

Transcript

Conference Call of ABB Limited

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Presentation Session

Moderator: Good evening ladies and gentlemen. I am Rashmiya, moderator for this conference. Welcome to ABB Limited investor relations call to discuss the Q2 results for 2011. For the duration of the presentation, all participant lines will be in listen-only mode. I will be standing by for the question and answer session. I would like to hand over to Juliane Lenzner. Thank you and over to you, madam.

Juliane Lenzner: Good afternoon everyone. I would like to welcome you all to our Q2 ABB Limited India results update conference call. On the call we have Bazmi Husain, Country Manager and Managing Director of ABB India, Amlan Datta Majumdar, Country CFO and N. Venu, Head of Sales and Marketing for ABB in India and of course myself, Julie Lenzner, Head of Communications and Investor Relations for ABB in India. Like previous calls we are going to start with commentary on our results from Bazmi Husain, followed by financial update from our CFO Amlan and Mr. N. Venu standing by for any questions related to sales and marketing. Please hold your questions until after the call, where we will have moderated Q&A session. The call will end promptly at 4:30 pm. If you have further questions following the call, please send them to our Investor Helpdesk or directly to me by email and we will respond promptly. Now, over to Mr. Bazmi Husain.

Bazmi Husain: Thank you very much Julie and good afternoon everyone. This is Bazmi Husain; I would just like to start by informing you that in the quarter 2 of 2011, we had significant growth in our orders, 45% up over the same period, same quarter last year. Most of the orders that we have got are base orders, short-cycle orders. In this quarter we have not really relied on the large orders to show this growth. The growth also is equally distributed across all the five divisions that are operating in ABB. On the power side and the automation side, the growth, there has been growth which is consistent across all the businesses. So, that has been good. On the volume, on the revenue side, compared to the same period last year we had 17% growth and that also is even across the divisions. But, there have been also a very good growth in this from the power system side. Coming back to the orders, I also would like to emphasize that we feel comfortable with the fact that we have now increasing market shares, because I certainly hope that you would agree with me that the market certainly didn't grow by 45%. So, our growth reflects an increased market share and this is something that we had said at the beginning of the year itself that we do see potential for us to grow. We do see that the margins are under pressure, that we have been able to offset by having focused on our cost, besides this is something that the focus, we expect the focus to continue. Going forward we also see (audio break) there are a lot of projects that are available in the market, however given the recent happenings, both in India of increasing cost of money as well as high inflation, but now also the global crisis,

we do see ourselves getting into somewhat of an uncertain environment. Long term however, we do see all the trends that we see are very positive. At this point in time, I would like to ask my colleague Amlan to really take you a bit more on the financial side and then we can maybe open for more questions.

Amlan Datta Majumdar: Thank you Bazmi and good afternoon once again to all of you and thanks for taking your time to be on the call. As our Managing Director just mentioned that one important aspect that we are all observing carefully is the change in the external environment. Yes, it's mainly in the US and it's also in Europe, but at home we are also seeing this spiraling inflation and the Government trying to bring it under control, but the interest rates are pretty high. Our understanding is, there is enough supply of money possible in the system, but then the investors in the whole sectors are also watching it very carefully before they go ahead with that, with this kind of cost of funds. Very honestly speaking, yet we have not seen any dire impact on the business prospects that we have today, but we are observing the whole development very carefully. As of now, we are pretty much okay with that. And if you see the results, all the business segments that we report after a long time, all the segments have grown in their revenues. So, this is a good news, where there is low voltage products or power system to diametrically (audio break) business, all have been grown. The margin pressures are on, what we discussed with you in the last quarter results and we have been pretty open in all that, that the prices in the market are under pressure and it would not only impact ABB, it would also impact the other companies in the whole sector. So, we are working on the cost optimization measures, whether in terms of indigenization or in terms of expense management. And we are happy to see that even under tremendous price pressure in the market; we are able to improve our profit after tax marginally. So, we are happy with what is happening and we expect to see better times going forward. To touch up on the, one of the issues that we have always come forward and reported to you, in our rural electrification business, we are left with a lesser order in hands after discussion with our customers and we have not taken any major impact on our profitability during this quarter. But we are observing all the balance projects and trying to see how best we can close this project with the customers. And as it is evident in the market, since the cost of funds are going up, one challenge that we all are having and we are trying to review like any other company in this sector, the position of how our customer and our strong suppliers are and how we can help them in that. Because, this is a real challenging time for some of the companies, we are still in news, but not many others. So, I think that covers more or less the overall environment. And we have also informed you that we have made a small acquisition of a company called Baldor Electric, which is also worldwide acquired by the ABB Group, which we have informed you in the said results. And it's a small company, but it's a niche company. We will talk about it more when we take the Q&A. So, this would be the break for the timing. Julie, would you now like to go for the Q&A?

