

“ABB India Limited’s Q3 2013 Investor Relations Conference Call”

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- Moderator** Ladies and Gentlemen, Good Day, I am Melissa, the moderator for this conference. Welcome to ABB India Limited Investor Relations Call to discuss the Q3 Results for 2013. For the duration of this presentation all participants' lines will be in a listen-only mode. I will standby for the question-and-answer session. I would now like to hand the call over to Mr. TK Sridhar. Thank you. And over to you sir.
- TK Sridhar** Good Afternoon Ladies and Gentlemen. Welcome to the Q3 Results Conference Call of ABB India. I am TK Sridhar – Head of Investor Relations and Country Controller for ABB India. Present on the call along with me are Bazmi Husain – Managing Director; Amlan Datta Majumdar – Country CFO; N. Venu – Head of Power Systems; Pitamber Shivnani – Head of Power Product; R. Narayanan – Head of Discrete Automation and Motion; and Subir Pal – Head of Corporate Strategy and Business Development. Also I have Sanaj Natarajan – the Media Relations Manager. So now without any delay I would like to hand over to Bazmi Husain and Amlan for taking us through the results.
- Bazmi Husain** Thank you, Sridhar. Good Afternoon Ladies and Gentlemen, and thank you for joining us. It has been another challenging quarter from a market perspective. I would say that the actions that we have taken we are holding steady in headwinds at the moment, waiting for the markets to revive which we are sure they will, timing of that is uncertain though. If you look at our performance for the quarter our orders were marginally up compared to the same period last year. Revenues were very marginally down or less flat. Operational improvements have really resulted in improved profitability.
- If you look at it our Power Products division now which for several quarters in a row has shown that all the work that we have done of improving efficiencies, introducing new products, going after new factories, making more efforts for in country, for country initiatives that I have mentioned many times before has really started to yield steady results quarter-after-quarter.
- And project businesses that we have had have also both Power Systems and Process Automation are well on the way to good recovery. In this particular quarter Discrete Automation and Motion have also grown although we now see the market in a way where not just CAPEX but many of our customers are hesitating on their investments and that has had an impact on our short cycle business. So therefore we do see an impact coming in into our Discrete Automation and Motion business especially on smaller product ranges. However, we see that has no real issue within our systems as such, it is an entirely a market-driven phenomenon, we are taking action to keep our cost under control, so we should be in a good position to weather it out.
- If you look at our orders, the other areas where we have had good growth is first of all on exports. Here again I would say the strongest performance came from our products. On an overall basis we have had over 20% growth in our exports volume, now exceeding more than 370 crores, but even though the exports grew only 20% it was largely product-driven growth. So within the products itself the growth have been much more. Projects like here everywhere

else they are more discrete events, so sometimes you get something in a quarter and another we do not. So I think this is something which we do not see a matter of concern, but it is very heartening to see the growth that we have had in our exports.

In our other initiatives total for instance, in all of last year, we had supplied about 225 MW worth of Inverters. And I had indicated to you in the early part of this year that made us #1 supplier of Inverters in fast developing solar market. I am very happy to tell you that so far already this year we are in excess of 325 MW worth of Inverters and associated electrical equipment that we have supplied into that market. So you can see that even though the Solar market as such is not growing at the same rate as we are growing in that market, so we are taking market share.

Wind is also showing good signs of revival mainly driven from tariff revision by some states also repowerings, so wherever there were smaller turbines, people are putting bigger turbines so that is giving us good volumes plus there are expectations of now moving towards generation-basin centers so that will give a further boost into that business. So both Solar and Wind Renewables as we have mentioned for several quarters in a key focus area that is beginning to show results. We are also showing improvement in our data center and smart grid areas where we are beginning to see now, especially in smart grid where there is a growing interest in the market, so we see that developing further as we go along.

Service orders – our main server star performer, they contribute very well to our profitability but also increase customer satisfaction is derived from increasing the focus that we have had on service.

