



“ABB India Limited's Q2 CY2021 Analyst Conference Call”

July 29, 2021

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Moderator: Ladies and gentlemen, good day and welcome to ABB India Limited Q2 CY 2021 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. Do also please note that no unauthorized recording of this call is permitted. The same will be available on the company and SEBI website subsequently. I now hand the conference over to Mr. TK Sridhar, Chief Financial Officer from ABB India. Thank you, and over to you, Mr. Sridhar.

TK Sridhar: Thank you. A very good morning, ladies and gentlemen. Welcome to the Q2 2021 Analyst Call for ABB India Limited. I have on the call along with me, Mr. Sanjeev Sharma, M.D. of ABB India Limited and then all the Division Representatives on the call. Mr. Sanjeev Arora, the Manager for Motion Division; and Kiran Dutt who represents Electrification Products and have Subrata Karmakar from Robotics and Discrete Automation and also G. Balaji from Process Automation. And, along with me, I have the communications colleagues, Sohini Mukherjee.

Over to you, Sanjeev to take them through what happened in Q2 and Outlook later on.

Sanjeev Sharma: Thank you, Sridhar. Good morning, ladies, and gentlemen. Thanks for joining the Q2 2021 Highlights Call for ABB India Limited. We will present you Business Highlights which I will talk about and then I will hand over to TK Sridhar to give you Financial Highlights.

On the operational highlights, we had a significant increase in orders and revenues on a year-on-year basis with double-digit growth across all business units. Overall, a strong performance. We had improved profitability year-on-year and margin growth was supported by demand and cost optimization. Our H1 cash generation was solid.

We continue to prioritize health and safety for our employees, our contractors and all the people who are connected with us, including their families. And the vaccination drive is our priority as we go forward.

Maintaining operational efficiency and customer connect is the core strategy and that has been working for all our divisions as is seen in our operational highlights.

We have a solidified ESG plan, with 10 steps, which is under implementation and we are seeing significant progress there and significant allocation of resources in that direction.

COVID-focus areas - vaccination is our go-to-strategy. We have about 80% of our employees and contractors vaccinated. And if I add another 10% who recently contracted by COVID, so about 90% of our workforce direct and indirect has the antibodies for COVID. We would like to see that by September, second vaccination is done so that we have much more surety, security which directly impacts our business continuity.



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Restarting Operations. All our operations are working and, wherever possible, we have work-from-home arrangements and many of our employees continue to work-from-home who don't need to come to factory.

We have refurbished our medical centers in all locations. We have trained our doctors; we have trained our medical staff, and we have also prepared a comprehensive guideline for how we shall manage third wave. We have a proactive signal-based strategy, that we will detect early signals, if third wave is becoming a reality and we will act ahead of the curve rather than in the middle of the curve, like we had in the case of second wave, wherein everybody was taken by surprise.

So, overall, the story has been around demand which has been strong, especially in the short cycle business. We saw growth across most businesses and multiple market segments. We have systems and service orders coming back. There is more potential for service orders to come back as customers allow more visits from our service engineers and process industries and energy efficiency, management and stabilization solutions are in demand in the marketplace.

On the discrete side, there was a broad-based order growth supported by automotive reinvestment. So, we are seeing some green shoots in the automotive segment especially among the OEM.

The orders were up 41%. Revenue was up 45% from the corresponding last year.

Now, the areas wherein we find a significant uptick of orders and our success and our headwind has been in the area of data centers. We secured good orders for electrification products, a range of products that go into it like GIS substation, E-house – which is the prefabricated house, switch gears, low voltage equipment, ring man unit and medium voltage switchgears and the recent orders we had was for data centers in Noida and Navi Mumbai.

Power distribution in significant infrastructure projects. We had some success in Jammu & Kashmir and also the North India corridor for regional rapid transit. So, similar project in our product space and our solutions space is quite good and we foresee this area expanding going forward.

We had our portfolio going into renewable energy and saw a good uptick and good support coming from food and beverage market segment.

ABB India's commitment to greener future is in alignment with our Group's global strategy, wherein our group is committed for EV100 program wherein ABB commits to electrify its fleet of more than 10,000 vehicles by 2030. RE100 which is climate group, here ABB commits to source 100% renewable electricity by 2030. With EV100 ABB is committing to establishing energy efficiency target and continuing to deploy energy management systems at the company site.



ABB India has a very focused 10-point ESG framework. Following indicators are well-defined and they are being nurtured since many months. So, we are focusing on green infrastructure. For all our sites, we are going to have gold or platinum rating for our campuses, and we have broken down what it takes to get there. Same thing on the energy efficiency improvement, renewable energy, GHG emission reduction, water conservation, material conservation, waste management and circularity, green supply chain and customer, product stewardship, lifecycle analysis, innovation, and biodiversity. In fact, our focus is so well spread with each and every location participating with a focused group. As we interact with you quarter-to-quarter, going forward, you will see significant progress and we have some low hanging fruits wherein the projects are already under implementation and few of the projects which require special attention, will be budgeted as we go into the budgeting cycle for the next year. So, we do see a significant movement of the dealers in this area in coming quarters.

At this point, I hand it back to Sridhar to take you through financial highlights and I join you back for the question-and-answer session. Thank you. Over to you, Sridhar.

