

“ABB India Limited Q1-2015 Results Conference Call” May 6, 2015



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Mr. Pitamber Shivnani – Head of Power Products, ABB India Limited
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Mr. Priteesh Mahajan – Head of Process Automation, ABB India Limited
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Moderator: Ladies and Gentlemen, Good Afternoon. I am Inba, moderator, for this conference. Welcome to ABB India Limited Investor Relations Call to discuss Q1 Results for 2015. For the duration of the presentation, all participant lines will be in the listen-only mode. I will standby for the question-and-answer question. I would now like to hand the conference over to Mr. T.K. Sridhar. Thank you and over to you sir.

T.K. Sridhar: Thank you, Inba. Good Afternoon to everyone. Welcome on this Q1 2015 Analyst Call. This is T.K. Sridhar – Country Controller and Investor Relations for ABB India. Along with me Bazmi Husain – Country Manager and Managing Director of ABB India, then I have Mr. Priteesh Mahajan – Local Division Manager, Process Automation, and on phone is of course Mr. Venu – Local Division Manager, Power Systems, then I have Mr. Subir Pal – there is full quorum to address the analysts this time; we have all the division managers including Pitamber and then we also have CTO – Mr. Giandomenico Testi on this call and the Local Division Manager for LP, Raimondo. Up to now for Bazmi to take us through the results.

Bazmi Husain: Thanks very much, Sridhar and good afternoon to all of you and appreciate you attending this call. Looking at the first quarter, I do not think I am going to spend a lot of time in explaining to you what the state of the market is, I think you guys probably know that just as well if not better than anyone else. The market remains very challenging; as of now, we see continued reluctance, very understandable reluctance, on part of our customers to actually make further investments as the capacity utilization continued to be 70 or below. So, CAPEX and then OPEX are being curtailed. If you just look at the borrowing from industry, I think that has come down substantially because there is no need for people to really go out and invest. So, the climate remains very challenging. There is I think still a lot of expectation. I think many of the steps that have been taken. I think it is some time before we go on to see the traction on the ground as such. Yes, in a situation like that our performance revenues are flat... and I will talk more about that later. Our profitability continues to improve; you can see that is despite the change in the rules regarding depreciation and Sridhar will talk more about that later. So for like basis, our profitability actually improved over 15%. Our orders on an overall basis were down compared to last year but that is because there has been no large order in this quarter. On a base order basis though, there has been fairly healthy 10% growth in the base order that have been booked.

If you look at it from revenue perspective, I think Discrete Automation and Motion registered some growth on back of solar and wind. You might have also seen some time back that we celebrated shipping of cumulative 1 GW of inverters from our factory. That basically means that a third of solar energy that has been produced in this country today, comes out of ABB's equipment. So I think that is something where, if you recall, it was only end of 2010 that we entered the market and we have really achieved upward position.

So, looking at going forward, we see another one or two quarters before I think we are going to see impact of some of the changes and that I think is at the minimum, that is the time that is going to be. Our focus on cash over revenue I think continues and about Rs.150 crores this quarter alone was the value of the shipments that we held back

because the financing arrangement as per our contract terms were not fully in place. This quarter we also saw that companies which traditionally do not have any problems with cash in the March quarter were very-very reluctant to part with cash. This is the first time that we have actually seen that in a very-very long time that it has happened. So the market is challenging but I think we are very well placed in terms of the focus that we have had on efficiency, the focus that we have had on new products and my colleague Giandomenico is going to talk a little bit more about some of the actions that we have taken in those areas later, but I think those combined with good discipline - what I mentioned about not doing the revenue till the financing arrangements that had been agreed upon or being honored. So with that I think we are positioned for growth, we now really are pushing for markets to revive.

Regarding all other areas I want to highlight were which I think significant is on the service side, we have had very good (+20%) growth in service that is coming out of the focused approach we have had. On the export side, I think some of the large projects in which we are L1 in export markets, in there, there has been a timing issue. So I think in this quarter our exports have been down, but as we see is something that would correct itself in the next month or so. We do not see any cause for alarm or problems, I think it is more a timing issue than anything else which is not uncommon for large projects.

So overall, I think a satisfactory quarter from performance perspective, I think when it comes to growth I think this is something that while we have to continue to exercise discipline, I think this is we are focusing on it, looking at few areas of growth which we are focused on and we are seeing some traction, but the traditional markets also have to revive and support the growth. From profitability, I think you can see that for businesses such as Discrete Automation and Low Voltage, and I have repeatedly said for several years that Low Voltage is an area where we see a lot of future growth potential that is beginning to show results, and my colleague Raimondo Salandra is going to mention about that also later.