So all in all I think the market remains muted but the actions that we have taken now for several quarters are giving us results as we wait for the market to revive. So I think this is something that we were focusing on and with product costs I would say pretty much under control, and also from let us say orders perspective I would say that we have had double-digit growth in Power Products and Low Voltage Products and in Process Automation, on all three of them. Power Systems, like we have mentioned that we have made a policy decision that we will do a risk benefit analysis on the projects that we quote and depending on the terms and conditions and other issues we will be selective in that. We continue that policy, but we also see now that the market is responding to our caution and we are seeing some good signs so that the step that we took of being strict in our acceptance or not acceptance of terms and conditions that are detrimental for a shareholder are beginning to yield results.

Discrete Automation and Motion are, as I mentioned, is also flat, mainly driven by reduction in a product market for this quarter, I mentioned that because of the reduced capacities of many of the industrial segments such as cement and steel the impact is also now being seen in the OPEX spending.

So going forward I would say that we are really well positioned, and we see that we are hopeful for the revival of the market. “What timing it is?” I would certainly not get into that question

because in all honesty we do not know but we do see that in some areas some of the actions that were taken by the authorities with respect to fuel linkages, etc., etc., has moved some of the projects which is a good sign. So I think that it is too early to start any celebrations, but clearly taking steps in the right direction is showing some results.

So with that I will now ask my colleague, Amlan, to talk a little bit about on the financial side of it and the cost side of it, and then we will be open for questions.

Amlan Datta Majumdar

Thank you very much, Bazmi, and good evening ladies and gentlemen once again. Since we talked in August last with you, looking at the macro economics, we have seen a lot of initiatives coming in from the government on the policy reforms. Really appreciate the good intentions, but unfortunately the situation on the ground has not yet changed, may be it will take longer time, but also gives the feeling that we need to do more to get investors confidence back, except that the Sensex is rising quite sharply in the last few weeks, of course, driven by very limited number of stocks. There is not much to be very optimistic about the macros while the initiatives again I must say are good. The GDP growth recently have been revised below 5% and we believe that we can hold it till the end of FY-'14, but I mean on the surprise is there is a further dip. And IIP which is more relevant to us and the capital goods sector if we look at it, the growth is zero or negative. So that remains a concern. We are doing everything that is possible in our power to do, but then of course we are finally the function of the market. So there is a problem. In spite of all optimism that we have the RBI has not really reduced the rate, actually it has gone up. So interest rates remains obnoxiously high in the country and in a long decision projects like we deal in there are a very few customers who are willing to borrow money and invest in the project at this rate. So that remains a problem. Rupee seems to be stabilizing at Rs.61-60 a dollar, hope at least will remain at that, otherwise net importing companies like ABB will have some impacts, so hopefully that remains.

On the order side – in Power we are starting to see some enthusiasm but nothing that we can really be very upbeat about, but on the industry side key customers like steel visibility is very low, Cement, are hearing about some kind of an expansion, but we have to see what finally comes. We do see some upside strategy, anyway timings are little uncertain on oil and gas, some select sectors like Solar and Datacenter are growing. So we are doing good in exports as well. So we are doing all that. But then still the macros remain a serious concern which are high interest rates and high inflation that we have.

In terms of our returns – When we look at it as Bazmi mentioned we had a modest growth, but this is also if you track this growth it is growth which came after four quarters in August, so that gives us some reason to be hopeful, and which sectors have grown we have already mentioned a little bit. Power Products is actually leading the show quite a bit, and we have said this earlier, and our efforts to localize products, do cost optimization and bringing efficiency through OPEX initiatives have started paying off. And since we invested our time, energy and money more in Power Products I think the results have started coming there and that is always ABB's bread-and-butter business. So we can see good things there. Some of the divisions are

of course little bit impacted by the market downturn which is somehow not ending. So there is a little bit of discomfort there. Power Systems as Bazmi has mentioned we have our policy which areas we want to get into and which areas we try to avoid is from the risk return profile, and the terms and conditions have to be favorable, so we are sticking to that policy. But overall if I see that even the decline is mainly in the large orders but there is reasonably good growth in the base orders. So we are doing whatever we can do there but since large orders are left in the market, of course, all companies have impact including ABBs. In spite of this market's modest growth of 4% makes us really hopeful.

