

Earning's call speech Q2 FY 15

Mr. Rajiv Mittal:

Dear Friends, Good Afternoon.

I welcome you all to the Earning's Call post announcement of Q2 FY15 results of VA Tech Wabag Limited. I am joined by our Executive Director-Finance, Mr. Varadarajan and our Investor Relations Advisor, Strategic Growth Advisors.

Today, we also have along with us Mr. Mahmut Gedek, Managing Director of our Turkish MDU. Mr. Gedek will take us through the developments of WABAG Turkey, one of our promising multi-domestic units. He would provide us a sense of how the company has been developing inroads in the newer markets and strategy going forward to enhance our market share in Turkey.

Let me begin by taking you through the key developments during the quarter.

I am very happy to share with you that recently we inaugurated our BOOT project, an industrial water reclamation plant, in Ujams, Namibia. This plant is treating a cocktail of effluents from five different industries, which include brewery, slaughterhouse, beverages, chocolate and tannery, using the very latest technologies, which includes WABAG's in-house developed MICROPUR® process. This plant will serve as a very good reference project for us in terms of high end technology. The concession period for this project is for 21 years. WABAG decided to be the lead developer in this BOOT project as we had three very good reasons.

1. The plant is technologically very superior which would give us an excellent reference.
2. The project provided an excellent chance to reinforce our commitment to Namibia, where for the last 12-13 years we had a remarkable experience in Direct Potable Reuse Plant. With the inauguration of this plant we have once again proved our Technological leadership.
3. The Value of this project was very low

We have recently incorporated a new subsidiary in Thailand. This is in line with our successful MDU strategy to penetrate the new geographies as a local company with a local team. With this Thailand Subsidiary we are targeting the Indo-China region where we see a very good opportunity in the water treatment space.

On the Technology front, I am happy to inform you that we have entered into an agreement for technology cooperation on a long-term basis with Royal HaskoningDHV of Netherlands. This agreement provides us the chance to use the latest technology of *Nereda* for waste water treatment. This technology is not only innovative in nature, but is also chemical free, consumes less energy and offers low footprint and is more cost-effective for treatment of waste water. To start with, this new technology would address India and Swiss markets and over time, the geography scope will be enlarged. This new addition to our technology portfolio shall meet the growing market expectations in terms of less power consumption, low footprint and more cost-effective solutions for waste water management

Coming to the order book we have secured orders worth Rs. 1,618 crores including Framework contracts of Rs. 828 crores during the year. You would

recognize that this Rs.1,618 crores is more than 50% of our yearly guidance number for the order intake. Significant part of this order intake has been contributed by our overseas MDU's.

The major orders received during the quarter are

1. The Istanbul Waste water treatment scheme, Operation & Maintenance, it is worth Eur 38 Mn.

WABAG Turkey has won a major order from Istanbul Water and Sewerage Corporation. The scope comprises of operation and maintenance of the entire waste water on the Asia side of the Istanbul Mega City. This includes operation and maintenance of all the Waste Water Treatment Plants and also the Waste Water Pumping Stations. The Europe side of Istanbul City is shortly expected to be converted into Firm orderbook from Framework contracts.

2. The second one is in Saudi Arabia, it is a waste water treatment plant order worth Eur 23 Mn.

WABAG Austria has bagged a 200 MLD Waste Water Treatment Plant order in Saudi Arabia. The order value is about Euro 23 Mn. This is a repeat order for WABAG in Saudi Arabia and reposes the faith of the Customer on WABAG.

3. The third one is a Romanian Produced Water Treatment Plant worth Eur 17 Mn.

WABAG Romania has bagged this order from OMV Petrom SA for a new Produced water treatment plant in Suplacu de Barcau, Romania. Suplacu

de Barcau is the biggest oil field in Romania with a production capacity of up to 1,000 tons per day. The process steps that are to be employed in this plant are for the first time used in this kind of a plant which makes this order even more unique for us from the technology point of view.

4. We are also very happy to announce a new Framework Contract in Polghawella, Sri Lanka. The order which WABAG India has bagged is largest EPC order for the WABAG Group. It is worth US\$ 108 Mn and this order is from National Water Supply & Drainage Board, Sri Lanka for Design, Construction, Testing & Commissioning of Integrated Water Supply Scheme for Polgahawella & nearby areas. This Order is funded by EXIM Bank of India and we expect this order to move into our firm order book very soon. We are currently executing a similar project in Dambulla in Sri Lanka and this repeat order again reinforces the confidence of the customers on WABAG.

With this, our firm Order Intake for H1 FY15 stands at Rs. 790 Crores and the total order backlog as on 30th September 2014 is at Rs. 6,906 Crores including framework contracts of Rs. 1,667 crores.

