



“ABB India Limited Q4 2018 Analyst Conference Call”

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Moderator: Ladies and gentlemen, good day. And welcome to the ABB India Limited Q4 Analyst Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference, please signal the operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please not that this conference is being recorded. I now hand the conference over to Mr. T.K. Shridhar. Thank you and over to you, sir.

T.K. Shridhar: Thank you. Good afternoon to everyone. Welcome to the Q4 2018 and Full Year 2018 Analyst Call. So, as you know Q4 2018 was an action-packed quarter for ABB globally and locally. On the call we have Sanjeev Sharma – the Country Managing Director; and then we have Sanjeev Arora – Local Divisions Manager for Robotics and Motion; and also Mr. Madhav Vemuri – Local Division Manager for Industrial Automation; Akilur Rahman – the company Chief Technology Officer and also, CP Vyas – the Local Division Manager for Electrification Products.

So, over to you Sanjeev.

Sanjeev Sharma: Thank you, Shridhar. Good afternoon to all of you. Thank you for joining in this call. We will give you a bit of an overview, first in terms of presentation which you should be able to see on your site.

Year 2018 and last quarter has been very interesting for us. Some very path breaking contribution from our side to nation building, and some very diverse projects that we participated in the country. So, if you really see the overall Indian landscape of the business and how we participate in it, it is changing every year. And we are very glad to say that it is changing in a way that it really plays very well for the ABB portfolio.

So, if you really look into 2018 snapshot, I would like to mention few things. if you purely look into the numbers for financial year 2018, our orders are up 16% year-on-year, our revenues are up 10% year-on-year, and our service orders are 27% year-on-year, and our export orders are 50% year-on-year. The data that I am showing you right now, this is for new ABB, post PG business considered as a discontinued business. So, you can see that if I extract the new ABB portfolio out, it is a very healthy and a solid growth that we are enjoying coming from 2018 into 2019.

So, we have actually seen growth across all our divisions and majority business lines. Our EBITDA has improved and the reason is that we had a very healthy mix of product and services as part of our order book as well as revenue mix. And we had both base and large orders.

On the execution side, we were very pleased to see how our backlog and book-to-bill conversion happen on the revenue side and also the profitability that came out of it. Our order backlog margins are holding strong, net cash at Rs. 1,468 crores. And I must mention that 2018 digitalization has been a key enabler and a key differentiator for our customers to buy our core portfolio. We have a very solid core portfolio, product portfolio and services portfolio, and since



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we have added digitalization as an additional spice in it, it became more attractive for our customers to buy this exclusively from ABB, because our portfolio stands very attractive on standalone basis, on a packages basis and also for the systems solution that we sell together with it. So, it is a very-very good story that has developed. And as we move forward into 2019, that story will continue to grow stronger as we can foresee in our current engagements.

We have been not only working with the yearly profitable growth and delivering the revenues, we are very mindful of some strong trends which will play out in medium-term and long-term of Indian economy. That is the reason we are making some strategic partnerships, for example, with IIT Roorkee, NITI Aayog, in areas which will grow into new revenue lines for us and also it will enable the policy makers to shape their policies and also for the technology institutes to show the way to different cities and different institutes how to implement new technology.

Electric vehicle thought leadership, we were invited at Move Summit which was chaired by Prime Minister, Modi, and our global CEO was a keynote address, he delivered the keynote address among all the auto majors. We were the only industrial company who was invited to give the futuristic idea of how the EV leadership can be established in the country.

Just digressing from what is written on the slides. Just last week we had NASSCOM, which is a digital thought leadership body in the country, they again invited our global CEO and myself to participate in the NASSCOM summit and deliver a keynote address among ahead of all the other technology majors to talk about an industrial company like ABB shaping the digital future for the industry as well as for their own portfolio. And so much so, in the evening NASSCOM conferred our Global CEO, the Global CEO Award, which was a special award initiated by NASSCOM. So, that is the kind of recognition we are getting while working on the policy side, or the thought leadership side on the key emerging segments which are coming in the market, now and in the future.

So, we will continue to be kind of a very mindful leader that will shape the technology landscape tomorrow by focusing on digitalization, and also divestment of Power Grids, which we have done in a very thoughtful way and enables us to really focus on how we see the new ABB should like going forward. We have simplified our business model and structure by moving away from the matrix structure but having very focused business lines who will deliver the value proposition along with digital proposition that we have for our customer segments.

And it has been divided into four divisions, four businesses, and I will encourage all of you, if you have not done already, to go to our ABB website and view the presentation made by our global CEO at yesterday's capital markets day. So, that should give you a very good view about where ABB is heading this point onwards. And ABB India, in fact, not only will follow and align with that strategy but we will do it at a much more accelerated space based on the very rich ecosystem that we have in India.