Juliane Lenzner: Okay, thank you Bazmi and Amlan. We now open the floor to questions. Rashmi, can I ask you to please repeat the instructions for the Q&A?

Question and Answer Session

Moderator: Thank you ma'am. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press * and 1 on your telephone keypad. On pressing * and 1, participants will get a chance to present their

questions on a first in line basis. Participants are request to use only handsets while asking the questions. To ask a question, please press * and 1 now.

The first question comes from, Reenu Bheth from B & K Securities.

Reenu Bheth: Hi, good evening Juliane.

Juliane Lenzner: Hello.

Reenu Bheth: Reasonable set of numbers. Just couple of questions from my side. First, I am just wanting some details on the order intake that we have announced, reasonable strong set of orders, can you share that, what are the key orders in this intake? And does this include the HVDC share of business with the parent?

Bazmi Husain: Hi, this is Bazmi and I will try to answer your question.

Reenu Bheth: Sure.

Bazmi Husain: Okay. As I stated earlier, the overall intake that we had had this year, the growth, is really on the short-cycle all size orders. There are no large orders in there. So, the HVDC order is not included in this, because when we announced that earlier on in the year, we said they are booked at only upon financial closure. Financial closure is in advance stages now. Since that is not yet over, that is not booked. There are several other public tenders, where we have been the lowest bidder, but again there is a cycle between, there is a delay between being declared L-1 and getting the orders so that it can be booked, none of that has happened in this quarter. So, the growth of 45% essentially comes from short-cycle, what we call base orders.

Reenu Bheth: Sure, so the effect will be sir, will it be right if we assume that probably in the next three to four months, the HVDC projects could see financial closure and the order booking could then come in? And so as the other orders of power grid where we are L-1, those could be booked and in taken in the next second half of the year?

Bazmi Husain: That is correct.

Reenu Bheth: Sure. Sir, my second question would be again coming in terms of the recent acquisition that you have announced. When the parent had acquired this company, there were concerns that definitely the business is niche, but valuations were definitely looking on the higher side expensive. So, if you could share some details on what exactly Baldor Electric India does, its operations, what is the size of this entity and how do you expect the performance of this business going ahead?

Bazmi Husain: Alright. Baldor Electric in India basically have two, like they have globally, they have two broadly speaking two business segments. They make motors and machines, but they make them with the American standards. This is different, because in India the market is more the European standard, which is what is used, it's an IEC market. But, there is growing amount of exports that go out of India. So, there are OEMs which actually use the American standard motors, because the market that they are serving, that's what is applicable to them. But, for us in India and

globally as well, there is another segment of Baldor's business, approximately 20 plus percent of their business is what is called mechanical equipment. So, they make the gears, like when you make conveyer belts, all the mechanical stuff that goes into the conveyer belt and that adds very nicely into our offerings of motors and drives. So, currently in India they have less than 30 crores revenue. But, we see a lot of synergy in utilizing Baldor mechanical components with our motor and drives business, because as you know, lot of the market that we serve especially in the electrical balance, supply and then material handling section, lot of power projects and cement and other material handling intensive industry, all the mechanicals are clearly needed and this increases the scope of supply that ABB can serve the market with.

Reenu Bheth: Sure. But sir, till now we would have been looking at outside OEM suppliers for similar products in the current portfolio that ABB has, so will Baldor be among, how would it be positioned among the low cost producers, with the niche market or with a substantially differentiated product in the similar category?

Bazmi Husain: We differentiate ourselves with the quality and technology of our product, that has been the ABB hallmark. We do that in the most cost effective way, but not necessarily the lowest price.

