"VA Tech Wabag Limited Q1 FY2020 Earnings Conference Call"

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Moderator: Good day, ladies and gentlemen, and a very warm welcome to the VA Tech WABAG Limited Q1 FY2020 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal the operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded. Please note that this conference is being recorded. I now hand the conference over to Mr. Rajiv Mittal, Managing Director and Group CEO of VA Tech WABAG Limited. Thank you and over to you, Sir!

Rajiv Mittal: Thank you. Dear friends, good afternoon. I welcome you all to this earnings call post announcement of Q1 FY2020 Results of VA Tech WABAG Limited. Mr Sandeep Agrawal, our Group Chief Financial Officer, joins me in this earnings call.

I would like to start the call by mentioning about our two large project wins in this quarter. I am highly pleased to inform you that WABAG secured Rs.1477 Crores worth order from state mission of Clean Ganga, Uttar Pradesh for operation, maintenance and management of sewage treatment plant and networks infrastructure in the cities of Agra and Ghaziabad for a period of 10 years. This is the first initiative across the country on a One City - One operator model. WABAG will manage, operate and maintain 22 sewage treatment plants, 22 pumping stations and underground network of approximately 3000 kilometers with the objective of providing round-the-clock uninterrupted operations. WABAG shall also improve, rehabilitate and upgrade facilities related to the system, structures and equipment associated with the sewage treatment plant and underground collection systems. Such projects help us with steady, predictable revenues and cash flows. This project will improve our backlog on O&M contracts and also help us move forward with our target of 20% revenue contribution from O&M business.

I would like to recall that WABAG already carries a rich experience of managing over 120 sewage treatment plants, pumping stations with a sewage load of almost 4000 million liters per day and a population of 16 million people in the City of Istanbul, Turkey. I am confident that we will succeed in this new initiative in India and a model that can be replicated across the country.

Another breakthrough in this quarter was WABAG securing the largest order under Namami Gange worth Rs.1187 Crores from the Bihar Urban Infrastructure Development Corporation, BUIDCO, to develop sewage treatment plant of 150 million liters capacity along the sewage network of about 450 kilometers in Digha and Kankarbagh zone of Patna, one of the most popular city on the bank of River Gange. These projects comprise of design, build and operate/DBO scope worth of Rs. 940 Crores and Hybrid Annuities of worth around Rs. 247 Crores.

WABAG will also be responsible for operation and maintenance of the STPs and the sewage infrastructure for a period of 15 years. The project will be implemented by BUIDCO with the financial assistance from World Bank under the prestigious Namami Gange scheme. It has been a great start to the year from the perspective of order intake, and we have already secured 50% of the order intake guidance for the year, and our order backlog is also at an all-time high of over Rs. 11700 Crores, including the framework contracts.

Moving over to the updates on project integration as of end of the quarter, the net receivables from GENCO were about Rs. 410 Crores and from Tecpro at about Rs. 69 Crores, totaling to Rs. 479 Crores. Receivables from Tecpro of Rs. 69 Crores is being pursued by us legally through NCLAT and out of Rs. 410 Crores from GENCO, we are currently pursuing the receivables from TSGENCO of about Rs. 140 Crores as a part of the final settlement, which we are expecting to be approved in the forthcoming Board meeting of TSGENCO followed by collection. We expect that TSGENCO's final settlement will reduce GENCOs receivables to below Rs. 300 Crores in the next few months. Receivables from APGENCO become due for payment progressively on achieving the various contractual milestones. We expect that the PGTR performance guaranteed trial runs of the project will be completed within this fiscal year, post-PGTR and hand over half of the retention money will be payable.

Balance retention money will become due after 1 year of defects liability period, we continue to receive payments against our running bills on this project. In our Dangote project in Nigeria, engineering is at final stage and equipment ordering is nearly complete. Clients have issued dispatch clearances for key equipments and dispatches have started. 97% of engineering approval for construction have also been released, 65% of physical progress is complete.

