

ABB Limited
First Quarter Results Conference Call – Financial Year 2011
May 11, 2011

Moderator: Good evening ladies and gentlemen. I am Triveni, the moderator for this conference. Welcome to ABB Limited's Investor Relations Call to discuss the Q1 Results for 2011. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would now like to handover the floor to Ms. Juliane Lenzner. Thank you and over to you ma'am.

Ms. Juliane Lenzner: Good afternoon everybody. Thanks for joining us for our Q1 Results Conference Call for 2011. I am the head of Communications and Investor Relations here at ABB in India and along with me, I have Amlan Dutta Majumdar who is our CFO; Bazmi Husain, our Managing Director and CEO; and we also have N. Venu, our Head of Sales and Marketing; who are joining us here today. So, much like the last call we had, we will be running it in the same fashion. So, Amlan will give an overview of the financial results and then will handover to Bazmi for some market information. We also have Venu who is available as well. So, without delay, I would like to handover to Amlan who will give you an overview of the financial results.

Mr. Amlan Dutta
Majumdar:

Good evening ladies and gentlemen. It is a pleasure to be here and thanks for taking your time to attend this call. You would have seen the results by now and I am happy to inform you that after a few very difficult quarters, I think we are now moving in the right direction for ABB in India. Our orders as you saw have been generally flat in this quarter because some of our large orders that we received in the last year in the first quarter were not available in this quarter, but we have very strong large prospects, which will materialize in quarter 2 and quarter 3, but these are under procedural delays that means, you know, you have to complete certain formalities, so without those it remains flat, but the good news is that our base orders for 75 crores and below kept growing, but when the large orders pour in, which are as I repeat procedural matters, our order book should look much better than it looks now. That is on the order side. On the revenue side, this has been a very good quarter. After a few quarters which were not that good, now we have a 22% growth in our revenues and I am pleased to inform you this is the highest ever revenue we have made in the first quarter of the year. Normally, first quarter of the year, we have seen not as active as the other quarters, but this first quarter has been very good and the news which is even better is this growth is led by power systems division, which has not been doing too much of revenues, mainly because of the way the projects are scheduled to billed to the customers, so that has

now come through and power systems is leading the revenue growth for the company, which is a very good news, and looking at the revenue figures, you would know that all the divisions have actually grown in their revenues. Power products business has achieved very marginal growth, almost flat, but all other divisions have grown in revenues. So, that is the second good news. In terms of profitability, the margin pressures continue in the market. I mean, what we saw in the last year, in this industry, we face severe competition and with a lot of other competitors from abroad coming in including the Chinese and the Koreans, the competition is not getting any easier, so it is not only ABB, we are pretty confident that everybody else is trying to find the best way out here. So, the margin pressures are likely to continue, but having said that, we have been taking a lot of actions to combat with these prices that are available in the market. We have been working on our cost side. Mr. Bazmi Husain will take you through the details on some of these, but I would like to take this opportunity to tell that whether it is supply chain management, expense control or operational excellence, we are fully on that.

If you look at our results, the personnel expenses grew very marginally during the quarter, which was one of your concerns in the first quarter of the last year. Personnel expenses are kept under control, but I would like to assure you on behalf of the company that our focus on people has not reduced. It is actually only going up. We have taken lot of actions to train our people in the core areas of project management, sales and engineering and we are also going for new hires very aggressively. So, our focus on the people who are the real assets of the company remain intact. In terms of other expenses, they have reduced as per accounts mainly because we had huge impact of derivatives foreign exchange last year, which is almost nullified this year, so there is no such impact this year. So, most of the items are going in the right direction, but the concern is the margin pressure. Another concern that we can see in the market today is due to the government's policies, the interest rates are going up and we are concerned if the liquidity in the market could be as good as we have seen in the few earlier periods. So, this is a concern, nothing much we can do right now on that, but we are looking at it with great caution. We have been working with our customers pretty well and as such we did not have like last year we had impact on account of many noncore businesses, this year, it is smoothening down. It is not that we don't have any more problems, but as we commented to you last year, problems are not as severe as they used to be. So, it is smoothening down and our work with the customers is really paying off. Having said that, I would like to handover to Mr. Bazmi Husain, our Managing Director and Country Manager for ABB in India, to give you an outlook of how he looks at our business and what is the way going forwardthank you.