Reenu Bheth: Okay, so basically the size you have mentioned, that the size of 30 crores in India, the business presence. Then they have India business of approximately 30 crores. But, any picture on the profitability side of the business, how are they in terms of the PBT levels or the operating performance?

Amlan Datta Majumdar: Operating performance by, they are well over 20%. So, it is a profitable part, profitable business.

Reenu Bheth: Sure. Sir, any details on the asset base or the debt that they have on books?

Juliane Lenzner: You know what; this has to be the last question, because we have to leave some room for the other questions that are there.

Reenu Bheth: Yeah, absolutely. This is my last question on Baldor itself.

Bazmi Husain: I am going to ask Amlan to address the question, the asset base for Baldor.

Amlan Datta Majumdar: See, we are not yet to give all the information on this regard. But, generally here we don't have a manufactured set up of Baldor. We import motors based on specific needs of our niche customers and supply to them. So, generally that's the best with (not clear).

Reenu Bheth: Okay. Alright sir, that's it. I will get back if I have some more questions. Thank you so much.

Juliane Lenzner: Thank you.

Moderator: Next question comes from Mr. Sandeep Tulsian from JM Financial.

Sandeep Tulsian: Good afternoon sir. If you could provide the numbers of the entities which we had acquired during last quarter, how much revenue and profits have been booked from the same in second quarter of current year?

Bazmi Husain: Yes. See, the entities we have acquired on 1st of April of this year, for this quarter, their revenues are 547 million Indian rupees and their profitability is about 9%.

Sandeep Tulsian: That is PAT, am I right?

Bazmi Husain: That is PBT. Because, PAT we don't compute for. And going forward actually, this information will give forth some more time, because it is acquired during the year, but going forward we would really like not to get into this, because this is smaller portions of our business. But, that is the number, since you wanted.

Sandeep Tulsian: Sure, I understand. And secondly sir, during last year second quarter, you had done a forex loss of 22.7 crores. And this year's results footnotes, there has been no information on forex gain or loss, so should I assume that there hasn't been any forex gain or loss during the quarter?

Bazmi Husain: No, there is no gain. See, last year why we disclosed this, because if you recollect, first quarter of last year we had a huge impact of foreign exchange, it was in excess of 800 million Indian rupees, a negative impact. And we have really struggled to explain to the market, the whole situation. So since we started that, we continuously gave that information till the end of last year, (not clear). And we decided that during this year, unless the impact is extremely high, which if we don't give that information, people will not be able to appreciate the results, good or bad. So, we decided we will observe that, the impact is now much lower, so we didn't really want to come up with that number.

Sandeep Tulsian: The reason I am asking is that if I adjust for this forex loss, there is actually a decline in profit of more than 28% on a year on year basis.

Bazmi Husain: See, if you want the forex loss for this year, for this quarter, it is in excess of 100 million.

Sandeep Tulsian: Loss of 100 million.

Bazmi Husain: Yes please.

Sandeep Tulsian: Alright, that's it from my side sir, thank you.

Bazmi Husain: Thank you very much.

Moderator: Thank you sir. Next question comes from Mr. Abhishek Bhandhari from Macquarie Securities.

Inderjeet: Thank you gents. This is Inderjeet from Macquarie Capital. My first question is regarding this order inflow, you have mentioned that most of this is

from short-cycle. In the next two quarters or so, do you expect this kind of, is there enough momentum in the short-cycle ordering that can continue to support for the next two quarters or so? And any sense on when the long-cycle orders, other than HVDC which you have already bagged coming through in a meaningful manner?

Bazmi Husain: Okay, first of all our outlook is that we are not seeing our dependence to be on short-cycle orders only. There are a number, other than HVDC; there are a number of projects, some running into hundreds of crores, where we are the lowest bidder. We are in very advanced stages of closing those projects. So, our dependence on short-cycle orders is certainly not the thing that we are depending on, having said that, our focus on short-cycle orders is going to continue, because in any uncertain market situation, it is more important that we continue to focus on short-cycle orders. While we are working with the long-cycle orders, it so happens that in this quarter, no large order has closed so that we can book it, but that is a temporary phenomenon.

