



ANNUAL REPORT 2010 - 2011

VA TECH WABAG LTD.

sustainable solutions. for a better life.



Key financials

In INR Crores

Description	Key Figures 2010–2011		Key Figures 2009–2010		Variation (%)	
	WABAG India	WABAG Group	WABAG India	WABAG Group	WABAG India	WABAG Group
Sales	732	1,233	701	1,224	4,5%	1%
Closing Order Backlog	2,465	3,402	1,878	2,833	31%	20%
EBIDTA	89	121	86	117	4%	3%

In EUR* Mio

Description	Key Figures 2010–2011		Key Figures 2009–2010		Variation (%)	
	WABAG India	WABAG Group	WABAG India	WABAG Group	WABAG India	WABAG Group
Sales	121	204	116	202	4,5%	1%
Closing Order Backlog	407	562	310	468	31%	20%
EBIDTA	15	20	14	19	4%	3%

* Converted at Average rate during the Fiscal year, April 2010 - March 2011: 1 EUR = INR 60.51



Technology and economy must develop hand in hand with the environment.

This is the most important challenge facing our generation and continually produces new assignments.

For us, this holistic view involves questioning traditional solutions and developing new perspectives.

Our Vision

WABAG shall be a professionally managed Indian Multinational having Market Leadership in Emerging Markets and significant position in the Global Market both in the EPC and Service Sector of Water Business.

WABAG shall encourage and practice a culture of Caring, Trust and Continuous Learning while meeting Expectations of Employees, Stakeholders and Society.

WABAG-ites shall be an Innovative, Entrepreneurial and Empowered Team committed to Total Customer Satisfaction and Value Creation.

Our Mission

We, at WABAG exist to provide total water solutions to our valued customers.

Our strong, capable, agile and customer focussed team shall ensure that every customer solution is creative, priced competitively and provided in the agreed time frame with essence of quality.

We, at WABAG, always have concern for the welfare of our employees and shall do everything it takes to attract and retain the best of the talent.

Contents

‣ Corporate Information	4
‣ Chairman's Message	5
‣ CEO's Letter	6
‣ Directors' Report	10
‣ Management Discussion and Analysis	16
‣ Corporate Governance	25
‣ Auditors' Report	43
‣ Standalone Financials	46
‣ Consolidated Financials	72



Corporate Information

Board of Directors

B.D. Narang, **Chairman**
Rajiv Mittal, **Managing Director**
Sumit Chandwani
Jaithirth Rao
Guenter Heisler

