"ABB India Limited Q3CY2021 Earnings Conference Call"

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Moderator: Ladies and gentlemen good day and welcome to ABB India Limited Q3CY2021 Earnings Conference Call.

As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. 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 of ABB India Limited. Thank you. And over to you sir.

TK Sridhar: Good morning, ladies and gentlemen. Welcome to the Q32021 Analyst Call of ABB India Limited. On the call with me is our entire management team of ABB and the communications team. So, without wasting any time, I will hand it over to Mr. Sanjeev Sharma, the Country Managing Director, for taking us through Q3 results followed by some synopsis on the financial performance by me. Over to you Sanjeev.

Sanjeev Sharma: Good morning to all of you. Thanks for joining in.

I will give you some business highlights followed by Sridhar coming back with the financial highlights and later we will have the questions and answers.

In Quarter 3, 2021, we have seen quite a strong growth across multiple parameters. You can see that the orders, revenues, margins are growing at a healthy double-digit growth. Our customers have been very adaptive with us post-COVID, they continue to use our remote project commissioning services that brings a lot of productivity for the customer as well as for our serviceability. Industry leaders like Tata Steel and many others are leading this path. And that's a new chapter in terms of how we deliver our products and services to the customers – it's a mixed hybrid model going forward and we are quite happy to have it.

We have been contributing to Pharma industry and especially much greater efficiency in clean rooms for critical vaccine manufacturers during these times. We help them build those rooms quite rapidly and prioritizing deliveries to them. Power equipment provision for Metros which are ever expanding, and also Tier-II cities where the demand for stable power distribution is increasing.

We have expanded our Low voltage motors factory as was informed earlier. This gives us the ability to deliver very high efficiency motors because they consume a lot of energy in this country and we see a strong demand in replacement as well as new installation with High efficiency models, especially with the ESG awareness as well as practice by most of the industries and corporates it's increasing. So, we see a good demand for our products and services. Given that we are managing our locations, offices with good ESG awareness as well as practice, we have been recognized by NSE ESG industries quite favorably.

Now, if you look at the numbers, all numbers are beyond pre-COVID levels and this also represents highest growth in orders in last five quarters and last five 3rd quarters.. Profit also is at a peak for the last five quarters and five years when you compare with 3rd quarters. So, this is something we are pleased about in terms of how it is developing for us.

The order growth was largely supported by a broad mix from traditional areas where we are known for and also the new identified high growth market segments we have been developing since the last few years, which are paying good dividends now.

Electrification business grew 44% compared to Quarter 3 last year. Our Motion business grew 45% compared to Quarter 3 last year, with the contribution coming from Channel business, Exports, Packaging, and so forth. Our Robotics and Discrete automation business, which we always talk about, has good potential grew 83% compared to Quarter 3 2020. Process Automation also is gaining traction in investments in Mining, Mineral Processing, and Cement. As a core sector, we see where our process automation is positioned is coming back with good CAPEX plans.

Revenue –we have a strong backlog execution, solid customer connects, and service business. And this is leading to positive movement in the quarter, and we see this trajectory to continue to go forward.

We continue to use the best of ABB technology in our own manufacturing. So, you can see that usage or Robotics has increased in our own plants, means more productivity; we are able to use the same space and are able to produce much more production out of the same products, and even at a higher testing capabilities as well as higher reliability for our customers.

Last year, during pandemic, we launched ABB eMART for our Electrification and Motion business in the country. This is our own e-commerce platform and we have seen very good receptivity of this platform, especially in Tier-II and Tier-III cities across the country, where otherwise there was a physical connect, but now we find there's a much more momentum with the eMART in terms of pushing and pulling orders from growth markets.

We see that new trends like the medium sized enterprises are warming up to adoption of digital products. So, that means all our core products are digitally enabled. And we find that the demand by medium sized companies is not only a large Company or large customer phenomena anymore, we are seeing more and more medium sized companies adopting to the digital wave. For example, there are marked savings available with our new products like Emax 2, and that gives a lot of benefit to our customers as well as system integrators. And they are using these new technologies which are manufactured and available in the country.

We also have offered our customer base local manufacturing of world's first switchgear that allows customers across sectors including utilities, industry and infrastructure to change the insulation gas that goes to the switch gear to an eco-efficient alternative at any point of the switch gears lifetime. This is a good move and most of the customers who are conscious of the fact are adapting to this new technology from ABB, which is manufactured in the country in our Nashik plants.

If you see the growth factors in ABB offerings, many of you who have been joining our quarterly calls would have noticed, that we were focused in certain market segments many years ago and we changed the pace that we started identifying new market segments. We have nurtured and developed them, and we penetrated them. So, you can see that we have grown from single digits about four years ago to almost half of ABB India's business in new growth segments.