Inderjeet: Okay. Second question from my side is that we have seen decent revenue growth happening in most of the businesses in this quarter or actually last couple of quarters. Is the volume growth, underlining volume growth continues to outstrip the revenue growth, implying that there is significant pricing pressure continuing? That's one. And second is specific to power systems, when do you expect the margins to kind of revert to some kind of respectable levels?

Bazmi Husain: Okay. Well, as Amlan had earlier mentioned, now our orders that we are executing for rural electrification, the backlog is now down to about 47 crores. The beginning of the year it was a 100 plus. We came down to 70 in end of Q1. Now, we have about 47 crores of orders that are still under execution. So, we are slowly taking them away. That's one. Second aspect I want to highlight is that, there are even regular projects that we have, because if you look at our revenue and look at ABBs business that we have a mix of short-cycle and long-cycle orders that go into revenue. And we still are running with many long-cycle orders, which are there in our current revenue. And some of them were even taken at low price variation per commodity and you have seen that the prices, the commodity prices have gone up. So, we are under margin pressure from that perspective. So, the orders that we are taking now, it will be in the next quarter that we will begin to see improvement coming into our margins.

Inderjeet: Okay. One final question from my side. Would you characterize the current order book, taking out REC, rural electrification projects, having a potential to do any kind of double digit margins? Or do you think that the business environment has changed so dramatically that those kind of margins are out of the question, without getting into specific numbers?

Bazmi Husain: Yeah. I was just going to start off with that, thank you very much, that I can't really get into specific numbers, because we don't do that, we don't give forward looking statements from that. But, we have said that before that we see the long term, if we want to get back to a margin corridor which is 8% to 10%, so that is clearly the margin corridor that we are shooting for. We have a number of initiatives going on, which is looking at our cost side, supply side, also looking at the design side. As I mentioned in our earlier call, in the beginning of the year call that we are looking at many of the products, for example at high voltage level to start indigenizing the equipments and I am very pleased to tell you that what we have talked about at the

beginning of the year, that this month as we speak, we have been able to ship our first 765 kV breaker to a customer site, manufactured completely here. So, we were able to actually do that and we are doing the same thing with the transformers. So, I think we are proving our competitiveness. We know the margin corridor that we are shooting for. We have a number of significant challenges, the environment being one, growing competition being another, the buying pattern of the customer being another one, because you might be aware, customers like PGCIL have now allowed people who don't make equipments to actually participate in the tenders and therefore that opens up a whole lot of new competition. And any increased competition does mean that there is more price impact. So, we are doing a lot of actions, we see a lot of opportunities, we also see some challenges coming along. Now, I told you what margin corridor we are shooting for.

Inderjeet: Thanks a lot, thank you. Best of luck for the future. Thank you.

Bazmi Husain: Thank you.

Moderator: Next question comes from Mr. Bhavin Vithlani from Enam Securities.

Bhavin Vithlani: Very good evening sir. My question number one is on the other expenditure. We have seen the percentage of sales that shooting up to approximately 14½% of revenue per versus historical around 12% of revenues. Is this because of the loss on the power systems business or is there any one time item being booked into the other expenditure?

Amlan Datta Majumdar: Yeah. Thanks for the question. Actually if you see, other expenses, yes it has, if you have spelled 12%, I think that would be long back, not very recently I would say. That's not the same period last quarter or something. There are two elements in this other expenses. One is the foreign exchange variation, which is sitting there and also the other part of the real expenses. The other expenses that we see today, you are seeing an absolute value increase, if you see the acquired companies other expenses have got added in this quarter, so that has given an increase to that. And otherwise the other expenses as a percentage and I think the other expenses percentage is about 14% today and without foreign exchange variation. And it was 14.6% last year second quarter. So, if you take out the foreign exchange variation, which is impacting, it is actually as a percentage lower. It's not that expenses are not increasing; I can also assure you that we are taking all possible measures to see that our expenses don't shoot up. But, you have to also see that, if you see the order book this quarter and what you conclude from what our Managing Director had just told, how we are positioned in the market, we expect our businesses to grow. And when they grow, we are taking some initial steps, which might involve a bit of other expenses, but it is under complete control today.

Bhavin Vithlani: So, does it include any provisioning for doubtful debt or contractual obligation which is higher versus prior quarters? And when I said 12%, I was referring to earlier two quarters on a sequential basis.