Chief Financial Officer

S. Varadarajan

Company Secretary

S. Ramasundaram

Registered & Corporate Office

11, Murray's Gate Road,
Alwarpet, Chennai – 600 018

Bankers

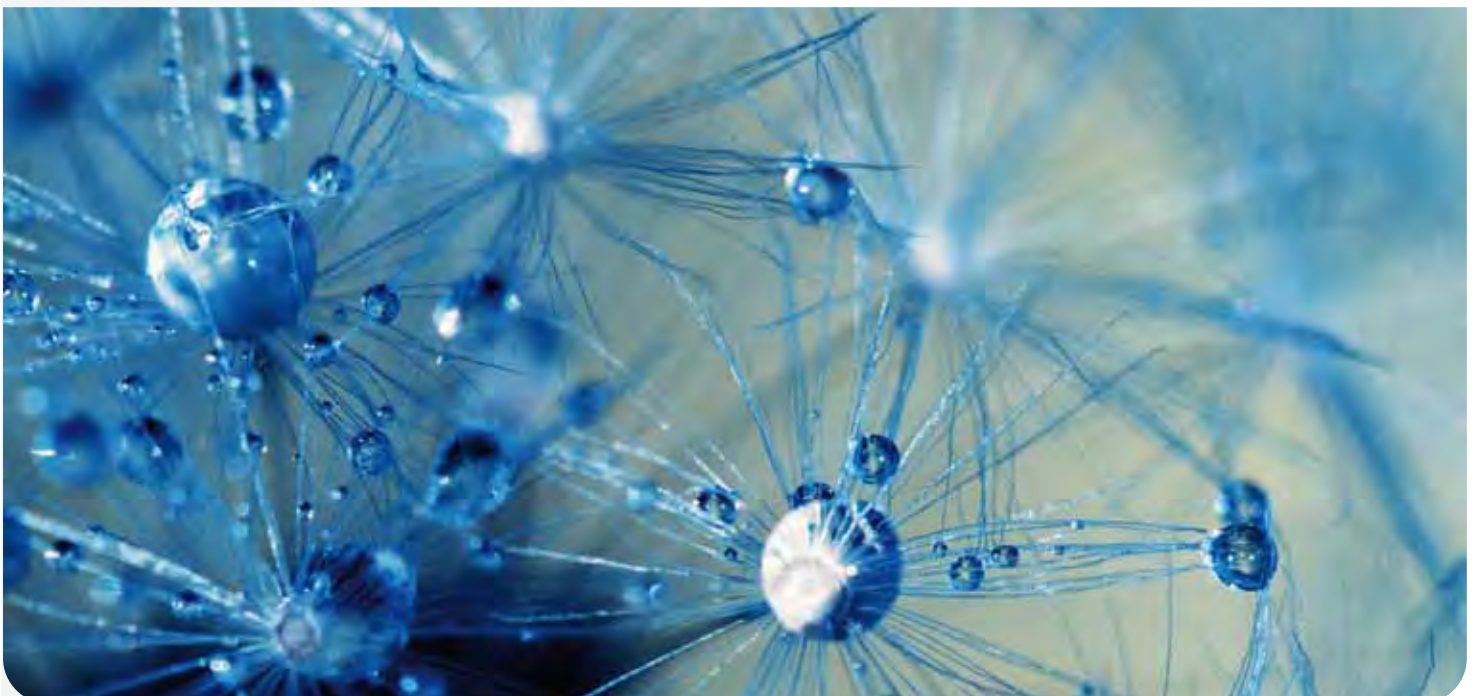
State Bank of India
ICICI Bank Limited
Yes Bank Limited
HDFC Bank Limited
IDBI Bank Limited
Punjab National Bank
Societe Generale Bank
Bank of India
Indian Bank

Statutory Auditors

Walker, Chandio & Co.,
Chartered Accountants

Registrar & Transfer Agents

Karvy Computershare Private Limited



Chairman's Message



Dear Shareholder,

It gives me great pleasure to present you with the first Annual Report of VA TECH WABAG Limited after its successful Initial Public Offer (IPO). Since this is my first letter to you, let me highlight some key facts about your company.

VA TECH WABAG Limited is a leading Indian Multinational in the water treatment industry with market presence spanning across three Continents. The Company offers complete life cycle solutions for sewage treatment, process and drinking water treatment, effluent treatment, sludge treatment, desalination and reuse for Industries and Municipal Corporations. Your company has a project reference list of more than 6000 projects over the last eight decades, market leadership in emerging markets and significant position in the global market. It is pertinent to note that WABAG owns more than 150 patents and about 50 patents applications are pending for approval. Being a technology focussed company the Company has established R&D centres in Chennai-India, Vienna-Austria and Winterthur-Switzerland. The company has also entered into a research collaboration programme in India with the Centre for Environmental Studies, Anna University.

The Water industry will witness significant growth in the foreseeable future. Your company is focused on tapping this huge potential and is poised for impressive growth given the strong order backlog coupled with strategic initiatives such as partnering with Sumitomo Corporation, Japan and Zawawi Group, Oman. The landmark project - Nemmeli Desalination and other projects are at various stages of execution, the details of which are discussed in detail elsewhere in the Annual Report.

During the year under review, the company forayed into two new Asian markets, Philippines and Sri Lanka. The company bagged a prestigious order from the National Water Supply and Drainage Board for the Greater Dambulla water supply scheme in Sri Lanka. This project is valued at approx Rs. 360 Crores. In Maynilad, Philippines, the company secured two sewage treatment plant projects valued approx. at Rs. 45 Crores. With the above entry into two new markets, your Company now has presence in 24 countries.

During the year, your Company successfully completed an IPO of 36.08 lakhs equity shares, which was oversubscribed by more than 30 times. The shares were listed on the NSE and the BSE on 13th October, 2010.

For the year ended 31st March, 2011, Your Company achieved a consolidated turnover of Rs. 1233 Crores EBITDA margins stood at 9.7% as against 9.5% of last year and PAT margins grew marginally from 3.6% to 4.2% in the current year. The PAT achieved for the current year at Rs. 53 Crores witnessed 17% growth over last years PAT of Rs. 45 Crores. The basic EPS at Rs. 53.07 per share grew 11% over last years EPS of Rs. 47.84 per share. The diluted EPS at Rs. 52.96 per share grew 13% over last years EPS of Rs. 47.04 per share.