Between high and moderate growth sectors, three segments standout Power Distribution, Data Centers and Food & Beverage, which has a USD $1 billion in market size for us. Most of these sectors are growing between 11% to 16% and our product portfolio, acceptance and also reference base with the customer is pretty strong. Data centers for example, will grow from 440 MW to 1 GW by 2023, which is overall 36% increase in its that data usage by 2020.

Smart buildings, which are buildings that consume 30% of energy that is produced in the market. More and more buildings are adopting two new technologies which will save them energy. We ourselves use our building management system in our buildings. They help customers reduce their energy usage as well as the occupant experiences and we are training lot of electricians, architects and engineers to be able to help the market. Because we should keep in mind that by 2030, 70% of the buildings which will exist, are yet to be built. So, there is a huge possibility for us to make an impact with ABB technologies in this particular market segment.

Power Distribution – if you look into the city, as well as in the industry side by 2040, the IEA, International Energy Agency anticipates that India's power system will grow to almost 1500 GW, which will be surprising the European Union. So, you can imagine European Union being a very matured market, India would grow that much. And that power, which is generated and transmitted, it will have to be distributed into the consumers be it in the cities or in the industry or in the transportation sector and the new segments which are coming up. So, we see a quite a good uptake for us and our solutions going forward.

And of course for Food & Beverage, new schemes like Pradhan Mantri Kisan Sampada Yojana, Food Bars, Export Zones, Cold Storage, Processing Clusters, post-COVID focus on non-tariff measures, sanitary measures and many other, they form a kind of a new market base for our products to find their place.

We see some emerging segments in front of us and these emerging segments, if you look at the battery storage, India has taken a focused view, policymakers have taken a focused view that they would like to have local battery manufacturing. We have a good portfolio to support the battery manufacturers and look forward for this segment to grow.

Hydrogen is a new area and we will participate in this area. This market is maturing globally as well as in the country, be it green hydrogen, blue hydrogen or the other different types of hydrogen that we talk about.

In terms of business outlook, if you see the charts, which are the segments we see are growing at a higher rate and moderate rate and low rate, but we do feel that the low rate segments are getting a lot of support from the government policy and they will also move into the moderate and the high growth area in coming quarters and coming years.

Schemes like Jal Jeevan Missions, AMRUT 2, exponential investment is expected after subdued investment in 2020 and 2021. Gati Shakti investments include four ABB identified high growth areas of water, transport, energy and logistics and we are engaging with the channels wherein we can take benefit of it.

When it comes to implementing ABB India ESG Strategy that is Environmental, Social Conscious and Governance, we are into Phase-I wherein we are converting all our large locations into green factory buildings. We expect that three out of our five locations will be green building certified by end of this year. And we hope that the remaining two will be certified by end of quarter one or two of next year. So, that's the kind of a commitment we have a lot of work is being done, investments are being made. And when we do the ROI calculation, we realise that it is a good thing to do; it pays back as well as contributes to the environment and to the social commitments that we have.

We do look forward to achieve the RE100 goal by December '22, that is, all our locations will be using Renewable Energy, we have a very well-structured program and we are implementing it by proper data gathering, consultants who are helping us and we will have the RE100 Project realized by end of next year.

Same thing goes for the water initiatives, there are a lot of work in progress so that we achieve our milestones wherein we will have the most optimum use of water. We are also aiming to go for waste net zero, and some of our big manufacturing locations have made good progress like in Bangalore, Peenya we are recycling 98% of waste; Nashik and Farida already have achieved 95%, but our aim is net zero.

So, with these highlights, I will hand it over to TK Sridhar our CFO to take you through financial highlights.

TK Sridhar: To start with a positive note, this quarter has been a big, strong comeback for ABB. I think the 3rd Quarter normally, in ABB standards, used to be always a weak quarter if I trace back into the history of how we performed in 3rd Quarter. The reason is because there was a pent-up demand which was there in Q2 which was affected because of the COVID. So, demand has started to realize and that's something which you also see in the numbers.

When I look at the Highlights of Q321, I think it reflects the recovery from the COVID disrupted market dynamics. And when I look at the businesses, how they have performed, it has been growth across all the businesses, we run 18 divisions and majority of all the 18 divisions have posted a growth in all the parameters. And, the cash flows have continued to remain strong. So, that has been our USP for now so many years to come to make sure that we have cash flow as a new mantra that is being followed religiously. And it also reflects the quality of the revenues and orders what we have in terms of execution.

However, when Q3 is compared to say Q2'21 sequentially, the growth is also reflecting some of the favorable mix which we had in this particular quarter compared to Q2 '21 as a sequential reference. But we also have recognized in this quarter, we had the commodity prices hardening and that's reflected in some of the **(Inaudible) 00:18:09** which definitely depend on the metals and input for them. There was an uptick in expenses because the market is opening up, people have to travel to meet the customers. There has been increase in fuel and that reflects in the consumption of the freight, etc.

