



## “ABB India Q3 Results Conference Call”

**October 26, 2017**



**MANAGEMENT:** **MR. SANJEEV SHARMA – COUNTRY MANAGING  
DIRECTOR, ABB INDIA**  
**MR. T. K. SRIDHAR – CFO, ABB INDIA**  
**MR. SUBIR PAL – LOCAL DIVISION MANAGER,  
ROBOTICS AND MOTION, ABB INDIA**  
**MR. MADHAV VEMURI – LOCAL DIVISION MANAGER,  
INDUSTRIAL AUTOMATION, ABB INDIA**  
**MR. PITAMBER SHIVNANI – LOCAL DIVISION  
MANAGER, POWER GRID, ABB INDIA**  
**MR. AKILUR RAHMAN – CTO, ABB INDIA**



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**Moderator:** Ladies and gentlemen, good day and welcome to the ABB India Q3 Results Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone telephone. Please note that this conference is being recorded. I now hand the conference over to Mr. T. K. Sridhar, CFO, ABB India. Thank you and over to you sir.

**T. K. Sridhar:** Thank you very much. Good afternoon ladies and gentlemen. So first of all I would like to tell you that the Board meeting happened day before yesterday and we have a press release and the analyst call today basically to align with the group's press release which happened just a while ago.

And on the call with me today are Sanjeev Sharma – the Country Managing Director for ABB India, Subir Pal – the Local Division Manager for Robotics and Motion, Pitamber Shivnani - the Local Division Manager for Power grid, Madhav Vemuri – the Local Division Manager for Industrial Automation and Akilur Rahman – the CTO of ABB India on the call. And also some of the other colleagues who are there along with me are from the corporate communication side.

So with this, I hand it over to Sanjeev to take us through his views about how we had in Q3. Thank you.

**Sanjeev Sharma:** Thank you, Sridhar. Good afternoon to all of you. We will talk about quarter three performance of ABB in India and I will share what I saw in the market in quarter three and what we see going forward. Sridhar will give you a bit more input on the numbers and how you can view them, and later on we take the questions and answers.

So all of you are very familiar that quarter three in India was full of events and structural reforms. So we really called inside the company this has been a quarter of reforms, wherein lot of issues like GST came into play at the start of the quarter and of course our team prepared itself well, handled all the teething problems which came. I think it took us couple of weeks to get a good control of it and I think our team did an extremely good job, not only preparing our internal processes, but also preparing the value chain as well as our customers. So it was a job well done and we draw lot of satisfaction out of the professional work done by our team. At the same time since this was a new structure, it caused some confusion in both sides in the supplier side and the customer side and there was some effect which were visible when it comes to revenue realization and order realization. So we don't take quarter three as something we will draw conclusion to make some trends out of it because there were lot of systematic changes. So I think it is better to look forward and we can give you a more of a forward commentary what we see going forward.

But just couple of comments about quarter three. We saw a consistent improvement in our cost structures and internal efficiencies. So if you dive into the numbers, you will see quite a good



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evidence of it. So lot of internal efficiency programs that we are doing on the cost as well as the other operational parameters, we are seeing a very good traction within ABB India. At the same time uncertainty in the market, slow demand due to structural reform and some customers pushing for lower price, looking for credits and passing on the input credit benefit etc. caused a bit of a confusion and it had a bit of an impact of our orders. So they were not as strong as we had in quarter one and quarter two because of these effects. Now as you are aware that ABB's focus is primarily into three major segments - this is ABB's focus globally and the same thing gets replicated in India. The focus is in the areas of utilities, industries, infrastructure and transportation; and being India-centric we are also using India as a base for exports. Given that we are here in the country for a long period of time, we have a solid installed base and we have to have lot of focus in servicing our installed base. So these are the basic elements and on top of it for last many quarters we have a sustained effort on digitalization of all these sectors and services and we see that now a good traction has started coming in for ABB in the digitalization space which equally applies for utilities, industries, transportation and infrastructure, exports and the service orders that we take. We are very pleased with that because our sustained focus and effort to bring in the new value proposition on digitalization is giving us a good traction and a good value discovery by our customers.