I am happy to report that during the year, your Company has been the recipient of Global Water Award from Global Water Intelligence under the category Water Deal of the Year. Your Company was also adjudged as the "Best Water Company" by Frost & Sullivan for the year 2010 and "Best Exit Company" of the year 2010-11 by Asian Venture Capital, Hong Kong.

The business outlook for the company going forward is encouraging on account of factors such as:

- Strategic initiatives taken last year to improve business prospects;
- Increased emphasis on high margin O&M segment;
- Special accent on BOOT business which would further drive the business volume and ensure steady income;
- Presence in new Geographies.

My thanks to your Company's employees for their dedication and hard work. Let me also take this opportunity to thank our partners and customers for their continued support. Last, but not the least, please allow me to express my appreciation and gratitude to you for your faith in the Company. I am confident that your Company is set to move to a higher growth trajectory which should deliver even better results in the future.

With regards,

A handwritten signature in black ink, appearing to read 'B.D. Narang', written over a light blue horizontal line.

B.D. Narang
Chairman

CEO's letter



"Despite odds in some of the emerging markets, the company is in a sound position to capitalise from its presence in multiple countries."

"The Company would also continue its efforts in getting into new partnerships and collaboration as one of its key strategies for growth."

Dear Shareholder,

I am happy to present the performance results of the WABAG Group as well as the Company for the year ended 31.3.2011.

For the Group, the order book stood at Rs. 3,402 Crores as at 31.3.2011 as against Rs. 2,833 Crores as at 31.3.2010 recording a growth of 20% and the sales stood at Rs. 1,233 Crores as at 31.3.2011 as against Rs. 1,224 Crores as at 31.3.2010 recording a growth of 1%. The EBITDA and PAT for the Group were Rs. 121 Crores and Rs. 53 Crores as at 31.3.2011 as against Rs. 117 Crores and Rs. 45 Crores as at 31.3.2010.

For the Company, the order book stood at Rs. 2,465 Crores as at 31.3.2011 as against Rs. 1,878 Crores as at 31.3.2010 recording a growth of 31% and the sales stood at Rs. 732 Crores as at 31.3.2011 as against Rs. 701 Crores as at 31.3.2010 recording a growth of 4.5%. The EBITDA and PAT for the Company were Rs. 89 Crores and Rs. 55 Crores and as at 31.3.2011 as against Rs. 86 Crores and Rs. 41 Crores as at 31.3.2010.

The global water market continues to grow in view of the water scarcity. Rapid urbanisation and industrial growth will further result in looking for alternative source of water. The Indian water market is expected to grow at 20-25% annually. XII Plan envisages around US\$ 1 trillion investment in infrastructure with half of it, i.e. US\$ 500 billion coming from the private sector. The Indian Union Budget FY12 sets apart INR 2140 billion (Rs. 2,14,000 Crores) for Infrastructure representing 23.3% increase over 2010-11 and 48.5% of total plan outlay. Out of this, it is estimated that the annual business potential of the water sector in India would be at US\$ 30 billion. According to ENAM Research Report, the global water market is estimated to be >US\$400 billion.

Despite odds in some of the emerging markets, the company is in a sound position to capitalise from its presence in multiple countries and started shifting focus to the markets such as Saudi, Turkey, China, Philippines, Sri Lanka and Maldives. Further, the strategic initiatives like tie-up with Sumitomo Corporation, Japan and Zawawi Group in Oman would pay off in the years to come. As part of corporate strategy, the company has already short listed a few overseas companies for possible acquisition which will result in technology addition or new markets. The Company would also continue its efforts in getting into new partnerships and collaboration as one of its key strategies for growth.

Further, the Company has set up three subsidiaries at Egypt, Turkey and Philippines to demonstrate its commitment to high growth markets. The Company has been adopting the decentralised approach and Multi-Domestic Unit (MDU) concept keeping in view close proximity to the customers.

The local presence coupled with faster decision making process would spell success.

The Company also made a foray into BOOT for two water treatment plants in Maharashtra - one for Ulhas Nagar Municipal Corporation in consortium with Konark Infrastructure and another for Aurangabad Municipal Corporation in consortium with SPML Infra.

On project execution, Chennai Desalination project is making steady progress and the project would be executed as per plan. There is close monitoring and control on cost and margins significantly improved during the year. The Company organised Investors' Meet during February 2011 which was followed by site visit. The participants expressed satisfaction over the project progress.