So, the story is, we did have an advantage of a low base of expenses because of COVID, but now that the market is opening up and coming down to normalcy, we should assume that there could an uptick on the expenses. While we exercise our options to be cautious for the reason what we spend and that means we spend for everything which is required for customer related activities. And when it comes to the others, we definitely look at options as to how we could do it differently.

At the same time, I also would like to emphasize there will be certain focus areas, which we will continue to remain focused on. It's important that we keep momentum in the order inflows and with appropriate mix going forward. And as we see end market giving some positive revival signs, we also would like to work on the capacity planning, both in terms of the physical infrastructure as well as the human resources what we have. Today, we have certain inventory which we have planned in order to deliver for the committed backdrop that also would require, precise planning with global sensitivities around supply chain disruptions, what is happening at this point of time.

And last but not the least, as we had told earlier in Q42020 we had taken an impact on account of the legacy projects of Process Automation, that's on the sharp focus to make sure so that we close and come out with some closure on those particular projects.

The cash balance at the end of the quarter is Rs. 2481 crores. In the last quarter when we closed, it was Rs. 2362 crores. We make sure that whatever profit we have earned is reflected in the cash and we make sure that our networking capital initiatives remain strong.

Material costs has been favorable, it is lesser than the previous quarters more because of favorable mix. And because we have a better price realization and that's something which has showed up the contribution as what we could see. And we have personal expenses because of a normal increase over the pay scale of last year, which has been burned out.

The key takeaway is improved profitability year-on-year and margins are supported by demand and better capacity utilization.

The PBT bridge is how we travelled from Rs. 114 to Rs. 165 crores for the quarter. We have benefited because of the base volume increase, the mix and of course, the material cost reductions which we are continuously working on. We have been dented because of the personal expenses increase and other expenses. But the notable thing is that we have had an unfavorable FOREX swing compared to the previous quarter, same time to the extent of Rs. 28 crores. This is because we follow IndAS and that mandates us to do a derivative accounting as well. And this is momentary at this point of time that gets actualized as and when we use the forward hedges and the cover.

If you have been tracking, you could see a perceptible change –while the revenues and the order mix remains to be the same, if you look at the profitability mix, it has definitely changed. And you could see that Process Automation has come back with a strong set of numbers. So, you could see the profitability percentage of PA increased from 7% to 8% level back to 17% percentage level and that's more because of the mix the profitability and the operational efficiencies and there have been no write offs to the provisions what they have been created.

Now we go to look at the trends of every business:

Electrification: All the businesses have shown a decent growth during this quarter. Order booking at Rs. 707 crores and they have an order backlog of Rs. 1386 crores which is strong. And they have clear visibility of how this will be executed. Revenue improved from what it was in the previous quarter. And export performance has actually helped them gain better margins going forward.

Motions: is a very steady ship, absolutely maintaining the momentum in all the parameters and that's because of the fact that they are market leaders in quite a few business lines division. that, complimented with volumes and capacity utilization, has really helped MO to be a steady ship even in case of COVID affected situations.

Process Automation: This slide will answer quite a few questions what analysts have been asking over the few quarters – when will PA comeback? PA is definitely coming back on the right track. This is something which we were also waiting to happen. I think we are in the right path at this point of time; now we need to stabilize this growth and the profitability journey. Right, it could not be only just on one quarter, which we show these numbers, with things in the line, on the ground, pretty much aware of the fact that the key is project execution and excellence in that and also getting good service revenues and EBITDA mix is the key. So, we are confident that we should be able to maintain the trajectory going forward.

Robotics: This is another story of success, what we have seen from the past to what we are today, so a strong order growth in the quarter. Order backlog is fully executable with clear timelines. The service revenues have been pretty steady in this particular quarter. The profitability has also boosted because of good revenues.

So, a couple of data points, which normally are not so well, the slides have certain points of how much is the backlog of the divisions is. In terms of exports, the revenues for the quarter was 13% of our total mix. In terms of revenues from services, we have had 16% of the mix is basically what was service and export. So, these are couple of other data points, which are important to note.

Other data points are around the unallocated. So, while there is a bit of a swing sequentially, on a cumulative basis, there has not been much of a swing but for the quarter you could see a clear swing, because last quarter we had certain interest incomes from the tax refunds and also the CSR expenditure, which was allocated to the businesses, which was earlier counted in the common unallocated side of it. So, in other words, there have been no, abnormal circumstances where you could see this movement, it's more due to normal operational topics.

So, overall, this was a quarter, which was an example of a strong operational performance with operational parameters, which was trending in the right direction.

The last thing, which I would like to talk about what are the risks which we need to watch out for in the coming quarters. So, when it comes to typical risk what we track is about inflation, and then prices for the commodities of steel and copper and aluminum. And the availability of material, especially with semiconductors and plastics and electronic equipment is something which the business has really managing well in alliance with the global supply chain groups. We also have the FOREX volatility, which at this point of time looks stable, but we need to keep this on the radar. And last, but not the least, is about the fear of the COVID wave three resurges if it happens. So, I think these are some of the top risks which we see that could probably impact going forward. But we are hands and arms on deck, I think the teams are pretty strong to face that.