Now talking about utilities as one sector, major sector for us. We did see that the state level utilities are focusing on increasing transmission efficiency and lot of investments have been planned in that area and there is an investment of about Rs. 260,000 crores Indian planned by FY22 and 61% of which is to be by state governments. Some of you already must have analyzed that the PGCIL orders are slowing down at the national grid level, but then there is a lot of activity which is shifting towards the state grid level and even a company like PGCIL is working with the state utilities to set up their transmission link. So that is a kind of a transformation taking place and that is what we see. Then 24/7 reliable power to all. It has been taken up by all the state utilities. ABB won an order to digitalize 20 substations for Himachal Pradesh State Electricity Board. So it is not on this slogans and statements, we do see lot of action is taking place on the ground and that is getting converted into orders in our book. And it's not the traditional technology, it's more of cutting edge and more modern technology is being demanded as well as deployed by the customers especially in the state electricity boards. They are very open to discuss new technologies and that really flies into ABB's strength - in our portfolio and services. Staying in utilities, all of us are observing that there has been a drop in solar and wind tariff. So on one side it is a positive for the country because the grid parity with the traditional generation of power it has been reached and in some cases, some bids have opened and solar and wind. It has battered the grid parity cost and that is a positive thing for the country that the solar and wind is here to stay. But at the same time, the industry which is participating in creating solar and wind assets, they are continuously working in this area to optimize their business model so that they can sustain themselves over a period of time.



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At ABB, we have observed that our orders continue to grow in the solar power side. We grew 15% year-on-year and which amounts to almost 13% of our total orders. Inverters, which is the heart and mind of solar plants, is a high technology solution and ABB so far has scored highest market share in this area for Indian market. We find that the customer really appreciates ABB inverter's quality because sensitivity here is a customer is investing in an asset for say 25 years and he really wants to have technology in his plant by which he can continue to sell power and there are no failures taking place in parts. So that really favors ABB, quality perception as well as the delivery and our ability to serve our installed base in the country. We continue to see strong connection as well as growth with our customers in this area.

Now, we see some slowdown in the wind segment because some structural and regulatory reforms there. I think industry is absorbing it and we feel by first quarter next year that should start easing itself out. But we are pretty strong even in the wind segment because we supply the wind generators to the best in class wind turbine suppliers in the country and of course we are participating and supporting them to see that this transition takes place smoothly while they adapt to the new changes in the structure. ABB completed about 5 GW of delivery of ABB solar inverters in the month of July and also at the same time we also completed 5 GW delivery of wind generators which is the highest by any manufacturers here in this country. So that shows our resolve as well as commitment, as well as our local footprint which is serving the solar and the wind market. And as the solar and wind is getting generated and connected with the grid, we see that most of the state electricity boards and the energy planners they want to deal with it because up to 4 pm there is lot of power available and suddenly 100 megawatt of power goes away from the grid. So it is a bit disturbing for the grid suppliers or the power suppliers and that is where ABB is supplying lot of smart technologies to integrate part of the grid, so that these kind of intermittency can be taken care of.

And also some new methods are being deployed by our customers with respect to having the water based NSG storage where in you can pump in the water during the day and you can drainage through the turbines during the night period of time. So there are number of things which are being worked out.

Now on the industry side, our story has been more in the brownfield investments and we have a leading position there and we do see that ABB technology in leadership sectors - like Oil and Gas was up 85% year-on-year, Chemical 150%, Cement Mining and Minerals about 148%. So we see there is a good traction when the customers are investing in the energy efficiency and the operational efficiency that they are trying to gain in their plant. So we come fairly handy and I am very pleased to announce also one of the largest digitalization orders in the country. We cannot give you the name because of the non-disclosure agreement we have with the customer. But we have started getting very good traction in terms of delivering next wave or value to Indian industry by participating in a digitalization project and it equally applies for utilities, many of



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our customers are working with us, to get the next generation digitalization effect into their assets.

On the industry side, we are tapping into some new market segments. These are the segments which have high growth and ABB portfolio fits in very well. For example, Food and Beverage, and Automotive and we do see very strong growth in this area and we will continue to focus there and give a good solid value proposition for the local companies which are growing very fast, home grown food and beverage company and also the multinational corporations who operate in the country.

In the infrastructure and transportation, government investments continue to drive growth in railways. We have a good order **intake which governs year-on-year** and we have a strong play in EV charging and upcoming charging tenders we are strongly engaged and we will be a strong player in this space. I think this will be a good potential growth segment for us in future as the government takes this area fiercely and we are working with all the players.

