"ABB India Limited Q1 2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen, good day and welcome to the ABB India Limited Q1 CY 2021 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded.

I would now like to hand the conference over to Mr. TK Sridhar – CFO, ABB India Limited. Thank you and over to you, sir.

TK Sridhar: Thank you very much, Janice. Good afternoon to all of you. I hope all of you are safe and your family members are also safe in this pandemic time. And thank you for joining this Q1 2021 Analyst Call.

We had our Board Meeting yesterday; the results were declared yesterday, and we had the AGM also today, which is why we are having the call a bit later in the day today. In the meantime, I hope you have had a look at the presentation which has been already uploaded on the website.

So, with this, I would like to hand over the call to Sanjeev. I have all my team members, the management team listening to this call, and we will be ready to answer any questions. So, over to you, Sanjeev.

Sanjeev Sharma: Thank you, Sridhar. Welcome to quarter one 2021 call. As Sridhar mentioned, these are very challenging times for all of us, for our employees, our customers, our partners and all of you on the call. I am sure you have been taking all the precautions during these times. In the next couple of weeks, I think staying isolated and insisting with the family members they stay isolated is the only way to break this cycle of infection. So, that is exactly what we are trying to do in the company, and we are running it to a level which is at the essential level and trying to keep minimum exposure to our employees and our stakeholders.

Our priority areas for January to March 2021 quarter have been health and safety, ensuring business continuity to find ways to stay connected with the customers, and continue to serve them with our products and services. Also, at the same time, keep on watching the high growth segments but at the same time see the budgetary impact on the muted segments. So, those have been our focus areas. And of course, for the last one year now, very strict and sharper cost and cash management.

If we look at it from the market segment, we have seen good momentum across the market segments of our interest. We have seen some key financial metrics pick up sequentially. So, if you look into the orders, you see sequentially, we had a jump of orders between quarter four quarter one which is almost 24%. And we have a stable revenue base and I think we were able to execute, and our customers could absorb the deliveries as well as services from us. We have a good improvement in our profit before tax, PBT, and of course there is a one-off gain of Rs.

75 crores built into it, but still on a relative basis it is a good operational performance and improvement.

Now, in terms of highlights during the past quarter. We maintained customer centricity and innovation at our core. We did see installation of projects for smart sensors soft starters to reduce water usage in Shimla, Himachal Pradesh, this is basically a template for a city which our city wants to optimize the water consumption as well as distribution, I think we have solutions there. We implemented solutions for Chennai Metro by supplying drives into HVAC system. OLA, which we know as a kind of a cab hailing company, they are setting up a very large electric two-wheeler factory, it's a global scale factory and they have been in dialogue with us and they have entrusted our robotic solution for automation of their entire factory. We have been working with a major petroleum company and they have committed to 76 locations in Tier 2 and 3 cities to set up the EV charging stations with us. And also, energy efficient drives were commissioned for biopharmaceutical major in the country. And electrification and flow meter solution for clean drinking water for Surat Smart City in Gujarat. I think we have been engaged with them for quite some time, but then we continue to augment their capacities and solutions.

Just to give you a flavor of market segments, which are of interest to us and how we see them today. We see that even the moderate to low market segment in terms of the growth, we see that these market segments are receiving some budgetary support, and they should also start moving well going forward. But we had to see how well they perform as we go forward in the next quarters. The largest ecommerce company in the country, they are using our solutions for setting up their data centers, which are growing at a good pace. Our robotic solutions are being deployed to an electronics manufacturer for a very large-scale component finishing unit. We are under NDA so we cannot name the manufacturer. Same way, pharma companies are accelerating digitalization using our industrial automation or process automation solutions. And a lot of leading F&B companies are buying our energy efficiency and robotics solution for end of the line palletization. And we see that this is a new category which has opened for us. We used to be in robotics very automotive heavy, but now we see electronics as well as F&B and FMCG companies are users of our robotic solution. As well as there is a lot of focus on the energy efficiency where our motion solutions are also getting absorbed quite well. And I did mention that water is one area of focus and we are seeing good traction there.