In our Polgahawela project in Sri Lanka, the design phase is now complete, and majority of designs have been approved by the client, the project is now in advanced construction stage. The transmission and distribution pipe laying is in full swing with multiple contractors at site. The treatment plant and intake structure are progressing well, along with the 7 reservoirs. Manufacturing of major equipments is on schedule and major deliveries are expected to be completed by end of Q3 FY2020. The project commissioning is expected to commence in the third quarter of 2020.

The construction activities at Koyambedu tertiary treatment plant are on the verge of completion and decomissioning activities have started. Most of the key structures are ready and finishing works are underway, 95% of transmission pipe laying is completed, commissioning has been kicked off and the commissioning team is under mobilization. First phase, the pretreatment out of the five basis is commissioned. The second phase, the clinical dosing area; and the third phase, the ultrafiltration treatment are under advanced stage of commissioning.

Moving over to the MEA projects, Middle East and Africa projects, MARAFIQ project in Saudi Arabia, which is a shining example of intercluster collaboration, has picked up good pace. Purchase orders for all lead, long lead items have been placed, 50% of engineering is complete, 30% model review is also over, local site mobilization has been completed and the exploration work on the major structures have started.

The other two key projects in the MEA region, South Doha in Qatar and Zarat in Tunisia, engineering activities and local site mobilization is progressing well. The projects are now in early stages of equipment ordering and expected to pickup pace through this year. I now request Sandeep to take you through the financial highlights of the quarter. Over to you, Sandeep!

Sandeep Agrawal: Thank you, Mr. Mittal. Friends, I trust you had an opportunity to look at the results of the presentation as circulated and uploaded on our website. Let me take you through the key financial highlights for the quarter ended June 30, 2019.

Our revenue from operations for the quarter ended June 30, 2019, stood at Rs. 324 Crores on standalone basis and Rs. 457 Crores on consolidated basis. The consolidated revenue is lower as compared to previous year. As stated during our previous earnings calls, since our large key overseas projects like AMAS and RAPID have reached completion, and the new orders are currently under the start-up phase, the revenue from new orders are expected to pickup pace through this fiscal.

Europe also, performance was little subdued during the quarter. The EBITDA for the quarter stood at Rs. 46 Crores on standalone basis and Rs. 28 Crores on the consolidated basis, profit after tax for the quarter is about Rs. 19.9 Crores on a stand-alone basis and Rs. 2.6 Crores on consolidated basis. With this, we now open the floor for question and answers.

Moderator: Thank you. We will now begin the question and answer session. The first question is from the line of Sachit Khera from Smart Equity. Please go ahead.

Sachit Khera: Good evening Sir. Thank you for the question. Sir, actually I am a new investor to your company, and I would really appreciate if you could give some background about the Tecpro issue as well as the Andhra issue. And I mean, if you can start with that, and then I can bring forward with my next question.

Sandeep Agrawal: I think I will be a little brief because I think most of the investors know about it, and if you really to get into it, please get in touch with us and we will take you through in detail. Basically, it is consortium projects, it was in 2010. There were three companies who bid this project together. It was Tecpro, Gammon India and VA Tech WABAG. Each one had their scope and WABAG had the water treatment plant, Gammon had the cooling tower and chimney and Tecpro had the coal and ash. Both, the other partners, Gammon and Tecpro had the financial difficulties, and they could not pay their debtors so we were asked to take the lead and just take their position to continue the project because we were all together in consortium. We did that. We completed both the projects, one was commissioned and COD was obtained almost 2 years back, the other one is more than 1 year back, both the power plants are running. Even the peripheral work of the first one is over. We have finished all the reconciliation, and the money, the due is agreed by the client, they have to just take it to their Board and create it. The APGENCO one, CODs are obtained, the peripheral works are still to be done. Generally, it would take about six months, post that we can do at trial run, and after that, the retention money which is 20%, I think this contracts for 10% will be due on handing over, 10% will be after the tax liability period.

Sachit Khera: So out of this Rs. 410-odd Crores and the Tecpro Rs. 70-odd Crores, what kind of credit risk do you expect?

