



ABB India Limited
Q3 CY2020 (July to September) Analyst Conference Call

November 05, 2020



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Moderator: Ladies and gentlemen, good day and welcome to the Q3 July to September Analyst Conference Call of ABB India Limited. 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 any form of unauthorized recording and publishing of this audio call is prohibited. Should you need assistance during the conference call, please signal an operator by pressing ‘*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. T.K. Shridhar – Chief Financial Officer of ABB India Limited. Thank you and over to you, sir.

T.K. Shridhar: Thank you, Janice. A very warm welcome to you all. Good afternoon, ladies and gentlemen, for the Q3 2020 Analyst Call for ABB India Limited. On this call, I am accompanied by Mr. Sanjeev Sharma, the Country Managing Director for ABB India, and I have all my business representatives from various locations, I have Sanjeev Arora, the Division Manager for Motion; C.P. Vyas for Electrification; Subrata Karmakar for Robotics & Automation, and, I have G. Balaji, representing the Industrial Automation as well. I also have Sohini on the call.

First of all, I think I got a quick feedback that the time which was there for you guys to analyze the results – the time between us publishing you attending this call, was very less; we will definitely take care next time that we have sufficient gap between the two events. But having said that, in this era of digital transformation, we would already have AI tools which could probably give you those analysis right away, as soon as we load the results. But I think that's work which we do both ways, right. So, without wasting time, over to you, Sanjeev, for taking us through the performance.

Sanjeev Sharma: Thank you, Shridhar. And good afternoon to everyone. Thanks for joining us for this call. So I also noted the comment just made by Shridhar, so if you had time to analyze it the way you wanted, feel free to put those questions, otherwise our officers and our communication team is always open to receive your queries and give you qualified responses as we go forward.

I will give you a bit of an overview about quarter three. On the business highlights side, as you know that this an extraordinary year, health and safety got even higher attention from us for managing COVID-19. Anyway, we keep very high focus in this area, but we need to ensure that for our employees, our suppliers, our contractors, our customers, and all the stakeholders around us, we have new protocols to conduct the business, keep the business continuity while keeping everybody healthy and safe. So that was in full flow. And I think it stabilized quickly so that we could do the business in a good flow across all the businesses and we could draw the results as published.

So, now the priority areas are to focus in the market segments which are tracking well. And we continue to focus on those areas wherein there are CAPEX and OPEX investments, and we continue to support those customers and their ambitions. And the customers who are lagging a bit or their market segments which are lagging a visit, we still support them because we know it



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is just a matter of time, they will also come around and they will be a participant in the business growth.

We continue to keep customer centricity, and I think that's one of the common theme across all our 16 business divisions, wherein we have unique proposition but the customer centricity is the common proposition we have with respect to how we serve and connect with the customer.

And during these times, I think you have to choose what is most important, and we chose cost and cash management as the most important element. And you will see in Shridhar's financials that there are very positive results because of how we managed the cost and cash elements in our balance sheet and also in our operations, and also how we collected the cash which was out in the market. It has given us a fairly robust position as we go forward.

On the key takeaways. Given that the economy, the travel, and movement are open, we do see that the demand recovery is in play. There are segments which are really doing well and there are segments which have become quite demanding for our products and services. But at the same time, there are certain traditional segments which are still lagging for their own lack of demand and lack of confidence to invest. But, I think, this mix is good for us because in our 16 businesses, as I tell you every time, we are exposed to about 19 market segments. So, even if a few market segments are down or up, I think we have a good balance and good forward-growth in our portfolio.

Government investment remains key to fuel the growth. And that's something we recognize. We always look where the government is supporting, which sector they are supporting better. So, we also make sure that our time and focus is spent there. And, of course, our growth segments – while conventional sectors continue to face headwinds, it's just a matter of time, I think we need to support them equally well during this transition period.

On the business side, if you are comparing the traction of how we are moving from previous quarters to this quarter, we have a good traction on orders relative to the previous quarter, good traction on revenues, good traction of PBT and PAT, that's very satisfying. But when we compare to the similar quarter last year, I think we still have some catching up to do. I think the market demand, if you had to use a thumb rule, is not uniform across businesses. But typically, if you take it as an average, it's about 85% of what we saw last year. And that is reflected in our numbers as well. We have adjusted our cost and our expectations and our operations accordingly, to cater to this demand in a very efficient way. We don't have a single case wherein we are not able to serve well, both on product delivery and services. But as the economy is opening-up and as the speed is picking up with demand, we see that the robustness is returning to demand in certain segments for us.

We are deploying new technique and we continue to make investments because this is a good time. And that's our attitude all along our 70 years of history in the country. Doesn't matter what ups and downs come, we continuously keep on looking at the journey far ahead and we keep on



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investing. We have opened up our own e-Mart, wherein we will sell online our Electrification and Motion products, which are fast moving products. And this is a very good gateway for our customers to reach out to our products very quickly, configure them and order them online. And we hope to have a very good traction in this area.