TK Sridhar:

Thank you, Sanjeev. We get into the interesting part of how we performed in Q2. The highlights, if I look at Q2, probably with a strong recovery in June, of course, there were intermittent disruptions because of the locally administered lockdown. We lost almost 3, 3.5-weeks in totality of working time in all our factories on an average, which is reflected in the revenues as what you see. As Sanjeev said, it was growth across all business mix and needless to say the cash collections were pretty stable and we also saw service businesses was muted for the last few quarters due to the mobility constraint that started to pick up. This means that, going forward, when customers try to revamp their installations, we should expect more stable growth in services.

When compared to Q2 of 2020, how I see is that 41% on the orders is what we see, all are base orders, revenues went up by 45% and 320% increase in profitability by sheer mix of revenues, very stable operations. The intensity of the disruption was quite different, when compared to the previous year. So, that is to be held in mind when we look at this particular number. But when we compare this with Q1'21 or Q2'19, I think we see that it basically hadn't reached the revenue levels of what we had done in these two quarters, I think profitability would have still been better. So, that's something which we look at it. Vis-à-vis Q2'21, I would say orders de-grew by 7%, revenues, we had a shortfall of 13%, profitability before tax by 30% and PAT by 15%. So, this is how we look at it. But on a half year basis, orders went up by 11% and revenues, of course, double-digit again by 22% and profitability before exceptional items and PAT were definitely higher as well.

So, this was something which we looked at as the focus areas, will be for the next few quarters to come is make sure that we have the accelerated performance on the base KPIs which is orders, revenues, cash and profitability and we also look at improving the cash balances again focusing on cash and collecting more and making net working capital sharper.



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As this slide tells about how our P&L account looks like. If you look at it, we see material cost was 6.4% vis-à-vis the previous year of 6.5% and this is on account of commodity prices which are hardening. This is something which we will have to look at how we pass it on to the market; there is always a lag. So, this is a focus area for us going forward because the demand moves up and commodity prices, especially steel and copper, strengthening on their price levels, we are definitely going to a different strategy as to how to deal with this.

The next is about the personnel expenses. As we see, personnel expenses is higher compared to the previous year and we need to understand that in the previous year, we had taken drastic measures because that was pretty much important for us at that time to react as such, which included with respect to restricting the incentives, restricting the link on accruals, which is not required to be done in this particular quarter. So, that means we remain steady, that it's very important for us to retain the people and motivate them for the next coming quarters, which are poised for growth. So, that's something because of which the personnel expenses are higher than the previous quarter.

And other expenses, as you see, most of them are revenue-linked, which is basically the freight, the group fees and everything else. That being the case, I don't think we have spent anything which is extraordinary. Travel and entertainment remain to be at very low levels because of reasons well known to all of us.

Other good part which I would like to say is about the interest cost, which was definitely higher than the previous year, higher than the previous quarter as well. So, it's substantially low. I think that is reflected because of the good cash reserves which we have, and we are making sure that our focus on collections, despite the disruption, is sharper.

So, in a nutshell, the improved performance is due to improved capacity utilization which is very important because we knew how to manage the COVID situation; something which we learnt from the previous year. Because we anticipated that there could be wave-2 disruption, how do we need to isolate our factories and work and also how do we quickly ramp up the people with the vaccination drive, what we could do is something which definitely came in very handy for us to manage the Q2 performance.

Share of total orders, revenues and PBIT by division. If you look at it, the patterns are quite similar to what we had last year as well and the year before that. So, all EL, MO, PA are pretty much in the same line when it comes to orders and revenue. But what is more interesting to see is the profitability pie of it. We could see that PA, process automation which was basically facing challenges on project execution and delayed projects and as you all know, we did take some provisions last year and now they are back on track, and now we are seeing a good momentum in the PA. And that's why the share of profitability has increased.

Next slide is more about diving deep into the segment wise performance.



On Electrification:

I think electrification gained very extensively because of the volume and the mix which supported the margin quite substantially. So, they did an order book of 575 crores and they are looking at a backlog of Rs.1,365 crores; pretty much solid. These orders would come up for execution in the next three to four months. So, revenues, there was an increase across all businesses in year. Of course, we did have disruptions, but we also saw some early signs of recovery in June. PBIT, slightly less, but I could say that they were hit by the hardening of commodity prices. But what was offsetting that particular impact was the mix and the better price realization.

On Motions:

If you clearly look at it, very stable. These are our growth engines currently. Orders, we definitely looked at Rs.731 crores and they were slightly muted for the quarter on sequentially, but I think they would definitely move up because we lost some time in Q2. But otherwise, I think it is very good customer connect. Our strategy of reaching to the channel partners and our customers in tier-2 and tier-3 is really paying off. If you look at EL as well as MO, the impact is really fleeing on ground and we were still able to do good revenues of Rs.500 crores and a good profitability of Rs.55 crores in this particular business. Needless to say, I think the higher revenues and low voltage motors and drives are something which we looked at as a comeback, and service business also contributed to a higher margin in Motion division.

Process Automation:

Here you could see a reversal of the trend which is sitting in. Orders Rs.362 crores although we did not have many customers working in the second quarter. So, they are sitting in a backlog of Rs.1,410 crores. Clearly executable. So, no slow-moving orders or non-moving backlog is what I would say. And the good part of it the system orders are slowly looking at making a comeback. That's a good sign which we are seeing.