Well, with our presence in this country, we had our 71st AGM yesterday. So, over a period of time, we have learned that we need to bring to India the best of global technology. But then at the same time, continue to localize it on a higher scale to develop the local supply chains, and it helps us by reducing our import content exposure, and at the same time improves spirit of Made in India or Aatmanirbhar Bharat. I think this is not only a local program, but it is a global ABB program, they really believe in making sure that we continue to develop local supply chains. And as they mature and as our product lines and solutions mature, and those solutions are global standard, and these products then start finding their way in the export market. So, that has been a cycle we have been seeing in many of our product lines, but this is an area we continue to work on.

ABB India has a very focused ESG strategy, which we are paying very high attention to, wherein we have a three phase program, we have Phase 1, Phase 2, Phase 3. First phase, we are going into green factory building and green campuses; Phase 2, we will go for green manufacturing processes; and Phase 3, in collaboration with our global product managers, we will have the green products as per our global and local agenda. So, we are implementing, at this point of time, site efficiency, innovation in design, water conservation, indoor environment and health, energy conservation and material conservation and focus. We have a 10-point ESG framework. And as you will see that every quarter when we talk to you, you will be able to observe some progress in these areas. This is a focused activity driven at the top management level with myself and my colleagues in business area anddivisions, they are fully committed to this program.

So, the way we are working within ABB India, sustainability is embedded in our business. So, we are committed for a low carbon society, preserving resources and social progress. And we have a very clear dashboard where we start measuring it even more closely, safety being on top of it, safety in all aspects of what we do. We measure our hazards, and we make sure that they get resolved very quickly. So, right now, as I speak to you, the hazard resolution in our operation is at 98.5%, health and well-being during COVID-19 period, we have taken measures to protect our employees, our contractors and our other stakeholders, and we continue to make sure that the right investments are made in this area. Our CSR programs are built around 12 large community projects. And for last six years, if you see our track record, we spend 100% of our CSR money and we commit to it.

As far as the waste recycling is concerned, we are at the moment doing 93% waste recycling. We work very closely with our suppliers as well as our teams to keep on finding the opportunity how the waste gets eliminated. And it's really done at a granular level. And we continue to find solutions with the packaging suppliers or whoever brings in material which goes into the waste bin, we find a way that it gets recycled. At this point of time, we have a green power usage of 40% with renewables, and we already have a plan to continue to increase it. And you will see these percentages will increase as we go forward. We have a water reduction of about 30% in our operations, as we noted. And we have in last 10 years done 234 on-site assessments of supplier sustainability. And this program continues.

Promoting diversity through social responsibilities is on top of our agenda. We are institutionalizing this program. At this point of time, we are sponsoring 100 meritorious girls coming from underprivileged background, girls who are interested in science and technology. We will financially support them for their fees for four years, so entire fees we will take. Not only that, our technologists, they will work with them at regular times to give them a sense of new technologies in the market so that these young minds are shaped. And we will provide mentorships as well as internships to them so that when they are coming out after four years, they are very well prepared girls. And we know that by example that if they come well prepared and they get absorbed in industry, not only they will become very good woman leaders and good engineers in future, but also there is a huge impact in the family and the family level of sustenance also improves in a dramatic way. So, this is again an area where we are committed and we always like something which is institutionalized, so that's why we work with the like, in this particular case Lila Poonawalla Foundation, to sponsor this girl, and we will continue to expand it. So, there are many more programs, I think you will get to see in our financial report.

Yesterday in the board meeting and today in the AGM, we announced reconstitution of our board, and you will see that we already have 50%-50% representation of board members among women and men. So, we have three women directors and now we have three men directors. So, we have reached at top of that pyramid. And the message to all management teams, different divisions and product lines is to make sure they are reaching that kind of objectivity and focused action for replacing new positions, as well as hiring new ones and consciously go for recruiting women. And I think we will see that change happening in years and months ahead of us.

So, with this I stop here and hand it over to TK Sridhar, our CFO, to take you through financial highlights. Over to you, Sridhar.

TK Sridhar: Thank you. Just to give some colour on the orders, I think the last year same quarter we had a major order from an industrial automation sector, and also, we had a good order from the railways for forward traction, which in this particular year was not there. So, in other words, this particular order is fully backed up by the base orders from the different channels to the industry. So, order backlog remains pretty much very credible, these are fully executable in the coming quarters, Rs. 4,300 crores roughly is there. And we did a revenue of Rs. 1,269 crores. I think the expectation or whether we could have done better, is something which depends on how the order backlog is executable over a period of time. And if you go back to how these orders have been executed, they have been collected in Q3, and most of them in Q4 of 2020. So, with respect to the execution, they will fall over the next few quarters. So, that's how the order backlog will be fully executable in the coming quarters.