We have doubled the capacity of our Robotics capabilities in the country to cater to the requirement. We are already seeing some early orders from some customers which are rewarding our initiative as well as the capacity building in the country. And of course, some of those projects are ones we cannot talk about right now, but in due course of time, you will hear from them because of customer specific NDAs that we have, because they are tactical in nature.

There has been quite a bit of shift to the digital and remote technology to serve our customers. It has made it easier for customers to create higher reliability, availability, maintainability and serviceability of their assets. It saves a lot of time in terms of attending to the call, analyzing the call and reacting to the customers. This, again, is building into the ecosystem and it is quite a positive which has come up during this pandemic period, because these capabilities have enhanced because customers have started accepting these services from us.

Again, if you look into the sectoral focus, definitely datacenter, pharma, warehouse, logistics are big segments going for us, and equally strong is the demand that we see from food and beverage, renewables, railways and metros and power distribution. We are still waiting for conventional power generation, rubber, plastics, pulp and paper to pick-up demand. I think that it's just a matter of time that some of them may or may not bounce back, but some segments will come back.

Then from the government side, there is self-reliance in manufacturing. We have analyzed which are the business lines which have higher local footprint or local supply chains or localization. And the ones which have a higher import, we are ensuring that we are paying due attention to those areas and we are localizing at an accelerated pace so that, not only will keep the competitiveness but also have a more expanded and robust supply chain in the country.

The consumption story which will be unleashed by the agri reforms .will open up a lot of opportunities in the midterm for us, and I think we are keeping an eye and supporting the players in this particular area. FMCG companies are where we see a lot of expansion and we have a lot of unconventional orders coming from FMCG companies. They are investing a lot in Automation, Robotics and other area, which was not the case earlier. So, automotive may be down but then we have, for example, for Robotics new areas and new segments which are opening up, which are absorbing the technology quite well. And of course, infrastructure push is going to be helpful as we go forward.

I now hand it over to T.K. Shridhar, our CFO, to take you through the financial highlights.



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T.K. Shridhar:

Thank you, Sanjeev. Overall performance relative to the second quarter, I would say, is reasonable, given the challenges that we handled in Q2 and Q3, and also given the fact that we have demand accretion yet to start in real terms, which will be more visible Q4 onwards, while we are dealing with the pent up demand opportunities which we had in Q3 results reflected.

We have Rs. 1,300 crores of orders. This is 19% down compared to the previous quarter, same time. But when we compare it to the base orders of the last quarter, it shows a growth. Coming to revenue, it's a mix of quite a few revenues, bit of more systems businesses coming in; long cycle product orders getting executed. Less of service this time, and that's the story of service people not being able to visit sites to generate opportunities or attend to customers, still persisting on the ground. And it persists not only from our side, willingness of our people to travel, but also, more importantly, from the customers agreeing to take up the people for the services. It's more restricted to remote servicing..

And when it comes to profitability, we were benefited by the favorable FOREX, which we had in this particular quarter and by good expense reductions; we continue to make sure that we are agile in this trying time. And this really helped us to shore up the profitability.

Cash, as Sanjeev was mentioning, so we, again, increased our cash position compared to the previous quarter. Also, it is more or less in line with the previous years' closure. And are there challenges in the market to collect cash? Answer to that is still yes. I think that the difference which is playing out is the strong customer connect which our operations and the sales team have. Of course, it also is largely prevalent due to the fact that ABB commands a bit of a premium in the market when it comes to payment and taking services. So that's how it is.

Coming to the summary of the P&L account. Here, the material cost has definitely increased and that is more influenced by the mix, as what I was mentioning earlier, which is at 68%. And the personnel cost, so whatever actions which we had taken in Q2, which is the April to June quarter, still remains, nothing has been sort of rolled back and because we are unsure about the situation at this point of time. This is reflected with that. But when compared to the preceding quarter, right, I think that was one-time advantage what we had taken, which is not available every quarter. But if you look at it from Q3 2019 to Q3 2020, it's more or less stable, and we have saved, in spite of an increase given on an annual increment basis.

Other expenses are lower than the previous quarter. And here, I would say, it's more of a behavior alignment with the volume changes, that is helping us with good profitability. We have a relatively better FOREX compared to what we had experienced in earlier quarters. This is how the overall profit flow happens within the organization.

I will now delve deeper into the division-wise numbers, I think this could be of good interest to all of you guys.



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Under Electrification, we had order booking of Rs. 492 crores, and an order backlog of Rs. 1,300 crores at this point of time. The orders mainly consisted from datacenters, metro, food and beverage. In some of the distribution orders, we had repeat orders from customers. Additionally, the launch of new products like anti-bacterials, has really paved way for this particular order momentum. It was a strong export performance which improved the revenues in the quarter two, but the service rated constraints will persist. So PBIT, displayed a really strong performance, driven by the capacity uptake, and the cost rationalization which is still continuing. We should be mindful that the previous year included solar business, which was not great in terms of profitability. Because we did support pricing actions in the market and the favorable FOREX impact also helped them shore the profitability.

