

Transcript

Conference Call of ABB Limited

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Presentation Session

Moderator: Good afternoon ladies and gentlemen. I am Rashmiya, moderator for this conference. Welcome to ABB Limited investor relations call to discuss the Q3 results for 2011. For the duration of presentation all participants will be in listen only mode. I will be standing by for their question and answer session. I would like to hand over the call to Mr. Vikram Kanth, thank you and over to you, sir.

Vikram Kanth: Thank you, Rashmiya. Very good afternoon ladies and gentlemen, my name is Vikram Kanth and I have recently taken over from Juliane Lenzner who was recently given a new global assignment within ABB and today we will discuss the India Q3 results we have from Goa where our board meeting took place. Mr. Bazmi Husain, the Country Manager and the Managing Director, Amlan Datta Majumdar, our CFO and from Bangalore we have Mr. R. Narayanan, who is the division head of our Discrete Automation and Motion business and joining in from Hyderabad is Mr. Venu, the division head for Power Systems. I also have my colleague Sanaj with me and now I request Bazmi our CEO and Amlan our CFO to take you through the ABB India Q3 results, over to you, Bazmi.

Bazmi Husain: Thanks very much Vikram, ladies and gentlemen, a very good afternoon. First of all let me apologize for my sore throat here, so if I do cough in the middle of my talk here I apologize in advance. First of all I am very happy to report to you that I think ABB India has for the third consecutive quarter I think we are growing okay, we are getting our market shares and more than that. We have had a growth of 39% in revenues and also 23% in the orders quarter-on-quarter. Looking at where we grew, I think both in power products and power systems we have had good growth and discrete automation and motion and low voltage products also very good growth. In process automation, however, we have seen a little bit of a decline compared to the quarter last year. There are two reasons for that, one is partly the granularity of the orders, the large orders make a difference and secondly we do see that there is a hesitation of investments in the process industry segment at the moment, so that is also reflecting in the order book. However we see that as a short term phenomenon, how short it depends on how the economic situation continues. From an ABB India perspective I think a lot of action that we have taken since the beginning of the year are clearly showing results both in terms of getting more of the wallet share from our customers, but also increasing the level of new product releases that we have done, products that have been designed in India for the Indian market following our strategy of in country by country and for country strategy. One thing I want to highlight to you is that just a couple of months ago we had launched a product called Safe Link which is used for power distribution in urban areas, which basically gives higher reliability of power distribution and this, we had an earlier product, which was at the very high end of the

spectrum and we have been able to redesign it to be more competitive for the Indian conditions and that new product that we have launched that is just an example of the steps that we are taking for being more competitive in this market. Going forward a little bit, I would say that right now we are in an uncertain economic situation. It has impacted our customers' willingness to invest and we see some of that, although we still have a very strong enquiry pipeline, but we do see signs that in some of the businesses there, there is kind of a hesitation on our customers' part, but that is where the basket that ABB India have of having products and projects and systems on one side and short cycle and long cycle on the other, which basically helps us very well to actually ride through these changes in the economic environment. What I am going to do now is going to ask my colleague Amlan to take us through the financials before I ask my other colleagues Narayanan for Discrete Automation and Motion and Venu for Power Systems to give an outlook on their business scenario in their division. Over to you, Amlan, thank you.

Amlan Datta Majumdar: Thank you very much Bazmi and very good afternoon to you ladies and gentlemen. Thanks for taking time to attend the ABB India Q3 results conference call. As we all have seen if you look at the macroeconomic and the social scenario we see in India today, you will possibly agree with me that we have seen major shift and major changes in the sentiments in the last 4 to 5 quarters. So, this quarter was no exception to that. As we are seeing the GDP forecast for our country is being revised downwards multiple times which is not very good news and we somehow feel that between 7% to 8% should be the GDP growth in the current fiscal, that's what is coming out today, which is lower than what we had expected a year back. But, having said that, the other factor which is also affecting the industrial growth very strongly is the continuing inflation and of course food inflation, which is also in the range of almost close to 12% now, is a social concern for all of us. The prices of petroleum products are being revised multiple times. This has a good side and a bad side, as we all know. So, the situation is pretty volatile, I mean, everybody agrees to that. You know how many times the interest rates have been revised and in our belief like any other industries not helping so much for the industry. The sentiments of investments are being lowered. Added to this we know about the Euro zone crisis and some lack of confidence we still see in the US market which does not have a direct impact, but certainly has an indirect impact in our business. The two things that we can clearly see emerging in the current scenario, one is the infrastructure projects decision makings are slow when it comes to the private sector decisions. So, our customers are hesitant to make big investments when the cost of borrowing, cost of funds is so high and the future is not as good as it used to be and of course we are seeing on the social side the civil society and the judiciary playing a crucial role in certain matters. One scenario that is emerging out of this, a bit of nervous sentiment I would say, is in terms of holding on to cash. Everybody is not sure where to put their money and so it is better to hold on to the cash is the scenario that we are seeing. Having said this, if you look at the ABB India results we are really happy that after we had gone through some turbulent times when we decided to exit the rural electrification business, which was a major chunk of our business and we are slowly getting back on track and the results are becoming slightly better than they have been. This quarter for orders it has been a good quarter. In terms of the base orders, which are our bread and butter orders we have seen a very good growth, double digits, across the business segments and in terms of large orders we have also got a couple of large orders, which we booked this quarter. So overall from the result perspective we cannot really complain so much, but yes it could have been better with a better scenario in the market. We have a very strong order backlog close to 2 billion US dollar or 92 billion Indian rupees, so which gives a very clear visibility towards our