So, just to give you some sense about what we talk about today, today we talk about Industry 4.0. ABB is a company which has been around for 130 years, so we are the ones who participated



in the second industrial revolution which was basically driven by electrification and motion, third industrial revolution took place in 20th century which was based on industrial automation and robotics, and the fourth industrial revolution in 21st century, digitalization and ABB ability, which is our digital platform.

So, you can see that you are dealing with a company which has seen the second industrial revolution, third industrial revolution and is now a cutting-edge participant on the fourth industrial revolution side. And in the world wherein many companies do not last that long, I think ABB has a special character to sustain itself by recognizing the trends ahead of time, and really focusing on what will create the future. And we are not very shy of divesting the businesses which we think is not going to be part of our future journey. And I think that has been the behavior that ABB does it over and over again and stays very relevant and future oriented through all these changes, with a core focus that we continue to add more productivity and efficiency to our customers. So, if you see second, third and fourth industrial revolution, all these technologies added more productivity to our customers. And I think that journey continues.

And if you really see the landscape of the additions as well as divestments by ABB, the white space, if you see in the past the industry portfolio used to be small and we were really a power and infrastructure company. I think I can go as far as 20 years from now, starting 1997, 1998. We were in the rail business, we used to even supply locomotive, we came out of that. Then we used to be in the power generation business, we did come out of that. We used to do steel structures, we came out of that. We were in high-voltage cables, we came out of that. We were in the EPC business, we came out of that.

But if you see in the bottom side what we continue to add, we turned around our robotics business, we brought some specialized motors business in Americas and for the rest of the world, we got into EV charging, we brought in the portfolio of Thomas & Betts electrification, we introduced an innovated YuMi, the collaborative robot, we launched the ABB Ability digital platform, we acquired B&R factory and machine automation company which is doing extremely well post acquisition, we brought in the EV fast charging network which can charge a car for 200 kilometers in 8 minutes, and that was launched by us in India also on 7th of September, and we also bought from General Electric, GE, the industrial solutions and we continue to form our portfolio going forward.

And as you look at it today, our industry portfolio is large and we have squeezed the power and infrastructure exposure. And that is exactly where, if you look into an industrialist, whether you talk to our customers like Reliance, you talk about Mahindra, you talk about Tata, you talk about Aditya Birla or you talk about scores of large groups and the medium size and small size companies and multiple market segments, most of these industries are really very agile on their feet, they want to digitalize their assets as well as their industries and they want to catch up with the global or western standards of productivity while operating out of India. And digitalization is a key enabler on top of our core portfolio, and I think that is why we are so attracted to these



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companies and every month we have scores of CXO level customers visiting us in our development centers, having a very strong dialog with on how we can help them going forward.

So, if you see, ABB is long-term committed to driving, pioneering innovation. We continue to add layers on top of our core portfolio, like for example if you see Motors, then you see Drives which was power and electronics, then we have the Robotics, PLC and Process Control, which was basically software and hardware combination, then we have more software based digital operations, and now we are moving towards creating systems which have core technology in the bottom layer but then on the top we will move toward autonomous operations to give more productivity to the customers.

Same way, as we look forward, we will have four divisions in new ABB: Electrification, which is now the largest division globally followed by Industrial Automation, Motion, and Robotics & Discrete Automation. And each of these areas have very distinct available digital solutions. And what I would like to highlight, because there is always some kind of a misrepresentation in the market how one should understand the digital portfolio. For us the digital portfolio is that we stay committed with our core portfolio and we have digital solutions adding very high level of differentiation for our core portfolio which makes our core portfolio very attractive for the customers who want to perform a digital journey. And these digital solutions are doing two things to us, one is, having combined them in different divisions and that proposition is very clear, it becomes more attractive, we become the suppliers of choice for our customers and that's why we have a much higher conversion rate of the business when it comes to customers. So, that is one part.

And the second part is, that these digital solutions are actually adding productivity and value to the customers and it also gives us the incremental revenue value. But the incremental revenue value combined with our core portfolio differentiation, that is where the attractiveness of the digital portfolio comes for us. And I think sometimes there is a discussion in the market how much digital revenues you are doing, for us it is an integrated proposition and that's where ABB is at the strongest. We have a very strong portfolio and a very strong installed base in the country and also in the exporting countries we have, and we have a very good base to drive this going forward for brownfield projects as well as for greenfield projects.

So, the announcements made about new ABB and the Power Grids divestment, there have been customer reactions and they are visible to you in front of you. Most of it is very positive and I think in India most of our customers as well as our stakeholders have taken it in a very matured way, they understand what this divestment is all about they fully understand the kind of argument as well as the proposition that we have painted for them. And that also has created expectations of the market towards ABB that we need to be even easier to work with and our ABB portfolio should channelize itself in a much more agile way. And also, we will be stepping up our automation and digitalization solutions, and of course, alongside a lot of new business models will emerge and we will continue to innovate in that area.