So, with this, we could open the call for questions.

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

Punit: Can you give some broad sense in your total revenue growth what would have been the price and the volume mix? Your revenue grew by roughly 10%, how should we think about volume growth in it versus price growth?

TK Sridhar: I think if you have seen our waterfall slide it talks of what's the impact because of that which is basically capacity, volume and mix.

Punit: So, there is no price increase, which is factored in this, is that the right interpretation?

TK Sridhar: The mix also includes the price because the mix is a broader term it's between services, exports and a profitable product which will go in. And the volume is reflecting the capacity part of it.

Sanjeev Sharma: So, in other words, in many product lines and many market segments, it's possible for us to pass on the increase in cost into the price.

Punit: Second is on your other expenses, they have sustainably now stayed low with a bench. Do you expect these other expensive to remain low for the years ahead also is that the new norm?

TK Sridhar: See that applies to certain things which are not volume driven.***audio drop*** But we will be sort of cautious about what we spend on expenses relating to order execution and customer focus expenses is something what we would like to invest in. We would like to be mindful of those expenses, which are more for internal review, or internal purposes and will be an element of discussion.

Punit: And any material impact in this quarter on account of semiconductors?

Sanjeev Sharma: There are few products which use semiconductors, but no, nothing material that we can talk about.

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

Bhavin Vithlani: So, I have three questions. First, gross margin expansion in such a hyper inflationary environment is really a remarkable achievement. Would you believe these are sustainable and there are more legs of improvement? That's question number one.

Question two, if you could talk about competitive intensity, especially in the Motion segment, wherein CG Power is claiming they are back with a bang and regaining the lost market share. So, that's the question two.

And third question is, is there any outcome about the electric charger business wherein parent has announced an IPO. So, how will it be treated for the Indian listed entity? These are my three questions.

TK Sridhar: So, Bhavin let me take the first question with respect to margin expansions. Our focus and our ambition is to go to a double-digit PAT number and that has to come only from the operations; that's the first opening statement that I would like to make, but to go through that is definitely going to be a bit of a journey. In the current market situation, we want to first stabilize at the PBT level a double-digit percentage, and then afterwards aim for profitability at the PAT level.

So, the margin expansion in the current quarter was due to two, three to four important factors what I would say. The products or these revenues came from more profitable product lines, number one. And we had done certain market price corrections as well. So, that's important for us, because with the commodity prices increasing, so we had to implement that. We did not have any unfavorable impact when it comes to project execution as process automation was facing headwinds last year and the service content of the revenues is also pretty much solid at this point of time, which was not the case earlier. So, net-net, I think this will stabilize this material cost which you talk of 65.5 versus 66 levels, what was there earlier will move between those particular ranges depending upon these factors.

On an overall basis, I think we should be in the range of 66% with the current order backlog and the mix what we have.

Sanjeev Sharma: As far as CGL is concerned, I think they were always there. We didn't really see them missing, that they can claim that they are back, but maybe from the new constellation that they have with the new group, which has acquired them, maybe they are referring to that they are rolling well in the marketplace. The market is always formed out of the market constituents and they have to play themselves out.

We don't really focus too much on the competition, we really focus on our own portfolio and our own strengths and our customers and what exactly they are looking for. Our core focus is on energy efficiency delivery to our customers and the market segments that we are focused on. And that's where we find that our portfolio combination of very high energy efficiency motors complimented with the price, that combination gives a lot of benefit for our customers. In last few years, f you track the numbers of our Motion division, we have really gained strength to strength. So, it hasn't been a factor of competition, it has been a factor of what our product portfolio does for our customers, our OEMs, our channel partners, our ability to deliver consistently and our ability to stay as a consistent player in the marketplace that plays in our favor. So, that's our view as far as the first part was concerned.

That second part, electric chargers, the market is in formation, there are more markets like in Europe and America which are more mature including the car platforms, which requires electric chargers. In India, this market is at the nascent stage given that the 85% of the market is constituted of the two-wheelers. So, there is more focus on the two-wheeler segment or three-wheeler segment, etc not much of tracking in the car and the bus segment where typically our chargers go. So, we don't play the two-wheeler and the three-wheeler market segment which is the bulk of the segment at this point of time in the country.

But we are participating with Ola as you know that they are automating their new facility which is going to produce Ola electric scooters. We are the ones providing the robotics into it and other aspects of automation and similar. With respect to EV charging business being dealt with ABB, ABB Group is keeping that business so we always look for the group details how they will organize themselves and how the market will form in India and how this business will grow for us in future, it's too early to talk about it.