Mr. Bazmi Husain: Thanks Amlan, and good afternoon ladies and gentlemen. Just want to give you a bit of an overview about we see the business environment today. The first quarter has been, I would say satisfactory. We had seen a growth in the base orders, but specifically I think the growth in base orders that came in our short cycle businesses, that is mainly in the discrete automation and motion division as well as in the low voltage products division, that has been really double digit growth, we grew more than 20%, close to 25% in discrete automation and motion and more than 40% in low voltage products division. So, this has been actually very satisfactory for us. We see also in this quarter, most of the growth had been driven by base orders. The larger orders are still in the process of finalization. We have few of them in which we are already L1. You are aware already about the North-East Agra project, where we have also a substantial portion from the Indian operation and that is undergoing financial closure. So, we expect that to be closed and then we will log it in the coming quarters. Last time when I spoke to you, I also talked about increasing our competitiveness and that is not a single element in that strategy, but multiple elements because the market price is something that we have to live with, we have to adjust our cost and there are two dimensions that I want to emphasize specifically. One is on the amount of localization that we have done. Last time, I indicated to you that we are aggressively going after localizing the 765 KV equipment, because increasingly that is a new standard that is coming and slowly becoming the mainstream, you know, extra high-voltage in the transmission network. In the time, in the last quarter, since I spoke to you, we are very happy to tell you that all the 3 main components, the transformer, the breaker, and the current transformers, we are very much on track and ahead of it, that by the end of the second quarter, we would have all three components localized and produced from our factories in India. This will give us a competitive edge that we need. So, going forward, I really see this as a good potential. A little bit of concern that we have is really, you know, the increasing interest rates and so we do see that in the short term, there could be some delays in our customers' decision making process for large projects, but this is also important to stress that the short cycle businesses. The businesses where we have shown good growth in Q1, those are businesses that are typically unaffected in such cycles. So, we will continue to stress and grow in the short cycle businesses and the service businesses and I would like to also let you know that we have aggressively grown in our headcount when it comes to service, that is an area where we are hiring people in front-end sales and in service areas to be able to capture more of the market. The larger projects, as I told you, we are well placed in many of them. We do see especially in the process automation side, some delays in the finalization of the projects, but we see that as a short-term phenomenon, that we will ride over with our short-term cycle business. So, with that, I would like to really say that we see a good outlook for our business. Another area that I

would also stress on, is on renewable energy. The solar part of the renewable energy is coming under increased focus, we see a large growth in that segment of that market and also on the energy efficiency side. So, those will be the new growth areas that we will be focusing on. So, with that, Julie, over to you. Thank you.

Ms. Juliane Lenzner: Thank you Bazmi. Thank you Amlan. With that, we will open up the floor to calls, but please keep in mind, we will conclude the call promptly at 5:30 and the calls are taken on a first-come, first-serve basis. If you do have further questions after the call, you can send them directly to me or to the investor helpdesk email and we will make sure they get answered. So, with that, I would like to hand back to the moderator.

Moderator: Thank you very much ma'am. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first-in-line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. The first question comes from Mr. Abhishek Bhandari from Macquarie Securities. Over to you sir.

Mr. Indrajit: Hello, this is Indrajit from Macquarie Capital. Thanks for taking my question. My first question is you talked about a pickup in some of your orders especially in quarter 2 and quarter 3 and similarly your base products being pretty strong, can you just highlight what are the segments in which these businesses or what are the expected orders, in which segments they are in?

Mr. Amlan Dutta Majumdar: Thank you for the question. Actually, we are seeing growth coming in virtually all the segments now. All the segments are looking good, but as you know, I mean, your question if I can guess is more directed towards the large orders what we mentioned.

Mr. Indrajit: Yeah.

Mr. Amlan Dutta Majumdar: These large orders are mostly in the power segment and NE Agra, you already know about, the others, ...Bazmi, would you like to add?

