



“ABB India Limited Results Conference Call”

August 9, 2013



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MODERATOR: **MR. TK SRIDHAR – HEAD, INVESTOR RELATIONS & COUNTRY CONTROLLER**



*ABB India Limited
August 9, 2013*

- Moderator** Ladies and gentlemen, good afternoon. I am Melissa the moderator for this conference. Welcome to ABB India Limited's Investor Relations Call to discuss the Q2 results for 2013. For the duration of the presentation all participants will be in the listen-only mode. I will stand by for the question and answer session. I would now like to hand the call over to Mr. T K Sridhar. Thank you and over to you sir.
- T K Sridhar** Good evening to all. Welcome to the Q2 results conference of ABB India. I am T K Sridhar – Head of Investor Relations and also the Country Controller for ABB India. Present on the call with me are Bazmi Husain – the Country Manager and Managing Director of ABB; Amlan Datta Majumdar – the Country's Chief Financial Office; Mr. R Narayanan – Head of Discrete Automation and Motion; Priteesh Mahajan – Head of Process Automation, Pitamber Shrivani – Head of Power Product Division and Mr. Subir Pal – the Head of Corporate Strategy and Business Development. Also along with me in the conference are my colleagues Mr. Sanaj Natarajan and Ms. Ranjana Sabu. So now I really would like to hand over to Mr. Bazmi and Amlan for the presentation.
- Bazmi Husain** Thanks very much Sridhar. Q2 for this year has been a very challenging market environment. We have seen now that, both (in) the long cycle as well as the short cycle, opportunities in the market are beginning to slowdown. Despite that, because of our strong backlog and focus that we have had on project execution and operational excellence over the last several quarters, we can see that in the power products we are really now coming back on track - and Pitamber can talk more about that later. But the 'in country, for country' effort that we started - which is really looking at making products which are more suitable for the Indian market also looking at our supply chain part from a competitiveness perspective, looking at our factories and upgrading them and increasing **their** efficiencies and productivity - I think has really shown excellent results. So while the revenues in power products have remained on a flattish level, I would say that the profitability has improved - before interest and taxes we are close to 9% profitability there. On an overall basis I think power systems has improved the profitability. Like we have mentioned several times before, given the tight market situation we have a clear policy of cash over revenue, so the revenue is depressed, a little bit, compared to same quarter last year but that is more because of our policy that unless we see customer's willingness to pay, we do hold back on the shipment. So I think that in process automation in the same quarter last year, we had made adjustments - so it was a loss and has begun to come back up. And we see the problem that we have had but I think we have now recovered out of there. So I think if you look at from a downturn perspective this has been an excellent time for us to actually improve our competitiveness, get our processes in shape, get all the issues that we have not been able to address, our supply chain part or opex part. And therefore improve the project management capability and you can see that in power systems and process automation that is clearly showing results. Power products, our various initiatives have also begun to show. Discrete automation which has been our top performer in the last several quarters, several years in fact, has been impacted by the market - as I mentioned earlier in the short cycle market have been impacted - and that has affected both the market price decline as well



