal:

Another question that comes to my mind is, you said decline in crude price does not worry you. If you look say, 5, 6, 10-years beyond from here, my understanding is, correct me if I am wrong, that the world is undergoing a major change and dependence on crude, hydrocarbons is





slowly getting off, and a lot of focus is now being given to renewables and electric energy and things like that. So how would this impact your business assuming that you are significantly dependent on extraction of oil as a part of your business?

Rajiv Mittal:

True and I fully agree that renewables are going to be our future, no doubt about it. But one thing to say, this company of yours is not dependent on any one sector or any one geography for their business. You take maybe 3-years, 4-years back, what was our total oil & gas revenue of the total revenue? There will not be much because we saw an opportunity and we see the first thing for next five years, we will go and harness it, but tomorrow, what you say may come true. It will not take us much time to change our gear and go to power, go to mining, go to metals. We can do all that. Where the opportunity is whether geographically or sector wise? We will move there quickly because today neither we lack any technology, neither we lack any references of having built plants in that area or geographical presence, we are today present in 22 countries. So that is not a hindrance or a limiting factor for your company to change gears and we have shown that flexibility very well. When there was Arab Spring, everybody was worried, newspapers were saying VA Tech WABAG has maximum exposure and all that. If we write-off even Re.1 in that sector, we are still working; Indonesia we are working, Egypt we are working, I told you Libya, we are working, only one country where we pulled out is Algeria, not because of the sector because we believe in that country, we cannot do business, we had maximum strength of people in Algeria but we decided to close on. So those were the business decisions we are very alert and we take it on time. Same way, I think if ever we have to change gears and when we reduce that during Arab Spring, our presence there because expats being pulled out. We started in Turkey, we started in Philippines and today they have grown into a major player. So every threat, we have converted that into an opportunity, and I am sure, if this threat is going to be true what you are saying in five years or ten years' time, I am sure your company will be creative enough to convert that into an opportunity.

Dhruv Sharma:

Hi, sir, this is Dhruv Sharma from Cyber Plexus Capital 66:34. Would WABAG be interested in acquiring a technology company who is within the wastewater treatment based out of Chennai and has a top line of around 30 million with the margin of 12% EBITDA, so are you looking at such acquisitions? It is a company based out of Chennai backed by a leading PE fund, so they hold around 60% of the company?

Rajiv Mittal:

I think we can do little bit site talk rather than talking here.

Dhruv Sharma:

But would you all be interested?

Rajiv Mittal:

Neither I can say yes nor I can say no, because if I say yes, the value will go up.

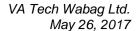
Mulesh Savla:

Mulesh Savla from Sign Savla 67:50 Sir, can you throw some light on the reason why we had to pay liquidation charges in that particular project and are there any other strand project or delayed project where we expect some further liquidation charges?



P Gopalan:

There is a project, Al-Ghubrah, desalination project where we had the liquidator and we paid, right. It is a large desalination project where we executed, but we were a minority partner in the whole project; our stake was 32.5%. Cadagua, who is the global leader in Desalination business, they were the lead partner. So there were three partners in the project and we went about executing this project. For various reasons, the project got delayed, ran into time and cost overrun because of the delay. When the project when we took in itself, it is clearly strict timelines with which we took it, but we were aware of it and we had a plan in place on how we are going to go about executing. But the ground realities and what was happening there and there are certain reasons why it got delayed. But by the time, we completed the project because these delays were not entirely in our control, and that is where we said, we should be able to sit down with the customer and talk about it and negotiate why we should not me missed in these projects. Unfortunately, we could not come to a settlement with the customer, then we ended up going in for an arbitration. So the arbitration process went on. Effectively when the order came, it was completely a surprise to us that it went against us fully. We thought that we will never be (Inaudible) 69:56 fully for what had happened and that is the reason early enough we started making some level of accruals into our books recognizing that if we were to pay, we said let us keep a provision on that, but unfortunately, when the final award came, as I said it went against us. What had happened is we went strictly as per the contract. The contract provider was saying, if you delay it beyond this point that is kind of liquidated damages you have to pay, and they said that is what we have to do. So that is where it ended up going. The second question you asked in terms of, "Are there other projects where you have similar issues?" There is a lesson we learned out of this project, there are a few things which we put in place subsequent to that and we meticulously follow through from then on. One of the key reasons is when we do this getting into this project and if we have to go in for partnership, we need to be fully in control. Unless we are in control of our destiny, then you just do not know what happens, and that is the big lesson what we learnt. From then on, we said that any project we go in with partnership because the business reality is in certain geographies we might have to go in with the partner, while our preferred approach is, we have the technology, we can do it ourselves, but the geography could demand that we might have to go in for partnership. In such cases, we would still want to go in only with where we have a majority control or we have a majority operating control so that we always stay focused and we are in control of the execution. The other thing we also put in place is the continuous mechanism of a risk assessment through the project and we assess the various aspects of risks throughout the cycle of execution of the project. By doing this, when we just continuously keep arresting or finding ways to minimize or mitigate the risk and thereby there is no surprises by end of this project. So by doing this, "Today do I have any project?" Yes, there are projects where it might be delayed or we might be beyond the time schedule, but there is nothing at a stage where we are saying that we are sitting on any of these type of major risks at all. Typically, till the project completion, what we do is we factor in an element of cost as a risk and that is provided in. So we do not release the margin and we hold the portion towards the risk only when the projects get completed and once it gets settled, then we go about releasing the margin. So the answer again is there is no such major risk which we see at this point in time.