revenues for the next four quarters that is also good news. The revenues for particularly this quarter has been exceedingly good, we have grown 29% and looking at the order backlog it gives us more confidence for the coming quarters as well. All the business segments grew in terms of revenues during the quarter and in double digits. In terms of profits, we have grown in profit after tax by 93% though we came from a relatively lower level, but the point is the power systems, power products and process automation, all the three divisions which reported a loss in the 3rd quarter of last year bounced back to profit, which makes us more and more confident that we are on the right track and Discrete Automation and Motion segment continues on its strong growth and delivery path. Low voltage products, as we will see in the results, we had a dip in the profit there, but that is only for this quarter, if you see for the nine months they have done exceedingly well as compared to the last year. This quarter it is more of a few low margin orders, which we have executed, we had taken for strategic reasons. The profit after tax with a 93% growth actually shows quite significant improvement. Looking at the results which you have already with you, you will see a significant improvement in our material cost and this has come out of the various initiatives. Our managing director and I have been talking to you over the past few quarters that we have taken multiple initiatives in operational excellence and bringing in the right talent in the manufacturing and project execution. It has started paying off to some extent and the impact what we had in the last year, all the quarters including the third quarter of last year, in terms of our exit cost of rural electrification are coming down, I cannot say it is absolutely not there because we are yet to close some of the projects, but that impact is coming down. So overall there has been a 3% reduction in the material cost, which we are very happy to report to you. Our people cost or personnel expenses roughly remain at the same levels, so we could arrest any kind of increasing trend. Looking at the other expenses actually declined by 2% in terms of percentage value and if you take the absolute value in the increase in other expenses you have to remember that we took over three businesses from ABB GISL during this year and those expenses are now merged with this, so if I remove the impact of the new businesses that we acquired during the year, the increase in other expenses is only 4% and I would say that a tremendous job done by the team in arresting the expenses. The depreciation and interest have been following the normal route. The interest, though not significant, has increased a bit because of the high cost of funds in the market. Overall generally the performance has been good and we are pretty much sure that we are on the right track, we are taking various initiatives which will come out during the call when we have the Q&A, but before that it could be a good idea that we, as you know our business is in basically two baskets, one is the power and other is the industry, so our head of power and industry are also on this call, Mr. Narayanan and Mr. Venu. It may be a good idea to listen to them for a while how they look at their market and their businesses. May I ask Mr. Venu to come in and Venu would you like to give us some idea about how you see the power market developing?

Venu Nuguri: Yeah, thanks Amlan. Good afternoon ladies and gentlemen, so let me just give you a brief about the power side of ABB India. Basically when you talk about power, we are involved in all the gamuts of power, be it power generation, transmission or distribution and as well as the infrastructure projects like Metro projects or Airport projects and when you start from the power generation side as you know, there is an anticipated slowdown primarily due to various issues like Amlan said, like funding issues and also fuel linkages and we had the land acquisition, due to that a number of the projects, which are in the advanced stage are really now going slow on that and the new projects, which they have planned are slightly going behind schedule

on the power generation side of that. When it comes to the transmission, as you know, transmission we see a lot of traction projects coming out primarily from both state utilities as well as the central utilities like PGCIL and other things and PGCIL spending is really increasing, they have now earmarked close to 177 million rupees worth of projects all lined up and we are really seeing a lot of tendering activities coming up from the PGCIL especially on the 800 KV projects both on the substations as well as the transmission products like transformers and circuit breakers, etc. On the infrastructure side, I think we all know that continuing efforts of the government on improving the infrastructure in the country, is one of the key drivers of our growth and investments in upgradation, whether it is a new airport or airports in the tier 2 cities and the Metro projects and like tier 2 cities Metro projects like Jaipur and Ahmedabad we are really seeing a lot of activities on that. All in all I would say that on the power side we have a mixed response on the transmission and the infrastructure side we see a lot of traction in the projects and lot of activities happening on that and lot of projects are getting decided and on the generation side is a slight bit of slowdown and we expect it is only a matter of time it should come back on the normal thing and overall I would say that on the power side we see good projects lined up and our tender bank is very active at this point of time. So Narayanan?