When it comes to Motion, it's a very resilient short-cycle business. And they see some revival in execution patterns as well. It had an order book of Rs. 554 crores in this quarter and have a backlog of Rs. 651 crores, and all these backlogs, both in EL as well as MO are clearly executable backlog. We have a visibility as per the contracts which run into the future quarters. So here, I think they had traction from transportation, digital and service businesses over here, in terms of orders, and the continuous engagement of the MO teams on the ground really helped them get these base orders on time. This has been support for the future revenue as well. But revenues of Rs. 629 crores which is there for MO is basically driven by backlog conversion across all major segments. We didn't have any bottlenecks in terms of revenue execution but it took a lot of efforts to make this revenue happen, given the challenges which we have in this pandemic situation. PBIT of Rs. 69 crores, I would say, compared to the previous year, MO took an advantage of the situation in terms of enhancing this capacity utilization, and also better volume and mix.

Going through Industrial Automation. Orders were at Rs. 274 crores. So as you look at the curves, they are still facing a lot of headwinds, because their customers are basically from the core sectors where the CAPEX decisions are still not yet seeing much of an push, and that keeps them in a challenging position. Hopefully, when the market revives, they're there. And added to that, we also have the turbocharger business which is a part of Industrial Automation, where the customer is Indian Railways, and they are moving away from diesel to Electrification. As we had said in the previous calls, so this particular customer move, while it impacts Industrial Automation, it's sort of a boon for the Motion division too where they get traction converters. They have a backlog of Rs. 1,342 crores and they are experiencing deferment of CAPEX decisions, while they see opportunity in new markets like water, chemicals and small and mid-sized projects. Revenue of Rs. 367 crores, has increased compared to the sequential quarters. Metals and cement were impacted, because they have slackness in the demand and CAPEX. Export related project revenue was also impacted due to the same reason. So, profitability has been quite challenging for Industrial Automation for the few quarters and will continue to be challenging in the quarters to come, because it is dependent on demand revival. And it has a uniqueness of running a system business. So, when the system businesses have a procrastination of closure, depending upon the customers, then it really has the challenge even in cost of cost positioning locally. We have a decline in service and export component because Industrial



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Automation has more than 20% of the revenues coming from service. So, any decline in service impacts them quite substantially. And added to that, we had an unfavorable FOREX impact also impacting there.

Robotics & Discrete Automation is a nice picture to see. From what they were in the last two, three quarters, they are slowly looking at some offshoots. But definitely, it's not the same level as what we would have expected, market to catch up over here and they are exposed to the auto and auto ancillary industry, that is basically where we find lower orders coming in from. I think on a futuristic basis, we still expect the opportunities will emerge from consumer and electronic industries. They have a revenue of Rs. 45 crores, probably higher than the first quarter as well. They saw an uptick in the service revenue because they could do it remotely. As we say, customer sites are still not operational and there are restrictions about movement of customers from outside into customer places, so you have a challenge as to how you service them and be closer to the customer. But all the digital means are helping all of the business teams to close this particular gap. So unlike others, I think Robotics leveraged from a higher service revenue, which improved the margins.

In conclusion, the composition of the revenues and the profitability and PBIT, remains the same, with the EL and MO being a major contributor to all the three items. Once Industrial Automation picks up, probably they would also recover from the position what they are. Services is down and this is across all the segments of such.

With this, I think we can open up the session for question-and-answers. So over to you, Janice.

Moderator: Thank you very much. We will now begin the question answer session. The first question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

Bhavin Vithlani: Congratulations for a good set of numbers. Question one is that a lot of the outperformance has come from the margin side, and especially on the other expenses front. So, what part of this in your view could be sustainable and what part could reverse as normalcy comes back? The second question that I had was, we have been seeing lower margins on the Industrial Automation side, and you did mention about turbochargers. So, what part is contributed by the turbo charges? And if we take out the turbochargers, what could be the underlying margins of the other IA business? Those are my two questions.

T.K. Shridhar: Okay. Let me answer the first question and then the second question will be answered by Sanjeev. So, Bhavin, when it comes to the other expenses, if you look at it, we are in the range of roughly about Rs. 350 crores every quarter on an annualized basis. Today we are probably running at Rs. 250 crores, Rs. 260 crores as what it is, right. And this is with a revenue which is reduced by 15% to 16% as compared to the same, it doesn't have any growth factor as such. So, that being the case, I would assume, because there are certain expenses which are directly related to the volumes, and if you look at it compared to the immediately previous quarter, so we were at roughly around Rs. 200 crores last quarter and today we are talking of Rs. 260 crores in that



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way. So, I think, to me the expenses which are discretionary spend, will continue to follow a path of caution, so we will not spend anything which is not required. But when it comes to an expense which is relating to business enhancement for operational performance and customer satisfaction, that will continue. To answer to your question, I think the discretionary spend of our total expenses roughly forms part of only 25%. And that's the place where you play with. But other expenses are definitely along with the volumes, and the negotiation which you get for the volume increase because you are on a supply chain leverage. Over to you.