On the Products side, I think the change in depreciation that is there I think that Pitamber will talk about as well on the large factory that we have set up there were some one-time cost, again, no cause for alarm in there, Pitamber will mention more about that later on.

So satisfactory quarter from a disciplined performance perspective, but we are now waiting for the markets to give us opportunity to grow.

With that now, I give it back to Sridhar. Sridhar?

T.K. Sridhar:

Thank you, Bazmi. Just to lead from where Bazmi left, give a snap shot of what the macro looks like from a CFO's perspective, we saw the IIP growing but the growth did not come from the core industry. So that is basically one point which we need to see and that is basically a tracker which we follow as to when the core sector growth will come out. And when we look at the utilization perspective across the industries, we find power generation, steel, cement, chemicals everyone at sub-70%. So that is because of basically a thing which we think that if the reforms are in place and we have the initiatives push through with the government these investments from these places should happen.

And the inflation that came under control for the good thing to watch but we also have to balance with the monsoon which is going to really impact how the inflation is going to move around. When it comes to the tax environment, tax environment has aggressiveness is slightly better but still to be seen is basically because a lot of statements being made, we need to really look at it from the point of view how the end industry gets the benefit from there.

There were no large orders in this quarter, so as Bazmi said, we had a good 10% growth on the base orders, so that means faster revenues in the next coming quarter. So that is one thing which we really look at it as one major indicator. Service grew by 27% and so that is also a good thing which will boost our bottom and also from the split between the products, projects and services, it remains basically the same, we did not see much of a change between the past and the current. On the revenue side, we had demand growing but other divisions were slightly let up with everybody flat and as Bazmi said, it was basically due to the customers not willing to lift the material and also we are trying to assess how strong a customer is in terms of meeting his financial commitments to ABB. That is the other point. And when it comes to the profitability, I think the expenses were pretty much under control, we are happy about it, we could see a reduction in the material cost and also the other expenses were definitely better managed. The next one is the depreciation: We took an impact, we aligned with the companies as Schedule-II of the Companies Act, so we had an impact of Rs.8.5 crores for this quarter of additional depreciation so that actually brought down slightly the profitability. So if we adjust that on a like-to-like basis our PAT grows by 16% and the profitability percentage also goes to 3.4%. When it comes to cash generation from operations, our capital employed was higher compared to the other quarter, the reason as what we were saying is that, this was a financial year end for the private industries as well as the government, so they try to hold the cash to have a better balance sheet. So people like us who have a different financial year actually where basically when deprive of getting the cash what was required for our operation. But otherwise, I think the order backlogs look pretty strong and we see a good visibility of revenues in the next few quarters to come. So this is basically an update from my side. I can ask now Giandomenico to give the technology dimension of what is happening inside the company.

Giandomenico Testi: Good Afternoon to Everybody. I want to share with you the view from a longer-term perspective. As my colleagues highlighted I think that we are reasonably well-positioned when the market will take up again and I would say that we continue to work on three major lines – one is our product development and the continuous introduction of new products. This activity has been continuous to be very massive. The other line of action is developing our competencies in line with the requirements that we have in this country these are our customers and there is a major program for that where we have identified the key areas where we need to improve our competencies. Then the third line of action is more putting ourselves in contact with the knowledge which is there in India with third-parties in especially university, there we have launched massive program again to cooperate with the major universities, IITs, etc. in the areas which are core to us and critical to us. So there is a substantial commitment, a substantial engagement, there are substantial talents. I am on to stress a couple of points that we have introduced, I would say, one point specifically we have introduced in the last two to three years, and that is

“Product Management”. Product Management is the link between market, customers and product development. So if this link is not there, then our products imagine when these products are developed, they are basically open. Now with Product Management we really position ourselves to give a substantial boost to our growth. So we have appointed in the major businesses up to 30 local product management, these people as I said, they have the responsibility to derive from market, the requirements and then transfer this to our global colleagues who have an overview on all markets where we are and then receive the requirements from India and the allocated market outside India, and then incorporate this into development of new products or development of new features. Product Management is also linked to the market during the life cycle of portfolios. It is to adjust our products to the new performance which are required and also to take care of any quality issue that we may have with our customers.