Revenues are flattish; we are 2% down. A little bit of this is also coming from what we have been telling that we have a little concern in this market on the credit risk that exists with many of the companies. With the liquidity becoming tighter and tighter with the RBI all the measures that they are taking and interest rates of course being steeply high, so we want to be very sure that we dispatch our products only when we are sure of the payments because cash is a major issue today, so we want to be careful, so revenues is possible to push but then not the best time to push is our consensus in the management team.

In terms of results – I think the challenges continue. What we could do is to work on the cost side. If you look at our material cost over the last 3-4 quarters, you will see a trend that the material cost for the earlier 75%-74% or even 72% is now stabilizing at 70% or sub-70%. So this is our biggest item of cost so that is giving us benefits. There are multiple initiatives we have been telling over the last 2-3 years that we have been taking and of course it takes more time to reflect in the results. So I think we are better placed today in terms of our material cost, all these efficiencies are coming into the results. But actually the brighter side is as and when the market revives, we are very hopeful that our results will look much better than it looks today in terms of these areas because only with a growing volume and upbeat market you really see the benefits of all these initiatives and investments that we have made.

When it comes to the expenses – the expense is more or less remain flat, somewhere it is marginally increasing, somewhere it is marginally declining, but we are not growing in expenses over time. That is a good point that we as a company put with big efforts realize this over time that over the quarters the expenses are remaining flat. So that is helping us to hold ourselves in this stormy weather of the macros.

The bad news that you can already see in the results is the cost of interest. Now, the finance expenses are really going up because there is a cash crunch in the market, liquidity is really under pressure, which we have been telling for the last two quarters, and as I see the result it is not only as many other companies who play in this sector are all affected by this as more than us or little bit less than us. The interest rates are high and the liquidity is a problem, which is really hurting us. So we are doing everything that we can do to hold to that.

If you look at the capital employed of ABB in the results, capital employed has increased from the last quarter if you see but it is not a very big increase that you can see, it is a marginal increase. Even if you compare with the same period last year that is Q3 last year, capital

employed has increased again but not very significantly. The concern that we have is these projects which have been delayed over time, we only hope and that is our concern also that these projects really start moving faster with all the reform measures taken by the government, it makes the situation better, because more the projects are delayed, the liquidity situation for companies like us will continue to be under stress. We are doing everything that is possible. Even today if we look at our balance sheet, the balance sheet looks very healthy, but we actually like to have balance sheet we had till 2-years back where we had zero borrowing, so that is what we are looking for. But overall things look good. Most of the divisions like Power Systems and Process Automation which are in large project business and we have shared with you periodically that we had some challenges in the large projects, not due to our fault but also the way the contract are (Inaudible) 20.58. But we are happy to inform you that we are out of this problem and we are stabilizing, consistently the results are showing growth and my colleagues from Power Systems will share more with you that what is doing about it so this is giving a good feeling but if the market improves a bit the products will start improving further and that will show the company results in a much better light. So, this is the overall situation right now, and maybe it is a good time that we start hearing from you if you have some questions and then we can try to give our perspective of the matter. Yes, Sridhar, over to you.

TK Sridhar

Melissa, we can start the Q&A.

Moderator

Thank you. Ladies and Gentlemen, we will now begin with the question-and-answer session for investors. We have the first question from the line of Prakash Goel from ICICI Securities. Please go ahead.

Prakash Goel

Sir, my first question is with regard to the other expenditure which has come down seasonably Y-o-Y. Any specific reasons behind it? You have highlighted a lot of measures being done by the company to contain cost, so just wanted to have a flavor on that.