Similarly, the construction of our Corporate Office - WABAG House - is in full swing and we hope to move into the new premises during the next year. All our strategic business units which are now operating in different buildings, would start functioning under one roof.

Other major projects for IOCL Paradip and APGENCO are at various stages of execution and making steady progress. All Delhi Jal Board projects are back on track by end of year and major receivables are collected.

The WABAG Austria Group finalised important projects during the past financial year, as evidenced by provisional/final acceptances and handovers to clients. Examples include the turnkey drinking water plants in Brcko, Bosnia Herzgovina and in Koudiat Medaour, Algeria, as well as the Al Wasia brackish water desalination plant in Saudi Arabia. In the field of wastewater treatment, the El Eulma and Beni Messous plants in Algeria have been completed, along with Sousse Nord in Tunisia, Kashi in China and Maur, Limmattal and Chur in Switzerland.

Two large-scale WWTPs in Iran made major progress and the commissioning of the Tehran South WWTP with four wastewater and sludge treatment lines is the largest plant of its kind in the country. The plant designed for 2.1 million p.e. will go into full operation very soon.

We have successfully completed reliability run of Duqm Sea Water Desalination plant in Oman and we have handed over the plant to the customer.

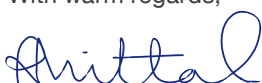
The year under review witnessed a major crisis political situation in view of the uprising in many MENA countries. WABAG has been existing as a local company in many of these countries. While projects in Tunisia, Algeria and Oman were back to normal, progress was stalled in all four projects under execution in Libya. The Group has 9% of its order backlog from Libya. Our subsidiary has a valid L/C and a credit insurance coverage from OKB for the Libyan projects. The Group had conservatively not taken a large project into order book awaiting L/C, though it has a registered contract. The Group resources are diverted to other geographies in the meantime.

One of our goals of business excellence has been de-risking our business on a continuous basis. For instance, our market presence in multiple countries and multiple states within India minimises the risk of concentration. Further, mainly we choose projects in India which are funded through multi lateral agencies or Central Government and overseas projects are undertaken only on receipt of L/C and down payment which mitigates financial risk.

It is significant to note that 13th October, 2010 is an important day in the history of the company, in that, the company was listed on the Indian bourses.

In short, I look back with satisfaction on the year that has gone by and I look forward to the year ahead with confidence. On behalf of the management team of WABAG, I thank you for the trust you have reposed in us and I am confident of outperforming your expectations.

With warm regards,



Rajiv Mittal
CEO

Our Business

WABAG is a provider of complete solutions
- throughout the water treatment cycle.

Water – the most vital natural resource for the mankind in the world is becoming more scarce day by day under the huge population pressure and ruthless exploitation. Today, about one billion inhabitants in the world are threatened by non-availability of safe and clean drinking water and 2.5 billion live without proper sanitation facility. Severe scarcity of water looms large on as many as thirsty countries and ten more countries are expected to join their list by 2025.

While shortage of water availability is a problem, increasing pollution of existing water resources, unchecked withdrawal of ground water, rapid urbanisation and industrialisation are putting huge pressure on this scarce resource.

Therefore, all over the world, a substantial and steadily increasing emphasis is being placed on water purification and sewage treatment, as well as technologies for the reuse and recycling of water. The development of innovative technologies to secure water supplies and environment-friendly sewage disposal represents one of the major challenges of the future.

VA TECH WABAG has been operating in this field of expertise for almost nine decades. And with its innovative technologies and a comprehensive range of services for the public and private sector is making a major contribution to reliable water and wastewater treatment on behalf of mankind and the environment.



Pure-play, water focused company

As a pure-play, water focused company we offer sustainable solutions for:

- Drinking water treatment
- Industrial water treatment
- Sea and brackish water desalination
- Municipal wastewater treatment
- Industrial wastewater treatment
- Water reuse systems
- Sludge treatment

and cater primarily for large municipal and industrial clients.