I would like to conclude this short overview just by reminding one unique feature of ABB in India. We have in India out of about 10,000 employees, 3500 are in Engineering and R&D, one of the two largest hub for Engineering and R&D in the ABB Group and when it comes to R&D, these people are developing both products for the global platforms we have as well as for local. So this is just to confirm that the position of ABB in India is absolutely sound and instrumental today's success in growth of ABB overall. Okay, thank you. I think that is all basically what I wanted to say. If there is any particular question we would be pleased to answer.

Moderator: We will now begin the question-and answer-session. The first question is from Renu Baid of B&K Securities. Please go ahead.

Renu Baid: Sir, my first question is, you spoke that you are fairly conservative and the environment seems to be challenging. But within these, would it be possible for you to highlight which sectors do you see green shoot within the market and which segments do you think should lead in the next 12-15 months in terms of new order flows enquiries for us?

Bazmi Husain: Yes, I am going to start off and I will ask my colleagues, Priteesh, Subir and Raimondo to step in and talk about the sector the better. When you use the word ‘conservative’ I just want to highlight on that I would rather use the word ‘disciplined’ not ‘conservative’. We would like to exercise aggressiveness, but we protect cash above all else, I think that is really what it is all about. But where are our future growth areas? I think there are, of course, on the renewable energy and these areas, there is going to be a lot of growth, lately that the government has increased the target of solar generation to 100 GW and overall 175 GW of renewable and I think it is very much possible that can happen. So I think it could even be in excess of that keep in mind that country like China has close to about 20 GW a year. Its clearly also possible for us to do that here. I think the industry side is more impacted right now than the utility side, both sides are impacted in a relative sense, and like Priteesh to comment on industry, which specific industry more impacted than others and where the growth is.

Priteesh Mahajan: Just to add on to what Bazmi said, I think the big challenge we have on industry is the capacity utilization which we have in several of the core sector industry, whether cement or steel, capacity utilization is somewhere in the 70%, so there is no pressing need to

add capacity right now, there is a little bit of slack over there. So that is what is I think affecting the capital investment and we are really waiting for some of the infrastructure projects which will drive a higher utilization and then give a boost to the industry. So, I think that is maybe a little way off a couple of quarters down the road on the industry at least.

Subir Pal:

Renewable sector, both solar and wind where we have considerable stake, has started doing well. I think that is a sign of some sectors outperforming others, but the traditional sectors as Priteesh mention, still there are a lot of sluggishness. I think it is a couple of quarters before we see anything moving in a certain direction. Besides that I think Food and Beverage is one focus area for particularly our Discrete Automation business and there we expect some traction to happen because of the food processing industry is gradually picking up in the market.

Bazmi Husain:

I just want to comment that even though renewable is a fast growing area, it is growing from a very small base and I think this is something to remember that we should not get confused with rate of growth to the size; we are just a few GW a year, as I mention, China has 20 GW a year, so there is a big difference in the size. The rate of growth is very good, we expect that in fact this is a market which should be growing at not in percentages but in multiple.

Madhav Vemuri:

Just to add on to what Priteesh and Subir said, we are in a situation where the new capacity addition is something which is getting slower and slower due to the higher install base in the surplus capacity. With a balance portfolio we are looking at continuing our engagement with the existing install base to support the customers and the install base in terms of energy efficiency improving the operational efficiency and also improving the reliability, safety, and also even in a sector where there is no major investments coming up, we are continuing with our engagement and trying to be connected with the install base in the customers so that as and when the turnaround happens, we will have definitely a better chance and opportunity to enhance our relationship and the business engagement.

Renu Baid:

Second question is last year we have seen a reasonably good mix of large and base orders and overall orders grew by double-digit 17-18% level. So, what is your assessment – when do you see the macros domestically improving so that the billing rate would accelerate – do you think that should happen in a couple of quarters or it could still take longer for revenues to reflect the same trend?

Bazmi Husain:

First of all, if you recall third quarter last year we had a similar situation where there were several quarters that slipped over. I think this quarter is also in that there are actually orders which are coming to us is just that we are not able to get the paper work done on time. So, we do not see this as a quarter where the absence of large orders is a fact but it was not a worrying fact, in the sense that there were no large orders; however, saying it there are not enough of large orders, the absence is not complete is such that there is potential in terms of our capacity, in terms of our ability to handle more to take more, it is just that the market is limited but it is not limited to an extent that they have not. I think it is a timing issue this quarter and all we will collect on a large order.