Sandeep Agrawal: Generally, as per our policy, if you are a new investor, we have our own board-driven policy, also depending on the aging of the receivable, we make a provision, which we have started providing plus we have an ECL as for Ind-As 109, where we do a credit risk, and we make a provision. So as for that, if you see our balance sheet, the provisions have already been made.

Sachit Khera: On both of these accounts, you are saying?

Sandeep Agrawal: Yes.

Sachit Khera: The last question, sir, I noticed that the amount from AP was Rs. 415 Crores, and now it is down to Rs. 410 Crores. So is that the ECL playing or is that the recovery of Rs. 5 Crores, Rs. 6 Crores, as you said, in this quarter?

Sandeep Agrawal: ECL is playing, the Rs. 5 Crores, we have to make an extra provision.

Sachit Khera: Thank you.

Moderator: Thank you. The next question is from the line of Sneha Gosar from SKS Capital. Please go ahead.

Sneha Gosar: Thanks for the opportunity. I wanted to ask for the working capital days that you are following right now and what are you expecting in the future? That will be reduced or not?

Sandeep Agrawal: So yes working capital focus is there in the company. In fact, in the last March 31, we were about 130 days and this year, we plan to reduce it maybe closer to 100 or maybe below 100 days.

Sneha Gosar: That is the focus. So we see, obviously, in the forthcoming projects that you are taking, the finance cost is increasing, so it is apparently post increasing more in the coming future since the number of underbid projects we are taking?

Sandeep Agrawal: No. Not really. In fact, there are a couple of advances we are supposed to get during this quarter so once these advances are in place, so we do not see any further increase in your finance cost as a whole. Of course, some BG charges will be there during the quarter on account of new projects, but interest costs should be coming down.

Sneha Gosar: Yes, so because your World Bank is also there so the effective cost which would be there would be lower than the Indian counterpart versus the World Bank credit that you are going to get, right?

Sandeep Agrawal: No. So the World Bank projects, what you are talking about, probably you are talking about MMCG projects.

Sneha Gosar: Yes.

Sandeep Agrawal: Those will be there is the separate SPVs and since it is a HAM model, so we will see that, how to structure that and we do not get these assets in our balance sheet and we wanted to keep for the assets right now.

Sneha Gosar: Got it. Thank you. That is all from my side.

Moderator: Thank you. The next question is from the line of Prashant Hazariwala, an individual investor. Please go ahead.

Prashant Hazariwala: So this is a continuation of the same question, interest will be reduced by next quarter or something like that. I used to hear since now two years, and I have not seen any improvement in it. Another thing is that from last two quarters, we are saying that projects are on the completion, so you have less turnover, so when projects around completion, we should receive our money, right? So this will reduce our receivables, I mean interest costs would go down right? That we are not seeing. So what is your update on it.. This is the story since last two years, and I am an investor and I am invested since last five, six years, so now, update me on this?

Rajiv Mittal: Yes, I think, Prashant, the advance which you are talking about, okay?

Prashant Hazariwala: No, I am not talking about advances, I am talking about interest cost reduction, right? I am hearing this same since last two years, right? That every quarter-on-quarter is increasing so you guys are not confident what you are doing or what is exactly happening on this?

Rajiv Mittal: If you listen to this. What has happened is you must be watching also, one as you heard real term, working capital increase has happened from 100 days to 130 days, number one. So there is maybe a 30% increase has happened in the debt. The other things, the major things which have happened as per the recent RBI's guideline, we have to have 60% of our debt at WCDL. So this is what has increased the borrowing cost to almost double, we were at around 5%. Today, we are around 9%, 9.5%. So this has increased the interest costs substantially. Number two, because of this all-time high order intake, there is a higher amount of bank guarantees we have to give. So this is also increasing the financial cost. This was your first question. This is what is the reason of you seeing a higher financial cost. The second one you talked about when we are closing the projects yes, we are closing the project, that means the physical work is getting over and retention moneys will come after defects liability period, which is generally one year, in some cases, it is two years. So we will have about 10% of our money which will come one year after completion of projects. So you do not see the revenue towards the end as we are closing and the retention money will flow one year after we hand over the project.