Amlan Datta Majumdar

Yeah, the other expenses actually if you watch over the last 3 quarters, it has been under control, we have taken a number of measures over time to keep it under that current circumstances low because the revenue growth is not so steep, so we cannot really afford that. So we are keeping it to that and we have actually decided that this is something very interesting to cheer actually. In the management team we have decided, not only the top management but also in the operational management that we will travel less, travel only for customer needs, we will only travel where either we are going to customer for an order or trying to fix problems and our repair maintenance cost has come down significantly. Our other expenses in every area has really improved, yeah, some areas marginally there are sometimes increases like power and fuel and all, but every item we have handled at the highest level and the participation is from every one. Bazmi, would you like to have any...?

Bazmi Husain

I just want to add one thing while it is I would say almost maniacal focus on cost, we are also making sure that our contacts with our customers is on the rise, not declining, okay. So this is a time that we believe that it is even more important that we have more interaction across the board with our customers so with increased customer interaction that we are reducing the cost.

We are able to do that, you can see that but we are also keeping in mind that the downturn that we are into will pass, okay, so we are preparing for the upturn while we are dealing with the downturn.

Amlan Datta Majumdar One item let me also share with you, the other expenses, there is an element of exchange rate variation. So the exchange rate against loss of 30 crores last year, in the same quarter, we have a gain of 7 crores but the interesting part is these gains is actually not a notional gain, these are real gains that means what the liabilities we had booked at a higher price and then settled at a lower price and all, we have a very strict FOREX management policy and while sometimes it can give you a little bit of difficulty but with actually over time it really pays off. So that has also added to other expenses its showing the work.

Prakash Goel My second question is with regard to export as a percentage of sales, in case I missed out that number did you share that number how much has been the export in terms of the order inflow as well as the top line this quarter?

Bazmi Husain We are now in excess of 370 crores for the quarter.

Prakash Goel In terms of the revenue?

Bazmi Husain That is in terms of the orders.

Prakash Goel In terms of revenue, is it possible to know?

Bazmi Husain We do not normally give that kind of separation all over the place, but it is in a similar this thing, okay.

Prakash Goel My last question is subsequent to the analyst meet where the management has highlighted improvement happening in some of the segments such as hydrocarbon, I would like to know like lot of Reliance Industry PetChem (Petrochemical) order has been already awarded to MNC players of US and Europe. Does this sub-order flow to ABB or these orders have been gone to the competition and we should not expect much of a....?

Bazmi Husain Like with everything else, it is a mix bag, we certainly have got orders, and we have also lost some of the orders in that particular pursuit. So to answer your question yes, that has been targeted pursuit for us, we do not give details about specific pursuit thing, but yes, and we have got orders there. Second aspect of your question what we were talking about the oil and gas market going up, also referring to the upstream if you recall what we mentioned that day was that the market in India is while there are downstream opportunity and what is happening in country is a downstream opportunity, there is a large upstream opportunity that is coming up. Close to 80% of India's explorable areas have not yet been explored for oil. So upstream market was a market that we were referring to as a developing market and we certainly stand by that, that there are a lot of projects that are on the way there.