Mr. Bazmi Husain: Okay, if I can comment here a bit, you know, one of the trends that is going on in the power sector is in the PPP and BOOT projects that are coming. This is a sector of the market which is growing, where some of the major states like Rajasthan and Uttar Pradesh, they have been going for tendering following the BOOT model, okay. We expect other states to also pick up this trend in

the coming months. So, we see totally about 120 Billion Rupees of investments that have been lined up for these projects. This would be another clear area that we are targeting. We are also looking at many of the steel plants that are getting up for upgradation. Bhilai has already announced they are in advanced stages of decision making where ABB is clearly a participant as well. So, upgradation, new business models coming up in power segments, these are areas we are looking at for the larger projects.

Mr. Indrajit: Can you comment on other than power, how is the industrial segment looking at, you mentioned about steel, but is there a pickup in some of the other parts of the industrial chain?

Mr. Bazmi Husain: One other thing that is I think going to be a bit of a wild card is what would be the impact of the tightening monetary policy. There is a potential, I mean if you look at capacities, the capacities are not fully utilized, but industrial capex is increasing and when industrial capex increases, then of course it is good news for us, but so we see that as a mixed bag, we see some short-term challenges because of two reasons, one, the capacity today is being under utilized and the monetary policies, but the thing is that you have to remember the need for infrastructure in this country is unabated, so any variation will be by the nature of very short-term variation. The infrastructure needs of India have to pick up. There is no alternative there for us to continue to grow our GDP.

Mr. Indrajit: Okay, if I may squeeze in one last question. You are buying low-voltage business from the parent company at 4 Billion Rupees, what are the kind of products that might add to your portfolio and potential kind of revenue targets even if you can share as to what you can achieve in the next couple of years' time?

Mr. Bazmi Husain: First of all, let me correct the impression. What we are doing is the transfer of the operational units from fully-owned entities to the operational unit is not just related to low-voltage. There are three you could say boxes in which these businesses are. The first box is the business that makes insulation kit for transformers and that is on the power side.

Mr. Indrajit: Okay.

Mr. Bazmi Husain: The second one is breakers and switches, which you so correctly pointed out, in the low voltage side. The third one of this is what is the making the vacuum bottles for the circuit breakers, which is also in the power side. Now, these were businesses that were seeded in the wholly-owned entity to really make sure that the risk is not to the stockholders of the listed company and now these businesses are mature and they are running well. We are transferring them to where they belong, which is the running part

of the business and that adds, as we have announced earlier, something to the tune of 250 crores every year, to our revenue.

- Mr. Indrajit: Okay, what kind of profitability these businesses are at?
- Mr. Bazmi Husain: We have given the indication earlier that this is in the corridor of something like 8% to 10%.
- Mr. Indrajit: Okay, thanks a lot. Thank you.
- Moderator: Thank you very much sir. Next in line, we have Renu Baid from B&K Securities.
- Ms. Renu Baid: Good evening sir.
- Mr. Bazmi Husain: Good evening.
- Ms. Renu Baid: Two specific queries from my side are, first would be towards the noncore businesses, RE related projects which we are exiting. You did mention at the beginning of the year, we had about 700 million in order book and in the current quarter, we are definitely seeing a very strong growth traction in the power system. So, if you could just highlight how is the execution on the pending RE projects in the order book and are we expected to finish it by the first half?
- Mr. Bazmi Husain: Okay, it is you know, as we had mentioned in the last telephone call that these are projects that when we looked at, when we started to exit the noncore areas, the rural electrification, we basically categorized them in 2 areas. One was basically projects that we could actually go back to our customer base and say, these are the projects that we will not execute and that was the reason why we took negative order booking, which we had indicated.
- Ms. Renu Baid: Right.
- Mr. Bazmi Husain: The other projects where we are in various stages of execution and the nature of these projects, these are large in terms of geography and time for the execution, so we don't see that they will be all closed in this quarter or in this year. These are larger projects that will take us some multiple quarters.
- Ms. Renu Baid: Okay.
- Mr. Bazmi Husain: At this point in time, I cannot give you an indication as to when these projects will close but what I can tell you is that we have examined these projects in great detail, we have talked to our customers about it, formulated a plan and we are going ahead with execution. So, we have and that was the basis of what we said earlier that we see the world behind us, but like any project

which is undergoing execution, there would be minor swings up and down.