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

Ankur Sharma: Three questions, one on the Process Automation side, good to hear that things are getting better and you are starting to see both volumes and margins pick up. So, if you could just talk about, which are those core industries, where you starting to see ordering come back and where do you see an improvement over the next couple of quarters?

G. Balaji: With respect to Process Automation, we see an uptick in most of the segments, but the strongest ones are coming from the four sectors Mining, Cements, Chemicals, Specialty Chemicals is picking up. We are also seeing some movements on the Oil & Gas, so we see that they should be holding court for the next couple of quarters, at least.

Ankur Sharma: I was saying that on the EV motors what are the Company's plan, if any, to get into the BLDC Motors for EVs, over the next couple of years. Are you planning to tie up with any OEM on that side?

Sanjeev Sharma: We are into the electric traction motors, but we are not in the EV motors that go into passenger vehicles as such at this point of time. So, if that status changes we will update you.

Moderator: Thank you. The next question is from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid: My first question is, Sanjeev if you see your outlook and comments on the end market have been fairly bullish for last few quarters and numbers are also reflecting that. So, from a cycle perspective and business momentum, do you think that we are now entering into the phase where the mix, etc. volume growth itself should now start trending and maintain levels, so what would be your broad take in terms of growth in the end market outlook and how can ABB leverage that?

Sanjeev Sharma: The reason why we have been bullish for last many quarters and that's showing in our results is, because of two reasons. One, there are underlying markets development but at the same time, we have done quite a bit on our product portfolio expansion, as well as lot of work was done in penetrating new market segment and new markets. So, the combination of three, gives us a very good base to expand our business. So, that was the reason why we have been bullish and that is what it is showing up in my commentary as well, how the new market segments have started contributing more for us. So, that's one part.

At this point of time, the markets are behaving higher than what we estimated. We were able to cater to the market, to the expected levels. And at this point of time, we are catering to the market because the demand is stronger than our estimates. Since we have the capacity available, we have been able to adjust it quite well. Net of supply chain disruptions, there are only very small elements, or some small commitments that get affected, otherwise we are able to meet customer's requirement. But we are challenged with the extra demand in the market at this point of time.

But going forward, we do see the underlying macros of the market pretty strong for us. But we do see that the supply chain will stay disturbed for a period to come. Though the markets will be strong, the demand will be strong we will navigate it based on how we want to commit to the customers, because we don't want to disappoint any of our customers. So, that's how we see markets generating, going forward. I don't see any indicators at this point of time that the markets will be weaker in the coming quarters.

Renu Baid: The second question is while we have seen offerings like Emax 2 witnessing wider acceptance from MSME and SMEs, the broad, as a trend how do we look at the penetration of these high energy efficiency or automation digital solutions, getting absorbed into the wider base of India's manufacturing sector and industry. And in your view, what kind of growth tailwinds can this add to the base portfolio and the headline numbers for ABB, India?

Sanjeev Sharma: I will pass this question to Kiran Dutt, who is our Head for EL. But just before that, let me tell you that last week we moved into a new ABB building here in Bangalore. We left our World Trade Center office. We have moved into our Peenya Campus, wherein our Corporate office, our Motion office and EL offices are together. We are using about 5000 of ABB products in this three-floor building. It is automated to teeth with the energy management systems, Emax breaker which communicate and you can actually control this building sitting out of Mumbai if you want, Renu, if we allow you that access, right. So, it's that kind of a projection we have.

This is kind of a work and kind of a demonstration, a walk-in demonstration for customers, how the future buildings should be built across the country. And as I mentioned the buildings that will exist in 2030, 70% of them are still to be built. So, Kiran, over to you, given our high-end product Emax 2 their kind of applicability in the market and how you see the progress.

Kiran Dutt: Emax 2 is not a product that has been just launched now; it's been a product that's available from past one year. The technology is quite superior in terms of how it operates and what is the functionality required by the customers as well.

Customers at this point of time, look at connectivity, look at efficiency, look at, importantly, what the breakage are in terms of protection features. So, all this is packed into a breaker which is having a small footprint. So, in a particular building where you have constraints in terms of space, this is a product which actually occupies very less amount of space and giving all the functionality required in that particular breaker average.

The answer to the question in terms of the acceptability by the customers, whether it is an SME customer or in terms of a data center or in terms of a customer who is into cement, steel, textile or any kind of industries, the acceptability is very high. Why, the reason is that most of these customers would like to have control, as Sanjeev said in terms of controlling this particular building, right sitting from Mumbai. I think most of the customers would like to have controls sitting at the place where they are. Say the client occupies about 20 to 30 acres of maybe hundreds of acres and you should be able to control the breaker at a particular point of time from sitting in a building at the corner of the site. So, that's the biggest advantage of this particular breaker.

And overall, what we see is, a very high customer acceptance into this, not only the software, which is rigged into the breaker, but also what is the software which is actually supporting the particular system of this particular breaker. So, you need to have a software not only inside the breaker, but also outside the breaker which can give you connectivity.