R. Narayanan: Good afternoon ladies and gentlemen, thanks for joining the teleconference of ABB Q3 results. I am Narayanan and I would like to just give a brief of what we are doing in Discrete Automation and Motion. In Discrete Automation and Motion we operate in all the spaces of industries and also to some extent in utilities. We do business in renewables, then in Discrete manufacturing and hybrid manufacturing industries like food and beverage, pharmaceuticals, textiles, then we are there also in the process industries like cement, steel and also water and thermal power, then in railways and also in the renewable sector. Among all the industries in the last quarter we have had very good growth in the renewable sector especially in solar, where with a lot of policies which has been declared by the government of India as well as by the state governments there are a lot of investments in solar. India is blessed by the sun; we have more than 330 days of sun, so this will be a sector which will grow in an exponential manner in the country. The other industry which we expect, if you see that the dollar has appreciated actually and this will help the textile industries to grow, which was actually having a slump down because the rupee had appreciated. Textile in India is highly an export oriented industry and that is another industry, which should grow and we also expect that food and beverages and the pharmaceutical industry also will continue to grow. The other sector of industry, which will also continue to grow, will be water because we still have droughts in lots of parts of India, so water will be continued to pump over large distances where our motors and drives are used. So, that is another sector which will grow and in Discrete Automation and Motion we also operate a lot in the energy efficiency space where drives are used for energy conservation both in the process industry. So whenever there is a cutback in production, drives are normally used for the process control, so that we will see it continue to grow. Also we operate in the railway sector and the ministry of railways as well as there are a lot of Metro projects, so that will also continue to grow. Also in this quarter in India we are also going to acquire the company Baldor, which was acquired globally. This will add more baskets of products work mainly the servo motion and control, which can be used in the Discrete manufacturing industry and also the high efficiency motors. The only small dark cloud in the lining is the inflation and the interest rates, which may impact liquidity to some extent, but that I hope is a temporary phenomenon and should go up at least a quarter down the line, that is what we hope for. Now I will hand over back to Vikram.

Vikram Kanth: Hello, can I request any questions from everybody on the call?

Question and Answer Session

Moderator: Thank you very much sir. We will now begin the Q&A interactive session. Participants who wish to ask question, please press * and 1 on your telephone keypad. On pressing * and 1 participants will get a chance to present their questions on a first in line basis. Participants are kindly requested to restrict to three questions and give other callers an opportunity. Participants are requested to use only handsets while asking questions. To ask the question please press * and 1 now.

First Ms. Renu Baid from B & K Securities.

Renu Baid: Hello?

Vikram Kanth: Yes, please.

Renu Baid: Yes, a reasonably good set of performance, strong execution and intake. Sir, my first question is coming in from the intake side of the business, will it see a very strong sequential jump in order inflows which came through. Sir, if possible you can share as you mentioned it is a mix of couple of large ticket sized projects also, so definitely probably the HVDC order would have been booked, so if you can just share some details on couple of key projects that were booked in the order and the key sectors on the process automation from where we had seen reasonable good inflows coming through?

Bazmi Husain: Yeah, hi. This is Bazmi and I will try to address part of the question and I will ask Venu also to add into that. First of all I have not yet booked any Agra HVDC order. We are in the final stages of the closure of the order. As we had announced earlier we will book the order only upon the financial closure of the project. We feel that is more or less there, but we expect that shortly. So, in this quarter, no, that was not a project that was booked. I will let Venu address the projects that they have booked, but let me address your other part of the question as well on the process automation side. In the process automation side we did some good orders really. In the cement we see there is more of an over capacity at the moment and so in the metals, but we see the petrochemical sector becoming more active now. So, I think that is going forward though that will certainly be a growth area because in the last I would say in a few years that has been a sector, which has not seen a lot of investment, so we see that investment coming back. Of course how much people will invest will depend on the economic situation which, you know, your guess is as good as mine as to when all the dark clouds that are there over the economy both in India and global would begin to lift.

Renu Baid: But sir, how is the investment scenario in the minerals and metals space because that is one of a strong forte for ABB India, how is that segment doing?