Sanjeev Sharma:

So, on the Industrial Automation side, I think if you really look at Industrial Automation, we have four businesses. One is IAPI, which is the Industrial Automation Process Industries, which is exposed to all the large core industries like cement, steel, pulp and paper, mining, etc. And it has a direct correlation to what is happening in those sectors and the amount of spend on the CAPEX and OPEX. And if you see these areas, these are subdued at this point of time while some are showing green shoots and they will come back, and accordingly the order as well as the revenue pickup in these segments will follow that trajectory.

If you look into the second business, which is IAEN, its Energy business, basically deals with the oil and gas, chemicals and the power generation side of the business. On the oil and gas side and the chemical side of the business we have good successes. But if you look into the power generation segment in the market, especially the brownfield projects which were upgrading themselves, they are kind of depressed and are into some kind of limbo at this point of time, if I chose the right word. And that also has a corresponding impact on the IAEN. But as we go forward, the quality of those projects and those customers will become clarified, the ones who are serious players they will execute their contracts and accordingly it will pass through our books.

When it comes to IAMA, which is the Measurement Analytics, we have a good traction there. That business is essentially products, it's not exposed as much to systems business or integrated systems, unlike IAPI and IAEN wherein we package automation solutions and the electricals together. Though that is a more product-oriented business, the profitability flow and the revenue flow is quite reasonable at this stage, given how we are in the marketplace today.

And when it comes to turbochargers, we are a hub unit for turbocharger here in India. We serve Bangladesh, Sri Lanka as well as India from here. I must say that Bangladesh and Sri Lanka are doing quite well in terms of turbochargers, given the amount of activity and amount of consumption they have on the diesel generating side and on the marine side. In India, there is a reversal taking place in the Indian Railways, wherein the Indian Railways is moving away from diesel locomotives to electric locomotives, leading to a reducing cycle for turbocharger business where the exposure is to the Indian Railways, because that's a very firm and clear trend. Then what are our other opportunities in the market, turbochargers continue to expose itself. But while we had the reduction of turbocharger on one side, but then at the same time, because of the electrification of the Railways, we are picking up the business and the volumes on the traction side of the MO business, our Motion business. And that has been quite robust pickup for us. So,



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maybe whatever we may lose as a volume on turbo chargers, we have a reasonable and a good pick up on the Motion side on the turbo converters and also on the metro side of the portfolio.

Now with respect to the profitability, it's directly proportional to the revenue pass through into our books and the traction or revenues. And as we go forward, I think the backlog that we have, we will see that it gets executed, and that will be executed with good discipline. But also, we will have to review some of the projects like say in power generation side, what kind of tracking we have in that area, and we continue to review those projects. And as and when we find some weakness, we will notify it to you as well as to the markets. So I think that area is a bit of a tough spot because of heavy industry exposure. In general, the heavy industry is not investing particularly strongly at this point of time. But we have a long-term view on these businesses, so we will adjust our cost to the revenue projection that we have in following quarters. And accordingly, we continue to adjust as the demand comes back in these segments.

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

Renu Baid: I have two questions. First, if you can help us understand the continued momentum that you have seen on the Motion side, one part of the leg you did explain in terms of higher growth coming in from the Rail electrification portfolio. If you can also elaborate some of the other end growth drivers, along with the competition from the domestic players in the space. And second would be on the export side, how has that performed in terms of overall revenues for the quarter and YTD? And have we yet started to see some material traction in terms of export opportunities for industrial products? And third, if you can answer, any tailwinds that you see coming in from Codian acquisition for Robotics in the F&B, pharma and related segments of the portfolio? Thank you.

Sanjeev Sharma: So Shridhar, if you can answer the export part first, then I will invite a comment on Motion from Sanjeev Arora, and Subrata for Robotics.

T.K. Shridhar: When it comes to the exports, Railways order inflows have been static; there have been neither increase nor decrease, that's what we see from the order inflows. So, we are roughly the same as what we used to be earlier - roughly 12% of the total orders are from the export orders what we have, and it was seen last year as well. But I think we expected that exports could be a good contributor to fill the gap, which is there in domestic market, which is not the case at this given point of time.

Sanjeev Sharma: With respect to specifically Motion, I think very quick comment from my side. What we enjoy today in the market is a combination of continuous investments through different cycles and last many years, in expanding our portfolio on the very high energy efficiency motors, as well as boosting our portfolio on the dry side. We continue to make localization efforts. And of course, a lot of market connect is being done by our team under the leadership of Sanjeev Arora. So, Sanjeev, would you like to give a reflection to Renu, what is it causing a better performance on the Motion side?