- Renu Baid:** Then probably in terms of revenues we should start seeing building an execution to follow and probably the growth to come back in a couple of quarters?
- Bazmi Husain:** Renu, as I mentioned, we had already close to Rs.150 crores of revenue that would have then been a substantial growth over last year. So I think the visibility in the revenue is there, it is a combination of also the tight liquidity that our customers have at this moment and our discipline that is the situation where revenues did not grow, otherwise they would have grown too. So we do not see really a problem with revenue growing, I think, as liquidity improves, which, of course, it would as the business begin to improve for our customers, then, of course, we will see an immediate impact because the backlog to do more revenue exist.
- Renu Baid:** In the current quarter is the quantum of FOREX gain in the other operating income which is in line? Last year same quarter I think we had Rs.11 crores of loss.
- T K Sridhar:** This was on March year ending where also we had some refund and all something which came out from the tax department, so that boosted the other income.
- Renu Baid:** But, was there any element of FOREX gain or loss during the current quarter in other operating income?
- TK Sridhar:** Net FOREX impact to the company level was just very Re.1 crore.
- Renu Baid:** So nothing as significant was there?
- TK Sridhar:** Yes, exactly.
- Moderator:** Thank you. The next question is from Charanjeet Singh of Axis Capital. Please go ahead.
- Charanjeet Singh:** Sir, you have talked about the base orders showing a good 10% growth; one is which segments where you have seen this growth coming from, you talked about renewables, but are there any other segments where these base orders are coming from and how do you see this growth continuing going forward? Secondly, you have also talked about the new products specifically the success in the Inverter segment. So, which are the other product segments which we are focusing for the future which can be a big game changer for ABB India?
- Pitamber Shivnani:** Basically, the base orders have grown like in PP form, traction, transformers and hybrid switchgears also. So these are the products where we have got more base orders.
- T.K. Sridhar:** So we have similar case where LP is also introduced for some products.
- Raimondo Salandra:** The growth for product is coming from familiar renewable, let us say that of data center and commercial more than residential in there in this quarter. And let us say we are experiencing now the good effect of the big localization effort or step that we took -we invested in the previous year. And in terms of quantity, composition of the meters, that is

high circuit breaker are going back let us say to the original volume after the big drop that we have experienced in 2014.

Giandomenico Testi: When it comes to new products, you asked a question, let us say going through the list we are talking about gas insulated substations, talking about hybrids substations as we call them, large tank breakers, dry transformers, all these products are in a way or another new, then low voltage orders, large machines, converters, both for solar as well as for variable speed drives and then as Raimondo said in the low voltage area, massive localization of products but then we should not forget our Process Automation and Power Systems divisions which are mostly working on projects, they also have product like instrumentation, flow measurements and temperature submeters, our high end relays distribution information in all these areas, we are continuously releasing new features and new products.

Charanjeet Singh: If we have to look at the gas insulated substation market, now, PGCIL has made the domestic manufacturing clause is mandatory for 400 kV GIS, so how do you see that benefiting ABB, we have our capacity also now on stream, and whether we are prequalified from this year itself to get orders, what is the status on that?

Pitamber Shivnani: We have already established our factory which we inaugurated in 2013 November and we have already started supplying 400 kV and 220kV GW. So we will be qualified for power grid tenders now.

Bazmi Husain: I just want to mention one thing that Pitamber and Giandomenico also talked about a little bit that hybrid switchgear part, that is a very important thing because hybrid switchgear part addresses existing substations, so a colony that had fans in every home, now have air conditioning in every home. So that extra electrical load has to come from substation that cannot increase in size, all of you know what the situation with getting land for any expansion in India is, and that is exactly where hybrid switchgear market is. So that is the market which is not looking at actually Greenfield installation, which is looking at extending or existing installation, which is potentially an easier market to invest in or investments to go into those markets as easier. So this is something where we have actually pioneered that entire segment for several years now and we see that poised for growth at this point.

Charanjeet Singh: How large is that market and who are the other competitors in that market specifically?

Pitamber Shivnani: Actually, there are Chinese players are there in this market actually and we are there; we have a major share in the utilities which we have started basically selling, and in the first quarter we received a large order from one of the utilities.

Bazmi Husain: Now regarding how large this market is, I think this is a market where really any number that you put to it is, you are just looking at any and every city in India needing this.