Sanjeev Sharma: And just like Emax 2 is one component, we have many components like our dry motors and all these components, when you say are high-end it basically means that they have very good electromechanical properties. But then they had in-built digital layer in it. So, whenever a system integrator or a customer or we deliver it, it gets seamlessly integrated into their digital network. And that's where the value gets created.

And as we mentioned earlier, large customer, medium-size customers, OEM, they are making now the products and their sub-system based on smart components. So, that's where the smart components and products gets fitted in. The ability to integrate them together, to create a better customer experience, are solutions and those are the software are delivered based on the kind of sophistication, customer will go for. Like for a building or an industrial plant and all these components go together. Our ABB ability solution is able to pick up the data out of it and is able to do more useful things on top of these components. So, that becomes the attractive point of it.

Renu Baid: And just my last question is last year during the pandemic we had launched our entire bouquet of services for remote operations, which were offered complimentary to most of our customers. So, have you started charging customers for these services and what is the acceptability from the customers for paying these services?

Sanjeev Sharma: The benefit for us has been for the productivity of our expert resources. So, that's something which we continue to gain today, that we don't need to send somebody to pick the small thing all across to East of the country, which take two days of travel in and two days travel back. We are able to fix that problem in half an hour sitting here in remote location. In fact, we gain much more, but of course the value delivered to the customer is also there. And whenever you deliver value, you should price that value and you should charge that value. So, we will get into that phase probably next year. We still haven't declared ourselves out of pandemic, for our own workforce as well as for the customers. So, we continue to behave that way and we continue to offer those services. And we would like more time to be given to the customers, so that they get used to it, before we start adding value pricing on top of it.

Moderator: Thank you. The next question is from the line of Sumit Kishore from Axis Capital. Please go ahead.

Sumit Kishore: My first question is, could you speak more about ABB, not mentioned 26-times growth inorganic users since 2020, you know basically what category of customers and what products are getting supplied through ABB eMART, what is the percentage of revenue that you are getting from your online platform, and what is the potential over the medium to long term?

Kiran Dutt: eMART, has been quite successful as we also said in the commentary that we are able to penetrate into the Tier-III, I would say even Tier-II cities as well in India. It's actually giving us a very big advantage in terms of reaching customers who are very remotely located. Convenient to the customers on fingertips, they are able to search eMART which has got about 7000 different products on it. They are able to source and they get it at their doorstep. So, that's a very big advantage in what we have done in eMART.

And overall and we also said in the commentary about 26-times which is seeing that kind of users who are on eMART. If I just give you information in terms of the kind of visitors which are on the platform is over 300,000 visitors on particular platform. So, that's helps kind of hit rate we are looking at on eMART. So, this is giving us more in terms of visibility as well as more in terms of trying to reach customers who are remotely located.

Sanjeev Sharma: In other words, the cost of acquisition of new customers has dropped dramatically for us, and our ability to serve these customers and getting feedback from them has improved. And as Kiran explained though the numbers look good, our experience is good, but it's just start of the journey, because given the vast potential of this country and the remoteness of users looking for good products and services, sometimes physically they are not available, very reason they can get on to the platform on the digital bandwidth support available across the country, it will have a multiplier effect as we go forward. We are learning a lot. We are analyzing a lot, and as I said this is just the start of the journey for us. We have a business case wherein we should see a multiplier effect going forward.

TK Sridhar: So, other question is that what's the sort of portion of the revenue that the business there, right that's what Sanjeev was saying, it is in nascent stages at this point of time so that's why we did not want to burden the system at the time of measurement rather than we would like to focus on motivating the business guy, who would go and reach out to the customer, to get the best advantage of this. And eMART is just not to one particular division or business, it's an overall ABB portal from where any product which could be sold through and technology platform can be sold. So, we will come up with this going forward as the system matures.

Sumit Kishore: My second question is, we have seeing the slide on business outlook now for the last few quarters and categorization into High, Moderate and Low. I mean if you look at the top corporate say in metal, cement, Specialty Chemicals, we have been getting a strong commentary on CAPEX uptick by them in a strong commodity price environment especially in metal. We also saw big orders for you in metal and cement which is part of your press release. So, over what timeframe are you really seeing these Low becoming Moderate and you know Moderate becoming High, If you could give us some sense around that.

Sanjeev Sharma: As we observed collectively, last 5 to 7 years there was no CAPEX spend or less CAPEX spend in the core sector. But we have still penetrated because of the OPEX spend by the customers; we have an install base created over last 40, 50 years with these customers. So, we really had good way to participate with them. But now if you see because of the NPA regime, the Non-Performing Asset, lot of consolidation took place by these large players in the core sector. They acquired lot of assets which were available out of the NPA process. And we see that lot of capital got spent there, but the capital then gets spent on creating the fresh capacity on the ground.