- Prakash Goel** Which will be the companies out there in the upstream, will it be the typical ONGCs and Reliance of the ...?
- Bazmi Husain** There will be ONGC, there will be global players, and there will be some local players as well. So some of them are already here there will be more coming.
- Prakash Goel** Sir just to rephrase my earlier question I wanted to understand like typically if an order goes to Phillips 66, the sub-contract will be available to ABB or is it like they will have their own technology and product to bring it, just for my understanding...?
- Bazmi Husain** I am not going to answer this question with a specific reference to Phillips 66, but in general the answer is, yes, in many cases we do get orders through another vendor, okay. Absolutely, yes, and in this particular and other pursuit there are substantial number of orders that come like from that route as well.
- Moderator** Thank you. The next question is from the line of Renu Baid from Batliwala & Karani Securities. Please go ahead.
- Renu Baid** Sir my first question would be just little more understanding on the growth drivers. As you have mentioned earlier as well as in your recent press release that largely the growth in the emerging sectors which have been driving good for ABB compared to the sluggishness in the traditional or the conventional markets. So, if you can elaborate in terms of what has been the growth in emerging sectors, be it solar renewables that we have seen export services in the last nine months and in the third quarter in particular?
- Bazmi Husain** Like Renu, I was mentioning earlier that take exports for instance, exports have grown for the quarter over 20%, it is more or less 35% or so for the nine months, so exports have definitely grown. Solar, as I mentioned we supply a whole range of offerings in the Solar segment, but the key thing that we offer in addition to all the electrics we also offer a Converter, Inverter that basically converts the DC voltage into AC voltage that can be plugged into the grid, and that in India so far out of 800 MW placed – and I could be off by a little bit here and there – we have got more than 325 MW of that that we will be supplying in terms of inverters and associate as electrical equipment as compared to 225 all of last year. So you are looking at a growth rate in terms of that about 50%. When last year was actually very, very small because the way it was incentivized and I mentioned that at the beginning of last year the way it has been incentivized in India, it is not attractive to people to invest in. What has changed is first of all tariffs have been revised, makes it more attractive for people to invest in it. Secondly, generation-based incentive has come. And more of that is coming. So that will incentivize people not to just set up the tower but to actually operate it. Because of that people are going to upgrade. So wherever they had a piece of land where they could set up let us say 250 KW turbines. In the same footprint they can put up 2 MW turbine. So it makes sense for people to do that and as a result of that year-to-date we have I would say 3X+ in terms of when that we have got. So, in all these areas, in rail for instance, we are more than double of order intake that we had. So 100% growth in rail. Given the market conditions I think these are fairly growth opportunities that we are

pursuing and we have been focusing in it for several quarters and they are giving us some returns now.

Renu Baid So will it be right to assume that cumulatively these emerging segments have offset probably 50% drop in the conventional market? I was trying to basically arrive at what is the kind of growth or drop we have seen in the conventional market and to what extent emerging sectors have been able to offset that.

Bazmi Husain Good try but I am not going to give you answer to that one.

Renu Baid And second, in terms of inflows, we have seen 5% growth in the current quarter, but this was against a base where last year there was 33% drop. So the base probably on the intake side has now normalized. The 1700 crores odd of average intake that we are seeing both short cycle and mix projects...

Bazmi Husain The other thing I just want to highlight is what Amlan has mentioned on an overall basis of course orders grew by 4% but if you look at it from composition of the orders the growth was much higher, it was mainly from base order. Right now, the market is not let us say booming with large orders, is one way to put it. So, our growth is coming from basically smaller orders in a long run this is actually good business from multiple account. First of all, they are not likely to be delayed. Secondly, they are generally speaking better orders. That does not mean of course that we do not focus on large orders. That is the way market is at the moment. We are a large order player and we will remain a large order player as well. I think our sense is that we can play both.

Renu Baid But probably at this point of time the market is not having so many large tenders in the pipeline with ...?

Bazmi Husain Absolutely and I had mentioned it in the last several calls that at this point in time we are as a matter of policy we focus more on shorter cycle orders because we do not want to have a backlog of large orders sitting with us that we have to execute it when the market turns around, because...

Renu Baid What I was coming to on the second question is we have maintained the inflow trajectory but short cycle base orders which are better margins. So will it be fair to assume in the current environment that maybe current year we will manage flattish sales but next year if we see slightly uptick we will be able to manage at least a better single digit or closer to double-digit growth on the sales revenue side, is that too optimistic or that is more realistic to assume?

Bazmi Husain I love to answer that question but I will resist because we do not really give forward-looking advice as a matter of policy, but...

Renu Baid But hopefully, we will be in the positive trajectory itself?