PBT was, before including all the exceptional items, at Rs. 204 crores. We have included Rs. 75 crores of exceptional item of due to disposal of an asset. And profit after tax also we had. But I think I would say the highlight is that the operating margins have improved. We did see an increase in the material cost as what you would have seen. I think there are a few reasons to that, one, of course, the projects revenue is higher and that is how you see it with the process automation revenues are picking up. And the services were a bit dented, it's more because of the flexibility for people to move and cater to the customer. So, that was 14%, while the normal rate is about 17%. So, that's another reason. Plus, also we had the impact of the material cost due to commodity prices hardening.

On cash, we have a good select collection in Q1 as well. We have a cash reserve of Rs. 2,500 crores. This is what I touched upon in terms of material cost. And then employee cost remains constant, we did not take any cut as we had done last year. We have phased out the people in terms of loading etc., and it is how we measure our personal expenses. So, less number of third-party contract services whom we have in the load, which has been done with lot of automation, as what has been done in the floor space as well.

So, from the reduced expenses, as you see, I think we are at Rs. 257 crores compared to Rs. 300 crores. I think there are two elements to this particular topic, one, of course, we had a favorable FOREX gain, which is a mark-to-market gain, which is temporary in nature to the extent of Rs. 20 crores, Rs. 22 crores. And also, we had certain provisions which were done in the last quarter in the process automation. And the balance is basically more due to better savings in the cost or reduced expenses, because in terms of travel we had some savings. Of course, with the green energy initiatives we have taken, we could see a good impact on the power cost as well. And the efficiencies have definitely improved over aperiod of time. The current tax rate is 25%, 26%.

Electrification is on very solid track, they have an order backlog of Rs. 1,355 crores. I think they see a good visibility of orders. I would say, all the divisions in electrification had showed really a good momentum. And of course, they were leveraged upon the capacity uptick in the cost rationalization. So, they also had before a favorable FOREX impact on the mark-to-market area.

Motion and electrification nearly form 75% of our total business. So, while 20% comes out of process automation and 5% from robotics at this point of time, and they definitely both of them have a higher contribution to the profit margins as well. So, motion, it is an example on how they leverage the capacity to cater to the market needs, they did a good profitability at Rs. 90 crores in the current quarter with stable revenues and there you also see sequentially an order uptick.

Process automation made a big comeback in this quarter, because we saw a lot of headwinds in the last few quarters in terms of the orders not getting finalized or getting delayed and so on so forth. I think, this quarter they were able to turn around with good orders from both the process industries as well as energy industries. We hope it continues, I mean, we need to watch out as to how, with the current trend it pans out. And profitability, I think their balance sheets have become pretty clean and agile, so therefore we expect that this profitability should remain stable.

Next, robotics and discrete automation. I think this is, again, an amazing story of a comeback. And I would say here, I think four or five quarters before, we were really thinking as to how this particular business will grow. And we were very constant in saying that this is a future growth engine for ABB as such, and especially in India. So, that's the reason why we went with an expansion of the factory in India. And now we can really see that the presence of robotics in the market has gained traction. So, we see going forward, I think they should be able to build this installed base to expand the business, but in a gradual way, as the industry tries to adapt to those new technologies.

EL and motion, they form a major part of the business, and of course, in terms of profitability they tend to be higher contributing to the bottom line.

So, on the outlook, I think our first priority today, is health and welfare of our stakeholders. While we knew this would come, but in terms of its intensity, it is far critical than what it was the previous year. And of course, while we do this, we also look at continuing the business, so that's important, something which we need to understand. And we will focus on the growth segments is what Sanjeev had already elaborated. And while we do so, I think we also have a task to do in terms of mitigating the headwinds in commodity and FOREX, which are key drivers to remain competitive for us. And also engage with stakeholders and customers to ensure that we are able to deliver to them and we still occupy the most of the remaining space.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session. The first question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: Congratulations for a good comeback on the performance side and the cash performance as well. My two questions would be, first, how do we look at the inflationary impact headwinds, both in terms of orders as well as performance, as in, in the next two quarters for us, given that good share of orders were won? And what would be the share of fixed price contracts in our portfolio today, which could have an impact?