Bazmi Husain: Well the metals and minerals segment is a fundamentally strong segment and we will see that continuing to grow both building construction industry, all the new projects coming up, the amount of new roads coming up, they are all driving a greater need of both iron and steel. In the short term, very short term

though we do see both in cement as well as in metals the amount of capacity utilization when only it exceeds 80%, 85%, 90% that you begin to see a lot of new investment coming in. Right now they are 80% or below, so we do see a, let's say some, not a slowdown, but some delay. There are a lot of projects that are announced, also as seen in the newspapers, certain large customers are having problems getting iron ore, they are producing less result, but we see that as really a passing phenomena in the long term and in the medium term I would say nothing has fundamentally changed. This is a strong growth area.

Renu Baid: What are the large orders?

Venu Nuguri: Yeah. Just in answer to you, big ticket orders what we are receiving this quarter. We have received a combination of orders from the sectors like transmission as well as infrastructure like steel. We have received a major order from Bhilai Steel Plant and we have also received a major transmission project, which has been undertaken in a public-private partnership on a BOT basis from a (not sure) 00:32 through Isolux, we have received that also order has been booked in that.

Renu Baid: The value for the Isolux order would be 10 billion or how would the order value be pegged at?

Venu Nuguri: It is around close to, Amlan; can you tell that Amlan or you want me to tell?

Amlan Datta Majumdar: Yes. Yes, Isolux is 8200 million.

Bazmi Husain: One thing I just want to add that even though we go through these economic cycles, the very large projects that is like we are talking about the Isolux or we are talking about Bhilai Steel Plant modernization, these projects have been decided quite some time back that they will go ahead. So even though there is around certain environment, the very large projects actually continued to go on. It is the medium sized projects that people begin to have a rethink on. Very large projects and the very small projects, both people go ahead.

Renu Baid: Which means primarily in the current quarter we have seen the projects business driving almost more than 2/3rd of the intake that we have seen in the current quarter.

Bazmi Husain: Project business, would be I would say 60:40 in this quarter that is there, that is close to what you are saying.

Renu Baid: My second and last question largely on the profitability side of the business. Can I ask the question on profitability or, basically sequentially we have seen our weakness in profitability across business segments, largely the process segment of the business and yes, even power we have seen it coming marginally into profits. So what is your view? Is it because of pricing pressures, input price pressures or competitive pressures, which have led to these margins and what is your outlook in terms of profitability improvement over the next 12-18 months?

Bazmi Husain: I am not going to give you any specific numbers, but I am going to give you an outlook in terms of yes, our outlook is good. What are we doing

about it? We are doing a number of actions that are mentioned actually in previous telephone calls as well. We have an increased focus on operational excellence. Taking the cost out of our system, we basically, Amlan mentioned about material cost going down and that is a result of, of course, many, many components in there, but tightening up our supply chain is clearly one of them. So taking cost out of our own operations, supply chain aspects of it, I think, getting into new businesses that Narayanan mentioned, solar and all, those are segments that certainly have a bit of profit results. So it is a combination of what business mix we are looking at, what are we doing in terms of our own operations as well as supply chain. Are we in a tough business environment right now, of course, we are. But I think, what we are seeing clearly is that our actions are beginning to pay off, even in a bad environment, so you can well imagine when the environment turns around, these things will have a very, very positive impact for us. I am not going to give you an absolute number.

Renu Baid: Sure. But then in that case in the current quarter, did we have any element of FOREX gain or loss as we have seen in the previous quarters?

Amlan Datta Majumdar: See, this is much lower this time, it is only 85 million, so it is much lower.

Renu Baid: 85 million of loss.

Amlan Datta Majumdar: Gain.

Amlan Datta Majumdar: But this keeps on changing. I will give you another information since you asked this. Last year same quarter, third quarter of last year, we had a gain of 480 million. So we made less than 1/4th of last year.

Bazmi Husain: So you can say the actual performance was a lot better than the numbers are telling you.

Renu Baid: Right.

Amlan Datta Majumdar: We don't bring in this element very often unless it is too evident.

Renu Baid: Right, because in the last year base of FOREX gain was very high, so that was the reason why I wanted to just have...

Amlan Datta Majumdar: Yeah, thank you so much.

Renu Baid: Thank you sir. All the best for the year to come.

Moderator: Next question comes from Mr. Venu Garre from Barclays Capital.

Venu Garre: Hello, good afternoon. Sir, firstly I wanted to check with respect to the total electrification related losses or rather the backlog, could you quantify in terms of how much backlog is left after this quarter and how many more quarters would it take for those pending projects to get over?

Amlan Datta Majumdar: We have 310 million of backlog in rural electrification and our idea was that I had said some time back that by first quarter of 2012 we should be able to come out of this, but I had also mentioned that this is not entirely in our hands. We have to have agreements with our customers. So our target is somehow to try and come out first half of 2012, but it might take longer depending on what the customer is agreeing or not agreeing to.