So, if you see in the next slide, there are some of the reactions that are available to you on the new ABB announcement, internationally and local levels, I think it was fairly received.

The key highlights, we had Kerala floods, we were very proactive into put back some infrastructure which had gone down. We participated in the ports as well as multi-modal terminal on river Ganga, in terms of electrification. Those of you who are cricket friendly, we powered up the Lucknow stadium, I think it is a very-very good installation. We also provided compact power substations for Bogibeel bridge. IIT Roorkee, ABB India start smart microgrid project we are developing jointly. And also to the world's tallest statue, we have the ABB variable speed drive managing the core processes for the customer / visitors' comfort.

We continue to write the future of Digital India together. As you can see that in the month of May last year we wrote a MoU with NITI Aayog on the artificial intelligence, since then we have run two workshops with NITI Aayog, MSMEs as well as for the Swedish companies, they came to our premises twice and we ran comprehensive dialogue in this area. And also, we created a white paper for the policy makers on how we should shape ourselves in the industrial area, continuous engagements with the top leadership of the country and the state leadership, and collaborating with the think tanks. And also, as I mentioned earlier, recognition by NASSCOM as a IT or a digital leader only last week for our global CEO.

So, as we go, you used to hear me last year that I talk about utilities, industry and transportation infrastructure as our focal area, but going forward you will hear me talking about our focal area is in the power, produce, work, live and move areas. And let me explain to you very quickly what does that mean and all those having a common platform called ABB Ability for their digitization.

So, like for example, influencing the future of how we Power. So, earlier we used to - prior to divestment or discontinuation of Power Grids business - we used to pick up the power from a generating source and bring over the large transmission networks to substations and construct substations. We have now come out of that business but we now are acting beyond the substations wherein we distribute the power to the cities and the industries. We have a core portfolio so we are still involved in power to that extent, but more with the customers who are in the industry and in the cities and key infrastructure and the buildings. And then we are making use of the schemes of the government, be it UDAY, there we are getting benefit by delivering the smart distribution technology solutions as well as we will participate in electric vehicle adoption, because that again EV charging stations are also power infrastructure and whatever will come in the smart-cities. So, you will see on the power side that will be our playing area. And some of the examples you can see wherein we are using AI & ML for load forecasting for private utilities, we have compact station for this bridge we talked about, and 33kV GIS for Ahmadabad.

On the Produce side we will have the manufacturing industry, and there we are providing the different software solutions which optimize the power plants and also energy intensive cement industry. So, the largest cement industry in this country is our customer and we are digitalizing

their complete value chain in a big way. Same way, it goes to a very large tyre company, we cannot name it, but we have a very strong MyRemoteCare solution provided for them wherein lot of automation, robotics as well as other solutions have gone in with a complete digital monitoring of the complete process which brings lot of productivity and transparency into those operations. Same thing goes for the Barge optimization and ladle monitoring for steel industry leaders, there again, lot of automation, lot of digitalization is done. So, reason I am talking to you this is because we are talking about our core portfolio but a very strong digital ABB Ability digital portfolio that we are talking about. So, we do not talk too much about it, but really in last two to three years we have been delivering lot of solutions, and that has built into our 2018 results, and that momentum continues in 2019 as well.

On the Work side, we are again looking at adoption of robotics and advance automation to augment the human capabilities. We are participating in AI, we are very emerging strong player in data centers wherein we supply the ABB's data center management Decathlon software which monitors the complete data center. Combined with low-voltage and medium-voltage switchgear portfolio, because we take care of the power distribution in the data center and also monitoring with the digital solution on top of it. Same thing on the warehousing, ABB's automation and robotics application will compliment the growth spurred by the new tax regulation and also ecommerce business which is really flourishing at this point of time. And the picture that you see with robotics, its not at a customers' place, it is one of the smart factory we have created which was inaugurated by us just two months back wherein we have automated the line, our yield has improved within the same space and same number of people we have been able to produce multi-x productivity for the same production line. And the same technology is available for our customers.

Then we come to the Live part, wherein we are creating a digital backbone for smart cities to manage the urban growth, be it in the hospitals, be it in the hotels - luxury hotel chain across India uses ABB's building automation systems which is based on KNX. And also we have very base technology like lightening arresters, which you know, we have provided to Jagannath Temple in Puri, an ancient temple. And also, recently 20 police stations were equipped with the lightening equipment across the state. And these are very simple things, but east of the country has lot of lightening, but those kind of protections if you provide, it protects the people as well as it protects the infrastructure. And lot of work is going on in green buildings.