Mukesh Savla:

Are there any chance of appealing before any higher authorities for that or that is end of the story, you have to pay?

P Gopalan:

Technically, yes, there was an opportunity, as I said, we partnered together, we executed, once the award came, we sat together and discussed the whole thing, and then we said given the kind of cost and time involved and the management attention which will then go into it subsequently, we just took a joint call that if we just need to pay, settle and move on, and that is exactly what we did, we ended up paying the money, today, we paid all the liquidated damages what we have to do and that is critical when we look you the results and see there and when you see PAT of Rs.102 crores on the turnover of Rs.3,200 crores what we achieved. Yes, Rs.102 crores is an increase and it is a good increase compared to last year. But that is Rs.102 crores of PAT what we declared after paying the liquidated damages, yes, what we incurred this, yet. So we just need to keep that perspective when we look at the results for the year.

Mukesh Savla:

So effectively, our PAT is double than the previous year?

P Gopalan:

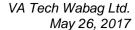
I will not say double than the previous year, we have to see what the penalty what we paid, there is a tax implication of that. If we netted out, we still see that more than half of that number is to be added to the bottom line.

Ramesh:

The first question, basically, it is a regulatory one. Your EBITDA is almost touching double-digit on Rs.3,207 crores, you have reported an EBITDA of Rs.296.6 crores. In the presentation, you mentioned a very strong point is having Mr. Andrade as collecting chief for ensuring closure of old projects and establishment of new projects which will help you get the retention money as well as bank guarantee revival. Apart from this, you also mentioned working capital days have come down to 68 and hence it will be much better when we present to you next year. So are we looking at an EBITDA margin of around 12.5-13% going forward?

P Gopalan:

Obviously, the endeavor is to keep increasing the margin. We give guidance only in terms of revenue and the order book. So I cannot give you guidance in terms of where the margins will go, but you can clearly see and I kind of also answered to the earlier question, when we look at lower projects, yes, the newer projects what we are looking at and taking in or coming in and we are focused on taking at a better margin. With the way, the organization structure chain what we put in place, Mr. Mittal talked about in terms of the cluster approach what we have taken, that is also starting to bring in more efficiency. Today, we do not operate as business unit, we have one common procurement, so we derive lot of synergies by bringing in commonalities there. We have one engineering which supports the whole region, the India cluster, that provide a lot of synergies and that is where you see that, we get efficiencies more through engineering, more synergies through procurement, and also the aspect in terms of the larger ticket size projects what we are executing. So that is the third aspect which then brings in more efficiency and obviously all of this starts translating into better margin. So you will see that the margins will improve, but I just do not want to go to the extent of giving a specific number.



WABAG

Ramesh:

The second point is, we are competing with the best of the West around the globe as you highlighted in Petronas, our size is almost touching half a billion dollar. Could you give us some insight as to the companies with whom we complete -- do they have 100 or more patents and what is their top line size?