And when it comes to the revenues part of it, yes, there were certain disruptions, but I think this could be converted into good revenues going forward. PBT of course at Rs.16 crores and that was more contributed by higher service revenues we had.

Robotics:

This is another business area where we saw some traction even in Q1 and it continues to show stability in Q2 as well. Orders we booked were Rs.65 crores in the quarter and all were base orders from different industries. So, automotive segment is showing early signs of recovery. And we had also got good orders from the auto OEMs.



The revenues here we saw service becoming steadier than what it was earlier, and profitability is at Rs.5 crores, yes. As a percentage, it could be slightly muted for the region, the mix over here was more of trading revenue which was the first one to go when we look at the total schedule of the projects which we had earlier. So, with that, hopefully and the volumes which will gear up in Q3 and Q4, we should be back on track.

Before I hand over to Sanjeev, one more bit of information which normally used to be asked is about the unallocated portion movement. Unallocated portion in Q1'21 was roughly Rs.67 crores of loss and when we compare to this, it was Rs.23 crores of loss and that was primarily because of two, three reasons. Normally, the first quarter is a true-up quarter for a good part of group location fees. The December quarter was pretty heavy for us and so naturally the true-up impact came up in the first quarter. The rules of CSR accruals of nearly Rs.10 crores which we accrued because the rule in the first quarter as given by the Institute of Chartered Accountants was to accrue it, whether we spend or not in the first quarter. This was revised in Q2 that it is to be done only on actual basis with a catch up in Q4, so to that extent the adjustment has been done.

The next part which has an impact is the actuarial valuation. So, we had a higher loss in Q1 compared to Q2. So, these are the key attributes for how it looks like. And the next question would be, if cumulatively, we are at 89 crores loss, what could be going forward?. Given the situation we have, it moves in line with quite a few expenses over there and also we will not have these impacts as what we saw going forward. So, naturally it should be double of business what we could see, I mean, there is a ballpark number, but we should be aiming around that particular area. If there is anything else, we would definitely call out in Q3 if we are expecting something which is different.

The other thing is about Service and Exports. That's also another important data point which is requested. I would answer that during the question-and-answer session. So, they remain steady. So, service revenues are better than the previous quarter. But service orders are a bit muted. But exports again orders are better, and revenues are a bit muted. So, that means this quarter the orders remain steady and the revenues were a bit muted because of the disruptions what we had. So, I would share the percentages or data points later during the call.

Over to you, Sanjeev for the Outlook.

Sanjeev Sharma:

All of you know that ABB India Limited has 18 business divisions, out of 21 divisions and the 3 divisions that we don't have in this country are the ones which are more US-centric. All these 18 divisions have strong local footprint, not only in doing business but also manufacturing and high value addition and delivering customer services. Many of these divisions also are exporting. Increasingly, every year, they have more exposure in that direction. The 18 divisions do this business in these many market segments. So, you can see there is a fairly wide spread of the segment exposure. So, if you create a matrix of 18 divisions working in different market segments which are going through cycles, one is due to the natural market cycle and also the impact that happens due to the COVID, it happens due to the ESG agenda or CAPEX, etc., So,



this is how we have mapped and that's our understanding of the market segment. The ones you see in green they are tracking well. Yellow, orange, and red, they are the ones which are tracking in a way that they have a potential to come back. We are seeing good investments being planned which will come under execution as we go forward.

We continue to take a very cautious look on the demand and supply imbalances of each of the segments and also how the FOREX volatility, geopolitical and COVID is playing into this. These segments which will come under strong ESG pressure – much of our portfolio supports organization which are driving strong ESG agenda in terms of energy efficiency and also bringing about more operational productivity within how they develop the products and solutions. So, we do play this whole picture. And at this point of time, we are confident that how it is played out post Wave-2. We will see many of the segments seen in yellow, orange, and red, they start playing better as we go forward in the coming quarters.

So, that's the outlook. And cost optimization continues to be our focus. And since we are into the short cycle business, if we adjust the prices in relation to the increase in the commodities, we can glide over the impact of the movement of the prices on the commodity side to certain extent. That's my take and my view on the outlook, Sridhar.

TK Sridhar: Thank you, Sanjeev. We can now open up for Q&A.

Moderator: We will now begin the question-and-answer session. The first question is from the line of Parikshit Khandpal from HDFC Securities. Please go ahead.

Parikshit Khandpal: My first question is on India. We have seen tailwinds both on the PLI side as well as China strategy. So, for our 18 divisions and our plants and manufacturing in India, how are we looking at ramping up given the growth which may come and the revival success which you highlighted in yellow and red, over the next few quarters, what's your strategy on expansion in India, are there any mandates from abroad for building out new factory, or expansion in the current factory, so if you can just touch upon that?

Sanjeev Sharma: We do have a green signal from the global team as well as global executives. Looking through both organic and inorganic opportunities in the country and each of the division managers is developing and has developed a strategy in terms of the expansion for domestic orientation, how the demand is playing out. Given the size and the depth of the operations and the quality of our operations in the country, how they are able to participate in the other markets on behalf of the global division. So, that work is on. Many divisions have completed it. We have a clear picture. And accordingly, it will get implemented going forward. For us, we have five distinct locations where we do manufacture, which are Faridabad, Nashik, two in Bangalore and one in Baroda. We have significant land bank available across our locations. Our balance sheet and cash position are quite good for tackling both, our organic as well as inorganic aspirations. There is comprehensive work done, but these are the things which we watch very closely with the demand developing in the market and how the demand sustains. And given our history of 70-years of



manufacturing and incremental increase in our manufacturing footprint, I see this to continue and I do see, given the situation that we have, the geopolitics how it is playing, we will see more traction in the country.