And also on the Move side, be it on the ports, metro rail, making use of very high spend by railway budget, by giving them electrification and propulsion systems and also extension of air and port connectivity, we have a pretty strong portfolio. And all of them, again, have digital elements built into them.

We have been engaging with our customers because it is not good enough to have technology, but also it should be possible for us to be able to explain to our sophisticated as well as simplest of customers how to make use of technology to become more productive. So, last year, in 2018, we went across 17 Tier-II cities, and also Kathmandu. And we had a customer outreach of 22,000



customers, we had roundtable with industry leaders and thought leadership sessions. We showcased ABB capabilities under one roof and it has been a tremendous success. And those of you who believe in ROI, all the money that we spent it came back as a return in just three months time for each of these sessions by multiple number of new customers and new orders. So, that is the power of ABB portfolio when customers understand what it can do for them.

And we continue to have a deep sense of commitment towards society. For third year in a row we spent 100% of our allocated CSR. We spent it with an institutionalized framework and we are very proud that in our small way we are making some difference. And there are key areas like education, electricity, disablement, healthcare and education. So, these are the areas we focus on and we really have some focused programs. And if you continue to spend every year-on-year, you really make difference in life of people, but in our own small way.

So, this is where I will leave it. And we will take the questions later. I hand it over to our CFO, T.K. Sridhar, to take you through financials now.

T.K. Sridhar:

Thank you, Sanjeev, for a very exhaustive insight of what the new ABB is and how did we perform in 2018. Let me take you something through the numbers at this point of time.

So, for the quarter on the orders we again had a very robust growth of Rs. 1,900 crores, 17% year-on-year. And on the revenues we grew, again, 15%. And when it comes to service orders, it was 7% for the quarter. Exports were down by 11%. But to give a reflection for the full year, so again we see orders increasing by 16%, revenue again at 10%, service order is almost 27% year-on-year and exports 50%. So, when I give these numbers, I would like to inform that it is more on the new ABB, Power Grids is one division which we have already advised as discontinued business.

Next slide, so just to give you some more information about how did we do for the quarter. I think on the order backlog we are still at Rs. 4,227 crores and this is sort of equally distributed among all the division. So, that means we have good visibility for the future revenues as well.

The next slide is about how our operational EBITA and other parameters compare to Q3 as well as for the quarter on a full year performance. So, we have the same set of information with different format over here, but if you look at the operational EBITA for the last quarter, we really did 9.1%, I mean, probably I could say the highest in the last few years. And for the year we were at 5.6%.

So, let me take a couple of minutes on how our structure of P&L looks today on the new ABB scenario. So, for the year 2018 our material cost at 67.5% compared to 67.3% last year, our personal expenses are less 8% at this point of time, other expenses at Rs. 1,200 crores nearly at 17.8%, our interest is less than previous year, the depreciation is less than previous year, so we have PBT of Rs. 395 crores and profit after tax is Rs. 254 crores. So, overall, I think the year and the quarter were pretty strong. Last year we had the EPC business and electrical balance of plants business which we discontinued. And that is no more there with us. And electrical balance

of plant, we also moved out of this particular market because the market was having its own challenges in terms of the huge NPAs which you see on the balance sheet of the banks and also as a sector it was not much of profitability which we could add to the stakeholders.

So, division-wise performance: I think this is more from the segmental standpoint where I think every business has contributed to the growth of the profitability in proportion to the volumes what they have increased. And only challenge we saw was in EP because solar because which was basically facing headwinds in terms of stiff competition in the market. And also we had the FOREX volatility which was slightly impacting them.

The next slide is talking about how our balance sheet looks like. I think DSO, again, as we normally say, our cash over revenue still prevails. I think this is a strong focus area which has yielded results for the last three years, four years, if you look at it has been consistently reducing. So, we are, I mean, actually on the new ABB level, so we are almost actually two days less than the previous year, so we have definitely improved. And net cash position has increased substantially by 32% jump and earnings per share, of course, has increased because of increased profitability as well.

Creating shareholder value is one of the hallmarks of ABB in India. We measure this in terms of how we have been consistent in giving dividend and how it reflects on EPS. If you look at it for the past five years, right from the dividend standpoint we have consistently increased and we today declared a dividend of 240%. And if you look on the other hand, I think it is definitely in line with how the CAGR for the EPS moves, so we today have an EPS of Rs. 20.1 per share. So, I think this is something which is a reflection of our focus on improving the performance of the company quarter-on-quarter, year-on-year and this has actually yielded results in terms of how you can finally see how the shareholders value is improving.

With that, I hand it over back to Sanjeev, to have a concluding slide to talk about how he looks at the outlook of the organization.