Ms. Renu Baid: Right, absolutely sir. Second would be you did mention that we have seen increased traction in terms of our short-cycle orders, so how has our order book mix change, do we see a product share increasing more than 55% to 60% ? or how does that look like between the projects and the product segment, your order book mix broadly and probably if you can get some color on the mix within power and automation as well?

Mr. Bazmi Husain: I think that is an excellent question. Yes, I had mentioned that last time that we see on the average over a period of time, our ratios tend to remain 50:50, over a period of time.

Ms. Renu Baid: Yeah.

Mr. Bazmi Husain: At any given point in time, the mix changes depending on the projects that are there, the state of the economy and many other factors. You are absolutely right that right now we see we have a higher mix for the product side more like 60% on the product side and 40% on the project side, okay.

Ms. Renu Baid: Okay.

Mr. Bazmi Husain: Also I would say between automation and power, it is not to the same extent difference, but maybe marginally a little more this time, in this quarter, in automation and power, but more or less the same.

Ms. Renu Baid: Will power and automation be something like 55:45 or ?

Mr. Bazmi Husain: You could say, you know, it is more equal rather than, but they will remain pretty much equal.

Ms. Renu Baid: Yeah, that would be broadly there. One followup on the previous that you mentioned that you would be taking up the operational charge of the group entities, you did mention in the press release that close to 4 billion would be the value for that, you would be paying for these entities, so how would the consideration be made in cash or how would the operational transfer happen?

Mr. Amlan Dutta Majumdar: Yeah, it is an all-cash transaction.

Ms. Renu Baid: So, basically, where we were sitting at the year-end about 5.87 billion of cash, our effective cash levels could be close to about 2 billion currently.

Mr. Amlan Dutta

Majumdar: Yeah, and we will also generate, that is right, and then we will also generate, we are not concerned because this is our normal cash levels.

Ms. Renu Baid: Sure, but these businesses don't bring incremental certain debt or cash along with them or it will be just?

Mr. Amlan Dutta Majumdar: No, it is without the cash.

Ms. Renu Baid: Sure, yeah, that would be from my side. Thank you so much. In case, if I have some questions, I will definitely get back to you.

Mr. Amlan Dutta Majumdar: Thank you.

Ms. Renu Baid: And all the best for the year to come sir.

Mr. Amlan Dutta Majumdar: Thank you.

Ms. Renu Baid: Welcome.

Moderator: Thank you very much sir. Participants are requested to limit their questions to 2 per head, then follow up for the further questions. Next in line, we have Mr. Lakshminarayana from BNP Paribas.

Mr. Lakshminarayana Ganti: Hello sir, two questions from my side and I will limit them to only two. Sir, you are trying to turnaround the company from cost point of view, trying to reskill employees to better execute projects, reinforce some confidence in your customer base, etc., so given you would have a plan or target in mind for CY' 11 from these internal efficiency improvements, so could you guide us to what sort of margin uptick you expect from these initiatives for CY' 11 and going forward what will sustainably be achieved? That is my first question. Secondly, if you could also give us a sense of your capex plans for this year because last year there was not too much of capex spent by the local entity and how ABB India will probably contribute in the global aspirations of the group. So, these are the two questions, thanks.

Mr. Amlan Dutta Majumdar: Thanks for the question. As far as the margins are concerned, as you know, you have been on our call earlier, we don't really give a guidance but we maintain, you know, the same thing what we said last year that our ambition would be to go to something close to double digit, 8% to 10%, but that also depends on what are the market price levels, how the commodities react and with the new monetary policy, how the business scenario evolves, but our target would be still the same, that is No. 1. No. 2. Relating to the

capex, we had originally planned for our capex of 300 crores for this year, that has multiple projects in this. This is mainly to improve largely our equipment competitiveness, but we are also cautious seeing the overall economic environment today and the monetary policy, our large scale investments will also be guided to a large extent by what is happening in the country and how our customers are planning to grow.

Mr. Lakshminarayana

Ganti: Fair enough, that answers partly, thanks a lot.