Second would be, if you look at the group, they have indicated carve out of the e-mobility portfolio or partially monetization, not fully exact like PG. So, what could be the likely implications for the India portfolio here which is still in the nascent stage because of realignment at the group level? And if you can get some comment on the revenue share and performance of exports in services, which was missing in the presentation. Thank you.

TK Sridhar: So, Sanjeev, so let me answer two questions embedded in one question and then the balance two questions you could probably pick up, right. So, first question is a simple one, which is what is the share of the business. In terms of exports, we were 11% this quarter compared to what we used to do around about 13%, 14%. And this reflects the situation of intake of orders from other countries, because they were impacted because of COVID at this point, they were before us, and so there were restrictions on the movement and the uptake. But we remained strong on the order intake, which says that our order backlog has a good content of orders.

The next thing about the inflation. So, we see there is an inflation factor, which is being told by market riding at 6%. And we need to see as to how this develops during the COVID. But the feel is that ours are all short-term orders at this point of time other than probably PA, which has a longer time order which is smaller. And I think, out of the total backlog, probably 15% to 20% could be the contracts which are hedged towards price variations or any other variations what we see. But the balance being short-term, I think they should not feel any headwinds, so they should be executed, we have already procured material and it should be done there.

So, the next few questions, Sanjeev, I think you could pick it up.

Sanjeev Sharma: I think the question was about EV charging business. So, in India, as you rightly said, Renu, is in nascent stages, the whole industry is in nascent stage, but we are seeing good growth here wherein the early starters or the people who are putting out their vehicles in the market, they are buying it for their showrooms or certain placements in their area. So, we have a reasonable pickup, but we have a very strong business and very fast-growing business in Europe and North America and also in certain Asian cities. In fact, ABB is considered to be number one in EV charging globally. So, this particular business, the growth rate and the support it requires is very different than the ABB normal portfolio in terms of growth rates as well as support and the impact. So, on that basis, that is what I got that feedback also from the group that, for that reason they are going to place it out and let it live its own life, because this is a new area which is opening up and it has a very high growth rate and very flexible approach. So, yes, ABB is going to play this out and the planning is being done there. So, as far as we are concerned, we don't fully manufacture it here, we have more supply orders into the market, I think as such we don't have a very large footprint impact on India.

Renu Baid: So, at least it would remain in the listed entity for the time being, or there could be some plans to carve it out of the listed space here?

Sanjeev Sharma: So, I think, typically when the group decides in a certain way about a business, then what happens is that same entity will have its footprint across the globe, and they will decide where that footprint is and how they want to channelize it in the market, so that visibility we don't have it. But typically, before we decide on it, we take it to the local board, we place the situation in front of the local board and then board deliberates how we see the decision making around that business.

Moderator: Thank you. The next question is from the line of Nitin Arora from Axis Mutual Fund. Please go ahead.

Nitin Arora: Sir, the question is more from an ordering perspective and the inquiries. So, sir, if you look at quarter-on-quarter, I don't know will you be disclosing the OLA order number, but generally, quarter-on-quarter we are seeing despite six months of country opening, everyone growing so fast across industry, our base ordering has come to about Rs. 1,500 crores, Rs. 1,600 crores, on an average. Just wanted to understand, are the customers taking more time here because of this COVID going on, the inquiries are still not getting executed into the order inflow? Or it will take a little bit more time where the bunching up of ordering should happen in the second half, if you can talk about it a little bit, including any benefit of PLI or any greenfield inquiries from the state sector you are seeing, that would be helpful.

And the second question was just a clarification, what you said about FOREX gain of Rs. 20 crores, that is getting reflected in these reported EBITDA. Is that correct?

TK Sridhar: Yes, you are right, Nitin, it is getting reflected as a part of other expenses.

Nitin Arora: So, in the segmental, where it's getting reflected if you can throw, because then margins in that case looks down. I understand the revenue growth is also lower because, you stated in opening remarks, because of COVID.