Parikshit Khandpal: But have you crystallized any numbers like over next three years this could be the potential CAPEX which will get incurred?

Sanjeev Sharma: Well, as I said, that each division does have the mandate to expand. And that's something that will show up in their provisions and the proposal to the global divisions for the approvals. Once that is in place, we will be able to consolidate and give you the comprehensive picture.

Parikshit Khandpal: My second was on eMart. So, you have created a digital marketplace in your website. So, what has been the response, so are you seeing incrementally traction and the sales coming from that segment, can you just touch upon that how has been the success of that digital marketplace, eMart?

Sanjeev Sharma: eMart has been very encouraging. I do have the division presidents for Electrification and Motion, who primarily push the products through that. And we started in a way that we can give good customer experience. So, I like to invite comment first from Sanjeev Arora, his experience on eMart, how that is developing and followed by Kiran. Over to you, Sanjeev.

Sanjeev Arora: Thank you, Sanjeev, and thanks for this question. I think this is a happening thing. For ABB, in certain products, we are the leaders coming up with a company platform. So, if you see, in last couple of months and we have seen a steep increase in the number of enquiries which have come through eMart. And with this, not only we are able to cater to tier-1 cities, but also tier-2, tier-3, and other districts because now everybody is tech-savvy and this is going to play a vital role. The only thing would be that if we are increasing the reach, we also need to give the response in 24-hours, which we are addressing and the deliveries to the customer should also happens within 24 to 48-hours. So, that is our second objective. I see a very good growth momentum in this.

Kiran Dutt: On the eMart side, or the digital platform, we stand a first mover advantage. The kind of enquiries which we have seen, especially during the pandemic times, I think it was tremendous increase in those enquiries. What has happened with this is we are able to have, Sanjeev also said, in terms of increase into tier-2 or tier-3 cities the feasibility. I would say the reach increase, in terms of lot of other cities, happened where our presence was limited earlier. So, the reach is the main aspect to eCommerce. The other point what I would like to mention here is on the portfolio visibility aspect. There are many customers in terms of the visibility, they look at the portfolio in a very narrow perspective, but I think given the situation now in terms of a broader perspective of the portfolio what we have, I think it's a tremendous advantage for all of us to ensure that we get the visibility of the portfolio itself. On the whole, I would say, it's kind of a digital marketing team, not only that we get online orders but in terms of line, it's also giving a visibility for offline orders as well. Lot of enquiries are coming there and then getting closed



offline as well. So, I feel it's a great tool and having the first mover advantage, we are reaping the benefits out of that.

Sanjeev Sharma: So, just as an additional comment, as you know, we are now selling the industrial products over eMart. So, we always ensure that the selection done by the customer is correct, so that's why some interaction is still required and that's where, since the interface is digital, it's much easier for our customers to choose the right product against their data sheet and their specification and also enquire with us if they are making that selection right. It's great productivity for both ABB as well as for the customer ; it improves the customer experience. So, I would say, we have launched it, we are experiencing it, customers are experiencing it, and you will see that it continues to leverage and to grow as we go forward.

Moderator: The next question is from the line of Ankur Sharma from HDFC Standard Life Insurance. Please go ahead.

Ankur Sharma: I had a slightly longer, maybe a year, two-year time period kind of a question. So, our quarterly order inflows, they have been in that 1,600, 1,700 crores per quarter range for a fairly long time. I am not looking at this quarter, obviously, the COVID- impacted quarter. But fairly long time of 1,600, 1,700, 1,800 crores and annually in that 7500, 8000-odd crores number. Just trying to understand, given the position is from your side in terms of the pick up on the CAPEX, given what we hear from a lot of other industries in terms of a CAPEX recovery, whether it's a core sector, whether it's data center, etc., when you look at the next year or two years, do you think you can cross the 10,000, 12,000 crores annual run rate in terms of orders, so that implies 2,500, 3,000 quarterly run rate and the segments do you think will write up?

Sanjeev Sharma: Thanks for that question. Last nearly one and a half years, we have had quite a distorted period in the market. So, creating a linearity during this period is not wise for any of us. But, at the same time, since you are talking about a little bit of stress period going forward, we should look back at the period we have gone through in last three years wherein, we have made significant changes in the company in terms of portfolio readjustment wherein we have carved out power grids division, we have the solar business that have gone out, and also we have announced a couple of businesses that will go out as we go forward. So, given all that, what we have now is a portfolio which is almost 70% products, that is, it is short cycle business, we have only 7% projects, and we have rest of it into the services and solutions that we provide. So, this kind of a product portfolio has a very high elasticity when it comes to the demand side of the market, both for the local as well as the export market. So, with this positioning, what we find is that the recovery that we have whenever the down cycle comes, whether it is because of COVID, or any particular market segment coming back or going down, I think the elasticity is pretty high. That's why, when you draw an overall portfolio of 18 divisions going into about 18 market segments or 19 market segments, that provides us very stable base to run the company and the business in a very steady way and grow in a steady way as we go forward. So, that's what I see going forward, that the mix of this segment and the cyclicity of the segments, that's the base for us for the domestic market, and as they grow, we will have a corresponding growth on our business.