And on the exports side, we had a good growth in export. Indian engineering goods recorded an increase in exports of 44% in September and ABB also is tracking similar trend in our export markets. Services continue to hold a strong share of orders there in revenues and we see our customers continue to engage with us to gain more efficiencies and keep the plant of times with our services. So in all good quarter for us. Our profit after tax was up 18% year-on-year in quarter three. Sridhar will talk bit more about it mainly because of the robust cost structures which are playing in through our operations and systems.

We have been here manufacturing 60 years and we have seen number of cycles of this country and as we go forward, we are very upbeat in terms of what will come out of this structural reforms which are going through this country and we are really long on it. And our portfolio for utilities, industries, transportation and infrastructure and digitalization is perfectly aligned with the priority this country will have going forward and we do feel that not only we will contribute to the nation building but also we will be a good size export hub for ABB plus we continue to participate in the very exciting R&D projects across the globe for ABB and we have that kind of hub built in this country. So good positive outlook, we see our participation in this market and associated market where we supply as an export company. So this is all from my side and I will hand it over to Sridhar.

**T. K. Sridhar:**

Thank you, Sanjeev. I think it was a good overview of what is happening in ABB and in the market. Okay, now let me deep dive into some of the financials, the performance in this area. First of all, I would like to basically put in a positive note that we are done with the GST implementation. That is the first step, I think it was lingering for quite some time as to how we would implement it, but now we are done with that. So I think even though it is a major structural reform affecting the various parts of the value chain, but from a positive note this is done and we can only look for better things to come and more clarity to come in the future. And of course



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it had its implementation glitches and which any structural reform of this magnitude will definitely have and I think this is what we were also mentioning earlier as well.

So on that particular background, if we look into the performance of ABB India in the third quarter, right on the orders front so we clocked 1,936 crores of orders for this particular quarter and compared to that we were 2,968 crores last year and last year I should remind you, we had a very major order from a major rail customer to the extent of 1,000 crores. And we always believe that large orders are definitely a glamor in the entire scheme of things, but what is very important for us to keep the operations running is the focus on base orders. And we have been repeatedly saying and this is what will feed our factories. It is very important to serve the customer base in India and so in that aspect I would say that in spite of all the issues which we had in the market and facing headwinds, I think we were pretty flat. We did a good job by closing on a flat level as far as the base orders are concerned. The good part of it, the base orders also had some good export orders and service again contributed to be one of the frontrunners in terms of how we are able to connect to the customers to serve the installed base.

Now coming to the order backlog, we have a robust order backlog of 12,000 crores and with a good visibility of revenues for the next several quarters to come and of course we have the large orders like PGCIL, RP-800 and definitely the rail customers.

On the revenue front, we clocked 1,915 crores as against last year's 2,055 crores and this is one of definitely, primarily the reason is because the market try to adjust to the new taxes, the contracts have to be rewritten, the deliveries were sort of deferred for the time being because the systems of the customers and also we reconfigured to accept the materials as per the revised tax structures, it took some time. Hopefully, this is not a sale which is lost. This is a sale which is deferred and so on that positive note I think that this would come back to ABB at any point of time whenever the system matures.

And continuing to what Sanjeev was saying, our cost levels are quite robust in this particular quarter. We could see material cost improving from 64 levels to 63.5 levels. So that was one of the biggest achievement which we had and this of course was contributed by the exports revenues, good robust performance and services definitely went a long way in making sure that our material cost is to the levels with what the market expects. And also quite a few indigenized localization initiatives on several products have started to yield result and this has really helped us to post better results in a trying quarter. So personnel expenses were flat, other expenses shows a decline and of course we also had an exchange rate variation gain in this particular quarter because we always have been saying that we hedge our exposures in foreign currency at the time when we get the contract. We don't wait for the market. So with this conservative and hedging policy of the organization, I could say that we were able to perform better. Interest **cost** **would be good** capital structure and low improved NWC levels, right, we were able to maintain low interest cost. We have been saying we and will still maintain, cash is pretty much important



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for us in our operations. So cash over revenue will definitely prevail and when we say revenue, revenue is definitely complete revenue which the customer wants and we are able to pay.