TK Sridhar: So, first of all, the mark-to-market is more about temporary gain or loss, that is something which you need to understand. And the next thing is that it is spread across all the divisions in ABB, so we have 21 business divisions in ABB, and so they spent all of that. And if you look at it, it is spread across all the divisions. So, we don't have one single division having an impact or something like that.

Sanjeev Sharma: Okay, on the order side, as we explained, and you can see that on the robotics and automation, as we have been speaking on the last quarter, we see a good traction and good investments and good faith the large-scale manufacturers are imposing on us. And also, we see when the new manufacturing is coming in, it is being automated at a very, very high scale. So, that is a positive sign for us for the machine automation as well as robotics automation.

In the industrial automation side, we do see that, yes, there is an inquiry build up, but core sector should pick up, but then we don't see that CAPEX converting into orders yet. We do hope that in the third quarter it should start forming itself. Though the enquiry visibility is quite decent. In the electrification and motion, as Sridhar explained to you earlier, it's about 75% of our inquiry base. I have the business leaders, CP Vyas and Sanjeev Arora for electrification and motion available, I will allow them to answer it, how do they see the inquiry build up in the market and the convergence. Starting with you CP, for electrification.

CP Vyas: Thanks, Sanjeev. What I can clearly see from last November onwards, or I would say from October onwards, is the positive trends and we see the inquiry buildup, especially for the base order, and which are required from the market point of view. This second COVID wave which came suddenly, is a surprise, it gave a little impact. But from opportunity point of view, we see for electrification point of view a reasonably good opportunity and inquiry banks are available with us at this moment from various growing segments.

Sanjeev Sharma: Thank you, CP. Over to you for motion division, Sanjeev Arora.

Sanjeev Arora: Thank you, Sanjeev. And good afternoon, all. So, to answer your question, if you see quarter-on-quarter, be it our Q3 or Q4 or Q1 results, we have been quite consistent after the first hit of COVID. And I strongly believe that, yes, we have a good amount of inquiries, and the projects were moving in the right direction, not only the light industries but also you can see the investments in metals, in cement. So, all the core segments have started showing a positive trend. I hope I was able to answer your question.

Sanjeev Sharma: So, we also have process automation represented by Balaji. Balaji, do you want to add something on the core sector?

G. Balaji: I think you have covered it, Sanjeev. So, while the inquiry bank is strong, but since these projects are slightly longer duration, so we expect more conversion towards the end of Q2, and possibly in Q3.

Moderator: Thank you. The next question is from the line of Ajinkya Bhat from Macquarie. Please go ahead.

Ajinkya Bhat: Sir, my question is, you have talked about this big and landmark order from OLA Electric in this particular quarter. So, my question is, is the entire order booked in the robotics and discrete automation segment? Or are there elements of it spread through maybe electrification and motion segments as well?

Sanjeev Sharma: So, currently our commitment is, for OLA Electric, is for robotics division. So, that's where we have booked the orders, and we have not booked the entire order, I think it will come in two waves, right, as the expansion takes place. And that is a case for many other orders, which we cannot mention, because of our non-disclosure agreement with some of the customers. We also have some other large-scale orders in our books which, again, the process has started and it will continue to give the benefit for the next, four to six years. So, that's the kind of scale we are looking at. So, if anybody was asking whether we see some scale manufacturing coming to India, yes, it is coming. And whether they are using best in class automation technology, answer is yes. And yes, whether they are using ABB robotics, the answer is yes.

Now, when it comes to a very large facility being put in, then of course there is scope for our motion division as well as electrification division, and partly for our process automation as well. So, those things that get channelized through our channel partners, also through OEMs. And what we do is whenever we see such a large capital spend, we connect with our channel partners and they start chasing it. And I think that conversion or that opportunity is yet to take place.

Ajinkya Bhat: Okay. So, you are saying that the entire order is not yet booked, so until what period do you see that this will keep coming into the order inflows? Will it be for next three quarters, four quarters, or will it continuously come for the next four years as you as you mentioned, as an eventual Rs. 2,400 crores facility that OLA is planning?