Moderator: Thank you very much sir. The next question comes from Mr. Akshen from Enam Securities. Over to you sir.

Mr. Akshen Thakkar: Good evening sir, congratulations on a good set of numbers. I had a couple of questions. Firstly on the acquisition that we have made, if you could just sort of tell us how this business is being growing over the last couple of years and in which segment we start recognizing revenues from the current quarter? Secondly, on your largest customer, PGCIL, how do you see trends in terms of orders from them, and third is on a recent call, your parent had been mentioning that India would be reaching high single digit EBITDA margins this year and then reaching double digits next year, whether you would like to corroborate on that. That is it from my side.

Mr. Amlan Dutta
Majumdar:

Okay, let me take the questions that you said. First of all, in terms of how the businesses that we have acquired are doing, you know, Raman Boards is a leader which was a company which makes transformer insulation kits, it is a leader in that segment of that market. The other two businesses basically feed our own factories, the things that we were importing earlier. I mentioned earlier that the revenue impact of that is in the range of 250 crores per year and margin corridor of 8% to 10%, that is I would say the first part of your question. The second thing is PGCIL you asked about. PGCIL has earmarked about 110 billion Rupees for the current year and this includes about 5,600 plus MVA transformation capacity and about 7,500 circuit kilometers of extra high voltage transmission lines. Now, that means that we would see continuing trend in 765 KV segment and I mentioned earlier that we have taken really urgent steps to increase our competitiveness in that area. So, I think I would say PGCIL we have really focused on what their immediate need and plans are and come out with the situation that we are able to participate more actively in their projects. You are also aware of course the NE Agra project, which I would really like to emphasize is you could say a feather in our cap if I am allowed to say so because for your information this will be by far the largest capacity and the most complex HVDC systems that will ever be built. It will transmit something like 8 GW of power from Assam to Agra with another

pooling station in between, so this is over 1,700 kilometers and that is from PGCIL's perspective also, this was the highest or the largest order that they have ever awarded and that came to ABB.

Mr. Akshen Thakkar: Sure sir. My third question was on margins.

Mr. Amlan Dutta
Majumdar: Sorry.

Mr. Akshen Thakkar: My third question was on margins. Parent has been saying that high single digit margins this year-end, double digit margins next year.

Mr. Amlan Dutta
Majumdar: I have to say that I would not like to speculate, we as a policy do not give future speculative information.

Mr. Akshen Thakkar: Okay, that is it from my side. I will come if I have further questions.

Mr. Bazmi Husain: Thank you.

Moderator: Thank you very much sir. Your next question comes from Mr. Manish from Bluechip. Over to you sir.

Mr. Manish: Hello?

Mr. Bazmi Husain: Yes.

Mr. Manish: Sir, my question is on we continue to focus on new revenue streams such as renewable energy efficiency along with increased localization of our product offering, what kind of revenue are we actually looking for going forward from this particular revenue stream?

Mr. Bazmi Husain: Again, my apologies, but we would not like to give a number on the potential because that depends on how many of these develop. Let me give you a reason for that. Currently, the Government of India's plan for solar for instance, okay, was 20 GW target by 2020. You might have read yesterday, it was reported in the press that, that is now is being talked about at more than 3 times that amount in an environment that where the business projections are varying to such degree, it is very difficult to say. What I can say is that our share of let us say, if you take solar and PV, it is really at an infancy stage at the moment. Of the PV that was commissioned last year, in operation last year, you could say 25 MW of that, which makes us the largest player today in the solar PV market in India. So, we have the lion's share of the market and that is only 25 MW, 2020 projection now today sets at 67,000 MW, I don't know how much of that will happen,

your guess is as good as mine, but that it will grow and grow rapidly.

Mr. Manish: Okay sir. Sir, the next question is on the various cost control measures and productivity maximization, I mean, what sort of measures are we taking going forward in the foreseeable future to ensure that we can control cost as well as maximizing our productivity going forward?