So overall I would say that a quarter which we were able to reasonably perform well, coming to know the condition. When I go into the segment performance, I think in terms of all this, almost all the segments grew. So there was nothing much which I would say in a flat environment like this, we were also able to grow and most important was I am really extremely happy that we were able to garner this group from the base orders. And they have faster turnaround of revenues with a diversified customer base. And also the portfolio where we used to focus on from sectors like F&B, emerging sectors F&B is one of the most important developments which I see in the quarter where I could see segments like Food and Beverage, Transportation, Automotive, Cement really gaining traction. So that is something which was a significant development in this particular quarter. So on the same line if we look at the performance over the last several quarters, we have maintained the trend of improving the profitability. When it comes to segmental performance as I was mentioning definitely the divisions, all the divisions other than PG has performed well in terms of order. So they have definitely shown a double digit growth and PG definitely if you remove the impact of the large orders which they had in the last quarter, I think they could be really flat compared to quarter three last year.

And service revenues, I think the development is that we are now 15% of our revenues come from service and a good 20% comes from exports. So that means we have turned the needle from the exports which used to be 15%-16% to 20%. So I think this trend is really likely to continue because of our initiatives to be cheaper in the market which are located to us and while being the manufacturing hub for several other markets as well.

And coming to cash. I think in this particular quarter we had to build up some inventory to serve future orders, the heavy backlog which we have, basically RP-800, but that was always being funded by the advances we received from the customer. So I think that is a compensating impact. We still remain a debt-free company and we generated cash as what we did in the last quarter as well. Our DSOs have reduced considerably from what it used to be earlier. Today receivables are 2,600 crores compared to what used to be 3,000 levels and this has really improved the liquidity of the organization. So net-net, our focus on the market, relentless execution initiative and the principles of cash over revenues have really helped the company afloat in a situation where we have various structural reforms happening in the country. So with this, I think we can open the call for questions.

**Moderator:**

Thank you very much sir. Ladies and gentlemen, we will now begin with the question and answer session. Our first question is from the line of Sujit Jain of HDFC Securities. Please go ahead.

**Sujit Jain:**

Sir, if we look at our margins in robotics and motion Y-o-Y, they have increased from 4.2% to 9%, a substantial jump of 480 bps. How much of this is sustainable sir?



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- Sanjeev Sharma:** I hand over this question to Subir Pal, our Division President for Robotics and Motion.
- Subir Pal:** The margin depends on the order mix because in robotics, we sell robots as well in large systems. So from quarter-to-quarter, these margins do have variations but we have been consistently improving the margins by optimizing the order mix and also driving internal efficiencies.
- Sujit Jain:** How much solar inverter would be as a percentage of this division roughly?
- Sanjeev Sharma:** Just to let you know that beginning this year, we had transferred the solar inverter business from robotics and motions division to electrification product division. So our solar inverter business is reported into the EP division now.
- Sujit Jain:** And then the EP would it not affect the EP margins because the fall that would have been there in line with the fall in tariffs and then in line with the putting up per megawatt cost of a solar power project. The inverter cost as we hear could have fallen to as low as probably 20 lakhs per unit. Is that the understanding correct?
- Sanjeev Sharma:** Well, you are relating these solar tariffs together with the components. So now, yes it is true that the tariffs have fallen and it was also included in my comments before. The tariffs had fallen but at the same time ABB inverters have a very strong positioning with the localization and the leadership we have in this particular segment and based on quality. So the customers typically that we work with, they appreciate the quality because they are holding a long term asset for 25 years. So that basis we do see an effect and we have an obligation to continue to reduce our cost to pass on the benefits to the market but we have not seen the impact the way you are explaining.
- Sujit Jain:** Okay. And one last question is about EV charger. Last call you mentioned that in countries like Netherlands whether the adoption has been faster and in much wider scale, they are deploying our EV charges, what exactly we supply in the EV charging systems and in which division this revenue will eventually when we supply in India will fall into?
- Sanjeev Sharma:** EV charging business is based in EP division, Electrification Products, and as we see every week we have different cities in Europe and America they continue to adapt on ABB EV chargers. Like last week we had about 100 EV chargers deployed on the German highways. So it continues to expand itself. So it is reported under EP.
- Sujit Jain:** But within the EV charger, what component or system we exactly supply, there in like you mentioned in Germany for example which you have done recently?
- Sanjeev Sharma:** See, there are two components. One is EV car which we don't supply, but when it comes to EV charging, we supply the complete system including the web interface where in the tariff base what you call model can be created by the people who hold that infrastructure. So we have been developing the infrastructure for EV.