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On the export side, as we continue to expand our export that will bring the base volumes from there as well services since we have a large install base. Apart from that, we are adding, and we continue to add into our product portfolio. And that product portfolio, whether it is in the energy efficiency area, or in the areas wherein the ESG is taking the center hold in all the corporations, all those brands which are holistic and very strong going forward, I think those are the ones which will bring us the growth going forward. So, we are very growth-oriented company, but as Sridhar said, we are very selective, because we first look for profitability than volumes. We first look for cash than revenues. So, we will continue to have that strategy going forward. And in an organic way, we will continue to grow. And as the markets pick up, I think we will see the acceleration on it. We watch our capacity utilization very closely. And once we get a sense that is coming to a good level, we start expanding our capacity. So, that will be our recipe as we go forward. So, the numbers that you painted, whether it will be 10,000, 12,000 crores, I don't know which quarter, which month, it will be in future, but I'm pretty sure the company will grow from this level that we have seen so far.

Moderator: The next question is from the line of Renu Baid from and India Infoline. Please go ahead.

Renu Baid: I have a few questions. My first question is, when you look at new product portfolio, new areas such as powertrain for EV vehicles, as well as mobile robotics, what would be your comment, to what extent, so a) if we look at the power train part of the business, ABB has solutions for heavy vehicles like mining equipment, etc., so what are the group's portfolio and plans for entry if at all into the generic passenger vehicles and four-wheeler market and would it require a significant portfolio realignment? Also aligned with this, on the recent acquisition for mobile robotics solutions, to what extent we think it can expand and markets and the opportunities in Indian perspective?

Sanjeev Sharma: Thank you, Renu, thanks for this question. So, I will invite for power train a comment from Sanjeev Arora, and for this recent acquisition which actually expands our reach into the market segments, specially the logistic side, I invite comment from Subrata in terms of how he sees that as a business opportunity in India and the penetration of it.

Sanjeev Arora: When it comes to the expansion part, this is a story which will remain, and this has been the story for last many years for us as motion. You will see the expansion plans, new products, which are in pipeline in a short span as well as for the long-term strategy. And we are trying to go on the upscale of economy for manufacturing, and not only in India, but then our export business has also picked up very well. We have full backing from the local country management as well as the global teams. And shortly, you will see a lot of things going around in motion business on this piece...

Sanjeev Sharma: Sanjeev, you may like to mention about specifically if you like, on the electric power train, what our strategy would that be?



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Renu Baid: Yes, my question was the group has powertrain solutions for heavy vehicles like mining equipment. So, how would that solution pan out for India and for other passenger vehicles, four-wheeler segment, do we have a portfolio, and can that come to ABB India?

Sanjeev Arora: So, if we see the portfolio of the heavy vehicle and the mining part, we are pitching in. It's a new subject right now for India. And we are in touch with few of the OEMs as well as even the end users, when we talk of the mining industry, the coal segments, I think those people we are getting in touch, we have this portfolio globally available. We are also in a plan looking into the business case, we will develop this portfolio locally also as the things moves in the right direction, but I can tell you, we are on top of it and you will soon see some of the developments on this piece also.

Renu Baid: Basically, in our environment we don't have portfolio rights for the power train solutions or electric motors motion combined for EV vehicles per se and is it something which can come in future, but nothing as of now?

Sanjeev Arora: There are two parts to it. So, one is the automobile part for the EV vehicles for the cars, and the other, equipment, but when you talk of the heavy vehicles, when they are moving that is off-road what do you call. So, when you talk of the cranes, excavators, and so these segments we are already present globally. That's what I'm trying to say that we are in touch with the local OEMs here and there is a definite marketing strategy which we have put in place on this piece. And soon you will hear more on this subject as we progress further. Currently, we are not manufacturing in India, but soon as the demands picks up and we have a good understanding with the OEMs, you will see a lot of localization in this piece also.

Subrata Karmakar: Hi, good morning. This is Subrata from Robotics and Discrete Automation business. You must have already seen by this time that ASTI is a Spanish company and ABB recently acquired a team and what is the result out of it? We would be able to bridge the gap of mobile robotics. I see that is a fantastic technological company, ASTI, they have a very good range of products, which is catering to mobile robotics and India and globally. In India too, I am seeing huge demand on when you talk about warehousing automations and then when you go to the automotive industry, all are talking about flexible automation and conveyor less automation; the more and more autonomous vehicles and more and more touchless application we are hearing in medical industries, I feel strongly that acquiring ASTI will help us to bridge all the gaps of that product portfolios and Indian industries, within two to three quarters will be seeing the huge effect out of this acquisition. So, I think that Indian industries and companies manufacturing especially automotive industries who are looking for flexible automation and conveyorless automations, including the medical industries who are now looking for touchless industrial and warehouse automation will be benefited in the future with the products from ASTI.

Sanjeev Sharma: Thank you, Subrata. So, Renu, in other words, when we have such a proposition and the solution available, what we do is there are certain customers, they are aware how to use it and then there are customers who are digitizing a lot and they are also looking for solutions on the prototype



basis and on the scale basis, if they have a good collaboration globally, the global partner uses it. And that's what our experience has been opening new market segments in robotics and flexible automation. And given that there's a lot of attention on the warehousing as well as mobile robotics in order to move things right from the lab space to warehousing, I think we have very high confidence that we will see good penetration in the country. And I think we will keep a track of it and as we meet every quarter; we will keep informing you how the growth is and the picture that you see on the screen, you will see some new segments popping up which we will start focusing with this market segment.