Moderator: Thank you. The next question is from Ankur Sharma of PhillipCapital. Please go ahead.

- Ankur Sharma:** I had two questions: One, on the renewable side, where you have been talking about growth being pretty robust. So how large are renewables as a percentage of your total sales at this point in time? And b) if you could also tell us very broadly in Solar and Wind, what are our offerings to these markets from ABB India?
- Bazmi Husain:** Subir will cover this question in a bit more detail, but I just want to highlight something... I said a little while ago, which is these are fast growing markets, these are not large markets right now, they have potential and we expect them to be large markets, but today they are fast growing, not large. So I think that is something please keep that in mind. Regarding what scope ABB has? Other than the solar panel everything that is needed we make. Remember, what play ABB has in that.
- Subir Pal:** Discrete Automation and Motion solution, the products that we cater to in solar market is of course the Solar Inverters and also the Solar Pump Drive. So these two are the key growth elements. And in Q1 we have had a very robust position and it is almost now taken together crossing 10% of revenues. That is a very healthy sign.
- N. Venu:** Bazmi, if I can add to Subir, on the Solar side apart from offering the product, we also offer systems solutions to our customers or grid connection substation and also eBOP and Automation. So we have a two-pronged strategy when it comes to the Solar – one, we also sell our products to various customers directly; and we also make solutions around our own products.
- Subir Pal:** On wind side, we have larger wind generated that going to the nasal of every wind turbines that is supplied by us and we do have very heatings wind turbine OEM as our major customers needing this.
- Giandomenico Testi:** Including the Switchgear, coming out of the generator, the Automation system, protection system, so the entire value chain we produce.
- Bazmi Husain:** I just want to highlight that when it comes to solar and wind, as of today in India there is no set of rules. Grid codes: the set of rules when you connect this kind of energy it will be grid, what should be followed in terms of what kind of capabilities and what are the things to be taken care of. As the amount of solar and wind in the Indian grid rises, this will become inevitable. And when that happens which cannot be too far away, it is a regulatory issue, ABB's scope in that market will actually begin to increase because connecting these energies to the grid is not as simple as connecting device together. But for that to happen, so that threshold to be, I think we are still maybe about a year or so away before it would become a necessity in the grid.
- Ankur Sharma:** Second question was we are hearing from power grid that they are going to be ordering out a pretty large HVDC line which goes from Chhattisgarh to Tamil Nadu. So have you seen the tenders for that come out? That is #1. And part b) is obviously, ABB would be bidding for that. So, what would be our localized content as and when we bid for this HVDC order? Basically trying to understand what could be the portion which comes to ABB India if we do get that order, maybe it is a little premature but I am just trying to understand that.

- Bazmi Husain:** This is something that these are pursuits so we do not really comment on pursuit, but let me say something about HVDC in general and then Venu may explain on that. First of all, in ABB, India and Sweden are the only two places in the world that ABB does HVDC Engineering. I am not going to give any indication as to what percentage where but I leave it to you, a split between Sweden and India. Yes, this project pursuit is going on and I am not going to comment on something that is in pursuit, but Venu can add more on HVDC and also what our offering there.
- N. Venu:** I think the project is already announced, I think it is a public information, you can also check it from PGCIL website, the tender has already come out to the market, definitely we will be bidding for this project and for ABB, HVDC is one of a key technology differentiator where we would like to serve our customers and having built up our huge capabilities on these things, we will be seriously looking at this pursuit, and we have a complete range of products that we manufacture will go into this project, right from The Converter Transformers, GIS, Valves, control panel, what not.
- Ankur Sharma:** On the Power Product margins during the quarter, which did come up quite a bit, if you could just help us understand what exactly happened there?
- T.K. Sridhar:** The margins basically in Power Products were impacted by two to three clear factors. One, the volume itself went down, so the capacities in a fixed cost which we have under-recovered to that extent. Two is, as I mentioned, we had taken additional depreciation impact due to change or transiting to the New Companies Act Schedule-II, so the major impact have gone to peer product because they have the most share of the fixed assets with them. And also the third element probably, because as Pitamber was saying, they were also trying to deliver the high end products like GIS, which were definitely in initial stages, not so with high margins. So this was the broad attributes to why it was a bit lesser.
- Pitamber Shivnani:** In addition to that we have new factories like dry type transformers and GIS, so we have additional depreciation.
- Moderator:** Thank you. The next question is from Kunal Sheth of Prabhudas Lilladher. Please go ahead.
- Kunal Sheth:** I was wondering that you were saying you were quite disciplined and you were focusing on cash over revenues. So if you can throw some more light in terms of which are these customers or which sector specifically are these customers where you are seeing some stress in terms of picking up of your material?
- T.K. Sridhar:** We have already mentioned that the industry as such is basically lagging behind, so as such itself is tied in liquidity. So, we do not mention explaining to the customer because we do not disclose that.
- Kunal Sheth:** No, I appreciate, but any segments you would want to highlight where any specific delay or it is across the board is what actually I was trying to understand in terms of a trend?