Bazmi Husain: But the thing that nowadays that our amount of backlog and the effort that goes in to it, and therefore the risk has come down sharply and is on the way down. Now, you will all be familiar with all these curve that coming down fast is good, but going down to zero might take a little bit longer, but then the risks are very, very small from that point onwards.

Venu Garre: Sir, on this topic, just want to also check on the margins side in terms of what you would be, sort of not guidance of course, but more in terms of your own targets are. Are high single digit EBITDA margins achievable in the medium term, which is a year from now or that is something, which is not possible because of the pricing environment?

Bazmi Husain: Okay, well. First of all I am trying to understand the different items and (audio break) **06:48**, but alright that apart, I would say that to your question asked to high single digits, we have had earlier results, yes, that remains what we are targeting. I would actually excuse myself and not take the second part of your question, is whether that would be a year or not.

Venu Garre: Thank you so much sir.

Management: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Adhithya from CLSA.

Adhithya: Hello, good afternoon sir. Are you seeing any improvement in the pricing environment in the T&D sector?

Bazmi Husain: Venu, would you like to address that?

Venu Nuguri: Yes sure Bazmi. See price improvement at this point of time, in the near term, we really don't see any improvement in that. But what we feel, again it is only our feeling, our hunch is that it may not go further down from this level. We believe that we have already reached a level and below this level it is not sustainable for anyone. And our hope is that it is only by middle of next year we really see some improvement.

Venu Garre: Middle of next year?

Venu: Yeah.

Venu Garre: And sir, are you seeing Koreans and Chinese backing off a bit and becoming a bit more pragmatic with their pricing or are they as aggressive as they used to be?

Venu: If you see Koreans and Chinese, primarily they were only targeting particular segments of the market, for example, the 800 KV transformer market or a couple of GIS projects in that. But we don't see them in rest of the gamut of the power industry in that. So I would not say about the price going down, it is not only a Chinese factor, but it is a combination of the various factors including our own local manufacturers have increased their capacities to cater to the demand in the market. So it is a combination of the various factors actually.

Bazmi Husain: And just to add to what you said, Venu, in some of the segments of the market our customers have also made qualifying requirements to include local manufacturing and as a consequence we see some of the pair that were earlier quoting are no longer now quoting for those. This is also one thing.

Amlan Datta Majumdar: If I can add on to this, this we have maintained for a long time that when it comes to capital equipment especially in complicated areas like power, there is also another aspect, which customers would like to see over a short term and also the medium term, the serviceability of the equipment that we give. Unless a company is very robustly present in the country, when it comes to service and capital equipment are like that, I mean, you might need service reach for which you need knowledgeable people to be around. When it comes to service, I don't think we can, our customers would really, on a long term basis, rely on alternate fly by night operators. So we always have an ... some of the other companies, which are very robustly present in India for the decade. That upside remains. So Chinese and Koreans cannot be the only differentiating factor in the market.

Bazmi Husain: And last to add on, on the power side. As Venu said earlier, I would really like to highlight that ABB's business in power is what we call our power business, is beyond the power segment itself. It is not that the generation in T&D, Venu mentioned a lot of Metro projects and others, airport, metro, for us that is part of our power business.

Venu Garre: Thank you.

Management: Thank you.

Venu Garre: Sir, one more question if I could?

Management: Sure.

Venu Garre: Copper prices have started coming off a bit, do you think this can benefit ABB in the near term?

Amlan Datta Majumdar: Yes, it should, but these prices are such that you can never make a very long term prediction on this. It can go up, it can come down, I mean, we are taking all advantages of that situation that we can say.

Venu Garre: And sir, how do you go about hedging the material cost?

Amlan Datta Majumdar: We have our own policy of both forward booking and hedging for copper.

Venu Garre: Okay. Thank you sir.

Management: Thank you.

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

Sandeep Tulsian: Good afternoon sir. Sir, our parent press release, that is, ABB Group, it mentioned that the order inflow from automation side has actually declined during the quarter while there has been a significant growth in the power business, which as you have highlighted in the press release that you got orders from core industries like paper and pulp and steel. So I want to know, which are the large projects or probably, which are the sectors where this investment decisions are currently lacking or there is a delay in taking this investment decisions due to which automation side is much lower than what we had expected?

Bazmi Husain: I had mentioned to an earlier question on this, it is basically on the cement and metals that we do certain see delays in the large projects that are being planned; then moving ahead with that. Pulp and paper in India, yes of course, that has, but pulp and paper in India is not a very large customer. We have very dominant market share, but it's not a very large industry. So it is basically on cement and metals that we see a certain amount of delay in the customer.