Sanjeev Sharma: We can’t give a forward-looking statement. However, as Sanjeev was mentioning ABB is well placed for their future growth, or an order expansion process as well. With the first phase where we have gotten, I think we could be a preferred supplier. So, that's what I would say. But still, every business has its own commercial practices.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: I have three questions. First is, in a data center which normally people tell is Rs. 30 crores per megawatt, what is the opportunity canvas for ABB? And this has been mentioned as your number one growth driver, so some colour on that will be very helpful. The second is a more leading question, when we see industry coming out, typically steel, cement, when they see improved margins, they start working on efficiency and automation, some colour on that will be useful before they go in for large scale expansion. Are you seeing that and is it reflected in your inquiry book?

Third and the last question is a very specific question, which is, the information technology expenses, before PG was de-merged it was a combined company, it used to be 1.3% to 1.5% of revenues, and now we are seeing that has risen to 3.1%, and it has been consistently rising. If you could give colour on that it will be helpful, because your peer set like Siemens it is less than 1%; globally parent, this expense is less than 1%. So, 3% of revenue looks high, more colour on that will be helpful. Thanks. These are my questions.

TK Sridhar: Okay. So, Bhavin, thank you for the questions. And I will answer the third question. So, the first two questions probably I think Sanjeev would try to come in and articulate, if he didn't hear the question probably you need to repeat it once again, sorry for that.

Now coming to the IT expenses. I think this has been picked up from the annual report is where you had seen this, if I get my this thing correct.

Bhavin Vithlani: Yes, yes.

TK Sridhar: Right, as payment to the group companies?

Bhavin Vithlani: Correct, Yes, Sridhar.

TK Sridhar: Okay. Very good. Thank you. So, now, there is technical input which I would like to give to you over here. So, while we need to understand Hitachi PG is still getting support on IT systems from ABB side. So, till they actually are getting their full IT systems up and running on their own, they will require it for a couple of another one and a half to two years to go. So, what we are doing is that while we are recording the expense as expense, but the recovery from them for the services provided comes as a part of the other income over there, or as a part of the income what we have, service income what we have. So, on a net, net basis, if I exclude the so called the cost debits to the PG and the so-called credits from PG for this, it will still stay in the earlier levels as what you has seen.

Bhavin Vithlani: Sure. So, the 3% will come down to 1%, 1.5%?

TK Sridhar: 1.5% to 2%. So, we are basically investing a bit more at this point of time to address the future digital needs of the products and services what we are coming up with, plus also I think there is more enhanced focus on account of cyber security and other protocols which are getting enhanced. So, this would definitely be an item which would have a spend, right. Comparing with other companies, I have very little to say, because I do not know how the cost structure and the cost model works in the particular organization as such. So, some people treat it as a part of the product cost, some people treat it as an expense. But whereas we see everything as expense other than in the material cost which is pure material cost required to convert into equipment. So, over to you, Sanjeev. Bhavin, for the benefit of Sanjeev, if I request you to repeat your query, please.

Bhavin Vithlani: Sure. Sir, data center has been identified as a number one growth opportunity for ABB India, it will be useful to understand in a data center which is usually Rs. 30 crores per megawatt CAPEX, what is the role that ABB products contribute to that total CAPEX? And how are you seeing this opportunity in the next three to five years?

Second is, when we see pickup in the CAPEX and we see profitability improvement in the commodity industry, they start with process improvement, efficiency improvement, and then they go for large scale expansions. Are you seeing that and does ABB become a beneficiary because energy efficiency related products etc. is a prime focus for ABB?

Sanjeev Sharma: Right. So, thanks for that. So, as far as data center is concerned, I have seen this industry growth in my previous experience when I was working for global side of ABB. I was also the so-called executive sponsor for Google, Microsoft, when they were setting up their data centers in Singapore, Taiwan, also in Europe. So, I was very closely associated. So, essentially data center is nothing but a very high consuming electricity zone, wherein servers are very power hungry. And what they require is, they need to be fed a lot of power at a low voltage level inside the building, and outside the building is the medium voltage level. And of course, you need to maintain a lot of HVAC wherein the motors, drives and other elements get consumed. And then also you require a lot of software to manage the data center. So, these are the sweet spots of ABB, very well established and very high reliable products and solutions, which are appreciated by the large-scale data center providers.