Bhavin Vithlani: My first question is about the implications for the ABB India shareholders on the two recent announcements a couple of weeks back by the parent on the sale of the mechanical power transmission business and IPO of EV charger business.

Sanjeev Sharma: So, far as the mechanical power transmission business is concerned, it's essentially trading business for us. It's a very US-centric portfolio and any OEMs catering to that market, they buy it. It's not a very large business, just purely trading business. And in yesterday's board meeting, in line with the global inventions, a company has been found which is interested in taking over this asset; we presented this case to the board and board also has given us the approval to go ahead with this transaction and it has been assessed by the three valuers on a fair value basis and that's how it will be transacted, Bhavin. On the EV charger IPO, EV business has seen good growth globally. If you have been following ABB group, group points EV charging business as a very high growth business and they wanted to provide its own pedigree and its own space to grow and also make investments and do acquisitions, so they are creating this array outside ABB platform wherein this can take the opportunities as they come forward. In India, EV business is still at a nascent stage. So, there are not significant volumes that we do in this area. We are supporting some big OEMs in the country.

Bhavin Vithlani: The second question is on the process automation business as Sridhar mentioned that legacy projects are now out, could we expect double digit EBIT margins to come back, which we used to see prior to 2019 calendar year?

Sanjeev Sharma: Sridhar, I'll pass it on to you. Just as a qualitative comment, if you followed the press conference that was done by the group early during the last week, you will see that the process automation has a tagline globally, that process automation is back, and the last quarter has been particularly good for them, and it has seen double-digit profitability globally. So, I don't see any reason why this will not drag in the same direction given the construct of this business.

TK Sridhar: Bhavin, couple of things. So, how I would look at it is that they had definitely legacy projects impact on the last couple of years. But at the same time, their volumes were pretty much down because the market was not supporting them in terms of the order. So, it was a double whammy at that point of time. But going forward, I think, legacy impact is mitigated. But we all should keep in mind that for the legacy projects to close, is not easy in normal circumstances. It has its own challenges to bear with. But I am sure that those challenges will not be so intense as what



we saw in the previous quarter. The good part is that the market also strides from starting to revive for metals businesses as well as the oil and gas businesses and with services trying to track in the right direction, right, we should be better off. But I would not commit on any sort of a percentage at this point of time. The reason is because we were just out of it. And it is too early for us to comment or give the quantitative direction with the number. So, allow us two more quarters, allow the business to come out of this struggling period as what it saw in the last two years. And hopefully, going forward, if we can see a credible two quarters next time, , then we could definitely build a hypothesis going forward.

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

Ajinkya Bhat: So, my question is on the CAPEX recovery in the core sectors or EV sector. Now, during the 4Q conference calls, various steel and metal companies have announced capacity expansion with CAPEX worth up to about \$15 billion if my calculation is correct. Now, in that light, how do you look at that opportunity, because I notice that on your outlook slide in the presentation, these industries like metals, oil and gas and steel, rank low on your target segments as is. So, what is the potential opportunity that you see coming out of this CAPEX plan and which segments which pertain to, would it be process automation and electrification or would it be across all segments?

Sanjeev Sharma: Thanks for that question. This is not representing our low interest in this segment. We are saying these segments are tracking low at the moment. The macro environment what we do is whenever we find that the segments which are playing out better and have a better flow, we pay more attention to them. So, that's the reason you will see we have good traction in our orders, etc., and that's where our efforts go in. With respect to these market segments, this is an opportunity, so you can see all these yellow, red and oranges. Once they start cracking up and they join the light green or dark green few quarters down the line, and the plans are being made by the steel companies, even steel CEO mentioned that they want to double their capacity. As they fructify, I think these will join us in the growth cycle and much of our portfolio really benefits when that happens. I also have Mr. Balaji on the call. Balaji, would you have any specific comment in terms of how you see the CAPEX formation taking place in the course?

G. Balaji: Yes, Sanjeev, as you rightly informed earlier that this is about the markets' traction and does not talk about ABB's interest. What we see from the market is that there is an improvement coming up, especially in the steel and the oil and gas sites. Definitely, projects are being announced. So, what we need to look for is how fast these fructify, and the teams are quite innovative and start engaging with the customers to offer solutions.

Ajinkya Bhat: I just wanted to know, what is your current capacity utilization across the manufacturing plant, because as you mentioned, about 70% of ABB portfolio now is short cycle orders. So, let's say, if we go through, third or fourth wave of COVID, and lose more time because of lockdown, would it still be possible for ABB to recoup that revenue growth, is there adequate capacity headroom available to do that?



Sanjeev Sharma: So, on a qualitative basis, I'd like Sridhar to give you the number. Qualitative basis, yes, we do have headroom at this point of time, for the near-term growth to come in. And that's where our business area managers and the divisions are already on the drawing board in terms of projections for growth that is being seen in the market. Not only in the market and the interest of the group but also to use India as a base for exports. Combining that, we are already planning a few steps ahead around that. Sridhar, any specific comment, or data you have on the capacity utilization? Of course, we have 27 factories. So, each one will have different capacity utilization. I think that you have an average number.