Sanjeev Arora:

When we talk of Motion, given the customer connect of our teams, I give full credit to our people and how we supported our customers in COVID-19 times, especially during the lockdowns, when COVID-19 was at the fearsome peak, I think that has really led to strong bonding with our customers. And then afterwards, how we ramped up our operations, our supply chain, how we converted their urgent requirements into revenues and really supporting them to run their day to day operations in our industry, I think these factors have really played a good part. And then by the time this was settling, there came some momentum in the market also, some pull was also there in the market, which was a lull period, say, April-May, but then situation improved month on month. So, when we talk of the light industry, be it pharma, food and beverages, HVAC, things started moving upwards.

Then we have also seen good orders from our traction business. We had good orders from our traction motors, traction converters, which that gave the top-line growth. And the base load orders continued to show a good improvement. Our channel business was the last point in the recovery, but then slowly, when the TIRE 3, Tier 2 cities started gaining momentum, our channel business also started improving. So, overall, it has been, I would say, a good combination of the markets, and the back-end support that we provided to our customers. On top of it, I would also like to highlight how, during this time, we have supported on the remote connectivity, be it remote commissioning, be it remote monitoring, or be it remote installation and to add to that, the factory acceptance test that we were able to do remotely in all our Motion products.

So, because of that, the customer is not required to travel to our factories. But then he gets that similar experience as if it was being done face to face. So, these all things have really built up a good base for Q3 as well as future for Motion. I hope I was able to answer. **Sanjeev Sharma:** Thank you, Sanjeev. So Renu, there are many factors that have to come together for a business to perform. And I think all the inherent technologies and the possibilities we had; our teams deployed it. Now Subrata, why don't you give a very quick overview other than non-automotive sector what is happening, and how this acquisition also helps you as you go forward with your portfolio?

Subrata Karmakar:

So, first of all, thank you, it's very good question from your side, Renu. There is a huge change, a shift in technology, that is coming into the Robotics and Flexible Automation side. We see that in India too but it's basically in a little early stage, but a lot of responses are coming from warehousing technology, pharma, electronics industry. Although it's in the early stage of automation, we are getting a huge response from this segment. At the same time, Robotics is making it very flexible and adding the most portfolio into it. So, we are very hopeful about this. At the moment, I cannot talk about the complete technology acquisition field. There are a lot of things going on in the backend. However, what I will say is that, what is happening is completely the BU, keeping the vision of the electronics, warehousing technologies, food, pharma, pharma industries. There is a shift from the, so called, legacy systems of automobile industry towards those new segments. A very fanatic technology shift is coming up in the future.



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We will see, even in early 2021, a lot of such kind of product and portfolios being added into our product level.

Sanjeev Sharma:

Thank you, Subrata. So Renu, we do see good traction in this non-automotive sector, that's why we are acquiring these additional technologies. And of course, when the acquisition is made, it takes some time to create that synergetic effect and inform the front lines about what to sell and how to sell. But I think maybe next time when we take a call in January, February period, perhaps we can elaborate it more for you.

Moderator:

Thank you. The next question is from the line of Surjeet Jain from ASK Investment. Please go ahead.

Surjeet Jain:

When our Global CEO took charge, he did a con-call with the analyst community, and there he set out a target of 13% to 15% margins for the entire group, which we are presuming that obviously will be applicable to us as well. When I look at our company and our peers, the typical margins, even in the best time hover between 10% to 11%, if I look at our long history. We have an additional handicap where our outgo to the parent in terms of the tech support royalty and other fees, etc., was at around 6% in CY 2018 and around 5% in CY 2019, so that is higher than the other peers who are listed and are MNCs. So, how do you see us reaching that 13% to 15% margin band which has been set by the Global CEO? That is question one.

And the second question is, again, on the margins in IA segments, you singled out turbocharger. When is these legacy order/orders is going to come to an end? Because this is the fourth quarter in a row, we have had suboptimal margins. And a quick last question is on digitalization, when do you start reporting, giving us some idea as to what percentage of revenue digitalization, IoT is contributing? Thanks.