Rajiv Mittal:

I think as I said, we were just a start-up company about 20-years back to what we have grown like you said half a billion dollar. These companies which we compete against especially the top two-three, they have been there for very long time and they are in the country with whatever privatized 50-years back, and 60% of their revenue and 80% of their profit come from their own country where the things were privatized. So a short answer, these companies are at least 5-6x of our size if you take the top line. From technologies as I said before, they would not be very different from our technologies, if we have 100, they will have 80 or 120, but they will not have 500, not 5x of project, and most important is; do we have the relevant technologies which are marketable or just good to keep it in your showcase. We work on technologies which have a marketing need which are coming from our business development team saying that 'This is what is required in the market." We do applied research, we do not do any academic research. I think that is where we have never seen that ever a customer has not chosen us because we did not have the appropriate technology. They may have some different reasons for not choosing us and choosing one of our competitors, but never we have lost a job because we did have the right technology.

Participant:

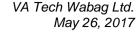
Sir, can you share something on Namami Gange addressable segment where we are competing and what kind of business are likely to share for us and what is the Sub-Sahara business potential_?

Rajiv Mittal:

I think you have two questions -- One on Namami Gange and the other on Sub-Sahara. Namami Gange I touched briefly that is last year the government has shown their intent that they want to make this successful. Lot of background work has happened, and post the UP election, we have seen actual contracts are coming out for bidding, and that is where I think things are positive for us and we definitely want to work on them, we have already seen two-three projects coming up, today, the size may not be big, but the intent is very clear. The total what they have given to Supreme Court which they want to invest in next three-four-years because five-six-years they had given, three is gone, so let us say, max 3-4-years is about Rs.20,000-25,000 crores. The opportunity is big. Let us hope that they come close to their promise what they have made and then I think the opportunity is big for us in Namami Gange. In terms of Sub-Sahara, we told you that we are focusing on funded projects because these are all developing countries in Sub-Sahara. Lot of opportunities in terms of giving clean water first, then talking about Sewage, water is their priority, and that is where we are focusing on, plus lot of industrial development taking place which we did lot of projects in Nigeria, the Indorama, the Dangote, repeat orders. So we will continue to focus on industries also in Sub-Sahara.

Participant:

Some numbers if you can share?





Rajiv Mittal: Numbers is too early to talk about Namami Gange that what numbers we said on Namami

Gange, if really they do Rs.20,000 crores in next three years.

Participant: What is the addressable segment for us?

Rajiv Mittal: 100% because it is treatment plants, this is not pipeline, digging the roads, it is treatment plants.

So even if we say 20-25% weightage, we are talking about Rs.4,000-5,000 crores in next two to

three years.

Rajiv Mehra: This is Raiiv Mehra from JM Financial. I just wanted to touch back upon the technology aspect

which you have been talking about. I just want to understand, how much are you spending right now in R&D? I just want to understand, are there disruptions which are coming in all sorts of technology side on the water sector if you could just give an aspect that if suppose you bidded for a project, there have been well-established companies over the years which have technologies and so do you have, but was there a start-up which has come in with a new technology and has outbid you guys and has won a project, and is that maybe the future going ahead in the 5-10 years and are you guys also working on that, maybe if you could give throw

some light on that?

Rajiv Mittal: We can talk a lot on it. I think today if you talk about technology, let us only focus on the

membrane part of technology. In water and wastewater, never membranes were being used. If you talk about game changer, membranes have been a game changer for water-based, because water is not just treated and thrown off, water is taken as a resource, they want to recover a valuable resource from this waste and hence these membranes are coming in. You are wanting to recover, it is no longer a liability, it becomes your asset, the waste water which discharges from your house or your factories, is no longer a liability, it is not a waste, it is a resource and that mindset has changed and now people are investing technology, investing money to recover water from it, and hence this membrane technology which are expensive technologies are becoming affordable because they are not seeing that as an obligation to treat waste water, they are seeing this as a business opportunity to treat this water. So the mindset has changed in

addition to the technology availability, and as a result, technology becomes more accessible and more affordable, because the volume comes in. More and more plant goes, more and more

membranes are produced, the cost of production comes down. Innovation happens, energy

consumption comes down and all that helps to propagate this technology. I think this is what is happening globally when technologies are being used, they are seeing that more and more

clients are opting for the technology because they see a economic value in adopting good and

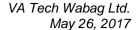
advanced technology.

Participant: How much did you spend on R&D in the last year and what is the plan going ahead as a

percentage to increase sir?