Amlan Datta Majumdar: Okay, I see, okay. Yeah, that would be slightly different anyway, than we started off and it could be also case to case basis. Now, it does not

contain any major provisioning and acquired company, only the expenses are getting added. No major provisioning in that.

Bhavin Vithlani: Okay. My other question is on the industry front. One is with respect to the automation size of the business, where we have seen a significant traction in the short cyclical businesses. But, simultaneously the margin profile in the current quarter also has cooled off, if one looks at prior two quarters. So, is it that the competition in the market has increased that we are seeing margin pressure? And in the subsequent quarters, if we see commodity cooling off, should we expect an increase in the margin profile or the margin profile will remain the same, where we have to pass it on to the customer? And the second question is on the power T&D side of the business. What is your outlook towards the T&D CAPEX, one is with respect to PGCIL orders and second is with respect to the State transmission company orders? We keep hearing that it is, since it is the last year of the Five Year Plan, the ordering activity would be significantly higher versus last year. But, I would like to hear what are you seeing at the ground level in terms of ordering activity, increase in the pie as well as competitive front.

Bazmi Husain: Okay. Well, that was quite a few questions. So, let me try to break them down. And what I am going to do is, I am going to try and address the automation part of your question first and then I would ask my colleague Venu to address on the CAPEX, on the power side. So, that you don't hear the same voice for too long. So, starting with the automation and in automation really if you look at it, we can put our business into three buckets. One is, what we call the discreet automation and motion part of it, the second bucket being the voltage part of it and the third bucket being the projects part of the industry business. And here we see actually a very good growth coming from both the discreet automation and motion as well as the low voltage product part of it. When it comes to the project execution which is there, there we have the same issue like we have in any large, any project type businesses in India are at now that is, huge amount of margin pressure, a lot of with the rising commodity prices. A lot of times this is a normal phenomenon that we are taking projects and they are normally fixed price contracts. So, there have been margin pressure from that as you correctly observed, but we see that as a cycle and we feel confident about the outlook part of it, from that perspective. Now, I will ask Venu, if he can maybe tell you a little bit about how we see the power side.

Bhavin Vithlani: Yeah, I have a follow up question on the automation part of it, before we go to power. The increase in the orders is it that where we are seeing a number of projects getting in the completion phase and hence the products are just motors and etc., which are made cyclical and hence we are seeing an increase in volumes of that and as we move forward and the slowdown impact is felt with a lag?

Bazmi Husain: First of all short-cycle businesses are characterized by, faster to respond in either direction. The first ones to get affected will be the first one to bounce back. But, having said that we also see that their resilience to market cycle is much better, so when we are looking at motors and drives, just the sum of, one thing which I think is good about having both project and product business is that we sell a lot of our products through projects, but we also sell them directly. So, there is a large and growing market for the drives and motors business, regardless of the large projects. And here I want to bring out, there is something that you might be aware of which was kicked off by the Government of India starting April this year, which was this whole concept of PAT, the Perform, Achieve and Trade, the increasing focus on the energy

efficiency that is going on. So, we do see that the drive and motor business is going to grow, also driven by the regulation that the Government of India has now brought in, about getting industry to reduce their energy consumption. And motors and drive, motors as you know account for on the average close to 70% of the electricity consumption in any particular plant and drive improves the efficiency of a motor. So, this is in short to answer your question, the growth is, the product volume is not because of increased pull through, there is increased pull through with us, but there is a large amount of growth that is coming straight at product business.

Bhavin Vithlani: Okay fine, thank you. And on the power side?

N. Venu: Yeah. Let me try to answer your question and T&D and also for clarity, I would like to also answer on the generation side also, so that you have a total view of the power side. On the T&D side, we see lot of activity especially on the transmission, EHV transmission and the transmission corridors, where many of the States including the Central Utilities are going in for public/private participation of the large transmission corridors in that. So, we see lot of activity, lots of projects are in a very advanced stage of tendering in this particular sector. On the generation side, as rightly said, this is the last year of the Fifth Year Plan and we are expecting lot of orders for the next plan to get finalized in this, because normally that is the tradition of that, because next year onwards 100,000 megawatt, couple of orders should have finalized now, but there we see a lack of progress on that, primarily due to the coal linkages issue and also land issues. So, we expect that that would take little more, maybe another three to six months time, before that either we see intense activity on the generation side.