*ABB India Limited
August 9, 2013*

as the volumes that were there available in the market, have impacted the results there. On the low voltage side I think while the revenues are relatively flat - it is minorly up. I think again we have seen markets price issues but also our new capacity that has come on board. For example, I mentioned earlier in the previous call that we have increased the capacity that we have for our miniature circuit breakers. In 2010 we were running at about 4 million poles, now we have a capacity to actually deliver 34 million poles. We do see that as an investment, that is perfect for the future. However in the short term with the market that has impacted our results, but we see that recovering in the next quarter - so this is I think more of a short term impact. Overall if we look at our results, quarter on quarter, orders are down 15% revenues are down 7%. And profit before income and taxes we are up compared to same quarter last year; and you know three quarters ago we had introduced that we will be tracking operational EBITDA and you can see that compared to same quarter last year our operational EBITDA went from 4.7% to 6.5%. The profit before tax is lower, is 20% down compared to last year. The main impact of that is really the interest charges. Amlan will talk more about that. If you take that interest charges difference away, then actually we have performed slightly better even in a tight environment where our short cycle businesses have been impacted. So I would say we are holding in a market that is difficult but the good part however I would say is that there have been a number of steps that the government has announced. For example the oil & gas sector, all this thing about the deregulation is spurring more investment in that area. I think that is something which we see is going to concede. The pipeline that we have for potential order is beginning to improve in that area. On the power project side 13 projects, which were held up, have been cleared. So I think that is something which has started to move but it will still take some time before we see that really coming into the execution phase. But the good news is that some things have started to move. Not enough, it is also on an overall basis, still remains depressed but it is not gloom and doom. I think we have some opportunities. Solar we continue to do well - I have highlighted that as the focus area for us - and in railways. So these are new areas which are giving us some benefit. Amlan is going to talk on the expenses side but I just want to mention that almost across all heads our expense side has improved. Our material cost is now sub 70%, which is certainly a very good thing. We have kept hold of our personnel expenses as well. So looking forward I would say that I think we are really well placed now and the market will revive, although the timing of the revival of course remains uncertain at the moment. But we are able to get our projects back in control - project execution clearly is showing good results. We have a low voltage product that I think will be improving in the coming quarters. We have certainly a lot of challenges coming up because the markets are depressed. I think the biggest issue that we have is that the tight liquidity in the market (which) is making many of our customers very reluctant to part with money. Exports is another area that we had focused on that has grown year on year quite substantially - good double digit growth in exports. Services have remained stable with really good profitability which is really helping us. So with that just want to sign off before I hand over to Amlan out here that our project businesses are coming back on track - that is, I think, really good with long term. There will be a lot of benefit coming from this as the market revives. PP which is a core product that we have in the power industry has really benefited from the efforts that we



*ABB India Limited
August 9, 2013*

had made for the last two years and the results are showing. Short cycle orders this time were depressed, do not want to make any predictions as to how it is going to be in coming quarters. It will remain challenging, how challenging we cannot really say. I think in low voltage products we really would begin to see returns on the investments that we have made in increasing the capacities of many of our factories. So with that I will now hand over to Amlan who would talk a little bit about the financial and then we can decide on the Q&A part. Thank you.

Amlan Datta Majumdar

Thank you very much Bazmi. Good evening to you ladies and gentlemen and this is a time when we see that the macroeconomics are playing a very key role in the performance of various companies. And we are no exceptions. I mean Bazmi briefly mentioned about it but anything that is happening in the overall economic scenario in the country is anybody's guess almost. A lot of good efforts but very minimum results that we are able to see. We are normally talking about GDP growth coming down, people are reassessing, reevaluating but if you look at the growth in the industry, the IIP or the movement in the capital goods sector, it is not at all encouraging. I mean it is zero, it is negative, just somehow raising its head. So that is the scenario we are in and the declining rupee is a problem for many of the global companies including us - we are a net importer. So that has an impact - that is adding a new dimension to the whole matter. We have been seeing the general industry trend in which we operate - the trend in that industry and you would have also seen, most of you are involved. There are very few good **news**. So overall there is a big challenge in the market. We are also hearing good news like yesterday Rajyasabha passed a company's bill finally but it will take a few months to see and this has a long term impact on the Indian economy and corporate governance - but okay, these are long term. We also have to see the short and medium term, which is again I have to say are not really encouraging and the most concerning factor today is how to boost the investors' confidence in the whole process. So it is a challenge for the whole country and challenge for a company like us and all of us as individuals. Looking at the results, our results actually very much reflect the economic conditions that we all have been talking about. Our orders did drop by 15%, which is a reflection of the market scenario as Bazmi rightly mentioned. But I will also remind you that end of last year that is we have this calendar year, so end of last calendar year we had already mentioned to you that we would be more careful in dealing with large orders, turnkey orders where terms and conditions are not favorable to - not favorable may not be the right word. I would say not fair to the people who contribute in that kind of projects. Price levels must be acceptable and we have to finally protect the interest of our all stakeholders. So we have to be very careful in deciding in what we are getting into. So the 15% drop in orders also reflects a little bit of that. We are careful in doing what we decide to do. On the revenue side, you would have seen in the SEBI statement that three of the divisions are very much flattish. Power products, process automation and low voltage products. We did have a little bit of a decline more than 10% in power systems and discrete automation and motion division. Discrete automation and motion division is very much reflected of the market conditions based on what is moving in the market, it immediately impacts this kind of product businesses. Whereas in power systems it is more of our