- Bazmi Husain** That is what we are there for.
- Renu Baid** And just sequentially book-keeping question, has the debt remain flattish or have we seen increase in the short-term borrowings?
- Amlan Datta Majumdar** The short-term borrowings if we see it in two components, for working capital requirement we have 500-600 crores range and the balance is for other purposes. So it has increased a little bit but not much from the last quarter.
- Moderator** Thank you. The next question is from the line of Sumit Kishore from JP Morgan. Please go ahead.
- Sumit Kishore** My first question, has the average execution cycle of your order backlog reduced over last one year? You have been booking more short cycle orders and although the order backlog is down 9%, the revenue degrowth has been lesser. So could you comment on this and plus maybe shed some light on the proportion of short cycle orders in your order backlog as of now?
- Bazmi Husain** I will answer a part of the question and then Amlan can step in. Surely, one aspect of short cycle orders is that they are faster to execute. So your analysis is very much correct that they are for the faster execution. First of all, that is what the market is and secondly, I think we were focusing, we were anticipating that and that is why we have focused on these kind of orders ahead of that really happening that the markets are more into short cycle. Now, with respect to what kind of percentages, etc., I would say – and Amlan can add on to it – that the percentages of the base orders is increasing, if you look at it, I am not going to relate short cycle to long cycle to you but we have got a reduction of more than 50% in our large cycle orders. So, it is really the growth that is coming from the base orders. So that is the kind of issue we are talking about.
- Amlan Datta Majumdar** If I can just add on, order backlog, as in the last couple of quarters, the trend was Bazmi said, we are getting more short cycle orders than the long ones. But still we have a large chunk sitting in our backlog which is for large projects of both Power Systems and Process Automation. So while the execution cycle has improved but it is not that it is dramatically changing and you will see revenues are completely different, so we still have some projects to execute and we have to see how the market develops but in the last few quarters the trend has been more short cycle orders.
- Sumit Kishore** On account of the challenges that we are seeing on account of the macro, what would be the proportion of slow moving orders in your backlog?
- Amlan Datta Majumdar** Very fortunately, backlog is clean, that means 100% of the orders are executable, sometimes companies operating in our places you may not have that fortunate situation but since we have really suffered 3-4 years back very badly, we have been working on this closely, so backlog is clean. Now, this slow movement, you would agree that is a relative term because we have customers where it has been very slow moving in the earlier part of this year but some of those

orders are moving very fast now. For whatever reasons they could tie up the finance or somewhere the end customers is asking. So just to show you that the slow moving orders in the backlog is not so significant and not have been concern for us right now. Yes, it is moving slowly, but nothing has changed negatively in the last 2-3 quarters.

Bazmi Husain

Just want to add on to that, the two main markets that we serve as such the Power and Automation have a slightly different set of issues at the moment. If you look at the Automation side which is where we serve the industries like Steel and Cement and things like that, at the moment there is not enough demand, that means the capacities are unutilized, they are all down to as low as 60% and investment cycle have come up to about 70% odd and investment cycle in these industries begin when the demand and production goes north of 85-90%. So it is essentially a demand issue right now in many of the industry markets. If you look at the Power side it is a bit of a contradictory situation; on one hand of course, there is a power shortage in the country, there is power cuts of some parts of the country really half a day or more, so there is a power shortage in the country. But there is also unutilized capacity. Out of the (+200) GW that is there very substantial portion of that is not producing but that has got to do more with policy, some of those have had a good saying like fuel linkages being allowed, so it makes sense for people to start producing again, also about Discoms raising tariff, it makes them more capable of distributing more. So those things have happened but I think more has to happen out there. So these two segments of the market – Power and Automation, while both issues not moving fast enough they are for different reasons.

Sumit Kishore

One small book-keeping question, in your press release you report an operational EBITDA for the third quarter of Rs.111 crores Vs the reported calculated EBITDA which comes out to around 82 odd crores. So could you please explain what is the differential of 20 crores attributable to?

Amlan Datta Majumdar

Actually, what happens is, this is the way ABB reports results throughout the world. Just to give you a flavor, it is a long discussion, I can discuss this across the table better, but just because you asked this question, two major items which makes the difference between these two, then any notional gain or loss in foreign exchange transactions is excluded in calculating operational EBITDA as we report that means it is an item on which we do not have really a control, it is more of a derivated accounting, that is number one. Number 2, if there are onetime extraordinary items that means suppose you are spending something for particular cause, you are closing down a factory, you have taken a strategic decision not to do some kind of business which is agreed and approved by with the parent that also we take out that is one-time cost which can actually distort operational return. These kinds of items are taken out of that, notional FOREX loss or gain and one-time profit or one-time gains. So that is why two these items are different but there are many others. We have given an explanation below, but there are many others we can discuss separately on this.