Amlan Datta Majumdar: Bazmi, just to add on, when we sell the products, we sell the products to all industries from across the spectrum, and we have not yet seen a slowdown in the product side. It is basically the process automation what we are talking about.

Bazmi Husain: Absolutely. I think this is a very good point that as Narayanan had mentioned, for the Discrete Automation and Motion part, lot of products that we sell goes to the same industries and those industries have those product sales are continuing unabated and you can see the growth rate that is there in those markets, and the reason for that simply is that many of the products that we sell in our Discrete Automation and the low voltage side, have very, very quick payback time for the same industry, so we can even argue what we actually see happened is that in bad economic times those businesses do even better because from the customer perspective it becomes more attractive to invest. So I don't know if, Narayanan would you like to add some more.

Narayanan: The main thing is, in the industries whenever they are having a reduction in production, they primarily use drives and high efficiency motors to save on energy, because with drives you can control the process parameters, so that's why the investment in drives goes up and that helps Discrete Automation and Motion business also.

Sandeep Tulsian: Alright. Secondly sir I would like to know as you mentioned that because of integration of ABB GISL companies, our other expenditure has been much higher, so is there a component of this expense, which is of one-time in nature and might be lower expenses going forward in the same, or this is the run rate that we are likely to maintain going ahead.

Amlan Datta Majumdar: No, this is not one-time in nature because these are the expenses when you merge two companies. What happens, both the expenses get merged and both the revenues get merged, so this is going to continue, but we are working on cost saving measures to optimize, to integrate, bring synergies into that. And one of the expenses that are sitting in the other expenses, is of course, we had to pay some taxes and duties on this merges. So that is also sitting there, which is not a very small amount. But overall if you see, there have not been increase of expenses on a large scale at all. We have been able to arrest that quite a bit, I mean, we are very happy about it also.

Sandeep Tulsian: And sir what would be the amount of these taxes and duties because I presume that you would not be paying these duties in every quarter.

Amlan Datta Majumdar: 250 million, stamp duties and all we had to pay.

Sandeep Tulsian: This is a one-time expense.

Amlan Datta Majumdar: That is a one-time expense. But other expenses when you merge it will continue and also the revenues will grow, that is not a problem.

Sandeep Tulsian: Alright. And sir, lastly I would like to know our tax rate in this quarter is a bit high at 40% as compared to 33% in first half of current year. Would you like to comment on this sir?

Amlan Datta Majumdar: I mean, the taxes were slightly higher, but there are no unusual items sitting there considering the tax provision and the deferred tax, there is no unusual items.

Sandeep Tulsian: Okay sir. Thank you very much.

Management: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Lokesh Garg from Kotak Institutional Equities.

Lokesh Garg: Hi sir, good afternoon.

Management: Good afternoon.

Lokesh Garg: Sir my questions are just related to margins, which has been asked before in the call as well, but what I wanted to sort of get a sense from your side is, that margins seems to be low on an absolute basis across segments and it is not just related to one or two segments. Now, in that case, at least I wanted an answer on the product segment side, like power products and maybe low voltage products, as to why their margins are actually of the order of let's say 2%, 3%, because these segments shouldn't carry any baggage of history, so is that the margin that is possible in the market situation currently or is that being affected by something that you would wish to share with us.

Amlan Datta Majumdar: See, as far as the margins are concerned, we have three product segments. If you see Discrete Automation and Motion, we have low voltage products and we have power products. Your primary question is related it appears to power products, that's the sense I got, and that is also the most affected. We have said this over the last one year in our analyst meet and various calls that the prices in the power product segment has actually come down very sharply. And ABB being a global company, we had been following for a very long time a product manufacturing policy that means by manufacturing in which part of the world, it would make maximum sense for ABB Group was the guide. Now, India becoming a more and more important market, and also which seems to be we are not doing so competitive in the local market, from the Group and from our country, we have taken multiple initiatives including local R&D, indigenization of the product and the design to suit the Indian market. Now, we are still suffering from the orders, which were taken at a very low price that was prevailing in the market, still prevails, but we did not have at that point in time very competitive products. Now we are working on these and we expect to see good improvements in that. When it comes to Discrete Automation and Motion, I think all our margins are fairly good, we are happy about it and we are working towards further improvement. Low voltage products you are seeing a total basket of products there. We are doing pretty well in most of the products, except we have a startup business for last one-and-a-half years in low voltage systems, which we had mentioned in our earlier call where we are working for optimization and localization. Since this is a startup business, the impact on the results of that business is pulling down the low voltage product division, otherwise it is doing well, Discrete Automation is doing well, power products we are investing in our (not sure) **20:01** and R&D and design capabilities, which we wish to see better results going forward.