*ABB India Limited
August 9, 2013*

assessment of the credit risk that prevails in the market and also the timing of the project at what point of time the customers really want that. So overall there is a 7% drop for the quarter in revenues and while we are not happy about it I must say that we are not very concerned about it either because we have to first take care of the stakeholders' interest in the company. On the profitability, Bazmi already mentioned this, but if you look at our profitability its profit before tax and after tax fell just more than 20% as compared to the same period last year, same quarter last year to be precise. But the difference as you see when you look at the statement that the differentiator is the interest cost. As you know both the things are happening which are not really helping the businesses. One, the cost of capital is going up in the market. I mean in spite of so many discussions that we had in the last couple of years, RBI really decided not to go for any decrease in the interest rates; and now with the new RBI policies it becomes even more challenging. Rates are going to go up further; they are already going up. You would have seen some of the banks have already announced higher lending rates. This also puts the pressure on the customers because with many of the long term projects being in all kinds of difficulties due to land acquisition, due to fuel linkages, due to financial closure issues, so nobody wants to really borrow money from the market at 12-13% rate to pay anybody's suppliers. They would expect the suppliers to cooperate and business this is a chicken and egg story. To what extent you should support and at what point of time you should really take a hard look at it. So the interest cost has increased. Without the interest cost actually we are slightly better than last year's second quarter. So our focus very much is on managing the cash today. The other side is that / the good news is that our material cost has come down to below 70%, which used to be in the range of 75-76% two years back. It was in the range of about 71-72% a year back and now we could bring it down to sub-70%, what Bazmi mentioned. But I would also like to request you to remember that for the last two years we have been insisting that we have been taking multipronged initiatives in supply chain management. We have built a completely new team, we have been working across the businesses, we have been taking help of our global expertise in the matter, reaching out to the global suppliers and all these have started paying off finally for the last few quarters and this quarter it is really showing good. Remembering the fact the price realization in the market, across the sectors, is declining. In spite of that the material cost it is coming down as a percentage which makes us more confident for the future. If you look at the personal expenses, the people expenses, employee expenses, we will see a reduction there as well. This is because of basically optimization of the resources in the company. We have no big plans of increasing or reducing our workforce but generally we have been trying to optimize, based on each businesses need how much of resources. I think we told you since last 2 years, and we are very happy to see most of these things coming up one by one, that we are heavily focusing on talent management. When we say talent management it is both in terms of quality and quantity. So these are also starting to payoff. And overall if you add both of these and if you look at the businesses, the better results what you see in our systems business like process automation and power systems is actually a result of this cost optimization and a very strong execution. I have to tell you that I mean though we are in difficult times the execution that we see on a ground, that we are able to deliver to the customer, is better than ever we have seen before. So that is good news. This



*ABB India Limited
August 9, 2013*

only makes us more confident and makes us more ready for the future when a market eventually revives. The other expenses had some marginal increases but that is due to a little bit of other items.