Sumit Kishore

So prior period EBITDA that would have been there for Baldor or whatever expenses would have been excluded in this operational EBITDA number that you report?

- Amlan Datta Majumdar** That is right and Baldor actually Sumit is very small, it is too small and insignificant.
- Moderator** The next question is from the line of Bhavin Vithlani from Axis Capital. Please go ahead.
- Bhavin Vithlani** In one of your discussions you said that raw material to sales which has now come down to a level of 69% stay at these levels, what we have been observing in the past calls you said that there is a significant room of improvement in the raw material to sales due to higher indigenization and better mix. So if you can throw more light on this?
- Bazmi Husain** If you are tracking us for some time, we have taken a number of initiatives. This actually pans all over from order intake till execution. One is first of all we decided that we will not take orders which is also reflected in that results. We will not take orders where which return profile is not good, it has low ABB value add, which we have told you in the earlier call, and that margins are really closely low, we did not want to do that I mean some of those orders. So that is one impact. If you take slightly better order, less risky orders, we will get less negative impact that looks better. That is from the market side. Coming to the operation, for the last 2 to 3 years we have been taking multiple initiatives in supply chain management, we had completely a new team; we brought in one of the market leaders who knows the subject well. On the operational excellence, we applied very strict measures which we borrowed with pride from the ABB Group, those benchmark companies in the ABB World and we applied all those measures to see that all our operations are most efficient, cost-effective and they serve the purpose for which they are designed. So all these initiatives along with the SCM changes and our ability to negotiate well in this market have actually reflected in those results. That means operational cost, SCM initiatives, operational excellence, and of course what we are doing is the right kind of business that is all reflected in that. So it has stabilized over the last 3 quarters at 69-70% level.
- Bhavin Vithlani** My question was, is there further scope for improvement like...?
- Bazmi Husain** Of course. To making money, making more profit and to reduce cost, there is no end to that. We should be doing that.
- Bhavin Vithlani** Second question is if you can highlight a little bit on the order inflow pipeline, what we are seeing is specifically on the Process Automation we are seeing lower growth and lower margins. So how do you see that panning forward?
- Bazmi Husain** Let me just take a few examples to answer your question. First of all I think, yes, there is of course we talked about the market being little bit muted and all that, but that is on an overall basis. Even in a muted market there are areas of growth and I am just going to highlight a few to you and then I will ask my colleague Venu and Narayanan talk a little bit more on that. First of all if you look at the Power side, right now there is 88 GW that is planned for this 5-year plan. And of course there is cross state utility, transmission utility that is there, PGCIL continuing to invest in new projects. But what is very important is that there is a whole new area of investments that are coming up that did not really exist very much till about a year ago which is

investment for grid reliability. So this does not add to the capacity of the grid or the power network as such, but it adds to the stability and the reliability. And in fact there are a lot of tenders that are well on the way out there for that particular area. Second thing, on the Automation side, there are also areas of growth whenever there is a market like this, people want to produce more efficiently. So there is not just a government focus, but also focus by the manufacturer themselves to improve the productivity. If we take the cement industry as such and I am not going to name specific customers but I will talk in general about industry, you have capacity utilization of sub-65% at the moment, and with that there is still a requirement we are doing several and by several I mean well over a dozen and a project with large cement suppliers, manufacturers to improve the energy efficiency of their plants. These are all business opportunities, these are not a capacity increase, but it is an efficiency increase because everybody needs to survive better in this kind of a market. So these are opportunities for growth that we are leveraging on. Venu can now talk a little bit about the opportunities we are seeing in the grid reliability side of the business.