Bhavin Vithlani: Okay. If you can help me on competitive side of the business as well, with respect to change in the recent PQ norms by PGCIL?

N. Venu: Yeah, recent change in PQ norms, as Bazmi was explaining also during his inaugural remarks that PGCIL is more and more, they are encouraging more number of players without even having the equipment to come and participate in that, not because of anything, primarily they also wanted to spread their basket, so that more number of players will come and do the thing, not only confining to three-four players in that. But, we as I said, we see this as also a potential for our product business. Wherever we don't participate directly, we sell; we offer our products to those successful EPC contractor or successful contractors. So, we sell our channels to the products in the two ways, one is our own projects, what we do directly with the PGCIL and may be they are not successful or they don't participate in that, we sell lot of our products, be it a substation automation or power products into those things. So, we definitely see that has a positive side from our perspective.

Bhavin Vithlani: Okay, thank you so much and wish you all the best.

Moderator: Thank you sir.

Juliane Lenzner: Thank you.

Moderator: Next question comes from Mr. Sumit Kishore from JP Morgan.

Sumit Kishore: Good evening and thanks for taking my question. I have two questions. You mentioned that amid environmental pressures, growing competition, the changing buying pattern of the customer, you are seeing a lot of margin pressure. But, this company also appears to have increased inflows by about 44% during this quarter. So, should we read that ABB is being slightly more aggressive in bagging orders and these are essentially low margin orders?

Amlan Datta Majumdar: If I get your question right, you are trying to say that the quality of these orders is that what you are asking?

Sumit Kishore: Yes.

Amlan Datta Majumdar: See, no company would like to do orders with very low margin, I mean that's obviously we are no exceptions. So, I think it is following the market trend and I think we are...

Bazmi Husain: Let me add on to this Amlan a little bit. We did talk about commodity prices going up, we talked about prices going down, competition meeting up, but in no way shape or form we are trying to imply this to be a negative thing. We see this as a very, very positive thing, because at ABB our ability to, (a) withstand it and, (b) innovate quickly like we have talked about, how quickly we could indigenize things that has taken much of our competition, much longer periods of time to do, is good a testimony that we have the capability to respond as well as be the long term winner. We have a long term view of debt and any other market that we operated, so we basically see the longer term picture and ride over the shorter term issues and therefore we try to fix problems in a more basic problem, indigenizing the manufacturing, but also going a step further and optimizing and localizing the design part of it. So that the longer term competitiveness is improved over that. So, it is not clearly a negative picture from our perspective at all.

Sumit Kishore: Sure. That is very clear. The second question is on the working capital, specifically your balance sheet mentions that the inventory has increased from 6.97 billion rupees at the end of the calendar year to 9.97 billion rupees. Is there inventory pressure that you are facing of some sort?

Amlan Datta Majumdar: It's not an inventory pressure, actually inventory we have built up over time to cater to our revenue generation for the next few quarters. And you know some of our products are long type of products, they take time to get manufactured and some of our solutions, they take time to get in place. So, we have built up this inventory, we are fully conscious about it. We know about it. Something would have been for 765 kV that we are building and specific other reasons which I don't want to get into. But, you can rest assure, this is completely within control. And as the revenues take place in the subsequent quarters, you will see the inventories coming down.

Sumit Kishore: Thank you and wish you all the best.

Amlan Datta Majumdar: Thank you very much.

Moderator: Thank you sir. Next question comes from Mr. Pankaj Sharma from UBS Securities.

Pankaj Sharma: Right sir, good afternoon. Sir, as you highlighted that the orders on rural application and other lower quality orders have declined significantly, but we have not seen a corresponding increase in profitability for the business in second quarter versus first quarter, so is there any specific reason for that or do you think that the long term structural issues are so strong that any particular improvement is very, very unlikely in the short term.