Prashant Hazariwala: So if you have Rs. 100 Crores of order right, so we would then, Rs. 10 Crores in retention money, right? If we have Rs. 100 Crores of order, right? So we would have Rs. 10 Crores as retention money, right? And these Rs. 10 Crores will be in retention for at least one year or two years, right, that is what we see?

Rajiv Mittal: That is right.

Prashant Hazariwala: And we have PBIT and EBITDA margin of 9% or 10% around that. So we are not like 15%, 20% kind of EBITDA margin, we have only 9% of EBITDA margin, right? So all of the profit all of those operating profit starts included in retention money, then how this business model will work?

Rajiv Mittal: Sir, initially, that is how we say, we are also getting new contracts. The new contracts are also bringing advances which are interest free. So today, when we win our contracts, after we sign the contract, we set up the company, we start execution we give the advanced bank guarantees and also collect a 10% advance. So this is a just a cycle. You start with a 10% advance, you have a retention, so all the time you try to balance it. If you do not have a major imbalance like APGENCO, generally, this company has not borrowed money and has also not raised capital for last 20 years and has grown from a start-up to 3000 plus company. This is all done because that is how the cash flow was managed.

Prashant Hazariwala: All right. So on the other side, when is the standalone business we have done a revenue of 324 Crores. Consolidated we have done Rs. 456 Crores, and on the EBITDA, you have Rs. 46 Crores on standalone, that the consolidated debt is 37 Crores, so it is a reduction of Rs. 9 Crores absolute, so we have a loss on consolidated basis from on standalone. Why is it so? This is happening at two three quarters maybe because of international forex or whatever?

Rajiv Mittal: Let me explain to you, because when we close the project, the EBITDA is directly proportionate to the revenues. As you can see, the revenues have come down by almost 30% and we have given the reasons very clearly in our presentation. These are some two, three large projects which have closed and the new projects are just kicking off because when you take international projects, you have to setup a local subsidiary or a branch office and these are geographies which are in Middle East and Africa, it takes about four to five months to set up an operative company or a branch office to start the work. Now it has all started. We are in the engineering phase, you are seeing a traction and you will see in the next few quarters, this all toplines will start moving up because the kind of order backlog we have, we have just no choice but to execute and convert that into revenues. And this will happen. But always, there is a starting point because we are an engineering company. It takes about 6 to 8 months to do engineering before we can start construction or supply the equipments.

Prashant Hazariwala: All right. So what kind of retention money do you have, currently, right now altogether?

Rajiv Mittal: It must be around Rs. 300 Crores, Rs. 350 Crores.

Prashant Hazariwala: And what is our borrowing?

Rajiv Mittal: The net borrowing will be close to Rs. 400 Crores.

Prashant Hazariwala: Net borrowing. And total borrowing?

Rajiv Mittal: About Rs. 550 Crores, Rs. 600 Crores, because we have a bank and fixed deposits of about Rs. 150 Crores, Rs. 200 Crores.

Prashant Hazariwala: So, yes, 27 Crores for Rs. 500 Crores and Rs. 600 Crores, it is a huge interest cost, I believe?

Rajiv Mittal: No. Please again, do not mistake. Finance cost is not interest alone. As I have said, it is also paying for the bank guarantees, which we give performance bank guarantees, retention bank guarantees, advance bank guarantees and letters of credit, and also interest.

Prashant Hazariwala: Okay. So what is interest cost in this quarter?

Rajiv Mittal: The interest cost in this quarter is about Rs. 10 Crores, Rs. 11 Crores in India and about Rs. 14 Crores, Rs. 14.5 Crores in consolidated.

Prashant Hazariwala: Thank you very much. All the best.

Moderator: Thank you. The next question is from the line of Vipin Goyal from ICICI. Please go ahead.

Vipin Goyal: Thank you for the opportunity. So most of the questions have been covered, but then just a bit more on the working capital basis if you can give the breakup of receivable inventory and table days?

Rajiv Mittal: I think today we do not have a balance sheet, but Sandeep can try and give you the numbers. Although can you come back and we will get the numbers and give it to you?