Order Intake in India, during this quarter is also very sluggish despite strong Project pipeline. In first half, because of election at the center and subsequent elections in two major states, political uncertainty in Tamil Nadu, we are experiencing delay in decision-making process. However, the Government's clear focus on improving water infrastructure is visible in some of the directives announced recently and we are very positive about the future order intake.

One, as a part of Ganga rejuvenation plan, the NDA Government has proposed to spend Rs. 51,000 crores in next 5 years by construction of waste water and effluent treatment plants and stop discharge of untreated sewage and Industrial waste water into River Ganga. WABAG is part of various forums and committees which are acting as a think tank on this project to effectively control the pollution of the Holy River. We provide our inputs and expertise in the technology front on environment friendliness, power neutral plants and also zero liquid discharge for effective reuse. We also contribute our recommendations to ensure sustainability of the envisaged scheme.

Second, Delhi Jal Board has drafted Rs. 19,500 crores master plan to improve Delhi's waste water management system and reduce pollution in River Yamuna in the next three years.

We believe with strong Government at center, clear focus on improving water infrastructure, increased awareness among Municipalities and strong project pipeline, we see a strong traction in award of projects in the next few months.

Let me now update you on our Al Ghubra Project in Oman. Last quarter I had mentioned to you that we are foreseeing time overrun in the 191 MLD Al Ghubra Desalination project. It is the largest desalination project for WABAG, almost double the size of Nemmeli desalination plant in Chennai. In future, this project will act as a good reference point for getting technically qualified for large-size projects considering the many desalination projects which are in pipeline in India and in overseas. We are facing a few challenges during execution of this project such as getting the visas for skilled technical persons, challenging site condition, due to which, we expect a delay of 3-4 months beyond our estimated completion time. We are in discussion with the customer on the matter of time delay and we will keep you updated on the developments in the next quarter.

Finally on the guidance front, we continue to maintain our annual guidance for the year FY15. We are confident of achieving our revenues in the range of Rs. 2,600 crores to Rs. 2,700 crores and order intake in the range of around Rs. 3,200 crores to Rs. 3,400 crores.

With this I now hand over to Mr.Gedek for him to take you through the Turkish market. Over to you Mr.Gedek . . .

Mr. Gedek

Thank you, Mr. Mittal. Very good afternoon to all of you from Istanbul. It's my pleasure to introduce the MDU unit of WABAG Turkey.

Few quarters before you would have heard from Mr. Erik Göthlin, Managing Director of WABAG Austria Group about WABAG Turkey. At that time we were still a "start-up" organization, holding lot of potential to grow and perform. Today, after just over 3 years of local operation, WABAG is one of the major players in the Turkish Market.

I would like to give you a short overview regarding the past, the present and also our future expectations of this organization.

If we look to the past, WABAG was historically present in this market. WABAG built and operated in the past, many large and important Projects like Adana WWTP, Kayseri WWTP, Bursa WTP and so on, which are still excellent references in Turkey.

In the years 2005 to 2010, the market in Turkey changed due to the fact that local companies built up a strong reference list and these local companies also started to produce equipment by themselves. So three years back, we incorporated a local company, Va Tech Wabag Technology Tycaret Limited in Turkey in line with the Group's MDU Strategy. We started to build a local team, which allowed us to think and act as a local company.

During the first year of operation, we focused on marketing and sales and we worked to adjust our prices to be competitive in this market. Our need and intention was to create a "sales" organization, which was able to meet the local conditions. On one hand we had the requirement to fulfill the WABAG

Standard Quality and on the other hand it was necessary to meet the local price expectations. We can clearly say that at the beginning WABAG Turkey was a “Marketing/Sales” driven organization.

In the FY 2012/13 WABAG Turkey changed from a “pure Marketing/Sales” organization to a full-fledged EPC organization, which also had “execution” capability, due to the fact, that we also had Projects in Execution. We would like to point out that WABAG signed the Contract for Siverek WWTP as a General Contractor, which WABAG did for the 1st time in their history in Turkey. The main Idea of WABAG Turkey to be a General Contractor was to control the whole Project.

Also in the FY 2012/13 WABAG Turkey was successful with the following order Intakes:

- Extension Adana of WWTP (O&M), order value was around Euro 5 mn
- Adana WTP (O&M), order value was around Euro 2 mn
- Adana 2nd Stage of the Odour Treatment (EPC), order value was around Euro 0.6 mn

We have to underline, that the FY 2012/13 was a definitive year, where WABAG Turkey had taken the required measures to be regarded as a capable organisation for EPC and O&M Projects execution.

In the FY 2013/14 WABAG Turkey established the various related Departments also and thus developed as an excellent Independent complete organisation requiring minimum group support. Again in this year WABAG Turkey achieved very important Order Intakes like

- Gaziantep WWTP O&M, around Euro 3 mn

- Izmir WTP (EPC), around Euro 17 mn

and also got the PAC for the following Projects:

- Siverek WWTP (EPC)
- Adana 2nd Stage of the Odour Treatment (EPC)

Which also helped WABAG Turkey to be able to make the “turnaround” from the financial point of view.