Now given that the price of these commodities or price of these products in the core sector has uptick and they have gone up. We see that the balance sheet of our customers is much lighter. They have been able to pay off their debt. And that gives them the leverage to invest more going forward. We see that in the first cycle, such companies invest first in bringing, upgrading their acquired asset to the same standard as their other assets are. That's one area of spending where we have been participating, be it in the mining industry, in the steel industry, or cement industry. That's where it has always been happening, but not to the same scale as a Greenfield project will bring. But we do have visibility of CAPEX plan of these companies. And given their balance sheet, we do see that they have the possibility to invest more. The cycle is going last longer, and that's what we hear from the customers that they see a longer cycle, that will be then complimented by the Greenfield investment or expansions along their existing plans for different products mixes or maybe the base product line itself.

So, yes the CAPEX visibility is there, some of that is getting converted and some of that will get converted in, maybe in few quarters down the line or maybe few years down the line, but that's what is visible to us at this point of time. Relative to two or three years ago, nobody was talking about any CAPEX, there is CAPEX formation at least in the planning and generating space with the customers.

Moderator: We have the next question from the line of Ravi Swaminathan from Spark Capital. Please go ahead.

Ravi Swaminathan: This question is in continuation with the previous participant's question. So, we have classified this business outlook into High, Moderate and Low. And if you see the sectors which have given the large orders in the press values if you see a lot of the heavy listing has been done once again by the sectors which are in the category of Low which is your steel, cement, etc. so my question is basically are the High growth sectors, do they carry a Low ticket size? I am not seeing very large orders coming from logistics, warehousing, data centers etc. are they likely to come going forward or is it like in general the ticket size of these sector orders are relatively lower compared to cement and oil and gas and other categories? If you can throw some more light on this, that would be great.

Sanjeev Sharma: If you have been observing ABB for a long period of time, we used to be very project heavy before we divested our power grid business out to Hitachi. Now the portfolio ABB has, it's 70% products and as Sridhar explained about 16% to 20% comes out of services and remaining are in the projects business. Earlier, in our portfolio the top-line used to depend upon large projects. Now our top-line depends upon how many market segments we are participating and how much intensity and the variability in those market segments are, to pick up more and more orders out of the product. So, in fact the business outlook that you see in the High segments that are the renewables, wastewater, warehousing, logistics, the activity here is much more broad-based. Individual project may not have a very high CAPEX, but the activity is broad-based that's where lot of products flow into it directly as well as through our OEMs and our integrator partners, right. So, that's what is attractiveness and we see that is expanding as we go forward, and it is good and attractive for us. That's why you can see in the case of Motion, we get a lot of benefit also in the Electrification, we get lot of benefits there.

Now when it comes to the Moderate segment, again Food & Beverage, Pharma, Data Centers, Railway and Metro, Power, we take a view every quarter on how the market formation is today. And this keeps shifting based on the policy measure as well as how the particular market segment sees itself in terms of investment. So, our strength is not a particular market segment. Our strength is that we go out to the market with 18 distinct divisions, which have a distinct proposition for the market. And they play about 19 markets segments, so a combination of these two – with 18 product divisions playing 18, 19 market segment which are in different cycles during different times, that mix gives us a robust and solid platform to continue to grow as we benefit the market by different initiatives and continue to increase our product portfolio. If there is a particular market segment which is very buoyant at any point of time, we take benefit of it. And if one market segment goes down, it doesn't really bother us as much because then we wait for it to revise as we go forward. So, that's how we see our market and that's how we play it.

TK Sridhar: Yes, that's also reflected in the performance what we have been doing for the last couple of quarters.

Ravi Swaminathan: And a continuation to the same question, so basically among these 17, 18 kind of trading markets that you have classified say the rupees you spent on any project on any of these, which are the segments in which so basically ABB's products are used more. So, basically 20% intensity, 30% intensity or something like that, so like for example data centers, or steel, if you can give a broad thought process, top four, five sectors --

Sanjeev Sharma: So, we do have the data, but it's a competitive data so that's something we are not going to give you a granular picture. But we track it by that exact number, so you got it right. Your question is absolutely right, but maybe you will not get a very good answer from us today.

TK Sridhar: When you look at this particular chart, what we are trying to give you is that, what's the growth rate in these particular markets, right. So, when we say, it is high, it means that in these particular markets there is a high growth or a high activity as what Sanjeev was mentioning, right.

Sanjeev Sharma: Just to clarify, in terms of high touch point segments, water and wastewater is a high touch point for us and especially our portfolio in MO, is very significant there followed by EL. And if you really look into data centers, there is very EL dominant, it's a very strong segment for us. Quality of the high-end customers they really rely on ABB in this area. Food & Beverage, Pharma, it is for all the segments. Railways and Metro is pretty strong for MO and EL. And power distribution is a very EL play. Automotive is very Robotics play. Building and Infrastructure is a dominant EL play, with a mixture of MO. Port is done mostly by our PA, Cement and Mining is PA. But they also go through lot of EL.