Vipin Goyal: Yes, sure. That is okay. Just one more thing on the new orders that we have received so there will be some working capital requirement associated with these, so what is the advance as linked to these new orders?

Rajiv Mittal: Generally, most of them have an interest-free advance of 10%. We have seen in our past experience, we are able to manage the project without a huge working capital, if everything goes on time, and that is how we have grown the company. So we will not see a huge working capital required for these projects.

Vipin Goyal: That is it from my side. Thanks.

Moderator: Thank you. The next question is from the line of Kaushik Podar from KB Markets. Please go ahead.

Kaushik Podar: Are you looking at an uptick in margin because commodity costs are a little benign now? I mean iron and steel, for example, is low, so are you looking at a higher operating profit margin for this year?

Rajiv Mittal: Our endeavor is always to improve our margins compared to what we take our order to a better execution, better engineering. So naturally, we do that. But there is always issues which are related to some delays in payment or delay in readiness of the customer which eats away that. But generally, yes, not only because of commodity because for us steel is a very small portion of our total cost because we mostly go for engineered products where we do not see steel prices being that much affected, but overall, yes, that is the aim for every project manager, to improve the margin on his project.

Kaushik Podar: Ideally, what is your margin? When you bid for a project, what is the margin you bid at?

Rajiv Mittal: I think, in a public call, we do not talk about that. But if you want, we can take it at one-to-one and then we can talk about it.

Kaushik Podar: Are you defocusing on international orders? I mean, this time, whatever you have got is only Indian orders? I mean, is there any kind of change in focus towards India? Or this is something I do not know, I mean.

Rajiv Mittal: No. Not at all. We have never been a particular geography focus because we are very lucky to have a multi-geography presence. We look at the opportunities wherever we see the best opportunities, which fits into our cash flow, risk and payments are secured, we go for it, like last year, we had a substantial order intake from Middle East and Africa. This quarter, it so happened that Namami Gange is moving fast and the government also wants to push this scheme. So there were two orders, and we got two large orders which has covered 50% of our committed guidance for order intake. But not at all, we have reduced our focus on international geographies. Yes, in terms of Europe, as we have said in many calls before, yes, we are looking at reducing our thing and concentrating more and more on the emerging markets.

Kaushik Podar: At the start of this call, you had talked about 20% income from operational and maintenance being your ideal. So will that finally result in a change in margin for the company?

Rajiv Mittal: Yes. Sure. Change in margins because O&M is an annuity business. It has better visibility, it has a higher margin, it has a lower risk. So yes, that is the reason we want to increase O&M as a percentage of our total revenue to 20%. Presently, we are about 13%, 14%. This year, we may go to 17%, 18%, and next year, we may reach our 26% number.

Kaushik Podar: Thank you.

Moderator: Thank you. Our next question is from the line of Dhananjay Mishra from Sunidhi Securities. Please go ahead.

Dhananjay Mishra: Sir, could you explain the revenue model for both the project, UP, Namami Gange and Patna projects, I mean on a standalone basis how long it will take to book the entire revenue of both these projects? And in SPV model how would the equity and debt contribution?

Rajiv Mittal: Are you talking about the two projects which we have won in this first quarter?

Dhananjay Mishra: Right.

Rajiv Mittal: See, the first project is basically an O&M project. These are monthly revenues, which get booked over a period of 10 years. It is about Rs. 1500 Crores project approximately, to Rs. 150 Crores per year will be the revenue booked in these two projects, which is Agra and Ghaziabad, which is purely operation maintenance.

Dhananjay Mishra: We do not need any working capital for this project?

Rajiv Mittal: Because plant is giving a 10% advance on the first year's revenues. So I think that is starting.

Dhananjay Mishra: So at the end of every year, you will not have any working capital issue, and you will get to your money Rs. 150 Crores-something and you will make your profit?

Rajiv Mittal: Because always at the start, we need to invest. For that, client is giving 10% advance payment.

Dhananjay Mishra: Okay. 10% of annual risk annuity or 10% of entire thing?

Rajiv Mittal: No, 10% of annual revenue.