Sanjeev Sharma:

So on the first part, yes, we heard the same message as you have heard from our Global CEO, and he has been very consistent with his view forward, and he comes with an extremely high credibility of having run companies and having delivered on what he has said. So, I think that's where it starts. We have a lot of confidence of our Board and our executives into his capacity to drive us in that direction. Now, when it comes to translating those results, you may have also heard that the way he focuses on his businesses is that he focuses on each and individual division at a global level. And at that global level, we have about 18 divisions, and he has given the empowerment, end-to-end, to each division to deliver the results that he expects from them. And I think that's something which already has been explained and already been factored into each and every division's delivery targets. Correspondingly, each of those divisions translate their targets into respective geographies globally. What expectation they have from different markets, given different markets give you different price position and different volume positions. And also expect different CAPEX investment and also different return expectations. So, that way you will see that this flow of expectation from the global CEO to global divisions, to our respective



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local divisions which also sit part of ABB in India, there will be a 100% alignment. And accordingly, the expectation will be regarding how much value margin a particular business makes across the globe and how much the business contributes. Accordingly, the distribution gets done logically to divisions at a local level to deliver to those expectations. So, that's how the process runs.

As far as India consolidated numbers are concerned, it will reflect the sum total of 16 business divisions that we run in this country, out of 18, because two of them are more U.S. centric. These 16 divisions are very well entrenched and have good market positions, some of them are fairly mature businesses, many of them are on a high growth curve, and many of them have a bit of a declining element, as I explained, like turbocharger kits with the Railway changing the market dynamics. Now, within that play, what we do is, at India level, we ensure that we read the expectation from the global business lines and divisions. And we set up the local businesses to succeed in that direction, and make sure that they are operationally, as well as, market wise they are well connected to deliver those expectations. So, to your question of what Global CEO said, that's how his target and expectations would be met. That's number one.

T.K. Shridhar:

So, the next question was about declining IA margins, so I would like to take that question. So, as what we have been seeing, I think, and what you would also be experiencing outside as well, the projects which we have, IA is only division which deals with projects in the current ABB profile, right, so all the others, majority of them or products and small systems what we deliver. Typically, we have, as what Sanjeev was mentioning, two business units which work only on projects, which is the Oil & Gas, which also has the power generation element incorporated. So, the customers and the projects which we are currently executing are facing headwinds. There's absolutely no doubt about it and that is what is reflected in how the performance is. And declining service volumes are also impacting them. When it comes to the Process industry, it is a direct reflection of how good they are in getting the orders and a good mix of orders. So, it's basically a demand versus supply gap which we have at this point of time. So that's really impacting them.

Coming to the question of how long will these legacy projects continues, right? So, I would like to answer this in two ways. One, when we look at legacy projects, there are two methods as to how we do it. One, is basically to ensure to engage with the customer to get into a discussion and a strategy of closing it seamlessly. And that's dependent even on the customer side, about his preparedness to close the site and close the project and take over the project rather. Unlike products where you deliver and the risk and liability is disclosed with that, with legacy projects, unless and until you commission and guarantee the performance as what is required to be delivered as a part of the system offering.

Conventional power generation is where we are definitely facing headwinds. Like previous quarters and previous year and the previous businesses what we dealt with, we follow a very consistent and the conservative policy of looking at costs very closely. And we do that quarter-on-quarter to ensure that we are able to factor it into the results. And when you say we will factor

into the results; it means it's more because the accounting guidelines make sure that you adhere to that. During the execution time, whatever claims and whatever sort of recoveries we would make, we will follow later when the project is closed. So, it's like an impact which you take first and then we need to work on it to make it better going forward. The accounting policies follow first, and then you get your contract closure impact later at this point of time.

So, coming to the long story short, I think, as every year, we make sure between the years we are fully taking a position, and now that the market and the mobility has opened up a bit, I think in Q4 we will see more of actions and active discussions with the customer to find out how do we bring it to an early close, and whatever be the sort of cost of the particular closure, we look at it from how we can negotiate with the customer. This is a very challenging and tough task, but believe me, the project manager and the team on the ground are struggling and really working very hard to see the bad side of what we are today seeing. And probably I think when we give this room for them to close it out to the customer, I think they should emerge as successfully going forward.

And the next question is about the digital revenues as what you say, but Sanjeev, would like to take it?

Sanjeev Sharma:

Yes. So, on the digital side, just like what I said before, we have 18 business divisions globally, we have common technologies available to them. And now with the CEO's vision, each of those divisions have defined their own path for the digital. And mostly the way technology works in the industrial area is that it is an embedded part of our proposition to the customer. And it gets priced alongside our proposition to the customer as we make it attractive for the customer. In the case of Industrial Automation, it is more dominant than prominent and the global division, our digital officer for the IA is based out of India, in fact, all the work is carried out of India. We have recently released the suite of digital products which are under promotion and available to the customers to extract more productivity from their existing assets. And also, when they do the planning for future assets, they can use it. In my understanding, we do not intend to publish the digital number separately. I see them as a CEO of a company as an embedded part of the proposition of ABB portfolio. And that enhancement gives extra productivity for the customer. And it gets priced accordingly, as part of our offering. Balaji, are you on the call? Have you seen any area wherein there is a requirement for you, in IA, to publish this digital number separately?

G. Balaji:

Sanjeev, there has been no demand to publish the digital number separately. And as you rightly pointed out, this is embedded into the respective divisions, and one of a very strong portfolios for the markets.