Sanjeev Sharma:

So, if you have been participating in these calls in last many quarters you would have heard me say few things, specially about services and exports, wherein our growth rates are good but we say, hey the journey has just begun. So, we have a lot to play out going forward given that we have a very high quality manufacturing and supply base here which will continue to serve the ABB global's confidence in India to participate and support the global market. So, same thing applies for our new ABB portfolio going forward. I think for India, I think best is yet to come. We do believe that we are on a good journey and the opportunities at digitalization, I think it is being somehow under estimated sometimes in Indian context. But when we look at it purely from industrial perspective and the opportunities that we have to increase the productivity for the industrial race we have in this country, which has a very high aspiration to become as good or even than the global standards, and also there is a lot of focus now, a lot of maturity in the financial markets to seek more productivity, growth and wealth. I believe that ABB India's portfolio is very well poised to take benefit of it. And especially our ABB Ability platform which I think some of you may know, but I would encourage you to investigate it a little bit more to



understand it better, and we can even run some special sessions for you in near future so that you get really a good flavor and the depth of it, like how easy it is, how open it is and how it is going to really transform the industrial landscape.

So, we have areas of focus like ABB for India; ABB for the world, that is one focal area wherein we continue to grow domestically from the demand side, and also we continue to grow on the global side for the supply side and that gives us a good base at a large local market, but also a good attractive mix of the global markets on the pricing side. Then, ABB India is being increasingly used by Global ABB as a global engineering hub. So, it has two affects, one is, yes, we have a very strong team which delivers engineers, project managers, innovates lot of software based technologies as well as core engineering as a service. And then it has kind of a spin-off effect, because since these things are sitting very close to our operations, we continue to gain productivity gains out of this expertise that is building part of our engineering hub. And also, ABB India is developing as a global business services hub, be it for GBS, R&D and many other activity group has, they have very high confidence on our delivery capabilities. And also that is built on can-do attitude we have in the young force in the country. And over a period of time we are growing very fast in getting new talent. New and new work streams are being opened up and all the side-effects of those new work streams, new productivity methods, new automation methods in day-to-day working is also getting spilled over into ABB India's operations.

And of course, ABB India as a digitalization hub, we have lot of activities wherein we are helping the global operations on the digitalization side. We have quite a deep expertise available to support global businesses on the digitalization side and also with the domain expertise, and that also rubs in with our local operations as well as customers who are sitting in the country. And in fact, the best of the global ideas we are piloting in India in many cases. So, that also is kind of a good opportunity for us. So, that, to me and my team, we feel quite positive at this point of time, irrespective of whatever you may have a minor kind of issues around the macros or not.

But if we really look into the long-term trajectory, we are coming with a 60 year history of being in India and we have been continuously growing and also delivering value. And I think same way as we look forward long-term, we are pretty optimistic and we believe our team will do well for ABB globally as well for our customers locally. And also will serve increasingly our install base here in the country and also continue to grow our footprint through exports going forward. And digitalization, we feel, is going to be one of our, I cannot call it as a secret sauce, but definitely a very interesting ingredient which will make us more differentiated around our core portfolio because we are pretty focused and have a very clear strategy around it.

So, back to you, Sridhar.

T.K. Shridhar:

Thank you, Sanjeev. So, before I hand over to Q&A, some of the data points which you would be willing to ask, I thought I should give you before so the number of questions is reduced as well as its more focused on key strategic topics.

In terms of orders, Electrification Products, the order intake for the full year is Rs. 2,754 crores; Industrial Automation is Rs. 1,700 crores; Robotics & Motion is Rs. 2,640 crores. So, this is basically the order split of how ABB has performed. And the good part, what is important is that our service content in new ABB is around now 18% to 20% when it comes to orders or revenues, as against what we used to have with 12% to 13% as per our old ABB structure. Our exports, the content of the exports remain unaltered, so we are still at 14% to 15%, both in orders and revenues.

So, of course, these are some of the points which you would be looking forward to get into. So, just thoughts let me give it before that.

Thank you very much. So, now we start the Q&A. Over to you, operator.

Moderator: Sure. Thank you very much. We will now begin the question-and-answer session. We have the first question from the line of Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore: My first question is around the separation of the discontinued power grid business which on a global call it was stated will happen by around May 2020, and it is progressing well. But, I mean, what would be the roadmap for the transfer of Power Grid from ABB India, especially given the concern that minority investors would have, how would you address this question?

T.K. Shridhar: Thank you, Sumit. I think we are still aligned to the global roadmap of June 2020 for the local company as well. So, as you know that we announced the board has approved the segregation of Power Grids business and it will be carved out, and then we will proceed with the protocol as what is going to happen. So, it will be basically a demerger route which has been already taken into cognizance.