Lokesh Garg: Yeah. Sir, now on the project segment, which is essentially power systems and process automation, margins there also seems to be far lower, which means we are carrying the baggage of historical orders being carried at lower margins or again out there it is more to do with competition, what is the leading cause there?

Bazmi Husain: As said it is a combination of having the backlog there, then second thing is that with the market becoming as it is, there is of course, increased competition and that is also driving down the market price that we have said multiple times, but the market price levels that we are seeing are really at a low level. What are we doing about it, talked about both accelerating indigenization and taking out costs, some of the impacts have begun to come in, but as you say there is a way to go, but we feel very confident that with the actions that we have taken, we are actually on the right track and ahead of the curve when it comes to being competitive.

Amlan Datta Majumdar: And you must also appreciate, while yes, we agree that we are yet to get there where you would like us to be. If you see in power systems, in third quarter of last year we reported a loss of 275 million. From there we are today at 233 million positive. If you look at process automation, our other project segments, we were 405 million loss, profit before interest and tax. And from there in this year we are 641 million. So the efforts are on, we have specific projects; we have our global experience being used in multiple initiatives that are being run very heavily. Believe us; for 24 hours in a day seems to be less for us, the whole team is working on this. So you will see improvement going forward.

Bazmi Husain: Gentlemen, I must take leave, I must leave, I have to go out, so I will leave you in the good hands of all my colleagues, Vikram, Amlan, Sanaj, Venu, and Narayanan. So, thank you very much ladies and gentlemen for being on the call. Very much appreciated. Thank you very much. The call will continue, Amlan please take over.

Amlan Datta Majumdar: Thanks Bazmi have a safe flight. Yes, we can come back for the questions.

Lokesh Garg: Yeah, sir my last question again, could you share the amount of the Bhilai Steel Plant order and could you broadly share some elements of scope of the Isolux order in terms of what voltage range is it and basically whether you are involved only in substations, equipment supply, EPC...

Amlan Datta Majumdar: Bhilai Steel Plant order is 3300 million Indian rupees, and on the scope of Isolux, I think, Venu would be delighted to answer your question.

Venu Nuguri: Our scope is limited to the turnkey substation, design, engineering, supply of turnkey substation. Substations, combination of 765 KV and 400 KV GIS and 400 KV...

Lokesh Garg: Okay, sure. Thanks a lot.

Management: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Krishnakant Thakur from Espirito Santo.

Krishnakant Thakur: Good afternoon sir.

Management: Good afternoon.

Krishnakant Thakur: Sir, my question is related to the cost structure, so if you look at the various initiatives that you have talked about regarding outsourcing or tightening some department, on a YOY basis we have seen close to 250 to 300 basis points improvement, specifically on the RM cost. Could you just highlight without quoting the numbers that directionally what are the kind of improvements further going ahead are we looking at or the maximum scope has been absorbed. If you can just throw some more light on that?

Amlan Datta Majumdar: See, it is very difficult to spread it...material cost percentage, I mean, it all depends, it is also a function of the market price as you can see. But if I expect the market price and the cost improvement to continue, anything in the range of 70 to 73% should be the target in the medium term.

Krishnakant Thakur: Okay. And sir if you could just also specifically pinpoint that what is the kind of timeline we are looking at, that will also be say first half 2012 or earlier than that?

Amlan Datta Majumdar: That's what I am saying; it is a bit difficult to say because these are initiatives. Some initiatives we can always predict, but some initiatives where

we are talking about, say, design capabilities, we are designing products for the Indian market, I mean, that takes time. I mean, we are a global company; generally we have to see whether it makes sense globally also, but now all these initiatives will take time. First quarter of 2012 could be a bit optimistic, but sometime during 2012 we should be able to get to our target number.

Krishnakant Thakur: Okay got it. And sir my second question again is related to the employee cost, sequentially as well as on a YOY basis we have seen significant jump there. As you earlier also mentioned that we are investing into the processes as well as manpower, so if you can throw some more light that what are the kinds of investments further in manpower are we are looking at, where do you see yourselves in terms of total cost or in terms of margins or in terms of percentage of revenue for the full year basis?

