



“ABB India Limited’s Q1 Results 2014 Investor Relations Conference Call”

May 5, 2014



MANAGEMENT: **MR. BAZMI HUSAIN – COUNTRY MANAGER & MANAGING DIRECTOR, ABB INDIA LIMITED**
MR. AMLAN DATTA MAJUMDAR – COUNTRY CFO
MR. PITAMBER SHIVNANI – HEAD, POWER PRODUCTS, ABB INDIA LIMITED
MR. N. VENU – HEAD, POWER SYSTEMS, ABB INDIA LIMITED
MR. SUBIR PAL – HEAD, DISCRETE AUTOMATION & MOTION, ABB INDIA LIMITED

MODERATOR: **MR. TK SRIDHAR – HEAD, INVESTOR RELATIONS & COUNTRY CONTROLLER, ABB INDIA LIMITED**

Moderator: Good Evening, Ladies and Gentlemen. I am Malika, the moderator of this conference. Welcome to ABB India Limited's Investor Relation Call to discuss the Q1 results for 2014. As a reminder, for the duration of this presentation all participant lines will be in a listen-only mode. Should you need assistance during this conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. I now hand the conference over to Mr. TK Sridhar. Thank you. And over to you Mr. Sridhar.

TK Sridhar: Thank you. Good Evening, everyone. Welcome to the Q1 Results Conference Call of ABB India, I am TK Sridhar – Head of Investor Relations and Country Controller for ABB India. Present at the call along with me are Bazmi Husain – Managing Director of ABB India, Amlan Dutta Majumdar – Country CFO, ABB India, Pitamber Shivnani – Manager Power Products, ABB India, N Venu – Head of Power System, ABB India, Subir Pal – Head of Discrete Automation and Motion ABB India. Also in the conference call are my colleagues Sanaj Natarajan and the communication team. So without any further delay I hand it over to Bazmi to take it forward. Thank you.

Bazmi Husain: Thanks Sridhar. Good afternoon to all of you, and thank you very much for joining this telecon. Before I get into the results let me just take a few minutes to recap - what I think all of us know - the state of the economic environment. On the good side, the current account deficit has come down and forex reserves have increased to \$300 billion, the rupee has stabilized - these are all changes since the last time we talked. Inflation is slowing down. So I think these are all good news. Actions have been taken by the government, I think they are beginning to show some early signs of improvement in the market. We are also seeing good mood in the stock market driven by a combination of the economic fundamentals improving, but also everybody is waiting for a new stable government. So looking back, I think it has been a very challenging quarter, and I would say it was a satisfactory quarter for us in a very indecisive market. Last time I had mentioned that our strategy then was more focused on improving our competitiveness, closing our older projects, productivity side of it, putting new capacities in place, and last time we announced shifting of gears into a growth mode. I am happy to tell you that we have had a fairly robust growth in the orders – both large and base order; base order is something that we have focused on a lot so they are growing. We have also got some large orders, talk more about later. Exports, which have been a focus of the last 2-years, continue to grow both in the depth. By depth, I mean the kind of product portfolio we have developed - we set up the Dry-Type Transformers factory in November last year, the new MCB factory in Bangalore, in power products – SafeLink Circuit Breakers, some new high voltage circuit breakers, all developed both for in-country utilization as well as exports, have really helped. I am also happy to tell you that we have taken exports further in project side. So it is a growth engine for us and will continue to be that, but again I would like to emphasize - that for us, exports is a growth opportunity, it is not the main reason why we do the investment or why we are here. We are here to serve the local market but with the declining rupee, with the increased competitiveness of ABB, increased productivity, and the focus on quality, we find exports to be an attractive growth area that we are leveraging. The focus on the in-country-for-country

program I think is continuing to give us results; cost control - at factory, and the white collar productivity has given us good benefits. Overall, our material cost has for several quarters remained at sub-70 level and Amlan will talk more on that later.

We had good performance in different dimensions from all the five divisions; Power Products has lead in overall performance. If you recall, 3-years ago we started several programs which looked at increasing the efficiencies, increasing R&D activities in that putting new products out.

So, all in all I think a satisfactory quarter in an indecisive ..- and I will cover that later - in a market that we believe now is poised to recover, I would also say that we are positioned very well in the recovery element of the market.

Now, looking at exports we compared to let us say a year ago quarter-on-quarter we have pretty much doubled our export volumes. Service as well is growing steadily. I mentioned last time that due to slowdown in the industry, our customers are holding back on OPEX, which is typically where we get service from. So we have brought in new offerings into service, and are still able to grow in a market where our customers are actually pulling back on some of the more traditional spend on service. The new offerings are not just looking at the energy efficiency services that we were offering, but we are now also offering training services to our customers to help them improve their people productivity.