Sumit Kishore: So, the demerged Power Grid entity would be valued and then transferred to this ABB Global entity so that it can be sold on to Hitachi?

T.K. Shridhar: So, at this point of time we would like to restrict our comment to what we have declared to the stock exchange. And so that is where we are, because the work is still in progress.

Sumit Kishore: Sure. My next question is, what is the percentage of incoming new orders which are digitally enabled orders, orders where you sell digitally enabled capabilities or offerings, solutions and products to customers?

Sanjeev Sharma: So, as I said that for us I think it is a fairly significant number, but I haven't started tracking it because we are in the formation stage wherein we are forming the market, we are forming the customers and most of our energy and focus goes into really the customer connect as well as giving them the opportunity. So, maybe I think sometime it will give us motivation to start tracking it, but not at this point of time.

Sumit Kishore: Okay. So, ABB Global had pegged this portion at about 45%?



- Sanjeev Sharma:** You may be right, but as far as we are concerned, our focus is... and I can tell you, all our divisions, if I see quite a bit of shipment as well as engagement when I look into pursuits as well as order books, a substantial portion of it is on the digitalization side.
- Sumit Kishore:** Okay. And finally, would it be fair to say that ex Power Grids you utility footprint should reduce to say about 15% of your backlog and industry/transportation in infrastructure will be the main stay?
- Sanjeev Sharma:** Sumit, I think that number we will not at this point of time be able to give you. But what I would like to say is that we are not walking away from utility market. We will be in utility market with revised offerings of what ABB portfolio is going to be for the future. Utility will be our focus sector, but in the new ABB way.
- Sanjeev Sharma:** And just to give you an idea what that portfolio is, we still have the medium-voltage switchgear, that goes into the utility segment. We have if you can call all our solar power plants as utilities, we also have the solar inverters that go into it and also lot of our electrification product solutions go through OEMs into that particular market segment. And also if you look into hydro power plants, you look into the plants that are thermal power plants, they buy quite a bit of our solutions from the automation side. And those automation upgrades also continue to be done from us as part of our portfolio. But it is more lighter, it is not a long gestation project, these are much more quick conversion projects as well as product deliveries in the utility segment.
- Moderator:** Thank you. Our next question is from the line of Inderjeet Bhatia from Macquarie. Please go ahead.
- Inderjeet Bhatia:** My first question is on this restructuring. Would ABB India also look to distribute most of the proceeds to the shareholders, or is there any different strategy that we are likely to adopt? And a related part to that, if June 2020 is the timeline for the parent entity to complete this transaction, should we assume that ABB India would complete it a couple of quarters before that?
- Sanjeev Sharma:** On the first question, so the distribution of the proceeds, how the way the merger will happen, as earlier mentioned, we are still in the process of figuring it out, so it is too early at this point of time to comment. So, now coming to next question of will we be ready? So, we have some timelines by which we will have the new entity fully functional, and that should be in line with the group entity, group guidelines what has been already provided.
- Inderjeet Bhatia:** Okay. My second question is on this whole digital automation and this kind of segment, now a lot of industrial companies are looking towards of kind of taking this path. Can you explain how does ABB is differentiated from some of these other key competitors who are present in India, which are a key differentiating point for ABB in this space?
- Sanjeev Sharma:** Could you repeat your question, please?

Inderjeet Bhatia: So, what are the key differentiating points for ABB India compared to some of the other large industrial companies who are also talking about digital automation and these kind of new segments?

Management: So, I think one of the differentiating points for ABB is the core technology itself. I think if you really look at it from the customers' point of view, our core technology is very competitive and is very attractive on the quality as well as what it stands for. And that is the reason we are in the market space and that's why we have the patronage of our customers. So, what we are doing is we are building on top of it our digital portfolio, and I think one of the key differentiator is that ABB Ability platform is basically formed out of partnership, that is an open platform, it is not going to limit the customer's possibility and customer will have less anxiety of locking themselves in to a certain platform. But here it will be more an open platform wherein customer can mix and match solutions, at the same time is able to take benefit of the emerging technologies which continue to evolve. That's why we have some industry leading partnerships with Microsoft, HPE, IBM, and yesterday we announced a partnership with Dassault Systèmes which are leading players in PLM as well as on very specific softwares. And ABB, we will not be investing in those solutions ourselves because it takes maybe a decade to get to that level. But that kind of a solution is available to our partners immediately. So, it means we bring the immediate benefit, best of the technologies and best of the solutions available by keeping our core together, keeping our core plus digital technologies as a proposition and then mixing and matching the best of the global solutions, not only from established players but we also have lot of start-ups which are hooking on to our ecosystem. Because end of the day if you see an industrial customer, he has a very large and very deep trust with ABB, because we have served them for last many decades. And for them when we say that we have proved a solution and it will definitely add to the value to their installed base or to their new installation, that is where the value is for the customer and that is where they trust is that we will refine this digital solution for them. So, it is more about partnership, more about consulting the customer how to go about it, and then of course providing the cutting edge solution going forward. So, it is the whole value stream that ABB will provide, I would say, that is going to be one of our differentiating points when we participate in the market. And that is where we can see from the customers' participation that there is a lot of appreciation when we engage with the customers.