Coming to the overall situation, if you look at, we have been working on localization, indigenization of our products. Mainly we started with power products, which has been our bread and butter for our business for a long time, which also helps out the other parts of the business segments. In power product you can see our last few years' efforts are really paying off, they have improved not only this quarter - if you track the quarter after quarter for the last 2-3 quarters they have been steadily improving. The two project divisions have stabilized as I say, cost optimization and stronger execution. We are still making mistakes like anybody would do. There will never be a time when we do not make mistakes but the mistakes are very far and few and very miniscule in terms of impact. Yes, we do have a market impact, severe market impact in one of the best business discrete automation and motion and we are doing everything else to fix that problem as much as we can but we have to also remember that markets do have a big say in the results of the organization. The exports are new sectors, Bazmi has already mentioned, which we are looking at. Before we get into the Q&A portion, it is important just to say that in spite of a bad market we are not giving up hopes. We believe the Indian market will revive soon. It is anybody's guess whether it is 6 months or one year - but it is going to revive. And we can assure that we are fully prepared, which has started reflecting in the results, and we are fully prepared to handle that. Hope the government policies which have been brought in and which should be brought in the next one year, really starts showing some results. Thank you very much and I think it is time for the questions.

- Moderator** Thank you. Ladies and gentlemen we will now begin with the question and answer session for the investors. We have the first question from the line of Girish Nair from BNP Paribas, please go ahead.
- Girish Nair** First of all from an order's perspective - I just wanted to understand did any segment do well on a YoY basis or all of them were down? Just wanted to understand which segments were pockets of strength, and which segments were particularly weak? And the second question would be did customer defer taking delivery of any orders this quarter?
- Bazmi Husain** For orders what I mentioned was that both the long cycle and the short cycle orders have been impacted this time. I think discrete automation and I think because of some of good orders that we got right towards the end I think it was really more on a flat basis. The others are now I would say more or less really responding to the market.
- Girish Nair** And about the customers deferring any delivery?
- Bazmi Husain** Clearly I think it is a combination of both customers deferring decisions to pick as well as us taking decision on saying it is not a good time to ship deliveries..



*ABB India Limited
August 9, 2013*

- Girish Nair** And how many employees do we have as of 30th June?
- Bazmi Husain** We have 6,500 employees at the end of June 2013.
- Girish Nair** And finally what would be the gross block that you have, gross fixed assets?
- Bazmi Husain** You will have to give me a minute while I get that. I will answer that later.
- Moderator** The next question is from the line of Renu Baid from Batlivala & Karani Securities, please go ahead.
- Renu Baid** Sir it is good to see that your overall operating performance has improved in this quarter but what we would also like to understand is rupee depreciation since the quarter ending – after quarter ending June has significantly weakened. So what do you think will the improvement in gross margins be sustainable going forward for the next coming quarter. As well as, what extent of our order book provides us to pass on the higher input cost to customers on account of the rupee depreciation that we are seeing?
- Amlan Datta Majumdar** Whether it is sustainable - your guess is as good as mine. Yes, we are doing everything to make it sustainable. We do not expect the market to suddenly improve, the price realization to go up and it might even go down. I mean we do not know. The trend has been going down, so we do not rule that out. What will happen in the market is not in our hands. What is in our hand is that we manage our costs well, we optimize and we become more efficient, which we are doing.
- Bazmi Husain** When it comes to what the orders that we are getting and future rupee depreciation, we have a policy that we hedge right at the time of any exposure whether it is a supplier side or buyer side. So once we get the order, we know what the content is, which we do then we actually hedge that. So we do not see hat as impacting on any of these project business. It would certainly have an impact in the sense that what you are booking for is different but what you deliver is neutralized.
- Renu Baid** Okay, and sir aligned with that was there any FOREX loss or gain in the current quarter?
- Amlan Datta Majumdar** We had a gain of 4 crores in the current quarter as compared to a gain of 9 crores in the quarter of 2012. I just want to highlight here that we have been talking about exports and one of the focus on exports that we have had is precisely to have a natural hedge in the currency fluctuation. So really we have, let us say, almost kind of 25% plus increase in the first half of this year in our exports over the last year. That does help.
- Renu Baid** So is the export also one of the biggest factors for improvement in power product margins and performance?