So, if you really look into the data centers, I think scaling up in India has just started. We haven't seen the sizes which I have seen outside India. But now the large players have come in and they are working with ABB for last two, two and a half years. So, they are kind of testing waters, then they are scaling up. So, as they scale up, the amount of megawatts they consume in each location goes much, much higher and they are mind boggling numbers. And accordingly, we have an impact on the supplies or the power supply equipment that we do and also the software that is required to manage them, and also the cooling requirements. So, then they pull through for our motion products there. So, that is data center story. It is in the early stages in India, it will scale up as we go forward.

Now, CP, want to add some colour to it, how you see the data center as a business for you in electrification?

CP Vyas: Sanjeev, you put it in a proper way. And as explained by you very clearly, it is a starting point and it will be a good opportunity from ABB India point of view for both, I am not saying electrification, even also for our process automation side also, because this redundancy part and the reliability part and the latest technology part, which is really going to help ABB from the data center point of view, and we are connected with almost all the global data centers through our ABB. So, I see a good progress and good growth is coming in the future.

Bhavin Vithlani: What would be the wallet share, in a Rs. 30 crores per megawatts total CAPEX opportunity for ABB India's products?

Sanjeev Sharma: Probably I think we can figure it out. And next time if you ask this question, we can give you some indication. But we don't look at it, we don't calculate that way at the moment. So, then you had a question with respect to CAPEX, profitability, energy efficiency. So, yes, I think as far as the market is concerned, I think we are seeing a very distinct change in the Indian large scale or medium scale, or the fast-growing industry. Their need to buy the best quality equipment, and also looking for best in class energy efficiency and best in class productivity out of what they spend on, I think that era has arrived here. And we believe that even mid to large scale manufacturers and the CAPEX spenders are looking for those opportunities. And they are pretty sophisticated in their evaluations now and they are exposed to global technology. So, we don't see ourselves being run through with very hard negotiations against very local, local suppliers there. So, we see that they are really looking for quality. And there is a premium for productivity increase and premium for energy efficiency, if the technology provides it. So, that's a trend we see.

Moderator: Thank you. The next question is from the line of Ajinkya Bhat from Macquarie. Please go ahead.

Ajinkya Bhat: Sir, just one question, on the margin side, now in this particular quarter we have seen that the two big segments, electrification and motion have seen a sequential margin decline, the EBIT margin decline in this quarter. Historically these two segments have reported somewhere between 9% to 10% kind of EBIT margin. Going forward, is there an expectation that these segmental margins would normalize towards historical levels?

TK Sridhar: So, let me take this question. So, when you are looking at probably electrification division, I think last time when you were looking at it sequentially, they had a huge turnover in Q4, and which is slightly flattish in this particular quarter. So, that's basically a volume game which had played out. So, I think when you look at the EL margins, EL margins are definitely very stable and improving. So, EL is in the right direction and I think they have a strong mix of products and exports, and also retrofit solutions for the given switch gears. I think the margins will stabilize going forward. Yes, they have an import content which they have to deal with, and I think accordingly on the other side they will also have exports which will come in to buffer it up. So, on a long-term basis or on a trajectory basis I think they are in the right direction, according to us.

Ajinkya Bhat: And what would be the improvement levers, especially so ABB global parent, for example, has said that CY 2021 EBITDA margins could be in the upper half of the 13% to 16% range, that's obviously global number. Here in India, our current EBITDA margins are roughly about 7%. So, would we be moving in that double-digit direction? And how soon could that happen? What could be the levers to achieve that?

TK Sridhar: You are talking of the blended total, right?

Ajinkya Bhat: Yes, yes, yes.

TK Sridhar: Okay. So, I think this is a very simple answer for me, okay. Why? Because we are operating in India, and 85% of our revenues come from India, where it is a very competitive landscape. And when it comes to comparing it with the global, yes, our endeavor first is to go to double-digit PBT margins, and then we travel towards the corridors what are set by the group, right? So, our ambition is to definitely go to double-digit at the PAT level, and that should definitely come up when the markets start to support us. And we have free from all these disruptions what we are currently facing. So, what I mean to say is, in a steady state, right, and when all the support is available, both in the market plus the other economic factors, I think we are well entrenched to get to those particular numbers for the local level, right? So, I think if we come to the 10% PAT, automatically the operational EBITDA margins, as what the group was saying, we should be near to that.

Moderator: Thank you. The next question is from the line of Sujit Jain from ASK Investment. Please go ahead.