Moderator: Thank you. Our next question is from the line of Jay Kakkad from Ambit Capital. Please go ahead.

Jay Kakkad: Sir, I just wanted to understand more about the service part of the business. You said now this is around 18%, 20% of the revenues, so why is there such increase from previous ABB, I mean, including Power Grid? And is this also, can you talk more about service as an export, what is happening there because you said India is becoming a service export hub, so I just want to understand more detail on that?

Sanjeev Sharma: Okay. I do have my colleague, our President for Industrial Automation division and also responsible for customer country service, Madhav Vemuri on the call. Madhav, would you like to take this question?

Madhav Vemuri: Our service being more now in the new ABB, after Power Grid portion has been carved out, is because of the service content that we get from the rest of the ABB portion other than the PG. Because HV breakers and other items that we have as part of the PG division have inherently a less potential for the service immediately, because transformer has a practical life of around say 25 years and spare parts. As well as equipments like drives, automation, industry related control systems will have much more service components. So, naturally this particular portion of ABB will have higher service yield.

Jay Kakkad: And on the export side, can you give some more color on service as exports?

Madhav Vemuri: When it comes to the question of service, it is exactly the same whether we do it here or in the other parts of the world, it is the lifecycle support which is more of maintaining the equipment as it is. And the second one is, the usual retrofit upgrades, enhancements, energy efficiency and things like that. So, the areas where we are dominantly present in Africa, in Southeast Asia, plus many other parts of the world, we have very deep engagements with those customers and we continue to provide there value-added services plus standard life cycle support services.

Jay Kakkad: Okay. In export will the life cycle support service be higher proportion or even the upgrade and retrofit will be the higher proportion, in exports part?

Madhav Vemuri: As a thumb rule, generally the service has to be as local as possible and as close to the operation as possible. Hence, the life cycle support typically is delivered through our colleagues in the local countries, but the value-add services retrofit upgrades, evolution, enhancement, etc., are partnered with local units and then we deliver.

Jay Kakkad: Thanks. Sir one last question, just wanted to understand in the digital solutions part how important is an installed base? Does that offer any, so suppose there is an ABB part installed, does that offer any advantage for ABB when they look at any digital solution around the product?

Sanjeev Sharma: Madhav, I think there was previous question on digital and also this new question. Being an expert in this area, why don't you add more color to it?

Madhav Vemuri: Sure. Let me answer the first question, what is the differentiator for ABB in general. Sanjeev has explained very nicely on comprehensively what are the changes that we are driving from ABB to create a space for ourselves in the digital portfolio. In addition to that, one very important aspect is the domain expertise, we are not a software company by ourselves, we are actually process application knowhow people, we have dealt with the core processes of the cement making, steel, pulp and paper, oil and gas, power generation, etc., etc. including beverage and many other. So, when we couple the domain expertise and the application knowhow and process knowledge with the digital portfolio, that makes a big difference for our customers, because we

are very much close to their operational needs and pretty much understand and be able to solve the problems which are going to be of serious concern. So, that is one portion of our differentiation angle. Then coming to this installed base, yes, it does matter for us to have the installed base more than anything else, it is the customer's process awareness and the knowledge, but really today it matters only ABB peers to have a digital portfolio built on that. With the openness in the communication and protocols that are available today, it is practically possible for us to work with any installed base, provided we know the layer that we need to build on the top of the existing install base in terms of data acquisition processing and also converting that into a real value driver for the customer. So, for us the focus is the value-addition, not just limited to the existing hardware, provided as long as there is a connectivity possible as per the open protocol concepts.

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

Aditya Mongia: Sir, I had two questions. The first one was on digital automation, the question I had was to get some more color on the top two, three industry segments or sectors which are more open to be adopting your solution? And in the same question if you could also answer, what exactly are the customers on this front looking for in terms of value-add or digital inverter....

TK Sridhar: So, just in connection to the question, we do not mention any customers, what we could probably give a color is about the sector where the industrial automation can be used. So, Sanjeev, you can probably talk and then pass it on to Madhav.