So overall, I think we have had a good growth equation, I think some of the areas where we talked about last time, like Renewables - I think that continues to be a growth area - and energy efficiency part of it is also very good.

What I will do is that I will just talk a little bit about some of the key highlights of Process Automation part and Low Voltage Product part. On the Automation side, I am happy to say we have started commercial operations of a state-of-the-art factory - our instrumentation factory - in Bengaluru. We have also provided an Integrated Power and Automation Solutions for large cement manufacturers. In steel, a lot of the steel industry uses electrical furnaces and they are major users of electricity. The nature of that application is that it creates a lot of electrical noise, and increasingly in India also this is coming under regulation. ABB is very strong globally in solutions which help the steel industry smoothen out the noise of the electrical system so it is not fed back into the grid. So we have provided the first few of these solutions now in India - basically steel producers, existing steel plants are target markets for these solutions. We have also completed some major projects in this quarter, so I think the focus on execution continues to be there.

Looking at our Low Voltage Products side, I mentioned earlier that about the MCB factory - the production now is in full swing addressing both the local market as well as export market. We are also launching new range of Wall Switches. I mentioned some time ago that the focus

on the low voltage side of the business has increased; we see something that this is going to be a large and developing market in India driven by the rapid urbanization.

So both the Process Automation and LP showed marginal growth this quarter, in an environment where industry has been very badly hit by the economic slow down - utilization in most of the industry is below 70%. Because of the new areas that we were addressing and new offerings, we have been able to actually grow slightly in these markets.

What next I am going to do is ask my colleagues, may be starting with Pitamber to talk a little bit about the Power Products business and what the key highlights have been there for this quarter. Pitamber?

Pitamber Shivnani:

Yes, thanks Bazmi. As far as Power Products division has been concerned it is doing pretty well and it is on right on track, we have lot of focus for 'in-country, for-country'. We have launched 25k switchgear from our Nasik factory and have started our Dry-Type Transformer factory, as well as GIS and PASS, which are doing pretty well. Export is growing, and we have successfully tested the first HVDC transfer for our NE-Agra project. So export and service are on the right track, we have successfully got 765 kV order from NTPC and Power Grid in the first quarter. So that about covers it.

Bazmi Husain:

Thanks Pitamber. Subir, would you like to talk a little bit about Discrete Automation and Motion?

Subir Pal:

Thanks, Bazmi. Just to give summary highlights of the division. We have had one major order in January for traction transformer, from the Chittaranjan Locomotive Works of Indian Railways. This large order helped us have a clear revenue visibility on the traction front. We have also had considerable success in the Wind Generator business, in terms of revenue and this is likely to continue for the rest of the year.

On the Metals front, after a long gap we found there was some uptick in the longer cycle orders, which is reflected in our order booking for the high power drives of the medium voltage kind. This trend seems to be the preliminary indicator of the mild recovery in the Metals business - the industry has been overall very-very sluggish and there has been a lot of postponement of decisions, which is affecting the traditional businesses. So there, our focus has moved to internal efficiency and cost savings on our production lines and manufacturing systems. Additionally, we have not shifted our focus away from where we had already created considerable footprint - in businesses like Solar, Railways - and we have continued to be focused on that which is likely to give us good visibility of revenues in the coming months. We also have focused a lot on our internal cost cutting measures coming out of localization and various design modifications and internal efficiency-related initiatives. So that is the summary highlights from Discrete Automation and Motion.

Bazmi Husain:

Thanks Subir. Venu, would you like to talk little bit about Power Systems?

N. Venu:

Good Afternoon, Ladies and Gentlemen. Power Systems division is slowly stabilizing. Several measures taken in the last couple of years have started yield good results. And coming back to the orders, even though our orders growth declined in Q1, we have grown in our base orders. The large order decisions have been postponed, even though in a couple of places where we are well placed we could not book and report those in Q1 due to the general elections. The good part is that we have a very strong pipeline in state utilities and central utilities, and also some of the power projects which had been stalled for last 2-3-years, have started moving. The orders what we could not book in Q1 we form a strong pipeline in Q2. The Power System division is still struggling with a lot of clearances issues, even though government is encouraging to fast clear some of those projects - we have noticed some signs of recovery, especially in the Generation sector. Additionally, to balance out, we are concentrating on renewables and some new markets exports in our cluster countries.