Mr. Bazmi Husain: Absolutely, I had mentioned earlier that what we have under our control is cost, okay, prior to the market driven number that comes. We have a 2-prong strategy towards that. One is reducing the cost of the equipment and how do we do that. We do that with one, the first step is localizing manufacturing and much of what we are talking about like for example in 765 KV, that is the first step that we have taken. The second step that we are taking towards there is to localize the design. I must also tell you that both for medium voltage as well as high voltage, we have now in India the global centers for technology. That means we are looking at technologies and looking at how we optimize them both from requirement perspective in India but also from a supply chain perspective in India. Okay, so that is one aspect. We are reducing the cost of the equipment, one by localizing the manufacturing, second by localizing the design. The second that I mentioned of addressing our cost is really operational excellence. For us, operational excellence and I am just going to give you a few examples, is first of all supply chain. We have over 70% of our costs is sitting in the supply chain, material that we buy, so we are strengthening our supply chain efforts. That is where ABB being a global company, we are leveraging global supply chain, not just looking at the supply base here in India but where we can, many of the commodities that we have, how we can buy them in the best possible way, so that there is a least possible cash outflow, so optimizing the cash. Second is looking at operational excellence on the factory shop floors. We are implementing, you know, 5S in all our shop floors to basically improve the productivity we have out there. We also run large project business and project management is another area where we have increased the number of people that we are certifying. We are aggressively running certification process for project managers, so all these steps will then allow us to reduce our costs.

Mr. Manish: Okay sir.

Moderator: Thank you very much sir. Next in line, we have Mr. Aditya Bhatia from CLSA India.

Mr. Aditya Bhatia: Good evening sir. Sir, will it be possible for you to quantify the exit cost and the losses that we have incurred on rural electrification projects?

Mr. Amlan Dutta
Majumdar:

Actually, we had told when we spoke last time for the fourth analyst call that the worse was behind us and during the current year, we are not really expecting too much of costs that are getting booked. Yes, we had some small costs booked during the current quarter, but no major ones from the rural electrification business in this quarter, and that is the way we expect it to be, but you know, in a project business, it can come when you are in this situation, but not major ones, never.

Mr. Aditya Bhatia:

I understood sir, and sir, which are the industries that are contributing to order inflow other than the normal power?

Mr. Amlan Dutta
Majumdar:

Actually, it is all over the place because if you see apart from the power sector, where we are always talking about the growth, but other industries, whether it is metals and cements, I think all those are doing well. Somebody is doing better, somebody is not doing that great, but I think orders are now coming from all these sectors. We don't see many of the sectors which look dried up, not really. So, it is all over the place.

Mr. Aditya Bhatia:

Okay sir, thank you sir.

Mr. Amlan Dutta
Majumdar:

Thank you.

Moderator:

Thank you very much sir. Next in line, we have Ms. Fatima from ICICI Prudential.

Ms. Fatima:

Hello sir?

Mr. Bazmi Husain:

Hello.

Ms. Fatima:

Sir, great set of numbers and it is looking like things are turning around. Just wanted to ask you one question that ABB has been, before 2009, having a strength of 30% growth, sales growth, PAT growth, what do you think you would need to again go to that level or would you rather go on a much more slow and steady pace, what is the internal strategy like?

Mr. Bazmi Husain:

Okay. I think let me put it like this. I think one of the lessons that we have is that getting volume growth is not the most difficult part, okay. It is having volume and profitability growth together, so we want to balance the two, No. 1, okay. That is why, we are starting new revenue streams, some of them are in the infancy. We see them as great potential, for example solar as I mentioned, is in infancy right now. If it takes off like it is expected to take off, I think our problem will not be, the amount of growth, is going to be really managing that. That is going to be the challenge. The same thing goes for let us say we see, we talked of low voltage

products. Now, this took us multiple years to bring it to a stage where we now are seeing very strong growth, which is well timed with our readiness as well as market exploding in that sector. So, going forward, we will take orders to the extent that we have, we are ramping up our capability to deliver and that is one thing which I would like to emphasize a little bit different from our previous spurt of growth because we were growing from a small base. Today, we are already a company which is 8000 plus people, okay. We have much more of a manufacturing base than we had when we started the last growth phase. So, our ability to manage, you know, growth rates at the same rate at which we grew last time is much better. I would not like to give you a number as to what number we plan to grow at, but what I would say is, one, we are in a better position to grow even at the same rate, okay, and how much we grow will depend on the markets that we have chosen as the focus markets that we are growing in.