Sanjeev Sharma: So, I think just to have some additional data point for the previous question and now, we have experienced about three-fold increase in digital engagements in 2018 itself, in one year, with our launch of digital platform ABB Ability which was launched only in 2017. So, we are at this point of time doing about 300 projects in digitalization from India, both domestic and around the globe. So, you can imagine the depth and strength of this value proposition. Though it is a value-adding offering, but with our installed base a significant portion of our services offered are also going digital. So, that also should understand that our service offering is increasingly being converted into digital. So, you saw that there was a strong 27% increase in services, I think much of it, digital services also get booked into that growth number, so that will give you another element of how the digital flow takes place.

And also, as the base of understanding in the market for digitalization grows, we see an exponential effect going forward, because this is an industry formation, there are a lot of customers, it is not what ABB does or what ABB says, I think the maturity in the market happens both side, one is from the supplier side, i.e. us giving the technology, but then our customers' ability to absorb that new proposition and to be able to allocate new dollars around it. And we see that the base is created in 2017 and 2018, and 2019 onwards I think we will see a good exponential acceleration in this particular area. And the typical area of digitalization, let me tell you, it is very widespread. The easy low hanging fruit or the industries which are going for it are the process industries, there you use lot of energy, at the same time you have lot of process to be

managed, and lot of assets are working and they want to go for reliability, availability of their assets and also they want to push their assets to the limits so that they can produce more from the same asset base.

And digitalization, with the sensors as well as knowhow can very easily give you the set points that you can run the systems without breaking them. So, that means earlier you used to have equipment which was sold with lot of tolerance, but not many people ran the equipment close to the tolerance. But with the digital value stream mapping, as you increase your digital eyes within the system you can start producing more from the same assets, and as well return on investment for the customer, or return on asset for the customer continue to improve going forward.

If you look into railways, they are launching some new systems and new equipments, and everything that is going into the system they are software base. If you see our converters, if you see lot of other technologies that go into engines or in the boggy, and railways wants to monitor them online that how they are performing, so that they do not have experts on the train but they can monitor it, whether there is going to be any malfunction in that area. So, that is another example of transportation away from process industry.

You look into the motors for example, motors are the ones which consume in a typical industry about 60% of the energy and on a world-wide average about one-third of the energy, right? So, if you have the sensors on the motor which we supply, which is called ABB smart sensors, by this you increase the efficiency of the motors, i.e. energy consumed is less, you reduce the breakdowns, and also at the same time you make sure that the availability and reliability of the plant wherein their functioning, it improves. And then you have the more availability, more reliability, naturally the yield from the plant also increases, that is where the productivity and efficiency goes into the customers' equation. So, that is another example.

Robotics is another example, all the robots that we are supplying now in the country, whether it is an automotive, F&B and different areas, most of the customers are very willing to allow us to monitor those robots for remote centers. And that is another enablement through digitalization that without mobilizing the people you are able to fix the force or any upcoming fault you are able to fix proactively. Same thing happens into the drives, same thing happens into the other equipment that we supply. Same thing happens on the ships, we have lot of systems and equipments which are gone into the ships. While the ships are sailing we are able to digitally monitor them and are able to provide the spares at the next port wherein we know that certain system or certain spare needs to be replaced.

So, actually digital is not a linear equation, it is really an equation which has multiple elements and it goes across the complete value stream for all industries. Certain industries will be faster than the others, but I believe no industry that we serve will be touched with it. So, that's why we see a much stronger future in digital industries.

Aditya Mongia:

Got that, sir. That answers my first question. The second question was more data oriented, if Sridhar sir could just share the order of backlog number also?



- T.K. Shridhar:** So, we have an order backlog of Rs. 4,200 crores, to be precise, Rs. 4,227 crores, which is equally spread among all the three divisions.
- Aditya Mongia:** Could you share the number, because it will help us better appreciate segmental data?
- T.K. Shridhar:** That's what I said, it is equally spread over all the three divisions. Rs. 4,200 crores which is equally spread over three divisions.
- Aditya Mongia:** And can you share the order inflow number for last year for the segment?
- T.K. Shridhar:** Yes. So, Electrification Products, Rs. 2,481 crores; Industrial Automation, Rs. 1,525 crores; Robotics & Motion, Rs, 2,008 crores.
- Moderator:** Thank you very much. We will take that as a last question. I would now like to hand the conference back to Mr. T.K. Sridhar for closing comments.
- T.K. Shridhar:** Thank you very much, ladies & gentlemen, for attending this particular call. It is always a pleasure to interact with you because you are important for us to give us a feedback. And also thank the management who are there on this particular call and the communication team who could make this happen. Thank you very much.
- Moderator:** Thank you very much. On behalf of ABB India Limited, that concludes this conference. Thank you for joining us, ladies & gentlemen. You may now disconnect your lines.