Bazmi Husain:

Okay, thanks, Venu. Before I give the phone to my colleague Amlan, to talk about the numbers in more detail, let me just summarize where we stand. Overall, the economy is now poised for growth. In the short term, we are cautiously optimistic but mid-to-long term prospects look better. We are seeing, as Venu just mentioned, a much stronger pipeline - compared to let us say about a year ago, our pipeline is almost double in size. So there is a good pipeline of projects. We see the T&D side recovering faster than the industry side because in the industry side the demand first has to pick up; it typically needs to go north of 80% before we begin to see new investments. But we are confident that will happen - the sequence, however, we think is Power T&D and then the industry side, but we see a clear shift happening. Second thing, is that at this stage - all around whether it is our products, our product competitiveness, our balancing of Power and Automation, our project delivery systems - I think we are very well poised in each one of them to take advantage of the market when it revives. We are very-very confident of our position at this stage.

Our focus areas going forward are: firstly, profitable growth, and I would emphasize the word 'profitable' because it is not on the volume I have mentioned it several times earlier, our mantra of profit over volume remains, and so the cash over revenue part of it. So the first thing is we look for profitable growth.

The second: we are looking for business-led collaboration. Many of our customers want both Power and Automation Solutions; it is the one-ABB approach that we take, and we have had several very good examples (where I have mentioned in one of the cement plants earlier), where we were able to convince the customers to buy both solutions - fully integrated solution together. Currently, in Integrated Power and Automation Solutions here in India and globally, we are clearly the market leaders.

The third aspect of our focus is on relentless execution, where we continue to look for getting our cost down, our productivity up, our supply chain optimized. So these are all areas that we are looking at when we look at a relentless execution part. So those are the three focus areas.

From a growth perspective, our first focus of growth is of course deeper penetration into the market, we are also beginning to focus a lot more on the innovation, and several of our new products actually highlight that spirit of innovation and then start looking at where can we find new markets where we can actually leverage our offerings in the market as they come up.

On the innovation side, I am very happy to tell you that we are also coming up with a concept where we pre-engineer a whole substation and we can work with partners to increase our reach as well as provide faster value to our customers. So, we are looking at innovative solutions, we are looking at expanding into new areas - Solar was one area, clearly we see water developing into a growth opportunity for us. So these are areas where we will work on.

So it is with a more positive outlook for sure I think that we are going ahead; we have had good growth this quarter, and even though our revenues were slightly down, it was entirely because of our focus that we do not ship out till we have our cash guarantee. We'd much rather hold that in our premises than shipping it out without guaranteed cash coming in.

Profitability - I think you can see the results. I think this is a good steady movement, and we are clearly not where we want to be, but we are well on our way, and as the market revives I think we will certainly benefit from it.

So with that thank you very much. I am now going to hand it over to Amlan. And after Amlan is done then we get into the Q&A. Thank you.

Amlan Datta Majumdar: Thank you, Bazmi. Good Evening Ladies and Gentlemen. Looking at the financial performance that we published yesterday, you would have already seen that order growth is back after a few quarters and that is, as Bazmi rightly said, in line with our earlier commitments that we are changing gears and now going for growth. We are going for growth now, since we have consolidated our position pretty much to our satisfaction... of course there is much more to do, but we are pretty happy with what we have done so far, and we believe we are more competitive, more efficient to take on new challenges in the market - we have been working on it for the last 2-years, but now we are changing gears as you can see in the orders.

In the 'Order' side, high growth came out of Power Products and Discreet Automation; others had also grown a little bit. In Power Systems, as Venu mentioned, some of the orders slipped to the second quarter so we expect better results in the second quarter in terms of orders from Power Systems. But Power Products and Discrete Automation where we had a very good growth. Process Automation and Low Voltage Products also give reasonable areas.

Coming to 'Revenues' I think I do not have to add much to what Bazmi has said that our focus of cash flow over revenue continues, we do not want to deny any of our customers or any of the revenues but we have to first take care of stakeholders.

One more point I would like to mention to you, if you recollect in the first quarter of last year we had mentioned to you that we had executed a Solar EPC project which was in excess of Rs.200 crores of single project in the first quarter. It was a one-off projects which was executed in record time. These are not always repeated and it did not get repeated in this quarter. So that was one of the reasons. We have been reasonably cautious. Some of the divisions grew well like you see from the results published that Power Products and Low Voltage Products grew by close to 30% quarter-on-quarter and Discrete Automation and Process Automation were flattish (+/-3%). The Power Systems of course there was a drop but this solar EPC project was in Power Systems, so that was one of the reasons. And we are more careful in Power Systems because of the nature of the contracts what we have mentioned earlier, so it was more of a conscious decision. Our expectation is going by the orders that we have in our hand and the way we expect the market to develop in the next 3-months, which is more southern part of it, we expect that Q3 onwards the revenues to be much better; next quarter should be okay.