Ms. Fatima: Secondly, sir, your this quarter order flow does not include the HVDC right?

Mr. Bazmi Husain: That is correct and does not.

Ms. Fatima: So, the order inflow looks quite decent. So, I am just trying to understand. Is it like in India it is the March financial year effect like generally if you see that we are somewhere there is a feeling that industrial activity is not that strong as what we would like it to be, so even this low ticket orders if they are coming by, is it an indicator for something or you think it is not going to continue in April. It has not continued in April or May.

Mr. Bazmi Husain: It is like this, just trying to understand your question better, you know, the large orders when you talk about, this is not got to do with March end or anything. Some of this, like for example I mentioned, the NE Agra project is the biggest order that PGCIL has ever priced, okay, and that gave it what was called supplier financing. That means ABB coordinated the financing. We do not put that on our balance sheet, but we actually brought the banks. So, there is a direct discussion going on between the lending agency and PGCIL, that process is not yet over. We have clear policy that we only book an order when all those things are closed. So, financial closure is important for us. Now, that takes a little bit of time, but we don't believe it has got to do with March or anything like that and PGCIL is not the only order like that. We have some quite good orders in the pipeline where we are already L1, which did not get closed in March. I would tend to agree with you that the order situation on an overall basis is not looking bad.

Ms. Fatima: I was talking more from the automation side, you said that you had 40% growth in orders for low voltage.

Mr. Bazmi Husain: Yeah.

Ms. Fatima: So, I am just trying to understand that what is the color of this kind of demand or is it any sector specific or generally buying after sometime?

Mr. Bazmi Husain: We see that you know this is a growing market. There are two things out here. We have grown at 40% plus, but our market shares are still not what we expect them to be, so we have a huge growth potential in that market.

Ms. Fatima: So, you are gaining market share, is it?

Mr. Bazmi Husain: Sorry?

Ms. Fatima: Would you be gaining market share?

Mr. Bazmi Husain: Yes, absolutely, we are gaining market share in a growing market.

Ms. Fatima: So, would you say that the segment is growing at a much lesser rate and which is much more symbolic of the way the industrial growth is happening or is the market itself growing at 20%?

Mr. Bazmi Husain: I would not give you a number as to that, but clearly we have grown in market share in a growing market. So, it is a combination of it.

Ms. Fatima: Okay and sir, just last question sir, HVDC, when we see the orders spread between the parent and India, we realized that bulk of it is going to be executed in ABB parent. Is there any reason, you know, or you think that HVDC may not be as localized let us say as your 765 because the potential is not as huge?

Mr. Bazmi Husain: On the contrary, the potential of HVDC in India is huge, we have just begun to see the tip of the iceberg. So, there is large potential. I mentioned earlier that ABB has been building HVDC since 1954. So, we have clearly the world leaders here, okay. More than 50% of world's HVDC has been put up by ABB. Now, these are projects that don't come up in every geography. They come up from different parts of the world. So, historically, we have got our capability for that in Sweden and that is why this is the main order is being blocked in Sweden, but I must emphasize to you that most of the engineering part would be done in India, we are growing our HVDC capability and execution capability in India, the portion that we are supplying from India that we are going to log out here is going to be the substations, etc. Even though for the main HVDC, the HVDC, valves, etc., are going to right now come from Sweden, the engineering for that and I hope you realize that engineering is the glue that puts it all together, so the real competence is in knowing how to engineer the systems. That competence is actually being developed in India. So, we will do most of that here.

Ms. Fatima: Okay sir, and that is great, and thanks a lot and best of luck.

Mr. Bazmi Husain: Yeah.

Moderator: Thank you very much sir. Participants are requested to limit their questions to 2 per head and come back for the followup questions. Next in line, we have Mr. Manoj from Brics Securities. Over to you sir.

Mr. Manoj: Most of my questions are answered. Thank you very much.

Moderator: Thank you very much sir. Next in line, we have Mr. Lakshminarayana from BNP Paribas.