Rajiv Mittal: Generally, when we took over this from Siemens, because all this Austria, Vienna and all

legacy business which we acquired, when we acquired from Siemens, our erstwhile patent, they





were not funding anything, because they thought that they just want to get rid of this business. So we started with a very humble beginning, and today, very close to about 1% of our top line is what we are spending in our R&D, and our aim is to in the next two years to go to 2%.

Rajiv Mehra:

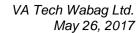
You talked about the Namami Gange opportunity of Rs.20,000-25,000 crores to the hybrid annuity model. Just wanted to get some more clarity on this, the way I understand; you will be participating in this is you would be bidding for a project wherein given that you will have to invest 26% as equity, so the other 74% for that will be teaming up a partner, can we have some idea as to what kind of partners you are looking at – will it is a construction company or a financial institution? Second is, you are moving away from your traditional kind of projects where you are basically looking at technical expertise and type of that you are looking at EBITDA margin. Once move to the BOT kind of a model, apart from the EBITDA, you are also looking at potentially IRR expectations you will be having. Do you think companies or your competitors especially from Europe with a much lower cost of capital could have a better advantage in this BOT kind of a model?

P Gopalan:

As you know, today we are an asset-light organization and we focus more on EPC and O&M type business, and we would endeavor to continue as an asset light organization, and as we went through this presentation, we talked about saying that this is one of life time opportunity where such a project is coming in this hybrid annuity model. Being a market leader, we just cannot just step aside and say that that is not something what we would not just look at it? Hence, we are just looking at it. Within that, then if we maybe I just take a minute to explain how those hybrid annuity model work and then most of you probably know how it works on the road as well, so 40% of the project is what the central government is going to burn, so the balance 60% is what the private player has to bring in, that 60% gets funded by way of debt and equity. The question is we then look at various structures on how do we go about participating in these projects and we could look at investing along with other financial investors, we can bring in the technology, we will do the EPC business and we can run the project if you look at going in with partners who would be interested in investing into this type of project. This will be for a period of 15-years. The annuity which gets paid over the 15-years project, so it is going to be a fixed revenue model for the balance of the period, and with the central government funding, it is basically seen pretty much as a sovereign debt with the deferred payment. So that is what brings in lot of interest for investors. So those are the types of people whom we would look at. So whether we could go in for 26% or what percentage, that is all going to depend as we get into specific about the project, let us say, once we get into a stage where we are running a project, and only then, we will know exactly what we are going to go at this stage. All we would look at that is not that there is any great shift in focus too, look at investing into BOOT model or investing into these assets heavy model. That is not going to be the case at all.

Rajiv Mehra:

Sir, can we have some threshold regarding IRR expectations or the minimum threshold that we would be looking at in terms of IRR on these projects?





P Gopalan:

Obviously as I earlier answered the question in terms of EBITDA, same way, if you look at it in terms of the return of investments, anything new we would look at, we would look at that it adds and is incremental to where we are today, and it is not something which pulls down the business backward because we are taking projects where the returns are less than where we are today. So that is the criteria we would use and then accordingly, we will look at bidding in.

Participant:

Have you ever thought of manufacturing water -- is it done from extracting water from air, is that a source of potential? There is a plan which I have seen in Hyderabad and they were actually doing this, and at that time I saw this is 2009, I thought that this could be a very big, but they have not succeeded. So that is why since you are...?

Rajiv Mittal:

So when you say water manufacturing, water from air? I think it is very simple. Is it not? Because all air only consists of humidity, lot of moisture. Now, how do you remove moisture from air and how do you remove it economically? Simple way is to compress it as a chemical engine, I would say, just compress it, water will precipitate. Now, how can you compress that air economically that the water you produce is still marketable. I think somebody has tried to come with the technology. But why do we go to that when you have sea water you have reused, why you start compressing so much of air to get a one drop of water. Technologies are there, but they should be end of the day marketable.

Participant:

I mean that is why the plan has not succeeded and the technology also.

Rajiv Mittal:

Yes, but we have lot of scientists and unfortunately, we are in business, we cannot be scientists.

Thank you, gentlemen and Ladies. Thank you for participating for this wonderful interactive session. If you still have something, we all are there, our investor relations team is also here. So let us have a cup of tea and some snacks and we will definitely interact if you have still some more questions left.

Moderator:

Thank you. On behalf of VA Tech WABAG Limited that concludes this conference. Thank you for joining us and you may now disconnect your line.