When it comes to profitability, we are on the continuous track of improvement in profits. We are not in a hurry, as we have said several times, we really do not believe that in making road shows on profitability, we want to grow consistently, we want to fix the fundamentals and grow there. As you have seen in the results published that PP profitability has grown; it is a good news for our company because one division has done so well. But it is even better news, when you consider that 2 to 3-years back we were talking of a having a problem here, and many of you would have asked us what we were doing to fix Power Products. We said we are going for localization, we are taking India-specific designs in some more cases, we are increasing the component of the local procurement and all that, and these has really resulted in very good things. Of course, we increased capacities in the most profitable parts of our Power Products business. The Low Voltage Products (LP) profits also increased dramatically but it is relatively smaller being a smaller division, the Process Automation profits also improved if you see. There was a problem in the Discrete Automation and Motion because that is the worst affected division by the market; there is real slow down in the industrial demand; it is a weak market, and we do not believe that we should enter that market with prices which will spoil the future of this industry. So we want to stay consistent with our policy of profitable growth. So even if we are not growing we would like to stay there, so profitability declined in DM by over 40% over the same quarter last year.

If you see on the 'Cost' side, you have seen our consistent improvement in the material cost, we have been telling you that we have had a completely new theme in our supply chain and we started multiple initiatives about 2-years ago, and we have begun getting results on those initiatives, of course it does not come on the next day, so it is being seen for the last couple of quarters it has shown in this quarter as well. We want to continuously improve on that and get even better. The export and service revenues grew during this quarter, and as you know, generally have better margins, so material cost works better. So that also helps. Our personnel expenses remain flattish as compared to one year ago and that was also a good news. We had decent pay increase in the company, in line with the earlier years, but we have been optimizing our manpower. We have been adding where we need, but we would let people go where we do

not need - so, we are optimizing that, so that has benefitted and personnel expenses are flattish. There have been a double-digit growth in other expenses, but these are all things that we had to do certain things for our future growth and for other benefits coming in the further quarters. So we took that conscious decision to increase that part.

In terms of 'Foreign Exchange' against loss of Rs.21 crores in first quarter of 2013, we had a loss of Rs.11 crores in this particular quarter. This includes both realized and unrealized.

One of the dampener is still the finance cost, that is interest, and the market condition of liquidity has not really improved. You can see it all over - interest rates are still in double-digits and as you know the Reserve Bank of India is not really keen on bringing it down. So people are not so willing to part with their money. We are only trying to make sure that we keep into the bare minimum that we can and also trying to make sure that we support our key customers in spite of taking a little bit of beating here, and we believe some of our fundamental things we had told about two years back, this is going to help us going forward in the future.

Before I close - we are at a point of inflection; we have made ourselves more efficient; we are absolutely ready to take the market on. All this would also depend on how the macro develops, because in spite of the Current Account Deficit coming down, in spite of FOREX reserves exceeding \$300 billion, and a few projects getting cleared, on the ground it is different, even cleared projects are not taking off to-date. So, there is a little bit of hesitation. Still we are seeing some positive movement in some quarters, but we would expect a lot more. We would wait like anyone else for the outcome of the next government and what policy measures they take and what implementation actions they take which is more important. It is increasingly apparent to many of us that more than policies we now need to have real implementation of them. So depending on that we will see how our performance moves but regardless of that we are very confident that we are at a very good cost level and a very good competitive level with our all market channels open to do better and better regardless of the government outcome but that would really help. I would leave the commentary at that stage and may be this is a good time to take the Q&A.

Moderator: Thank you very much sir. Ladies and Gentlemen, will now begin the question-and-answer session for investors. The first question is from the line of Renu Baid from B&K Securities. Please go ahead.

Renu Baid: My first question is on the order flow side; almost 30% growth in year-on-year orders. Though you have given a reasonable clarity in terms of segments, will it be possible to give a little more color in terms of numbers, how has the growth in base orders or large orders been, and how does the order intake mix stand between products, projects and segment of the market?

Bazmi Husain: We will give you some of that. As I mentioned earlier both base orders and large orders; large orders this time came from Power Products and also in the Discrete Automation and Motion side. I think Subir had mentioned about orders for the convertors; that is one of the large order.

I would say base orders grew in fairly strong double-digit. Not going to give you exact numbers, because we do not share minute details, but in both the base as well as large orders, we had very good growth rates. Large orders grew from a smaller base because a year ago the market was really-really depressed for that.