- Bazmi Husain:** It is generally across the board.
- Kunal Sheth:** Because we have been seeing that ABB has been conservative for last few quarters. So do you see for any of these customers any risk of bad debts or any such thing or it is only a temporary liquidity issue which should get sorted out?
- T.K. Sridhar:** No, I do not see anything; our balance sheets are pretty strong, our receivables are pretty robust from the collectability perspective. So, that is the reason why unless and until the finance is in place we do not dispatch the material just to make sure that we do not have those bad debts again.
- Kunal Sheth:** ABB as a company, what kind of capacity utilization we will be running at currently?
- Bazmi Husain:** I think this is something I also covered last time and time before, we are certainly not capacity limited for growth, we are running in most of our plants today single shift operations, I leave the arithmetic to you that we are able to deliver profit which the single shift operation what will happen when we are able to sweat the assets a little bit more.
- Moderator:** Thank you. The next question is from Ankit Fitkariwala of Jefferies. Please go ahead.
- Ankit Fitkariwala:** Just wanted a bit of flavor on your opening remarks when you said that the exports are down because of some large projects where you are L1 have some timing issue. So if you can just give some flavor in terms of percentage of revenues in the quarter for exports and what do you see going forward?
- Bazmi Husain:** Exports has been growing for our portfolio and we said that we are now actually in excess of 15% of our total volume coming from exports. So this time it has been less but I think that is on effect on the timing issue. But I want to reiterate that as a company, our primary focus continues to be the market share in India. Exports, when we are looking at especially on the project export part of it, I mentioned that last time, we are very-very careful about not going too far away from the geographical reach to get into projects. So, it is only the neighboring countries that we would do projects, rest is product exports or what I mentioned last time about engineered solutions where we do the engineering but work with a partner to do the actual installation. Maybe Venu can add a little bit more on that.
- N. Venu:** For the exports of Power Systems, apart from supplying control and relay panels and COMBIFLEX Relays, we also do substations and engineered substations in our nearby countries like Bangladesh, Sri Lanka, Nepal, Bhutan and also in Myanmar. So, we have been participating in Bangladesh and Sri Lanka markets and in a couple of projects we are well placed and as Bazmi rightly said it is a timing issue once we have all the approvals in place, then contracts signed and we will book that.
- Ankit Fitkariwala:** If I get it, you are saying that in the last quarter typically about 15% of total volumes were from exports and going forward you see it going higher?
- Bazmi Husain:** No, I said last year on an overall basis in excess of 15%, this time it was a little less.

- Ankit Fitkariwala:** Secondly, when you said that about... did I hear it right Rs.150 crores of revenues you could have booked but you have not booked because of the financial arrangements as per the contract with the customers, right or is it Rs.50 crores?
- Bazmi Husain:** Rs.150 crores.
- Ankit Fitkariwala:** You have set up this new factory for the 400 kV GIS, right? Now we are eligible to apply for PGCIL tenders. In the last year or so, we have not won too many substation orders. So, was it like we were not eligible for it or something?
- N. Venu:** If I can add, PGCIL is one of our customers and from Power Systems standpoint, we sell both industry, infrastructure, generation, transmission and utilities, the complete spectrum. From that PGCIL is only one of the customers and every project of PGCIL we look at and evaluate based on the risk/reward profile. So it is not that we are not eligible, we were also eligible, and we were also successful in a couple of TIS projects over there. So every project of every customers were looked into in more detail based on our risk/reward profile.
- Ankit Fitkariwala:** So the domestic manufacturing clause was not holding us back, right?
- N. Venu:** No, not at all.
- Moderator:** Thank you. The next question is from Chinmay Gandre of Dalal & Broacha. Please go ahead.
- Chinmay Gandre:** In Railways, just wanted to understand, like we have been mentioning also in the press release that Railways were good overall and also last year Railways were pretty good. So what section of Railways are we seeing order inflow coming in – is it like electricity generated to metros or is it relating to locomotives, could you throw some light on that?
- Pitamber Shivnani:** Basically in three-phase locomotives, we have transformers and converters, there it has been good amount of business actually.
- Chinmay Gandre:** Any particular client do you want to mention?
- Pitamber Shivnani:** Indian Railways CLW.
- Chinmay Gandre:** What about DLW?
- Pitamber Shivnani:** DLW is basically diesel locomotives where we have a Turbocharger business actually.
- Chinmay Gandre:** About electrification-related metros or substations that are required by Railways, how is that market?
- N. Venu:** On the Railways, be it Metros or things, we have a two-pronged strategy; one, we supply the products, be it a transformer, dry type transformer or our relays or SCADA, we also have a strategy of complete systems like what we are doing in a Bengaluru Metro or what