*ABB India Limited
August 9, 2013*

- Bazmi Husain** Yes, it certainly has had that impact on the power product. It has an impact on almost all our businesses, not just product businesses, but also some project businesses.
- Renu Baid** Okay. And if you can just also mention what was the share of exports in the second quarter or in the first half sales numbers?
- Amlan Datta Majumdar** Actually in the first half on order side we were at 27% in export in PP.
- Renu Baid** And on the turnover side?
- Amlan Datta Majumdar** On turnover side we were at around 22%.
- Renu Baid** Sure. And sir my last question on the balance sheet side we understand customer working capital and finances are also stressed, as a result we have seen a substantial increase in the short term borrowing. So any expectations or timelines in terms of how do we expect the year end balance sheets to be managed up. The debt to be reduced back in place or probably we think they will remain sustainable for sometime at least for a year or two years till macros improve.
- Bazmi Husain** See I must first of all say that if you compare ABB 50 years back you do see a borrowing coming on the balance sheet. But a business of this type and having the borrowing levels that we currently have is not yet clearing, while we are unhappy about it. That is the first statement I would like to say. As I just mentioned in my earlier answer that the cost of capital being higher and projects stuck at various points, customers do have a problem in payments. So this problem will not evaporate on its own, not from the other side. What we are doing - we are doing everything that we can to make sure that we have fulfilled our commitment to customers. So when that happens most of the customers, say the government customers, they have a better position to pay us off which we have hope will improve our position. We are also trying to see through our supply chain, how much of our burden can be shared by our supplier. So they are also coming forward to help us, so of course it is not easy for them as well. I mean it is like that. So on an overall basis I expect this situation to improve but then we have to wait and see because if the rate further goes up the liquidity is already tight in the market right now. We have been talking to the bankers and I am sure you have been doing that as well. So yes, there will be a challenge, we are doing everything that we can do to mitigate the risk. We expect a little bit of improvement but I do not think the whole scenario will improve dramatically in the next six months.
- Renu Baid** But there is not any particular pending payments with the customer which is stuck up or which has impacted significant removing debt?
- Bazmi Husain** Earlier this was mentioned, yes we have had to borrow cash but we have analyzed all our receivables very-very closely. We do not have any of our receivables that could potentially be doubtful. So may be it is a matter of timing, not a matter of whether it will happen or not.



*ABB India Limited
August 9, 2013*

- Renu Baid** Sure that is definitely good for the balance sheet and for the company as well. That is it from me at this point of time.
- Amlan Datta Majumdar** Before we go to the next question, the earlier gentleman had asked how much is the gross block, the gross block is 1,700 crores.
- Moderator** The next question is from the line of Bhavin Vithlani from Axis Capital. Please go ahead.
- Bhavin Vithlani** My first question is you highlighted in the conference call about indigenization and localization, could you throw more light on giving names of some products where you have increased localization and it has helped you to improve the operating performance.
- Pitambar Shivnani** Basically we have done localization in HV side, MV side as well as transformers. Like in case of transformers earlier we used to buy the coils from Korea and other countries. But now we have started our local production of the coils for dry type transformers. On medium voltage side we have done basically low end switch gear, **we have** designed completely from our end to meet the local needs of the market, as well as the outdoor RMU. On HV side also we have done localization of hybrid switch gears that is PASS and we are going to start on a GIS side.
- Bazmi Husain** I want to ask Narayanan who heads discrete automation and motion because this whole localization is not different from our side but also on the automation side, so Narayanan would you like to say something?
- R Narayanan** We have done localization on converters which we supplied to the Indian Railways, that is traction convertors, some level of increased localization in the renewable sector that is both the wind generators and solar invertors, and the large HD motors also we have done localization.
- Bhavin Vithlani** A follow-up question on this. On the gas engine related sub-station over the 765 KV and 400 KV GIS be localized. Also on the HVDC if you can highlight the level of localization.
- Pitamber Shivnani** In 400 KV GIS we are going to start locally here. Actually 765 KV is still a product gap. It will take little bit of a more time actually on GIS side. HVDC we have done on PASS, we have done back to back transformer for HVDC Vizag locally, now we are going to line transformers for HVDC for we have a project NE-Agra for that we are going to make transformers in India 400 KV as well as 800 HV HVDC.
- Bhavin Vithlani** So even the converters are made in India?
- Bazmi Husain** We are setting up a facility to manufacture the converters but to what levels, as I think they are going to go, depends entirely on the market. It is not a problem for us, it depends more on the market as the market matures we will take that into account. At the moment though our focus on HVDC if you really look at HVDC there are three big buckets that you really want to look