Amlan Datta Majumdar: See, our employee cost is in the range of 9%. I mean, it sometime is just sub 9, sometimes it is just above 9, like this quarter it is about 9.2, if I am right. Now, what we have been investing, actually we are no more investing in quantity that means we are not investing in getting whole lot of people on board, which we have done already, the number of people we wanted to have to match the volume growth. We are trying to improve on the quality. We are trying to get experts from the Indian market, from all over the world, in ABB. Now, these investments we have done to a large extent already, but some amount might continue and we also want to market permitting we also don't want to deprive our employees who are giving very long hours of dedication to the company. So, we don't see a major increase in the personnel expenses. See, if you see in percentage terms, in that range of 9.2%, I expect it to actually be in that range or go down slightly as the revenues improve. But in terms of absolute value, of course, we have to look at an industry benchmark of salary increments even next year. So, it will continue to increase on an absolute value, but as a percentage I think we will not grow any further.

Krishnakant Thakur: Okay. Sir, just wanted to clarify couple of things here, that as we have mentioned that we are looking at close to around 9% or sub 9% of revenue as the employee cost, would that specifically be for CY11 because if that is the case that would tantamount to huge saving in Q4 specifically. So, is that understanding correct that the 9% or sub 9% you are looking at would be for CY11 as a whole?

Amlan Datta Majumdar: Yes. That's what we expect. 9% of revenues.

Krishnakant Thakur: Yeah, that's right. Thanks a lot sir. I think that's about it from my side.

Amlan Datta Majumdar: Thank you.

Moderator: Thank you sir. Next question comes from Mr. Madan Gopal from Sundaram Mutual Funds.

Amlan Datta Majumdar: Yeah, we don't have so much of time, so maybe the last question we are taking, I don't know. Okay.

Madan Gopal: Yeah. Good afternoon sir. Sir, my question is on PGCIL, we hear that PGCIL is again coming out with another 800 KV HVDC project, is it true? And if it is so, will ABB have capacity to go and bid for this project as well?

Amlan Datta Majumdar: We are getting good news it appears. Venu, would you like to take that question?

Venu Nuguri: That is true that PGCIL has, the RFQ has been released for another project of 800 KV HVDC Champa Kurukshetra, and yes, we are very keen on this project as well because this project, if everything goes well, PGCIL may finalize by end of next year because any HVDC project, there is a long process cycle involved before they get finalized and we are very sure and we have, as Amlan said many times, we are a global company and depending upon the requirement we can always bring resources as required, and we are very keen on that project.

Madan Gopal: Okay. And sir second question is, we hear also that a huge 765 KV transformer order is pending, close to some 200 numbers tender has been called for, is it true?

Venu Nuguri: No, no. PGCIL is not calling for that. Power Grid is calling for each substation-wise, so there is no 200 numbers tender pending at this point of time.

Madan Gopal: Okay sir. Thank you very much for taking my question.

Moderator: Thank you sir. Next question comes from Mr. Harish from RBS.

Harish: My question pertains to the tax rate. If I look at the current tax rate, almost 51% of PBT for this particular quarter, so any particular reason for the same?

Amlan Datta Majumdar: No particular reason, there is no unusual item sitting there that we can see and so there is nothing particular in that.

Harish: Okay. My second question would be on the motors and drives business, what is the current market size for motors business in India and drives business? And what is ABB's market share indicative, if you can just share?

Amlan Datta Majumdar: Maybe that's the last question we can take because we are running out of time, I have to catch a flight as well. But Narayanan, would you like to take this question?

R. Narayanan: The drives market in India will be close to around 1500 crores and ABB has got a market share of around, they have a 30% right, and as far as the motors, motors is the business, which has got both high tension motors and low tension motors. So if you see the overall size of the market, it may be close to around 3000 crores plus. Plus you will have also some business in the unorganized sector. In the organized sector ABB should have a market share of close to around 20%.

Harish: Okay.

Amlan Datta Majumdar: Gentlemen, what I would request is, Vikram, you can come in, you will have more question I am sure and we will be very glad to come back to you on any of the questions you have, but maybe not on this call because we all have to leave this place for our flights, and you can contact Vikram. Vikram would you like to come in?

Sanaj: Amlan hi, this is Sanaj here. Everyone thank you for participation. We have gone beyond our stipulated time. In case you have any queries related to the analyst call or the results, please get in touch with us. You can also mail me on sanaj.natarajan@in.abb.com and I will respond to your request. Moderator, please close the call.

Amlan Datta Majumdar: Thank you very much ladies and gentlemen on behalf of the company. Thanks for taking your time. We will be very glad to come back to you with any query you have and I can only leave a message with the analysts colleagues that we have on the call, have confidence in us, we are back on the track, you will see lot of good things ahead. Thank you very much.

Management: Thank you everyone. Thank you for participating.

Moderator: Thank you sir. Ladies and gentlemen for using Door Sabha's Conference Call Service, this concludes the conference call. For further updates on ABB India, you can follow ABB India on twitter. The account name is ABB India. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.

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