Sanjeev Sharma:

So essentially, if you see, just to finish off this question, how to see ABB? We are talking about Industry 4.0. We have lived through Industry, 2.0, 3.0 and 4.0. In each phase of technology change, new technologies come, and they improve the productivity equation for our customers with our solutions. So, Industry 4.0 and digitalization is nothing more than the tool and the method by which you deliver more productive solutions to the customers by implementing our

technology. So that's how it gets part of the embedded package and that's how it gets priced. I doubt we are going to start segregating it as such.

Moderator: Thank you. The next question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead.

Renjith Sivaram: Congrats on good margin performance given the overall challenging environment. Sir, if you can throw some light, I think in between there were some discussion whether we need to shift some of our Robotic operations from China to India. Is anything like that planned? And if so, what kind of CAPEX do we have to incur for such kind of a facility and what kind of market will we be able to export some of these robots which we manufacture in India to the other entities? So, if you can throw some light on that aspect.

And one more thing wanted to understand. There has been some of the dormant competition, if I can take a name like Crompton, which was under severe trouble and now a new promoter has come. So, because of that do you see an impact on your market share because till now they were not that active in the market, now they are becoming more active in the market. Is that something that we must worry about, or we are in a different pedigree compared to them?

Sanjeev Sharma: Sure. So, on the Robotics, I think as far as we are concerned, we are investing in this area, we have invested in the area; just two months back we have doubled the capacity of our Robotics operations here in India. So, in fact, what our deliveries we do to the customers here in India for Robotic Solutions, it is done by our team of engineers led by Subrata. And that facility has doubled its capacity. So, we have already made the investment and we are seeing a very good traction and response from a lot of customers to buy those products and services from us. And while we offer that expertise to the domestic customers, the same expertise is also exported out to many projects which are happening across the world. And that is increasing in the robotic space.

Your question about China and India is more of Robotics arm, which is basically a vanilla product, which you bring, and you configure to the application you want to apply for. And there are different sizes of the robots. At this point of time, the robots, as a unit, come from overseas. But the actual work which creates value for the customer is the application engineering, commissioning and tuning to the process, and also giving them the online services so that you maintain the high reliability, availability, maintainability and serviceability. So yes, already, the investments are there, expansion has been carried out, we continue to do that. And as we go forward, we continue to expand our footprint globally in terms of selling those application services across to the customers. So that's one part.

The second part of the question was?

Renjith Sivaram: Any CAPEX that we are envisaging for this Robotics facility?



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Sanjeev Sharma: Yes, we have already done that CAPEX and that facility is an ultra-modern facility which has been created with a very strong customer experience built into it. And if you really see from the eyes of some of the customers who have committed to expand their automation portfolio with us, I think they are really impressed in terms of what we have brought in for them here in the country. So, there was another question other than Robotics?

Renjith Sivaram: There was this question regarding one of our competitors.

Sanjeev Sharma: Yeah, Crompton Greaves. I think Crompton Greaves have been there for a long time. So quite frankly, my attitude and my colleagues' attitude is that we expect competition to be there, but we don't think too much about them. We think only about our customers, because we have enough to do to service our customers even more effectively. And that's where most of our energy and program goes. We have a direct response to we engage with customers more effectively and serve them well. So, that shows us more in speed. Motion division is more exposed to the Crompton Greaves portfolio. And there you can see already the results are tracking well, with or without Crompton Greaves going into trouble, if you track them for last three, four years. And if it has gone into a new group, if an investor who has come in, I think their operational capabilities and portfolios don't change overnight. And customers' perception about them doesn't change overnight. I think they will have something to do on the ground to make themselves attractive in the eyes of the customer. So, we wish them well.

T.K. Shridhar: Sanjeev, well said. To add to what Sanjeev was mentioning is that they started to focus on the non-conventional sectors a couple of years ago. And today, when we look at the cross-section of the orders what we have and the customers what we see, I think are fairly well widespread. And that's why you could see, had we just concentrated on the commercial sector as what we were doing until a couple of years ago, the situation could have been quite different than seeing a number like this even in a quarter affected because of this pandemic. What we want to say is that we keep exploring new customers, new market segments, and that we sow the seeds pretty early, so that going forward it helps us build that particular line of business, which will help us out in terms of need.

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

Aditya Mongia: My question is related to an earlier question asked about the global guidance for margin being current 13% to 15% band. The question which I have for that is, there is enough importance given at the division level to reach margin target. Does it mean something positive from the perspective of insourcing within the ABB family, and thus exports for ABB India getting a fillip out of it?