*ABB India Limited
August 9, 2013*

at when you are looking at localization. Transformers are probably the biggest bucket of them all. As Pitamber mentioned we were earlier doing back to back but we are also now doing line transformer, which are more complex to make in the back to back transformers. So for the Northeast-Agra Project, which is in terms of the capacity the largest capacity HVDC transmission system ever anywhere in the world, we will be doing a line transformer for that also in India. The second bucket is the engineering part of it because HVDC is a highly specific engineer system, any HVDC system is very highly specific competency- ABB engineers HVDC on only two countries in the world Sweden and India. So not only do we have a very high degree of competence in the engineering part where we are going to be playing a key role for the Northeast Agra Project but we also do that for global projects. The third project is the converters that you just mentioned. We do the design of the control and the testing part of it in the engineering, which is actually the more key part. The physical assembly of the converters depends on the volumes that would be available - once HVDC market takes off in India, this is something that we will also do.

Bhavin Vithlani Sir my second question is on the exports, you highlighted about increased pressure on exports, if you can throw more light on a little longer term basis, may be 3 to 5 year perspective, how do you see export as a percentage of revenues for ABB India?

Bazmi Husain Good question but I am not going to take that. We do not give futuristic numbers on these specific items.

Bhavin Vithlani Will ABB be a net exporter in future?

Bazmi Husain ABB is a global company. There are already have global factories, in the sense that were you to buy anywhere, I am just giving as an example, a 66 KV breaker - it would have come from India. So we are a global company, we really look at what makes sense **to make fair**. As I mentioned export is clearly one element of the strategy of hedging currency movements. But in India our focus is primarily to serve the Indian market. We also do export, and it is a growing area for us, but that does not change the focus that we have - ABB in India is primarily there to help the local markets.

Bhavin Vithlani Sir my last question is on the services. You highlighted about thrust on the services, what percentage of the revenue could be coming from services currently?

Bazmi Husain At the moment it is, let us say, below 15% that we have on the services side but our goal is to take it beyond 15 percent..

Moderator The next question is from the line of Jay Kakkad from Standard Chartered Securities. Please go ahead.



*ABB India Limited
August 9, 2013*

- Jay Kakkad** Sir my question relates to the export and the import part of it. The growth that we have seen in the exports from India, are there some more products that India has become a global hub for or has this growth come from the same products that we are selling?
- Bazmi Husain** Just to understand that question, are you saying that are we making something which is only meant for exports?
- Jay Kakkad** No, no, I mean, you explained earlier some products are specifically like a 66 KV transformer is specifically manufactured in India for consumption across the globe, so the growth that we are seeing in exports, is the growth also because some more products have been added to that bucket where it is -
- Bazmi Husain** More products and more market both.
- Jay Kakkad** The second question is, which products do you see becoming competitive enough to start start exporting from India in the next one year?
- Bazmi Husain** There is no simple answer to that one. As I said earlier do we focus on exports? Yes. Is that our overwhelming focus? No. Our overwhelming focus is the market in India. We do focus on exports, it is a growing part, and we will continue to do that. While depreciation of rupee creates quite some issues, it also helps in making the exports more competitive then that is also something we will take advantage of as long as that situation will continue. So we are looking at new markets. I think the acceptance of products..ABB makes ABB quality products, no matter where we make in the world. We take great pride in calling it made by ABB, we do not really talk about made where. Having said that, there is now a better acceptance in global markets, of products made in India. I mean if you go back 10 years that situation was different. So I think the opportunity has increased, the rupee depreciation is helping in that and I think our capacities that we have out here are also better utilized that we have export, given that the local market is down. So it is a combination of various things and we are running a business which is dynamic in nature - things change these ratios and focus will change.
- Jay Kakkad** Okay last question is you mentioned about oil & gas CAPEX to do well next sometime, what are the solutions that ABB provides to oil & gas industries?
- Bazmi Husain** We provide a full range of solutions in the upstream side, we really provide all the controls, the electrification - because upstream oil & gas is very largely electrification driven basically the whole process is that these are big pumps and motors and separation process. In case of offshore we do solutions for offshore platforms, both in terms of let us say stabilizing the platform, the control systems that are there on that and we have the capability to supply because -- given there is a larger and increasing focus on making these offshore platforms more environmentally friendly we can supply power to these offshore platforms via a cable from the shore. On the downstream side we provide full refining solutions. We are a very