Mr. Lakshminarayana

Ganti: Sir, one followup question. We have seen that in the substations business, it has been sort of an oligopoly with the large 3 MNC companies, almost sharing 100% of the market and it is changing as we speak due to certain power grid qualifying requirement changes. So, given entry of other players like say Crompton, L&T, etc., how would you see order inflow for the power business, both products and systems.

Mr. Bazmi Husain: Venu, would you like to take that question?

Mr. N. Venu: Yeah, yeah, okay. Good evening. Actually, as you said, PGCIL, when they started the 400 KV substations, you know, there has been a lot of entry of local players due to dilution of qualifying requirements and this trend has continued in 765 KV. Primarily, you know, most of the projects were as you rightly said shared by 3 of us and also from the PGCIL perspective, it is not possible for all the three to execute so many projects. So, they have diluted the qualifying requirements to certain extent to allow some of the local players to enter into this segment. That is only primarily in the turnkey substation business, but as Bazmi said, we don't want to tell you which other things we are already in L1, but we are maintaining our market share in the 765 substation in spite of the dilution of the qualifying requirements because you know 765 KV we believe, it is not only putting up a substation, there is lot of engineering involved in this and there are lot more products which we manufacture, be it a substation automation, SCADA and the circuit breakers go into that. So, these are manufactured primarily only by the 3 or 4 manufacturers around the world, not only in India, so that really puts you know as far as our market share is concerned, we are still able to defend our market share.

Mr. Lakshminarayana

Ganti: So, basically, one has to assume that you will grow in line or more than the market for this year and beyond, is that a fair way to sum it up?

- Mr. Bazmi Husain: Absolutely.
- Ms. Juliane Lenzner: We have time for one more question, just one more question from the participants.
- Moderator: Thank you very much sir. The last question comes from Mr. Nainesh from Tata Mutual Fund.
- Mr. Nainesh: Good evening sir. I just have one basic question, just wanted to understand again, over the last 1, 1-1/2 to 2 years, we have seen the industry change, you know, issues within the company and within the industry in terms of increased competition, just a 2-year picture or a 3-year picture again in terms of margins. I know that there have been quite a few questions on it, but just wanted to understand, is it possible for ABB as a company in India to reach to the margin levels of 2008 or can that be safely said that you know that is probably behind and we will not be able to achieve those kind of margins mainly because of the environment has changed significantly?
- Mr. Bazmi Husain: Thank you very much for the question. A very good question to end the call. Actually, our ambition is certainly not only to go to that level but go beyond. That is the ambition, but as you appreciate, the market has also changed during this time, we have also mentioned this. So, we have to see how the market develops because if you see India's infrastructure needs, in our opinion, the market will grow very fast over time and when the market grows very fast, we will have our due share in that market.
- Mr. Nainesh: But sir with increased market, there would be increased competition, which is what we have seen and you know, India, when competition increases no matter how big the opportunity is, margins tend to come down because new entrants want to be aggressively, which is what we have seen over the past few years. So, again, no one is denying the opportunity, but is it possible either because of the indigenization mechanism that you mentioned or the cost control mechanism, all that put together, irrespective of the competition, is it possible for us to achieve double-digit margins in let us say next couple of years once the environment stabilizes?
- Mr. Bazmi Husain: Let me put it like this, the answer to that question is absolutely yes, okay. This is not a guidance or what we will do in future, but absolutely and for exactly the reasons that you mentioned, indigenization is the first step what we are doing, we are also looking at developing in the country, for the country, so we localized production, we localized design, then we create design. So, these are the steps that we are following and at the same time, we absolutely believe that the margin levels that we will be

targeting would be in that range and I don't see that at all that these are not possible to be reached again.

Mr. Nainesh: Fair enough actually, that is all from my end. Thanks a lot and all the very best sir.

Moderator: Thank you very much sir.

Ms. Juliane Lenzner: Now, we conclude the call. I would like to thank everyone for dialing in and thanks for your participation. If you do have further questions, please send them to our investor helpdesk or you can send them to me directly. Once again, thanks everyone for participating and thanks a lot, bye, bye.

Moderator: Thank you very much ma'am. Ladies and gentlemen, thank you for choosing WebEx's Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice evening.