So, that's how the mix goes, some of the segments are very dominant by one particular market segment, dominant in the sense, in our mix. And there are certain market segments wherein all the divisions or majority of the divisions play it out. So, it's a quite a mix, whenever you play these segment as we go forward.

Moderator: The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: The question that I had for you all was more related to this development last year around that you were suggesting, of the global business head giving a green signal to India, to scout for organic and inorganic opportunity. I think the last time you had suggested that it is half done. So, wanted to get a sense of things that they have identified in terms of pure CAPEX plans and if you could share some details on the progress of this exercise?

Sanjeev Sharma: Sure. On the organic side as we said we will continue to invest as our capacities get utilized. We still have a head room there and also possibilities to use number of shifts that we can increase our manufacturing environment. So, that leverage we have. Now in the inorganic side, yes, we can confirm to you, we did a very detailed exercise by each division, because we focus on that each division must have compliment ability in India or at a global level, when we want to make in inorganic acquisition.

So, we have a fairly stable pipeline available and it is also shared with our global team. So, it is being evaluated. So, as and when some things mature, because not only that we like a Company, we should have a willing seller also on the other side whenever such a maturity comes up, we will definitely share with you.

Aditya Mongia: The second question that I had was related to the BMS market now you in your opening comments suggested that there is an ROI to be made and that is why you are shifting your offices. I want to get a sense of what more is required for this market to become bigger if ROI is already in ones favor, is there a need of reducing, let's say the payback period still further or if there are some issue wherein regulatory wise, just it would make result quite visible for you and others.

Sanjeev Sharma: One of course it can come from regulatory, in fact they can always regulate, how much energy should be used by the per square feet of a building. But we have not seen a clear regulation. I believe most of the organizations will be impacted by this ESG agenda. I think that will be a good driving point to have a green element and also ability to use renewables, ability to use mix of energy and also using energy at the lowest level, and also reduce their cost. These will be the driver points.

The awareness in the market is at the component level right now, that's why we have invested heavily in this building and also we are opening another seven floor building, our R&D center in about 20 days' time in Bangalore, where again we have equipped that to teeth with BMS and very strong ABB, MO and EL portfolios. So, these will be the demonstration, wherein we don't talk to customers on the component level and that's what the market and the customers perceive and then they struggle to bring them together. We want to give them an integrated experience how to do it, how to engineer it. It will be with architects, it will be with the interior decorators, it will also be with the contractors themselves who built the building, it's an educational process which we will carry it out, that's why we have made our own investment in it. So, that we can turn the market in that direction, be it hotels, be it new AAA grade buildings coming in. So, those will be our targets including the industrial plants which are going to come in future.

Yes, they can easily target 30% reduction in energy. Sometime post-COVID, we will really demonstrate to you. In our office, energy doesn't get used where people are not there. So, the meeting rooms which are not occupied, no air gets pumped in because our site is controlled by BMS and motors, energy efficiency motors, they just ramp up the temperatures. And if you see that you need to use this and in fact somebody walks into the room, accordingly the energy adjustment takes place. So, just by how buildings are and how the locations are used in the country, I would say, knocking off 30% energy saving is quite an easy target to achieve and that's what we will target as we go forward. That not only gives us good ESG credentials in our own locations, but also become a supplier of choice in this area, and that's our ambition. But I think there is a road to be traveled in this area.

Aditya Mongia: Is this is a fairly large market, kind of 20% to 30% and just the commercial buildings that are going to come up, maybe a billion-dollar kind?

Sanjeev Sharma: It is actually the large building and I am sure you have more analytical sense than we have. If you do the analyze the existing buildings which can be retrofitted, you start with a hotel or you start with any glass cladded building or you look into airport, you look into industrial or the rooms where there is control is required, you look into so-called data centers for that matter. I think this controlled energy management is a big issue in the mature market. And I think it is due now that it will also be coming in India. But I believe the education in the system is not high enough. And that's what we try to do. If you really look into Dubai for that matter, a very high percentage of buildings equipped in Dubai are running on ABB systems. So, as India's GDP expands and people are investing in high grade buildings, why not, this will be one of the core criteria to be observed in the design phase.

Moderator: Ladies and gentlemen, that would be our last question for today. I now hand the conference, over to Mr. TK Sridhar for closing comments. Sir, over to you.

TK Sridhar: Thank you, once again for all the support which you guys have given to us during this particular time, time that which we are able to come to reasonable level of performance going and with an aspiration to be more credible going forward. And in case if you still have any unanswered question, please feel free to get in touch with me or Sohini or the communication team. We will try our best to address it. And thank you very much. And have a good Diwali, so be safe. Thank you very much.

Moderator: Thank you very much. Ladies and gentlemen on behalf of ABB India that concludes this conference. Thank you all for joining us and you may now disconnect your lines.

(This document has been edited for readability purpose)

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