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- Moderator:** Thank you. Our next question is from the line of Abhishek Puri from Deutsche Bank. Please go ahead.
- Abhishek Puri:** Sir, two things. One, is the Forex gain that you mentioned is that closer to 44 crores, the difference between reported EBITDA and the operational EBITDA that you mentioned in the press release?
- T. K. Sridhar** Is that the only question, Abhishek?
- Abhishek Puri:** No sir. The second question is on the order inflows which is looking seemingly quite weak despite even if we take the one-off effect, this is one of the lowest in last 7-8 quarters for the current quarters. So could you tell us which segments were lower and where we can track the turnaround for a better understanding of the order inflows?
- T. K. Sridhar:** So good question. Thank you for the two questions. On the profitability side, you are looking at the operational EBITDA number. The extent of what you call the Forex gains was as you said was roughly about 30 crores, but the last year included an asset sale of an open land which we had in Bombay and that was also equivalent. But the only thing is that comes in the operational EBITDA and whereas the Forex gain does not come in operational EBITDA. So on a like-to-like basis, we were flat, but I assume or theoretical consideration that we would have done the same revenues as what it was last year, we would have given better profits. So to answer your question, if you remove these one-offs and the markets have supported us in delivering a revenue growth as what we have been doing in the last several quarters, our profitability has definitely been far better. And the next question about where it has been impacted that you want track, right? I think this particular quarter was definitely as I said is a quarter where contracts had to be rewritten, structural reforms were going on and there it takes time is basically the government and the public sector customers. And they are more seeing in the case of PG. So PG is a division where you could have technically slow down and I think I mentioned it is a slowdown, but all these orders will get decided in the future because they are already lined up tenders for decision.
- Moderator:** Thank you. Our next question is from the line of Renu Baid of IIFL. Please go ahead.
- Renu Baid:** Pretty optimistic market outlook from your end this quarter. Two or three questions. First on the cost front, after segmental numbers that we see other unallocable expenses have continued to rise. Last quarter, we mentioned it was largely because of gratuity adjustments under Ind-AS. So will it be fair to assume that this kind of unallocable expenses would be more or less a trend going ahead or this still have any one-off elements. Second question would be if you can just help us, you did mention on PG takes more time with respect to contract the negotiations. If the delays that we have seen probably in this quarter and in the fourth quarter also in case if it happens, can that be completely compensated and met off by next calendar year or do you think there could be a risk of contractual deadlines being slightly postpones the execution? And third is if you can also mention, recently ABB had globally acquired GE's medium low voltage



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industrial solutions business. So what could be the impact on ABB India's portfolio that expect if any? Thank you sir and that is it.

**Sanjeev Sharma:** Yes, the GE industrial piece has been acquired by ABB globally. It has a very strong footprint in America, so it gives us a very good access to the channels cater to the American market. It also have reasonable footprint in Europe and of course some footprint in Asia. So what we do with the method that we follow in the company is that we formulated an integration team which is under formulation, at the same time the acquisition should be complete and then we as a country get the guidance from the group how to engage and do the next step. So till that time we keep absolute hands-off approach till the proper guidance from our integration team comes to us.

**Renu Baid:** Right, but then you would not be expecting any meaningful impact or positive push to the India business because you already have a reasonably complete portfolio in India?

**Sanjeev Sharma:** We do and as I said that the GE portfolio has a natural bias towards American market, US market.

**T. K. Sridhar:** I think one more question, I think couple of questions with Renu Baid need to be answered. One is about Power Grid which Pitamber will take and on the unallowable income, I think this quarter of course if you are looking from quarter-to-quarter, Renu the previous quarter as I was mentioning had an impact of the land sale which we had in Mumbai and this quarter is nothing. So the running rate could be so much, but this particular quarter was low on revenues and the next quarter would be high on revenues so as a percentage it would be less.

**Pitamber Shivnani:** On PG on order intake, Sridhar said last year we had a large rail order which was decided. If you remove the rail order, we were flat on quarter to quarter basis in orders actually, but at the same time PGCIL requirement has gone down and the state requirements are going up and the EPC requirements are going up. So we expect the growth in quarter 4 and quarter 1 of next year actually.