Bazmi Husain: A number of factors in there, first of all as you correctly highlight from a profitability perspective, the growth in the revenue is not reflected in there, okay, not to the same extent. One reason for that is as I mentioned earlier, we have delay, by the time we get an order and execute it, we are more or less, we have half and half mix of large project orders and base order execution, so still a large number of projects that we are executing today are coming from, we are a multiple year project, so they are coming from old times and they are still on a lower margin basis, with the commodity prices gone up, their margins have been under increasing pressure. To quite some extent we have been able to offset it by addressing our cost base, both internal costs as well as from supply chain perspective, but yes, we are still seeing the impact of low margin that order backlogs that we had on the large project. This we see and this will be easing up in the quarters that are going to come. One of the trends that we are seeing is, clearly, things like easing up of commodity prices and things like that, which is expected and these are all things that should help us certainly in our margins as such.

Pankaj Sharma: Okay sir, thank you very much.

Moderator: Thank you sir. Next question comes from Mr. Misal Singh from Religare.

Misal Singh: Good evening sir. I just wanted this clarification on Baldor, you said 30 crores revenue is for the mechanical equipment business of that, of Baldor right?

Bazmi Husain: No, 30 crores is the total revenue, mechanical is a component of that.

Misal Singh: And that is about 20% of 30 crores.

Bazmi Husain: Globally about 20% of the business is mechanical, so you can apply a similar number, yes.

Misal Singh: Okay, thanks.

Bazmi Husain: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Atul Tiwari from City Group.

Atul Tiwari: Yes sir. Sir, you mentioned that you aim to reach 8 to 10% EBITDA margin, is there any timeline in terms of the number of quarters it will take to reach there?

Bazmi Husain: I am sorry, but I am not going to try and address that question, I apologize for that, but clearly it all depends on multiple factors, so anything I say would be highly speculative in nature. With the uncertain market conditions such as they are, it would not be correct if I would make a projection on that.

Atul Tiwari: Okay sir, and this HVDC order that has gone to the parent company, what is the total size of the order and how much of that could come to ABB India?

Bazmi Husain: The total size of the order to ABB is about 900 million US dollars and the amount that is coming to ABB India directly is about a 130 million dollars. In addition to that, there will also be, I think, this is very relevant because there are some things, which are relevant beyond the numbers, most of the engineering of this HVDC System, which will be the biggest ever HVDC System ever, anywhere in the world would be done in India. So outside of Sweden this would be the only place where we will have the engineering capability for HVDC Systems, not just for India, but also globally.

Atul Tiwari: Okay. And sir, from your CY10 balance sheet numbers, your receivables as the days of sales are highest in past 8 to 10 years and similarly the receivables pending for more than six months are also quite high, so is it due to one off factor or you are seeing some kind of delay in payments from your customers?

Bazmi Husain: It is not a one off factor and neither is it a delay in payment from customers, it is also due about the major contracts, which we have undertaken in the last few years. Some of the contracts are having very high retentions going up to 40% or beyond, and the reason why we did it, these are some unique things that we are in a position to do, not many companies will be able to do that and we wanted to participate in these India growth stories, so we took that and did our last customers, so we don't see any threat on those receivables, but yes, we do have a problem of higher net working capital here, but we are handling it and in the times to come it should be getting more eased out. I mean, really to remain because we are in large projects business.

Atul Tiwari: Okay sir. And my last question is on Baldor acquisition. You said that the revenue is 30 crores and EBITDA margin is possibly in the range of 20%, right?

Bazmi Husain: That's right.

Atul Tiwari: And sir you have said, I think, more than 300 crores for the company, is that the right understanding?

Bazmi Husain: No. We have paid 3575 lakhs, so it is 357 million or 35.7 crores.

Atul Tiwari: Okay 35.7 crores. Okay sir, thanks a lot.

Bazmi Husain: Thank you very much.

Moderator: Thank you sir. Next question comes from Ms. Fatema Pacha from ICICI Prudential.

Fatema Pacha: Hello sir. I just had a query regarding the order inflow. You said it is all short cycle orders, would it be on the dry side or the power side?

Bazmi Husain: They are equal as I mentioned right in the beginning. This is the one quarter where (not sure) is not unevenly distributed, but evenly distributed across all sectors. So, both in power products, power systems and all the automation businesses we have had growth and they are all base orders.

Fatema Pacha: Sir, on the automation side, on the dry side actually there is not much competition it is only you and Siemens, so is there any, you know if I just look at the margins it is not the 12% that you used to once make, is there any competition that is creeping in, because with the two of you only being there ideally the margin should be much higher?