Those of you who were present in the last year earning’s call would recollect that we strongly advocated that the O&M business with its high margin and good cash flow will increase and we at WABAG Turkey were aiming to be the leader for the operation and maintenance of treatment plants in the Turkish market, which is a reality today.

Recently we won a major Operation and Maintenance contract worth around Euro 50 mn for ALL THE WWTPS AND PUMPING STATIONS for the mega city of Istanbul. Since the 1st of September 2014 we are operating all the waste water treatment plants and waste water pumping stations in Istanbul, total 139 Plants and we are looking forward to operate these plants for another 24 months. WABAG Turkey has got the trust of one of the major client in Turkey, ISKI, and we are looking forward to get additional orders with optimization of plants and for refurbishments. There is no question that there will be a number of investments in Istanbul, especially in Advanced Biological Wastewater Treatment Plants and into Sludge Treatment Solutions, which is WABAG’s key competence. Today, WABAG is responsible for the complete Drinking Water supply and Wastewater Treatment plants of the 5th biggest city in Turkey –

Adana. WABAG is also building a 366MLD Water Treatment Plant in Izmir as a General Contractor.

If we consider the immediate task ahead and future outlook of WABAG Turkey, we have several goals for this financial year and also in the near term. Number one priority is to open the doors to maximize and increase the order intake as much as possible in this expanding region. Number two is to increase the profitability. Third start supporting and entering into the African markets and eastern markets like Iraq, Kyrgyzstan and so on. Further, it is known that Turkish contractors are increasing their presence in foreign countries and which gives us a good opportunity to increase our business through selected cooperation with such groups to enter other neighboring countries. We have to pick-up these opportunities to be able to turn these opportunities into real values.

So, thanks again for the opportunity. It was my pleasure to present WABAG Turkey to you. If you have any questions on the Turkish market or WABAG Turkey please feel free to ask me at the Q&A session and I will be pleased to answer them.

With this, I now hand over to Mr. Varadarajan to take you through the financial highlights of the quarter. Thank you.

Mr. S Varadarajan:

Thank you Mr. Gedek. Good afternoon everyone.

I believe you must have had an opportunity to have a look at the result update presentation as circulated and uploaded on our website. I would now take you through the financial highlights for the half year.

On a consolidated basis, we achieved revenue of Rs. 908 crores during H1 FY15 as compared to Rs. 752 crores in H1 FY14 registering a growth of 21% over H1 FY14.

Net Profit for the half year stood at Rs. 25.8 crores as compared to Rs. 20.3 crores in H1 FY14, a growth of 27%.

Our standalone revenue for the half year stood at Rs. 366 crores as compared to Rs. 336 crores during the same period last year. Net Profit for the half year stood at Rs. 20.8 crores as against Rs 23.1 crores during the corresponding prior period.

I would like to explain the increase in other expenses during the quarter in the standalone financials. We have made a provision of about Rs. 5 Crores in the standalone financials for Receivables. This is because of the conservative accounting policies adopted by the company wherein we start gradually providing for the receivables which are over 365 days. Also, in order to maintain our technology leadership, which is the company's biggest USP, from this year onwards we have started to make specific allocation to our R&D budget and which contributed to about Rs 1.6 crore in the standalone financials during the quarter.

Our net working capital number of days excluding cash stands at 72 days sales. As mentioned in the past depending on the stage of execution of various projects the working capital days ranges between 45-80 days. We have undertaken various mechanisms to bring down the receivables. We have constituted weekly review of the receivables and we are targeting at commercial closure of the projects that are mechanically completed. Also, now collection of receivables is a part of the variable pay of the employees so that there is an increased awareness among the employees towards collection of the receivables.

Coming to the cash position, the consolidated gross cash stands at Rs. 341 crores as against Rs. 468 crores during 31st March 2014. As mentioned in the past we are investing to complete projects faster to avoid cost overruns. While some part of the cash is allocated towards our corporate office complex, we also made certain investments in Indian subsidiaries to generate future growth. The reduction in cash inflow is also attributable to the order intake situation and the advance thereof, which is expected to improve in these next two quarters.

With this we now open the floor for question and answers.

Concluding Para:

Thank you everyone for your participation in our Q2 FY15 earnings call. To conclude, we would once again like to highlight that our sector remains attractive with greater emphasis from the government. Our order pipeline is also very robust and thus provides us good visibility for performance. We have also uploaded the analyst presentation on our website. In case of any further queries you may get in touch with the Strategic Growth Advisors, our investor relation advisor or feel free to get in touch with us directly.

Once again, thank you very much for your participation.