Dhananjay Mishra: Okay. So Rs. 15 Crores, you will be getting as advance?

Rajiv Mittal: That is right. Now if you look at the other one which is our Patna, Namami Gange project, as I told you, it is about Rs. 1200 Crores, out of which Rs. 1000 Crores is pure EPC and O&M, which is DBO, and about Rs. 200-odd Crores is HAM. Now DBO is also approximately three years, so you can take this Rs.1000 Crores will be spread over a 3-year period. And the HAM part is, 40% will be invested by the Central Government, and 60% has to be invested by the private company, of which 25% is equity and 75% is debt and we are tying up the debt and equity. We are also tying to bring in an equity partner so that we remain absolutely minimum to what is required in terms of equity and take the total responsibility of EPC and O&M.

Dhananjay Mishra: So with Rs. 1000 Crores, what is the breakup between EPC and O&M?

Rajiv Mittal: Mostly, I think, about Rs. 800 Crores, Rs. 850 Crores is EPC and about Rs. 150 Crores is O&M. And on the HAM, Rs. 200 Crores will be executed in two years. HAM is Rs. 200 Crores and the DBO is Rs.1000 Crores, in that 1200 Crores.

Dhananjay Mishra: I just wanted to know the gestation period of entire project. I mean, EPC and O&M will get over in three years, you are saying?

Rajiv Mittal: EPC will get over in three years. After that, we have 15 years of O&M.

Dhananjay Mishra: That O&M will be are your revenue for next 15 years, annuity?

Rajiv Mittal: Yes.

Dhananjay Mishra: And this HAM you are investing, what kind of earning you will get for this?

Rajiv Mittal: This is normal EPC and O&M margins we will get, plus, whatever is our investment, there will be some. SPV will have a certain return on investment as an income based on our equity investment that also we will have as an income, as a return on our investment.

Dhananjay Mishra: When we are expecting to start these projects? I mean, major contributor will start this year or next year?

Rajiv Mittal: No, we will start this year but the major contribution will come next year. But it will get kick-started this year.

Dhananjay Mishra: Thank you.

Moderator: Thank you. The next question is from the line of Rishab Bothra from Sharekhan. Please go ahead.

Rishab Bothra: We kept our revenue your guidance unchanged, so what will be the key projects which will be contributing in the next few quarters? Because our run rate in Q1 is quite low.

Rajiv Mittal: As we have said before, we want to reiterate, we had lower revenue because old projects had completed and new projects we are starting. Now if you go to our presentation, Page #18, you will see all these projects we talked about: BUIDCO, Agra, Ghaziabad, MARAFIQ, KMDA, Namami Gange, Zarat, desalination plant, Doha, FIFA 2020, MRPL, Dangote, plus another NMCG of Kanpur, Polgahawela in Sri Lanka, these will be major revenue drivers for this year and next year.

Rishab Bothra: Sir, on the second question, you mentioned that increase of international orders, it takes time to open up subsidies and do the groundwork, but to my understanding, we are present all across the world and would be having subsidies there. So why is it taking longer than expected time, as you mentioned, to that contract or to execute projects?

Rajiv Mittal: I think you are very right and good observation. Suppose like we have a subsidiary from our Austria organization in Tunisia, this project is booked from India for competitive reasons. India does not have a subsidiary or a branch office in Tunisia but we would the project in Tunisia from India, we will have to open up at least a subsidiary or a branch office.

Rishab Bothra: But that will increase the cost further if we have a subsidiary in that geography. I think in one of the analyst meet you mentioned, we are moving towards cluster-ready operations. So why that cluster cannot take up the opportunity and do the work?

Rajiv Mittal: Absolutely. It is not a question of cluster not taking the responsibility and doing the work, work will be still done from the MEA cluster, but we need to have a legal entity for tax reasons, to book the revenues, book the profit, pay the taxes, be compliant in the local taxation, all that has to be happening.

Rishab Bothra: Lastly, Sir, on the margin front, any guidance on margin?