*ABB India Limited
August 9, 2013*

strong player in that in India and then further downstream if you go down and on the petrochemical market, so we play across the state in automation electric and combined for both. Energy management systems for any industrial plant and factory oil & gas are extremely crucial and critical and we are a leader here and everywhere else in the world in that particular aspect of oil & gas. So we do the full range from upstream all the way to petrochem down.

Moderator The next question is a follow up from the line of Renu Baid from Batlivala & Karani Securities. Please go ahead.

Renu Baid Essentially I am trying to ask, on a sequential basis at the last two quarters our absolute order intake values have improved. But in terms of commentary we have shared that compared to last quarter's short cycle orders have reduced. The growth has come down. So what have been the other sectors which have contributed for this growth?

Bazmi Husain Some of these, especially in the power sector, what happens is there is a gap between the time you have bid and the time you get the order. So we have some good orders that we got in the electrical balance of plant and also on something on the power product side. So we did actually have in that sense a better intake in the power segment.

R Narayanan And we have also got some good order since the renewable sector both in solar and wind.

Amlan Datta Majumdar Renu if you are looking for a trend I think in this market it is hard to predict a trend because even if you see a trend in his quarter, next quarter we do not know we might drop in that segment and go somewhere else.–

Bazmi Husain But what I want to point out to your question is that this is where I would say having a portfolio as wide as what we have in ABB is helping us. If you look many of our competitors, we have competitors in power, we have competitors in automation. But we do not have any competition which has a balanced portfolio like we do. So it does help us buffer the variations to quite some extent. Beyond a point of course, you have to go with the market up and down as it goes. But what you are pointing out, is really more of a reflection of a balanced portfolio that we have had.

Renu Baid Absolutely, and since you mentioned about competition, if I can just add on, on the automation side have we seen increased competition on the automation products, drives-motors from your other local domestic peers and pricing impacts from them?

R Narayanan It is not that the competition has increased. The competition is the same but two things are these products are used by the core sector industries like steel, cement and power generation, where the demand is actually in a dampened situation because of the various issues of land acquisitions and things like that. So projects have got deferred. You must have also read that some of the people have walked out of India like Posco as well as Arcelor Mittal So you have to see how the government policy changes so that these people again invest in India.