we have done in a Delhi Metro. We see as a segment growing and we are continuously as I told you every project we will look into more detail on the risk/reward basis and we have a multi-pronged strategy to offer our products and solutions to these customers.

Moderator: Thank you. The next question is from Deepak Narnolia of Antique Stock Broking. Please go ahead.

Deepak Narnolia: I have this question about your raw material cost. It has substantially declined during this quarter despite the commodity rise/fall also in the market. So is 65.7% is kind of sustainable or is it a project-product mix issues, can you throw a little light on that?

T.K. Sridhar: The material cost movement between the last quarter I think basically here in this quarter, we had a favorable impact of the foreign currency, that is one thing. But otherwise, the other major components is basically is what other people were saying on account driven by better product mix, new products and a huge amount of localization what has happened. So, this is a major factor. But, we will still maintain our position that our material cost will be range-bound between 67 to 69% is what we had earlier said.

Deepak Narnolia: You said that your Rs.150 crores revenue have been deferred or have not been booked. So, if I ask you as a layman, then was the difference between sluggish execution and deferment of your revenue?

Bazmi Husain: The big difference in that is that sluggish execution implies not readiness for shipment. It is ready to be shipped, it is only waiting for condition to be met. Sluggish execution would mean that there is a delay in the execution, it is not a delay in the execution of any kind.

Deepak Narnolia: This Rs.150 crores you have done the work but you have not booked the revenue?

Bazmi Husain: We have done the work, we have got the equipment in our factory, some of it is actually even packed and ready, but still with us.

Deepak Narnolia: Transmission, distribution business and Railways, what is your view on that?

Bazmi Husain: Utility business as I said T&D is one of the business areas which has less impacted than others for sure, but I think if you look at it on an overall basis, the power situation in India is such that our peak requirement of power in India is just about 60% of the capacity to produce even today. So, in India, actually it is the distribution side that needs reforms, first, before more power generation and transmission is going to be needed. So there are some projects going on, Yes, but I think what is really needed in the market today is more focus on the distribution side.

Deepak Narnolia: Just a house-keeping question; this Rs.8 crores higher depreciation is for prior periods?

T.K. Sridhar: Yes, it has a cumulative impact up to the current quarter.

Deepak Narnolia: What would be the range of your recurring depreciation going forward – that would be Rs.42 crores minus Rs.8 crores no?

- T.K. Sridhar:** No, this is only for the quarter, right, so your depreciation would anyhow be higher by this amount in the next coming quarters also compared to your annual rate which is going on.
- Deepak Narnolia:** No-no, what I am asking this Rs.42 crores include Rs.8 crores impact of prior periods. So the quarterly recurring depreciation going forward would be Rs.42 crores minus Rs.8 crores, correct?
- T.K. Sridhar:** No, Rs.42 crores is the depreciation which we have incurred for the quarter which includes Rs.8.5 crores for the quarter. So that means going forward, if you are benchmarking with the other quarters, that was already at a lower rate. So then technically you will be at the same level of depreciation going forward as well.
- Deepak Narnolia:** At the same level?
- Bazmi Husain:** Yes.
- Moderator:** Thank you. Ladies and Gentlemen, that was the last question. I now hand the floor back to Mr. T.K. Sridhar for final remarks.
- T.K. Sridhar:** Thank you, everyone for joining this particular call and also Bazmi and other management team members who are here. If there are still some unanswered questions, please feel free to come back to me.
- Moderator:** Thank you. Ladies and Gentlemen, thank you for choosing Chorus Call Conferencing Service. This concludes your 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.