Rajiv Mittal: Normally, traditionally, for the last 10 years of listing, we have never given guidance on margin, but I think you all have seen it, I think we have a margin. And I think, as we said before, we expect to improve the margins with more international contracts, with more contracts where technology is coming in, plus a bigger share of operation and maintenance.

Rishab Bothra: Sir, on the taxation side, this quarter, almost whatever we have earned has moved toward those in the tax department or the tax expense?

Rajiv Mittal: Good observation, you are talking about consolidated.

Rishab Bothra: Yes, consolidated. Whatever we need to look at, needs to be looked at consolidated because your investors do invest money on the company level, consolidated level?

Rajiv Mittal: I could tell you to just look at standalone, our tax at stand-alone was 73. All that has moved into tax, but somebody said, some of the losses in the overseas, we cannot set off again the tax in India, each country, each legal entity has to pay their tax. If somewhere you have a loss and somewhere you have profit, where you have a profit, you still pay tax. And how the tax number looks high to you?

Rishab Bothra: Lastly, Sir, you mentioned the margin expansion. But do we cover this LC, BG, all those projects when we compute our project level margin? Because I think that comes below the operating level margin. So I am sure that at project level you must be doing a backwards calculation of how much LC,BG charges would be there, and finance cost would be there so just lastly, if you could touch upon those because our net margin looks pretty low. EBITDA margin is also not that high?

Rajiv Mittal: Leave alone the standalone. I think you pay EBITDA of 14.3%. Even if you add the finance cost into that, still it is a double-digit margin. I think that's still a good margin.

Rishab Bothra: Sir, we cannot look at only stand-alone because we, as investor or analyst, we look at the company at overall concern level, standalone would not refer?

Rajiv Mittal: You have to wait a few quarters. As we have told you, it is not a quarter-on-quarter business which we are running. Project business, we all know, it's a lumpy business as we have seen after last year, where there were some order delays and this year, we are full with orders. Our order book is almost Rs. 12000 Crores. So you have to look at that way. So we cannot look at them quarter-on-quarter as a company.

Rishab Bothra: Absolutely, Sir, I was speaking of annual basis only, only not quarterly basis, but somehow the numbers have not improved over the last two, three years if I correctly looked at. Anyway thank you Sir. Thanks a lot.

Moderator: Thank you. The next question is from the line of Sachit Khera from Smart Equity. Please go ahead.

Sachit Khera: Sir, do you have any cash flow guidance for this year because, I guess, that could also be something which should be on the investors' line.

Rajiv Mittal: As Sandeep told you earlier, from a cash flow perspective, we are trying to generate cash, and that is how we are trying to reduce our working capital days from 130 to 100 or lower than 100. So that is how we are seeing that this year, we will generate cash.

Sachit Khera: Okay. Let me just rephrase that. Considering that your order book has increased a lot and given that you will be executing lot in the future, I expect that your working capital will, again, go on the higher side, so what kind of, let's say, increase in borrowings do you expect for this year?

Rajiv Mittal: In fact, we are working on a plan to reduce the borrowings. If we are able to collect our receivables and also the advances on the new projects we have booked, the plan is to reduce the borrowing.

Sachit Khera: Okay. So you do not really expect an increase?

Rajiv Mittal: No. Not at all.

Sachit Khera: That is really good to know. And second, Sir, we hear a lot in the news about how Andhra Pradesh is going strict on projects. So I mean, do you expect any other unforeseen risk to the amount that you need to collect?

Rajiv Mittal: Today, our project is almost 90%, 92% complete. We are in the finishing touches, as we said before, and we are going to do our performance guarantee run trials and collect our milestone payments and once we hand over the plant we will collect our first retention money. That is what we are working on.

Sachit Khera: You have not really had any intimation from the AP government or any other AP Authority board, which sort of puts you in any kind of risk zone, let me just word it like that.

Rajiv Mittal: No. As we said before, the moment we have any risk, as per the quality and as for Ind-AS, we immediately make a provision and if you see our balance sheet, we already have a lot of provisions for various projects where we see a risk, though it has not precipitated, but the increase of provision.

Sachit Khera: Okay. And do you have any specific provision for Tecpro receivables?