*ABB India Limited
August 9, 2013*

- Renu Baid** From a competitive standpoint you have not seen the scenario worsening.
- R Narayanan** No, the competitive scenario is not worsening.
- Moderator** The next question is from the line of Bhavin Vithlani from Axis Capital. Please go ahead.
- Bhavin Vithlani** One follow-up question, RBI has actually worsened the situation. So in the last month or so, have you seen the incrementally market situation deteriorating or it has remained more or less stable from what it was in April and May?
- Amlan Datta Majumdar** I do not think market has really gone, I mean it is too early to say what has happened but I would not be surprised if that really puts more pressure on the market because after all you need money to run businesses and run projects. I mean the cost of capital is going up. You have seen many banks have announced, I mean HDFC Bank has announced specifically, others are following. So it is going to make it more difficult for the investors to invest money in their projects. So we have not yet seen anything right now, it is too early but it can result in that.
- Bhavin Vithlani** So have you seen your pipeline of inquiry shrinking or customers delaying the processes of ordering further in the last month or so or not much to talk about, it is too early?
- Subir Pal** When we look at our pursuits, I do not think the list of pursuits has shrunk or it has not gone down but it is also a fact that many of the decisions get deferred from month-to-month, quarter-to-quarter. So while the list has not become shorter, the rate at which decisions have happened has been considerably slower. So that has to some extent affected all the players of the industry.
- Bhavin Vithlani** One last question, one of your competitors spoke about the 765 KV transformer prices improving by about 15% odd from the bottom. If you can throw more light on this.
- Amlan Datta Majumdar** My guess is, we do not want to give any specific information but have you seen anything very..particularly visible but we normally do not give any great answers to begin from it. But really if you want to say something it is okay.
- Bhavin Vithlani** Okay, let me take it. Crompton Greaves spoke about 765 KV transformer prices moving up from 8 crores a transformer to about 11 crores a transformer.
- Amlan Datta Majumdar** I do not think we would like to get into such details in general. See sometimes we have said this and you might find it a little philosophical but let me say this, markets will behave the way it is. And there are problems in all the sectors today, I mean somebody has sold transformers, somebody would say switch gears, somebody would say motors, so it is all possible. It is okay, I mean I do not think we should be getting into such details. You appreciate I hope.



*ABB India Limited
August 9, 2013*

- Moderator** Ladies and gentlemen we will take the last question from the line of Amit Mahavar from Edelweiss. Please go ahead.
- Amit Mahavar** I just wanted to understand in the HT and LT motors category for CY13, what is your assessment of the market degrowth that is one, and second, have you seen some improvement in overall product pull through in the current calendar, versus the last 2-3 years for the company specially from the power side of it?
- R Narayanan** The quantity of motors which is produced actually in the country is imported to IMA (India, Middle East, Africa region) and the IMA statistics shows there is a decline of the total production by approximately 10% to 12%. And motors are privately used by the core industry, so unless the situation in the core industry is improved, the demand will take sometime to pick up.
- Amlan Datta Majumdar** And coming to the latter part of the question you are talking about pull through - you know we had announced last year, we have been anyway doing it but we had announced probably last year that one of the criteria for us to take on glass projects both in power and automation would be the content a pull through that we see in that, so that has more value to our total offering. And this has been increasing but the benefits of that is not always very much visible because market is slow and with a weak market the volumes have not grown to that extent but if you ask me I would not give you the exact percentage. You know that we do not do that but it has increased significantly in the current times. Actually one other reason why the pull through is increasing, is we had earlier talked in this call about our localization and indigenization of the products and that has made it more competitive to push it into the solutions that we offer to our customers. So it has increased.
- Amit Mahavar** That is helpful. Just, I sorry not to harp on but especially in the HT motors and synchronous generators you have in the last one year, a very significant addition by the competition and so ABB and Siemens have been leaders here, if you see in last one decade. So just wanted to have Mr. Narayanan your assessment of how could it impact ABB, specially the pricing part of it given weak demand?
- R Narayanan** Demand should improve. We are also looking at markets outside India because we also do exports, so things should improve, that is what we see because there is a pipeline of inquiry. Some investments have improved. So there may be movement in the market that is what we feel.
- Moderator** Thank you. I would now like to hand the floor back to Mr. T K Sridhar for final remarks. Please go ahead sir.
- T K Sridhar** Thank you everyone for attending the conference call for ABB India Results of second quarter. And if you still have some unanswered questions you may feel free to write to me, we will get back to you on it as soon as possible. And those who have missed this presentation



*ABB India Limited
August 9, 2013*

they can visit our site where we will be uploading the recording and transcript of this. Thank you and have a nice weekend.

Amlan Datta Majumdar Thank you very much.

Moderator Thank you. Ladies and gentlemen thank you for choosing Chorus Call Conferencing Service. This concludes the conference call for analysts. For further updates on ABB in India you can follow ABB INDIA on Twitter. The account name is @abbindia. Thank you for your participation. You may now disconnect your lines. Thank you.