**Renu Baid:** Sir, my question was from the perspective of execution. So will we say execution timelines in the power grid or the transmission business being slightly delayed or will have to squeeze up in a much shorter timeframe the entire execution?

**Pitamber Shivnani:** No, I do not think these execution timelines will be delayed actually because on various orders, we are going ahead and discussing with the state utilities and power grids on the GST part. So I do not think it will affect much in coming quarters.

**Renu Baid:** So whatever slippages we see essentially will bunch up together in the next calendar year as execution kicks in?



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- Pitamber Shivnani:** Yes, but the execution will improve in quarter 4 also because if it is delayed in quarter 3 of this year, we expect to pick up in this October to December quarter.
- T. K. Sridhar:** Because as I was mentioning the contracts had to be rewritten in line with the new directions of GST, so it takes bit more time in public sector and government utilities. So the dispatches sometimes gets held back and then afterwards the system resumes and when the system resumes, it takes some time to pick up as well. So while we definitely see the backlog to be cleared in Q4 onwards and I really go with your assumption or a view saying that 2018 like the first two quarters is where I still think it will take for the system to normalize.
- Renu Baid:** Sir if I can ask one more question. On ESL, there was this news that 4500 chargers that we have won, so any clarity on what are the execution timelines and have you already booked at order or it will come in the next quarter for us?
- Sanjeev Sharma:** Renu, you are slightly ahead of the curve there. We have put in our bids for that charger tender. So, we are very keen to win it, but it is still in the bidding stage. We have not won it.
- Renu Baid:** I am sorry for that.
- Moderator:** Thank you. Our next question is from the line of Charanjit Singh from Axis Capital. Please go ahead.
- Bhavin:** This is Bhavin here. I have two questions. One, Sanjeev spoke about digitalization increasing. Are we seeing smaller scale industries also going up and if you could give a big picture over 3-5 years. How large can automation be for ABB and for India. The second question is while we are highlighting the PGCIL ordering is going down, what we have seen is the competition which was there in GIS mainly from the Chinese and Korean that has been coming down. So are we seeing that the orders of GIS where the competitive intensity is being reducing, that is improving for us.
- Sanjeev Sharma:** So do you have another question or these are two?
- Bhavin:** These are two questions.
- Sanjeev Sharma:** So I will take the last question first on the GIS. Well, I think our portfolio has been consolidating in the country and as we said, we are really long on India and anything that we do, we are really long. So our portfolio has balanced. We have certain gaps earlier, but they are balanced. So you are absolutely right. Going forward, you will see that ABB will have a strong footing in the GIS space and of course as the state electricity boards convert themselves from AIS technology to GIS is a big market opening up ahead of us. So on the competition side, I think we do not comment on that because we can be responsible only for our own behavior, comparative behavior keeps changing from one cycle to the other.



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Now with respect to digitalization, I have Madhav Vemuri also on call, our President for Industrial Automation and also Service business. I will hand it over to him in a minute, but to your point, yes, digitalization, you should see this way that ABB as a company has been around for 125 years and we have seen industry 1.0, 2.0, 3.0 and now 4.0 and every time there is a cutting a change in the technology, we are always at forefront and same thing we are doing in the digitalization. Our focus is primarily on the utility customers. Like say you are talking to a transmission company, the focus is on really ensuring that the transmission utility is able to provide reliable power to their constituents and there is lot of technology that needs to go in and also to be able to absorb the renewable that comes in and we have a fairly strong offering in this area and digitalization. We are helping our customers to redefine how they write their future in terms of automation as well as data analytics, machine learning so that in few years' time, they have a totally hands of approach from the grid and the grid can balance by itself. So that is one area wherein lot of work is being carried out. In the industrial space, we already have customers who use our control systems and we have a very strong asset which are being managed by our industrial customers. So what we are doing is we are coming on top of those assets and giving this value-added services with digitalization that is number one. And number two, giving deeper insight into their process and their cost trends and that gives totally different possibility for the customer to optimize their cost and the value chain cycle. So Madhav, I will hand it over to you in order to how you see from industrial automation perspective and some of the cases that we are doing without giving the name of the customers, what kind of value proposition we have for the customers.