Venu Nuguri

Just to add to what Bazmi talked about it, so far you have seen PGCIL investing in a traditional markets like creating more substation, adding more transformers, more reactors, but if you see now, the same PGCIL investing on more grid reliability like tracks and SVC as well as (WAMS) Wide Area Monitoring Systems and these are the tenders are going to come in a coming quarter in a big way from PGCIL as well as some of very important state utilities. And that is where ABB is ready to take advantage of those projects.

Bazmi Husain

Narayanan, would you like to add something on the Automation side?

R. Narayanan

Investments in deals actually gives mainly concentrating on blocking their bottlenecks which they have in their process. And in some cases they are going in for also energy efficiency and some sort of modernization where the electricals are pretty low because right now since the capacity utilization is under 70% this time, they can close the plant and do the modernization that is one place where there is. And cement is one of the industries which is highly focused on energy efficiency. So they invest quite a lot on energy efficiency equipment. One interesting industry is the automobile industry in spite of them not doing well in India; India has actually become a hub for exports, so they are investing again and expanding the capacity, and there we see a lot of opportunities for Automation.

Bhavin Vithlani

My last question was Process Automation as a segment actually if we look at the last 12 to 13 quarters we have been seeing very low margins. So how do you see that turnaround and what are the signs are you seeing turnaround on this segment?

Bazmi Husain

As mentioned, first of all, Process Automation was also an area like Power Systems where we had several challenging projects, they were not related to non-core activities like we have in some of the areas with Power, very much coal business areas, but we had project issues that we really worked to get that fix up and you can see that reflecting in the results. When it comes to the volume growth, I would say a couple of things again. This is a reflection that the earlier challenge is in Automation market and Power market are in some ways the same and in some

ways they are quite different. Automation market within the industrial market is at the moment more hampered by lower demand. Whether you take cement, whether you take steel, I think the segment that is growing is oil and gas that is going to grow because all of you know what the situation is with the current account deficit and the largest component of the current account deficit is our fuel imports. And if you combine that with the fact that 80% of India's explorable areas are not yet been explored, it is no brainer and this is what we are seeing happening in the market that people are looking at few projects in that area. So we do see actually an increased growth in Process Automation business. Also as part of Automation, I want to highlight that we have got things like automotive industry which is what we serve with several offerings including many of our robotics offering go into that. We have seen a very nice personal growth in the robotics market because many of the automotive companies are using India as an export hub just like we are using more and more exports because of the declining rupee, I think it has made exports out of India more attractive. I am not going to again name specific customers but for very large automotive manufacturers like for example ABB provides solutions for robots that do the painting, and the advantage of doing painting with robots is over and above the health and safety part because you do not breathe in any paints and things like that. There is a tremendous amount of saving; 50% of the paint used to paint a car is saved by using robotic painting and ABB is a global leader in that. So 50% of the paint is saved in one-fourth the time and one-fourth the manpower requirement and almost no rework. So we are seeing huge impact in the last year. We have seen 4 or 5X growth in the requirements coming for such solution. So Automation again different areas are growing. New areas, the traditional areas, I think in the long run, I do not think I need to emphasize that both cement and steel will have to grow in India because we are amongst the lowest per capita consumption of these items in the world. At the moment though we have a lower capacity. So there would be a short term issue.

Amlan Datta Majumdar But just to add on to that, you asked a question specifically on the margin, I fully agree that the margins are not very attractive, but if you compare to last year whether you compare for the quarter or you compare up to 9 months that we have declared results in this year, actually the margins are better. If you take Process Automation as a separate division or you take the whole of Automation business that we do in different forms that is Discrete Automation front versus Automation, for the quarter we are better in terms of margin, up to the quarter we are better in terms of margin. "Are we happy with that?" We are not happy with that. We have to grow better and we have to do better but that also is a function of the market movement.

Moderator I would like to hand the floor back to the management for closing comments. Please go ahead sir.

TK Sridhar Ladies and gentlemen, thank you so much for participating in this conference call. In case you still have further questions, please feel free to get in touch with me or Sanaj and we will get back to you quickly. In case you missed out this particular call, we will be uploading the transcript in our web page so you can access at any point of time. Thank you once again so much and have a good evening.

Moderator

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