Sanjeev Sharma: I think that's a very good question. So, if I may, prior to taking this role five years back, I used to run a global division, right, and that I ran for a long period of time. So, I can speak based on my attitude and how I take decision and how global division managers take decisions. Now,



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what happens is, just now imagine that you have a CEO who presses you for performance. So, you have only two ways, one is that you increase the price or you reduce your cost, or you increase your volumes wherein your breakeven points are reached very, very quickly. India really falls into that sweet spot. And as this thing lays out, I definitely see in certain product lines that process has started, and India operations are being leveraged quite effectively. And to connect with the markets, which cannot be or should not be served from Europe and other places, I think that momentum is already visible. But it is still at the infancy of it. And I believe that story has to play out as we go forward.

And if you look into the ABB balance sheet and you look into our assets, we already have enough land and we can expand the capacity that we have today in terms of productions to almost twice of as much as we have today. And it's already well mapped in, it is in the hands of our global business division managers. And they, based on their expansion requirement and the capacities, they will have to adjust elsewhere. I think, India definitely will be not only beneficiary, but one of the beneficiaries of that change as we go forward. And accordingly, then the effects and the impacts come into the underlying kind of profitability at the global level, as well as at the local operations where it gets processed.

Aditya Mongia:

We have seen in the past that Electrification has been the major driver of exports in India with several opportunities and kind of ramped up production of select products in Electrification. As you see through the export story from here on, would you consider that to have more breadth across different segments, including Robotics?

Sanjeev Sharma:

In the Electrification, you see, the story is made out of our medium voltage switchgear division. So, they are the ones who have been very stable and strong and number one business domestically, and also that is being leveraged out outside. The theory globally and locally is, any business which is stable, profitable, and has a good solid base domestically, that's the one which goes out and start serving other markets, right. So that's what we have been following. Not only in EL, but we have also started seeing that traction in Motion in a big way, especially with our motors being supplied across the regions and the acceptance level being very high. or our Industrial Automation, especially Process Industries, they are the hub here in India for whole Middle East, Africa, and a lot of export projects are also carried out by them in the different markets for us. Robotic side, which is a smaller but fast-growing business but are already delivering projects in Europe as well as in America sitting out of Bangalore. I would say, yes, different stories at different scales, but that's what the character of the division is. How mature it is, how stable, how profitable it is in the domestic market and then what is the leverage effect we can bring it to the other markets, not only help ABB India, but also support the global businesses to be more sustainable and profitable. So that's part of the equation and story. Other than Electrification we are seeing that is happening in other businesses also, but more at the startup stage; Motion is more in the mid stage, and the others are at the startup stage.

Aditya Mongia:

Thanks, Sanjeev. One last question from my side, if I may. This one relates to where, let's say, parent is in the Electrification business in terms of the contribution of, let's say, smart buildings.



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And where we are in India and where we aspire to be. It seems as if the parent has a fairly large proportion coming from such kind of smart buildings, building automations kind of the line items, verticals. What is the Indian strategy or the India Group strategy to kind of play, let's say, a catch up over there?

Sanjeev Sharma: I will bring in CP Vyas who heads the Electrification product. Let me say, my view on this portfolio is, the quality of the product and the acceptance and the demand of this product is extremely high with the customers who know these products quite well. So, our focus is to really make sure that our product quality is experienced by the customers, both on the building portfolio as well as smart portfolio. CP Vyas is leading that charge, so I will let CP explain what the Electrification strategy is for the growth as well as profitable growth. CP, over to you.

C.P Vyas: Sanjeev, good evening. So, that is a nice question, thank you very much for this question. And this is one of our pillars that how we can grow profitably in a smart building from Electrification point of view. The last few quarters, we really worked hard to bring a quality product and solution, which really lead from the market point of view. In the last one year we bring a lot of product and solutions. And we are continuing working with a lot of architects and consultants to bring this as one of the strategies. From my point of view, this is going to be one of the fastest growing profit-making business for Electrification. We are already in. And we hope that in the future, we will be one of the major players in this particular segment.

Sanjeev Sharma: Thank you, CP. So, I think in the interest of time, I think this was probably the last question.

Moderator: Yes, sir, that was the last question. Ladies and gentlemen, due to paucity of time that was the last question for today. I would now like to hand the conference over to Mr. TK Shridhar for closing comments. Over to you, sir.

T.K. Shridhar: Thank you, Janice. First of all, I thank everyone of you taking the time to attend this particular call and the support that you have been giving to all of us to weigh through this challenge at this point of time. I think, probably when the market picks up, we should also be in the good side of the profitability ratio, that's what everyone is expecting. With this, we conclude the Q3 Analyst Call. If there are still unanswered questions, please feel free to put on a note to me or Sohini, we will be more than happy to guide you through those questions. And I take this opportunity on behalf of ABB management to wish you all a very Happy Diwali, a safe one with you and your family. And thank you very much.

Moderator: Thank you. On behalf of ABB India Limited, that concludes this conference. Please note the transcript of this call will be available on the company's website over the next couple of days. Thank you all for joining. You may now disconnect your lines.

(This document has been edited for readability purpose)



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