TK Sridhar: Sure, Sanjeev, I'm glad to share that number. We are in the range of 80% to 85% of capacity utilization. And this is a blended rate. There are some things which are new plants operating at a still lower level, but there are of course, mature plants like motors which are doing well. But I think what we are looking at is like any other organization would do, all our management have built scenarios as to what could happen in case of COVID or what could be the best-case scenario if this COVID does not there, doesn't impact us. These plans are pretty much ready. And looking at those plans, we are very confident that we have adequate headroom to cater to the growing needs of the customers. Needless to say, I could give you one example about preparing for the future, we have the GIS plant expansion in medium voltage switchgear which is happening in Nasik and which should be ready by probably end of next year. We are able to see that demand well before. It caters to the export requirements of the group. So, I think in that way to supplement to this question, I think even Sanjeev mentioned, land banks are very much available, and we have adequate capacities to build further on that.

Sanjeev Sharma: One case in example is robotics. So, if you remember that right in the middle of pandemic last year, we expanded the capacity of robotics because we could see the market around the corner and that is paying rich dividends for us because the capacity, as well capability, of the team has grown multi-folds. The best of the projects are happening. I think customer find very high confidence with it. Most of our divisions have a good nose to the ground, but at the same time, we don't act too much in haste and too much ahead of the curve. It is more of an incremental change and sometimes we had to go for a Greenfield just to add a large capacity because the market in a particular segment is growing much, much faster.

Moderator: The next question is from the line of Charanjit Singh from DSP Mutual Fund. Please go ahead.

Charanjit Singh: My first question is, we had talked about different end markets high to moderate growth and low growth. What is the growth perspective when you're talking about this? What's the kind of growth rate which you are assuming in each of these buckets? And in terms of our portfolio exposure to each of these segments because high growth includes data centers and electronics, so what's the exposure there? And in terms of any market sizing if you can share some info?

Sanjeev Sharma: That's a good question. Just to give you an idea, the segments which you see in the right top corner, we have double digit exposure in those, the one you see on the left is power distribution, where again, we have a double-digit exposure on this in terms of our orders and revenues there,



and a low single digit kind of exposure there in that segment. In steel, oil and gas other than mining despite the low CAPEX, we have a high double digit exposure to these three market segments. So, that's why as the CAPEX revised in this area, is a very welcome change for us, because we get a very good pick up in this particular category. Also, the segments like building and infra, textiles, pulp and paper again are a double digit, revenue, and order base for us and when it starts kicking up, that also helps a lot. And then there are segments which, by nature, are growing at a much faster rate, like the water and wastewater, and the segments like data centers, etc., where growth rates are as high as 18%, food and beverage is 14% pharmaceutical is 13%, water is 10%. If you really see that math, one is the underlying segment itself growing faster, and then our exposure to it, and then our opportunity to penetrate that more into the tier 1, tier 2, tier 3. If you mix all that, I think that gives us a fairly good leg room to run.

TK Sridhar:

Just to supplement to what Sanjeev mentioned, good amount of double-digit growth also comes from the bottom most sector, which is steel, oil and gas and mining. But even though we see that the CAPEX could be pretty less or more retarded in some way, I think from the ESG agenda point of view, there will also be a lot of changes in that particular industry and we, with the portfolio which will cater to these requirements, will be better placed when the change happens in those industries. So, I think we need to wait for how the ESG agenda plays out in these particular sectors and naturally then it could be a better position to look at going forward.

Charanjit Singh:

The other questions on the pricing part, we have seen that when the overall market was at a slow pace, most of the capital goods companies had a real issue in terms of price hike, lot of businesses had become commoditized, so, right now, when you look at our entire portfolio, what portion you think is very commodity kind of a business where the segmentation or competition is really intense, where we have a very significant pricing power? And in terms of price hikes, whatever we have taken in the different portfolios, if you can highlight that in the last couple of quarters?

Sanjeev Sharma:

Our ability to pass on the changes in a broad portfolio, which is short cycle, pass on the cost as well as adjust the prices is quite good across these segments, and that has been visible, but, at the same time, wherever we made commitment for the customer, and we didn't have a provision in the contract, we honor those commitments. Now, when it comes to pricing power, it comes from: one is by how much market share you have in a particular segment or how good is your portfolio and liked by the customer, and two, the sensitivity of the segment to the quality of the products that they use, in case of data center, most of the operators they want the best in best class of technology to go because the reliability, availability maintainability and the serviceability of these infrastructure is good. So, what happens is by virtue of that, ABB product portfolio falls on the highest category of reliability. So, those segments, they even paying premium to get ABB into their products. Same thing goes for food and beverage and for power distribution wherein there is an interest, but then you have certain segments wherein we have no pricing power, like railways wherein it is based on the tenders and reverse auctions. But since the volumes are good, and we have an ability to adjust ourselves to the railways expectations as we go forward. To an extent, it's possible. That's something we can play out. The intensity of competition was high in water and wastewater because they used to allow everybody and



anybody to participate. But given that now, the availability, reliability equation is building up in that segment, we do have specifications changing which are asking and demanding more energy efficient solutions, more energy efficient motors drives and the high reliable components. So, suddenly, you find that the competition evens out, you're not really competing with very low scale competitors. Accordingly, then the price moves up as well. So, across our portfolio and across market segments, it differs as we participate.