**Madhav Vemuri:**

Look, digital is not something which is very new for ABB either globally or locally. We already have more than 700 million devices and equipment already digital enabled and connected to the network for various process control and utility applications worldwide. For us in India it is a more of digital acceleration rather than digital transformation and it is more of unlocking the full potential of the equipment and the functionality and the features that we already have been built-in into products and systems over many years. It is taking the current level of performance and operation to the next level by having more insights into the actual condition of the equipment and also more pattern-based and data analytic based to predictive and decision making power given to the users and plant owners for deciding the investments or the shutdowns or the production facilities and things like that. So for us, digital is definitely an incremental portion of what we already have as a service engagement with huge installed base of more than \$10 billion in this country and it is basically the unlocking portion of the full potential of the systems and solutions that we already have delivered to the customers and this is something which is starting from very big power plant or an integrated steel plant or the cement or other process industries to discrete manufacturing units to food and beverage and also to automobile industry. It is across this spectrum and similarly it is also across this spectrum for the utility companies. We have a lot to offer in terms of digital substations and also online monitoring of the status of critical power components in the substation and also the customer usage patterns and availability of the power and the online trading facilities and all that. So there is a lot to offer. ABB has always



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been far ahead of the competition in terms of offering these things in bits and pieces. But as part of the digital initiative now, we are also trying to combine and create a much bigger landscape of value proposition the customers to have a very holistic view of the whole facility rather than in component level like for competitors.

**Sanjeev Sharma:** Madhav, thanks. So I think that gives a bit of a flavor about the nuts and bolts of it. I think Madhav took you there just to your question in terms of what it will do for our forward business. So one thing it does is, it delivers a much solid value to our existing customers and reposes their faith in ABB's ability to take them forward into the next phase of industrial 4.0. So we would say, it really make our existing portfolio more attractive together with new age services which are in the software area for the customers that we deliver along the digitalization.

**Moderator:** Thank you. We have the next question from the line of Subhadip Mitra from JM Financial. Please go ahead.

**Subhadip Mitra:** My question relates to your opening remarks where you mentioned that we are looking at a large component of 2,60,000 crores transmission CAPEX that is going to now probably come from the state sector, just wanted to get some more color on how do you see the state sector CAPEX picking up and what kind of addressable market size would ABB have in this area?

**Sanjeev Sharma:** Yes. I did mention 61% of that outlay is going to the state governments and we do see, just to put a color on it, I think most of the state governments are grappling with number of areas. They need to invest in exhausting the powers in the new wind forms as well as solar forms that are coming up and also to stabilize that technology. And plus they augment certain city and the population colonies wherein the grids are not so strong. So typically the investments will go in that area. So we will see lot more substations coming at the 400 kV levels for example, and also given that the right of way is a big issue, most of the state electricity boards try to minimize their cost spend on the land reduced. They will also go for the new generation technologies, so there is a minimum of the land use is taken for setting up this transmission as well as substation infrastructure. So that is where we see more GIS technology coming into play and ABB's hybrid technology of past and AIS combined which is called past technology is unique technology by ABB. Those are the things which will pick up with this kind of a spend. So we feel it will not be the high voltage line, but it will be say 400 kV and below lines and also associated substations with a bias towards GIS technology.

**Subhadip Mitra:** Understood. Would it be possible to get to a number in terms of what could be the overall market size in these product segments that we could look at from an ABB perspective?