Bazmi Husain: Well, first of all let me tell you how I wish you were right. If there were just two players it would be great, unfortunately that is not the situation. This is a market where on a global basis we are clearly number one, okay. We are the largest player, substantially larger than our nearest competitor, okay and in India too we are the leaders. Having said that, there is competition from Japan, there is competition from other parts of the world which is actually quite strong, so this is not a segment with only two players. If you go for the very, very large (not sure) then you are right, then they are just maybe one or two players, okay in that, but the volume in that very large segment is very small because you just get a few now and then. So, the volume business in the competition is a slight intense.

Fatema Pacha: And sir, could you split this 1800 crores order inflow between private and government orders, as in government and maybe PGCIL kind of orders, the split?

Bazmi Husain: Okay, going back some years I would say our business has been less dependent on government customers today than it was five years ago, alright, and this is one of the unique things that I think is happening in India where there is a growing amount of private participation in the infrastructure segment, okay. For example, look at the power plants come up, but even the PSG sector you might be aware that Uttar Pradesh has gone to the BOOT model for transmission line and other states are also contemplating something similar. HVDC will globally be something that State owned utilities normally buy, in India that is something that private customers are buying, so there is a growing amount of private participation in the infrastructure business and our customer mix is reflecting that change.

Fatema Pacha: So, is it fair enough wherein private orders is a much bigger part of your order book now, would it be fair to assume that the margins in these would be much higher than what you are currently making because this is much more negotiated and not the L1, L2 which is customary there for all PSUs?

Bazmi Husain: Again I wish that was true, okay. I think it is like this that even private parties, they are also, yes we get a better chance, but the thing is that it is still a very competitive environment and I would say that it is not so much the initial price, but things like payment terms and all can be better when you are dealing more with private customers.

Fatema Pacha: Okay sir, so thanks a lot.

Moderator: Last question comes from Mr. Pulkit Patni from Goldman Sachs.

Pulkit Patni: Sir, thanks for taking my question. I have two questions, the first one is as you mentioned that after the change in PGCIL norms you might not be a primary beneficiary given some of the non-equipment makers also get the order, have you seen on the secondary order basis are there enquiries or any orders that you got on that front?

N. Venu: Yeah, we see a lot of activity on that, we see a lot of enquiries from the various contractors who are bidding for PGCIL, so our enquiry bank or our pipeline what we call has really gone up on that front for our products.

Pulkit Patni: Okay and would you also be able to highlight like what percentage of that enquiry would be coming to the industry biggies like you and what percentage would be going to the other South-East Asian manufacturers?

N. Venu: Now, if you are talking about the competition from Korean and Chinese, are you talking about that?

Pulkit Patni: Yeah, absolutely.

N. Venu: No, there are two things on that, one is that the transformer PGCIL buys directly, so there we see an intense competition from Korean and Chinese. So, if you see the last year majority of them have gone to them. Later on what we are doing, most of us are manufacturers in India they have also indigenized and as we have explained that, we have also done the localization, indigenized the various components including the transformer as well as the breakers, so we are now in a position to offer the indigenized equipment to the PGCIL and other customers.

Pulkit Patni: Sure, thanks for that. One more question, out of the 1200 odd crores of material cost, can you just split what percentage would be imported material?

Amlan Datta Majumdar: See we are ideally having about 35 to 40% imported material in that.

Pulkit Patni: Okay sir, and that's all from me, thanks.

Amlan Datta Majumdar: Thank you very much.

Juliane Lenzner: Thanks everyone, I would like to thank you all for participating in this quarter's conference call. Once again if you have any questions that may have not been answered during the call you can either send them directly to me or to the front desk or help desk and we will answer them shortly. I would like to wish you all personally and thank you once again for your time and participation.

Amlan Datta Majumdar: Thank you.

Bazmi Husain: Thank you.

Juliane Lenzner: Thank you.

Moderator: Ladies and gentlemen, thank you for choosing DSNL conferencing service. This concludes the conference call. Thank you for your participation. For more updates on ABB in India you can follow ABB on twitter@abbindia. You may now disconnect your lines. Thank you and have a pleasant evening.

Note:

- 1. This document has been edited to improve readability.*
- 2. Blanks in this transcript represent inaudible or incomprehensible words.*