Sujit Jain: A question is on building technologies and data centers, data center is, as you have highlighted, one of the key opportunities that you have. But even Hitachi ABB talked about data centers as their key opportunities. So, in these two segments, can these two entities compete head on or there are areas which they have carved out for themselves, like you for yourself and Hitachi ABB for itself? And on EV chargers, will it largely be as it stands today, will it largely be public infra or you will also have tie-ups with OEMs such as PV players, and will you have B2C user interface platform, etc.? Thank you.

Sanjeev Sharma: Okay. So, as far as the building technology and data centers are concerned, even when Power Grid was part of ABB, segregation was very clear, the Power Grid Hitachi has a high voltage substation portfolio. So, whenever you are bringing very large power into the data center, it has to be stepped down from that grid, and you create a substation with transformers and switchgear for high voltage switchgear, then you step it down to medium voltage level. And then on that point onwards ABB portfolio or a current ABB portfolio kicks in, so medium voltage, low voltage. So, that's how the segregation was in past and that's how the segregation and positioning is now. That was about data center specific question to you on Hitachi Power Grid.

Sujit Jain: And building technologies, can these two entities compete head on?

Sanjeev Sharma: As far as the Hitachi Power Grid had the solutions in the high voltage switchgear, transformers, associated protection equipment and substation division. So, these are the four divisions they have. So, in the buildings, again, if it's a very large building, which requires a high voltage substation, of course, they will provide that. But going beyond that, I wouldn't know if they have a product portfolio for it. But if they want to act as an EPC and buy the products on the market and integrate it, that part I am not privy anymore because that's a separate entity and separate company now.

Sujit Jain: Sure. And regarding EV charger?

Sanjeev Sharma: As far as the EV chargers are concerned, yes, EV chargers are bought individually, but mostly if you go to the mature markets, so typically it's taken as a public infrastructure. And there are specialized companies who buy, setup those networks, and then they run their power delivery as well as charging mechanism using this as an endpoint solution. And then it becomes part of public infrastructure and a reliable public infrastructure also requires reliable EV chargers, and that's where we become suppliers of solutions through such large-scale implementations.

Moderator: We take the last question from the line of Jonas Bhutta from PhillipCapital. Please go ahead.

Jonas Bhutta: Just one quick question. What we have seen this quarter is the unallocated expenses again go up much higher than sales growth. And now they account for almost 5.5% of sales, which used to be about 3%, 3.5% two years back. So, A, is this again completely related to that IT expenditure that you explained about earlier in the call? And how should we be annualizing this number of about Rs. 90 crores on the EBIT level as our unallocated expenses? That's my question. Thank you.

TK Sridhar: Okay. So, very good. So, thank you for this particular question. So, I think I will do your quarter-to-quarter comparison. So, the unallocated cost, if you look at it, has two, three elements, which I would like to explain, so why it is this way. So, in this quarter, as you know, as per the current CSR Amendment Act, we have to account for the full CSR spend in the first quarter, and they could not be on actualized basis. So, the amount accounted for that is roughly about Rs. 10 crores, right. And the last year, the same time, we had an income tax refund of almost Rs. 18 crores and also a reversal of a tax provision based on the order which we received to the extent of another Rs. 4 crores. If you eliminate these one-offs, we would be in the same range as what we are annually. I think our view on this is pretty razor sharp, and it would remain the same levels as what we are, excluding these one-offs. And these one-offs what I told you is only for that particular and it did not occur in the next quarter.

Jonas Bhutta: So, from Rs. 90 crores it is actually a recurring expense of just Rs. 75 crores?

TK Sridhar: Exactly. You are right.

Moderator: Thank you very much. Well, ladies and gentlemen, due to time constraint, we take that as the last question. I hand the floor back to Mr. TK Sridhar for his closing comments. Over to you, sir.

TK Sridhar: Yes. So, thank you all very much for taking time to attend this particular call in spite of all the challenges what we are facing today. If there are still some unanswered questions, feel free to write back to us, we will make all efforts to give you all inputs which is required for your analysis. And thank you for all the support and being with us during these troubled times. Wish you all a safe stay. Thank you very much.

Moderator: Thank you. On behalf of ABB India Limited, we conclude today's conference. Thank you all for joining. You may now disconnect your lines.