**Sanjeev Sharma:** Well, absolutely. We have those numbers. But we are not in position to share that today.

**Moderator:** Thank you. Our next question is from the line of Nilesh Bhaiya from Macquarie. Please go ahead.



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- Indrajeet:** This is Indrajeet from Macquarie. Just one question on the Indian Railway side. What is the level of involvement that ABB has with them today and is there a rethink in terms of where the key money is being spend by the railways, I think after lot of this talk around safety and all those kind of thing. So just an update on that would be fine. That is it.
- Sanjeev Sharma:** Sure. I think the railway is an important segment for us and it has an impact with our RM division as well as in the PG and EP divisions as well. And the spend which is being carried out by railways is in the right direction from ABB technology and portfolio point of view, be it you are building up new engines like for example OSCOM which is building up a new factory in Mahadevpura in Bihar. They already have a long term agreement for us to supply the traction transformers as well as converters and chargers which come from RM and the transformers come from the PG division. So it has an immediate and a long term impact on stability of supplying our product portfolio with a very stable long term contracts and then with respect to direct spend by the railways to modernize the bogies and the new generation bogies, there again I think we have a good play because ABB is pretty strong in railways globally. So we have those technologies. Actually we produce much of it locally and whatever we don't, we are bringing it part of our portfolio going forward. Subir, do you have something to add on top of it.
- Subir Pal:** I think we also do the turbo charger business with railway which goes into the diesel locomotive and of course we have one of the primarily supplier for converter equipment on the locomotives of Indian railways. And that business is going up as the railways are expanding very fast on the network and also the number of loco deliveries every year. So we see this business very well aligned with ABB and growing.
- Sanjeev Sharma:** On the safety side as we said there is a holistic process. So one aspect that assures safety is deployment of new safe designs in the traction as well as in the bogies and the overall in the physical infrastructure. I believe this deployment of technology and the right design itself assure safety. So what we say, we feel positive about railways, I will not elaborate and I think everything is going in the direction that the safety in railways will be good over a period of time by deployment of technology and the action railways is taking while it is a long haul that we have to bear with. Thanks.
- Indrajeet:** If I can just squeeze in a related question, is there a risk that with focus on safety more, the investments into the rolling stock might reduce, which has been I think the big part of our business till now from railways and that is it from my side. Thank you.
- T. K. Sridhar:** The rolling stock of course is a major growth area as we see the roadmap of the government and I don't see any indication that rolling stock growth is being rolled back or anything like that.
- Moderator:** Thank you. Ladies and gentlemen, we will take our last question from the line of Puneet Gulati from HSBC. Please go ahead.



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**Puneet Gulati:** So within your industrial portfolio, how much demand is being driven by OpEx and how much is being driven by CAPEX?

**Sanjeev Sharma:** So as far as the industrial sector is concerned, I think it is a common knowledge among us because of the NPAs at this point of time that the large houses in the core sector are not investing heavily, I think that sector is muted, but we do see that in the brownfield project. When we say in brownfield means that somebody who is expanding a bit or who is spending money to save energy or increase the operational efficiency. There we see quite a robust investment and I think we see our order books in the industrial automation expanding and also in RM especially in those areas. So just to give you an example somebody deploying more energy efficiency, more deploying kind of any energy efficiency drives there are industrial automation solution. Digitalization is a core element which delivers lot of efficiencies. So those kind of investment by the big players is quite heavy in this area and I must say their engagement level with us is quite high. But on the greenfield side, it is still muted in the large sectors but when we look into the medium sector like paints for example or for example F&B sector, foods and beverage, that is pretty robust and that is growing. Anything which is consumption oriented is growing well, let us put it that way.

**Puneet Gulati:** The reported revenue or the total income from operations appear to have declined by about 6.8%. Is that the right number to look at or do you think we need to adjust for some taxation related issues?

**T. K. Sridhar:** Leave the taxation part of it. I think the most important part of it you need to look at is revenue from operations. So if you look at total income, then it also includes other income. So when you look at the revenue from operations, so what we are looking at is basically 1,915 crores versus 2,055 crores last year and that is how what we are looking at. And this is basically because as what I said was definitely it has got two components, one is the deferral of dispatches from the customers basically because they are adjusting themselves to the new taxes. Other one is definitely, the last year had a reported revenue which included the tax and duties on all items, trading items and the trading sales right what we have is a very not a major portion, right? So it doesn't I think materially mislead you when even if you ignore that.

**Sanjeev Sharma:** And on the revenue side going forward, a comment from my side, our backlog today is 50%, about 50 plus percent more compared to last year this time and that gives us a very strong view in terms of what revenue used to come.

**Moderator:** Thank you. Ladies and gentlemen, that was the last question. I now hand the conference back to Mr. T. K. Sridhar for closing comments.

**T. K. Sridhar:** Thank you very much to all the people who have joined this particular call and also to the management team who is here to deliberate upon the questions which was given by the analysts. I think we look forward to answering you if there are any unanswered queries. Please feel free



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to write to us back, write to either me or to Sohini or Manashwi, whoever it is, we are more than glad to give you the required clarification. So thank you everyone and with this, I think we end the Q3 call for the analyst. Thank you very much.

**Moderator:**

Thank you members of the management. Ladies and gentlemen, on behalf of ABB India Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.