Rajiv Mittal: This is as the total we have, and that is what we said. As for the ECL policy, we take a judgment and make a provision.

Sachit Khera: Okay. So I mean, if you do not mind disclosing how will we see the Tecpro receivable?

Rajiv Mittal: As overall, you can see we have almost about Rs. 140 Crores of provisions. If you see our balance sheet and annual report as of March 2019, we have made a provision of almost Rs. 140 Crores.

Sachit Khera: Thank you.

Moderator: Thank you. The next question is from the line of Prateek Barasiya an individual investor. Please go ahead.

Prateek Barasiya: Can you give me the breakup between government orders versus private orders? And how do you expect this ratio to go going forward? The second question is, what is the difference in commercial terms between these two big orders, and do you have better margins in private orders or these receivable days?

Rajiv Mittal: Yes, I think for us, it is the way we look at it, we look at municipal business and industrial business, international versus India business because for us, we do not take exposure, even municipal or government bodies, unless it is funded by a multilateral agency. If you see our order backlog, they will fall under three categories, either they are international orders. Second, they are funded by the central government, or third, they are funded by the multilateral agencies. Most 95% of our order backlog will fall under this category. So we do not take general exposure of the state government or local municipal corporations, number one. Number two, if you say about private, when you go to private, there is urgency to execute, the speed is there and we only work with large private sectors and payments are also generally on time, but okay, there are strict documentation and strict quality and compliance with the contract and when you go to the government, there is mostly delays in order, which affects the payment cycles also, but they are more flexible in accommodating some requests. So that is the difference between a government or a private client.

Prateek Barasiya: Thank you.

Moderator: Thank you. The next question is from Anoop Nair from Equity Intelligence. Please go ahead.

Anoop Nair: So my question was regarding this Rs. 400 Crores QIP provision that we have made in the AGM so any immediate plans to raise capital because there is a big order book spending in our books?

Rajiv Mittal: Yes, I think right Anoop, you are very correct. Last two years, we have been wanting to do that we have taken various approvals, but somehow the markets were not conducive and we have not gone ahead two years back with equity raise and one year back with the NCD raise because NBFCs and all were not in good shape. This year, we have gone more or less for an enabling resolution for either equity or debt raise, and we are also looking at if we can get any preferential interest in it so when we can raise some capital and again, have cash in our balance sheet, which we used to have a few years back and just to keep that as a security. But from the order backlog we have, I think most of the projects will be able to support themselves without a huge demand of working capital, and that is how we will try to reduce our working capital. But present, definitely, with the kind of borrowings we have, it will be great favor if we can raise some equity, which will reduce our borrowing and reduce our interest cost.

Anoop Nair: My second question was more of a bookkeeping question. Dues from customers with construction contract works that we have in the balance sheet, is it something, a part of our working capital or something, is it something like a receivable? Can you just throw some light on?

Rajiv Mittal: To add further the tenders for construction contracts, there is always a milestone base building which you can do. But whenever the standard prescribes, whenever you do some of this physical work, and there is a progress on that, you take a POC and that is not built as per year on track to the customer and you take it the work in progress earlier and now you take a percentage on completion method of revenue and that is what the revenue is, which is not built, but it is still taken in the revenue. It is not a receivable.

Anoop Nair: So this is not something which we can securitize or anything, this will be something like future revenue, which we would be receiving?

Rajiv Mittal: Correct. That means the work is completed but not as per the milestones agreed with the customers.

Anoop Nair: That is it from my side. Congratulations and wish you all the best. Thanks.

Moderator: Thank you. As there are no further questions, I now hand the conference over to the management for their closing comments.

Rajiv Mittal: Thank you, everyone, for your participation in our Q1 FY2020 earnings call. We have uploaded the analyst presentation in our website. In case you have any further queries, you may get in touch with Stellar IR Advisors our investor relation adviser based in Mumbai, or feel free to get in touch with us directly. Thank you.

Moderator: Thank you. Ladies and gentlemen, on behalf of VA Tech WABAG Limited, that concludes this conference call for today. Thank you for joining us. And you may now disconnect your lines.