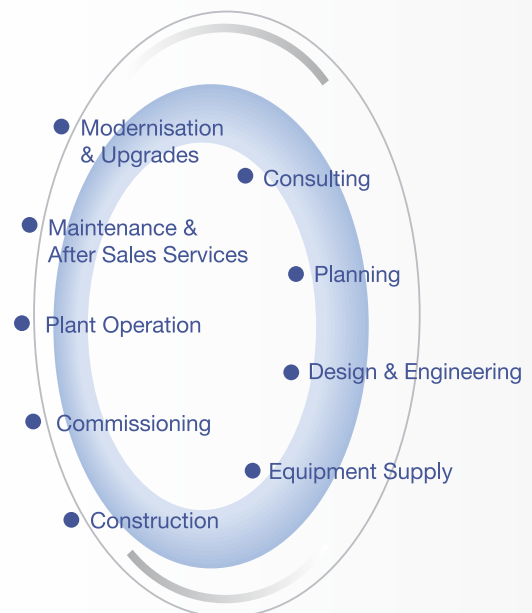
Two cycles, one provider

WABAG is a total water solutions provider for the entire plant life cycle.

Our portfolio of products and services covers the entire range from consulting, financing, design and engineering, equipment supply, construction and commissioning to long-term plant operation and after-sales services.

Services extend from system component supply to turnkey order realisation and include schemes such as EPC (Engineering-Procurement-Construction), DBO (Design-Build-Operate) and BOT/BOOT (Build-Own-Operate-Transfer), as well as plant modernisation, extension and upgrading of existing plants.

We provide support as a partner throughout the entire plant life cycle and operate on a one-stop-shop basis, supplying everything from a single source.



Directors' Report

Dear Shareholders,

Your Directors are pleased to present their Sixteenth Report together with the audited accounts of your Company for the year ended 31st March, 2011.

Financial Highlights

(Rs. in thousands)

Description	2010-11	2009-10
Gross Turnover	7,321,734	7,009,679
Profit before Interest & Depn. (EBITDA)	896,717	860,420
Profit Before Taxation	837,908	680,406
Provision for Tax	285,322	270,611
Profit After Taxation	552,586	409,795
Proposed Dividend	(123,183)	—
Transfer to General Reserve	(55,259)	—
Profit / (Loss) brought forward	1,052,902	643,107
Retained Profit carried forward to the following year	1,427,046	1,052,902

Dividend

Your Directors are pleased to recommend a dividend of Rs. 10/- per Equity Share (200%) of the face value of Rs. 5/- each for the financial year 2010-11. The dividend, if approved at the ensuing Annual General Meeting, will be paid to Shareholders whose names appear on the register of members of the Company as on 1st July, 2011. The equity dividend outgo for the financial year 2010-11, inclusive of tax on distributed profits would absorb a sum of Rs. 12.32 Crores.

Operations and Business Performance

Your Company has achieved a Gross turnover of Rs. 732.17 Crores in the year 2010-11 as against Rs. 700.97 Crores for the previous financial year registering an incremental increase of Rs. 31.20 Crores, thereby recording a growth rate of 4.5% over previous year. All the SBUs (Strategic Business Unit) except IBG (International Business Group) recorded good growth against last year in terms of turnover. MBG (Municipal Business Group) registered 14% growth, IWG (Industrial Water Group) registered 44% growth and OBG (Operations Business Group) registered 21% growth against last year. IBG's turnover growth was mainly affected due to delay in Order booking on the Dambula project which however has been received and taken to order book as of 31st March, 2011. Your company carries an order backlog of Rs. 2,465 Crores to execute in the following financial years.

Your company has achieved Earnings Before Interest, Taxes, Depreciation and Amortization (EBITDA) of Rs. 89.67 Crores for 2010-11 against Rs. 86.04 Crores for the previous financial year registering a growth of 4.2% and Profit After Tax (PAT) of Rs. 55.26 Crores as against 40.98 Crores registering a growth of 35%. The significant growth in PAT was achieved on account of lower interest costs due to better negotiations and control, higher interest income due to judicial investment strategy and lower depreciation. The board has recommended a 200% dividend which is Rs. 10/- per equity share of the face value of Rs. 5 each.

Your Company has a "Asset Light" model. During the year, the company has ventured into Built Own Operate Transfer (BOOT) space through partnerships. The Company's Management is of the view that increased focus on O&M (Operations & Maintenance) service business and support from low cost economies coupled with Multi Domestic Units formation, would show significant improvements in the results of the Company. Alliance with Sumitomo, Japan and Zawawi Group, Oman would pay rich dividends in the years to come. The company will utilize cash for strategic acquisition/inorganic growth model to make inroads into various business segments and across different geographies.

Awards & Recognitions

The Company received the prestigious GWI Global Water Award for the year 2010 recognizing our contribution made in the international water arena. The coveted award was presented by Mr. Kofi Annan, former Secretary General of the United Nations in Berlin on 18th April at the Global Water Summit 2011.