Moderator: We'll take the last question from the line of Amit Mahavar from Edelweiss Financial Service. Please go ahead.

Amit Mahavar: Sanjeev, I have two quick questions. First is Mr. Rosengren's consistent commentary has mentioned about giving increased accountability to global locations and also establishing greater transparency. My question is so how has it helped you or the entire leadership team at ABB India or empowered you to rework the competitiveness in Indian market which is very tough?

Sanjeev Sharma: It's a good question. So, what happens is that different organization and different divisions go through different maturity cycles. Given the global direction, the pressure or the aspiration of each division is very high on being the number 1 or number 2 in the market. So, that's the bottom line and the performance has to follow. So, there is a tremendous interest of the global divisions to look into large markets, and India is one of those. We also do the same, we empower our local division managers, and two things to happen. One is that there is a direct accountability, it gives us an opportunity to mature the leadership across the company at the division level, wherein we run the mentoring program, we run the coaching program, and we make managers better coaches so that they can lead their teams better. Overall, this transparency, and this expectation really has a lot of positive impact and effect across the organization. So, me and Sridhar don't chase them for performance, but we really participate in making sure that which are the impediments they have, by which whether in terms of production, in terms of manpower, or in terms of participation in the market and making it easier, even for the smaller businesses part of our portfolio to scale up quickly. Robotics was one example, because now it's on the accelerated path. Same way, there are different businesses which are large, and they have a good position in the marketplace. What is it that we do? That we keep complementing our portfolio, keep creating more penetration in the market, increase better customer experience, so that the moat around those leading businesses is better. And then there's an automatic, unfiltered support falling from the global side into this business in terms of portfolio support, technology support, and then we have a lot of local support available to these businesses so that they can perform and act in the market in a seamless way. So, that's one effect that comes.

Other part of the transparency is around the movement of the talent. So, every job that gets published in the company which is available, it is not done by the hip pocket, it is published and every employee, he or she is capable of doing it, they can apply for it, and they are properly interviewed, and there's an intense competition for the jobs that open up. The transparency is helping mobilizing the talent from one division to the other, because if they have a log jam in



one division for growth, they are able to go to other division, and then they are able to contribute to the company. So, these are certain effects which we can see. I can see a lot of positive energy in the organization, organization is much more simplified, much more focused, and much easier to get things moved and also take a view forward, whether organic or inorganic side of it.

Amit Mahavar:

You already covered the preparedness of ABB in new segments, right. Now, given that we have a portfolio of conventional businesses, where we have a lead market share, and a lot of new portfolio, how should we see over the next four or five years matured revenue even in new portfolio, the margin differential, you can be qualitative here and also, you can give some anecdotal example for our understanding?

Sanjeev Sharma:

So, as a principle, we don't give future guidance, but since you asked this question, on the quantitative side, once there is enough demand in the marketplace for a portfolio, if it is well established, then it's more upgrading and keeping the moat around it so that we continue to make that as a preferred solution for the customer. As far as the businesses and the portfolio which is new, it tracks well, one is by our localization and second is by the acceptance of the market and the size of the market as we go forward. Going forward, I do see robotics and flexible automation which is kind of a size wise a smaller business, it will grow much faster. Our energy efficiency portfolio will grow much faster in the mix. Our electrical portfolio, especially the building automation, as well as the switching portfolio, will find high demand because now there's a clear understanding in the market for the high reliable components rather than buying something which is on the low selling price. So, there's a distinct market developing. Of course, steel stays very competitive, but then there's an appreciation for quality because the people have significant investments and they don't want to short circuit that.

On the process automation side, since we are exposed on the metals and mining, oil and gas, steel, power projects, etc., direct correlation is with the OPEX and CAPEX spend by these market segments. Our solutions are world proven and all technologies available as these segments are tracking. So, there will be a bit of a cyclicity in this segment, but I believe these segments have seen quite a low investment in last few years after there was a high in 2007-2008, I think it is quite mature for that CAPEX cycle to start. So, also in next three to four years you will see a good mix coming from this side. Metro segment continues to expand. And there again, I think we will see a significant growth on the metro side and as railways electrify, we have certain part of our portfolio which works water and wastewater. Our portfolio and the market segment which has to play out in next four to five years, our portfolio and the market segment, especially Indian market is at a sweet spot and given different emerging markets, how they have behaved with our portfolio and given where India is in terms of its cycle of investment and aspiration, I think we find ourselves at a sweet spot of it and both new and old portfolio we'll keep playing the mix as we go forward.

TK Sridhar:

Before I conclude the call, I think there were some data points which I had committed that I will share which is on the exports and the services. So, on the services portion of it, 18% of our



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revenues came from services, and for the half year also it remained 18.5% to 19%, previous half year, which still was at 18%, so that means this has slightly increased. And in exports we see a good order inflow in this quarter; in this quarter 16% of orders came from exports. Our revenues were slightly muted because we did not have three, three and a half weeks of working. So, we are at 12% of our revenues from the exports for this quarter.

So, with this, thank you very much. We extended the call by almost 20 minutes to make good the disruptions what we had on account of the technical issues and also there were some quite interesting qualitative questions around the market piece of the business space. Thank you very much for joining in. I thank all the management, the communications team, which worked together on this. Sanjeev, thank you very much. And we should talk once again in the next three months to come.

Moderator: Thank you very much. On behalf of ABB India Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.

(This document has been edited for readability purpose)

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