Renu Baid: But at least in the railway segment of the market what will be the size of this order that we have won from CLW, approximate size?

Bazmi Husain: Rs.80 crores or so.

Renu Baid: And Power Products order is 765 kV and these orders coming in the Railways side, do they actually change our order book mix between products and projects higher than what you were looking at last year?

Bazmi Husain: One thing which we had clearly mentioned several quarters ago that till the economy begins to move up, our focus is more on shorter term orders. Even large orders when they are product orders can still be fairly short-term orders. It is the projects that are long for one partly because of the nature of the job and partly because that is where most of the delays, land acquisition, that and other. It is the project that is the long cycle one. We really do focus more on the product side. Historically, we have been slightly tilting towards the products side that has been the thing, we would like to maintain a ratio of 60:40, and at the moment I would say we are more 70:30.

Renu Baid: On the exports side, I think it continues to grow in line with the inflow growth last year, but has the mix in export started increasing or still stand approximately at the 15% level, how is the scenario there?

Bazmi Husain: Exports I would say will grow beyond 15%, but our focus as I said is grow overall and grow in exports too. "Are we looking at 50% of our volumes as exports?" No.

Renu Baid: But overall growth in exports in the current quarter, what was the growth number if possible for you to share?

Bazmi Husain: About double-digits.

Renu Baid: My last question on the working capital; I know we have remained fairly conservative on our cash over revenues and like, but our working capital continues to be slightly on the higher side, whether we look at year-on-year or sequential numbers. How does the outlook look there especially Power Systems and even in DAM? And what are the approximate debt levels are we looking currently and outlook for the year to come?

Amlan Datta Majumdar: The debt is about Rs.400 crores right now.

Renu Baid: Has it declined in the last quarter?

Amlan Datta Majumdar: It has declined over time. For debt levels to become zero - like we used to have - or working capital to drop dramatically - as we used to have long back - is not dependent solely on our efficiency. I am not saying we cannot do anything about it, we have been improving a bit, but to see dramatic improvement we have to wait a little bit, because these projects are not moving we all know that, you are in this field. Unless the projects move, unless the sites are made available we cannot really complete the projects and collect the money. The other option is to walk out of the project, I do not think we want to do that. So we are going through this pain, we do not like it. Yes, we bleed like anyone else, but we are trying to improve as much as we can in between and see where we can get to. We only hope that the market liquidity gets better, and if the growth returns to the market, of course, we will see much better results.

Bazmi Husain: One thing I would say and reemphasize what Amlan had said earlier, the quality of our receivables is something that we monitor very-very carefully and with a very conservative policy. I can confirm that the receivables that we have, they are high, no doubt, but they are all good receivables, none of those are in any doubt. They are acknowledged and they are good. It is timing; it is more when not if.

Moderator Thank you. The next question is from the line of Amit Sinha from Macquarie. Please go ahead.

Inderjeet: This is Inderjeet from Macquarie. If you hear the commentary from your side there seems to be a significant level of optimism that we have kind of hearing in which was absent I would say in the last many quarters. Now what is making you so optimistic about outlook – is it the margin that we have achieved in the quarter, is the order inflow sustainable? And the second is what do you think about the macro – is that likely to kind of turn around, what could be the degree of improvement from these levels, and when do we expect that?

Bazmi Husain: I think it is a combination of all those that you have mentioned. As I said earlier we see order pipeline now beginning to fill up. Many of the projects that were stalled for several quarters, some of them years, have become active. Plus as I said there is optimism in the market, if you look at the macro fundamentals they have also improved. The expectation of the post-election scenario I think is by all accounts more positive one. So that is on the market side. On our own side, there are two dimensions. One, the projects that we have - getting out of rural electrification, all the other projects that we were executing, closing of whole sites, I think those have come down to very-very manageable levels, our execution capability we have invested this time in improving those. So, we have the capacity. Our focus in the last quite some quarters of not using our power capacity, committing it to long-term orders gives us the positions that we will be the early ones to take care of a revived market because we have the capacity to deliver quickly. Third thing is basically our competitiveness. More competitive in our existing products - we upgraded our factory – and in new offerings - we put up new factory and introduced new products. Those are the three broad buckets - I would say that we feel more optimistic right now. We also think that how fast we grow will depend on the market, but regardless of that I think we have the opportunity to grow.

Amit Sinha: One more question is you talked about the larger projects again coming back. You also made a comment about T&D would first move and then the other Power segment will happen. Are we starting to see any appetite from the private sector to place larger orders, and what typically sector they are coming from? And just a follow up on the first one is what is the capacity utilization broadly for you at this point of time?

Bazmi Husain: I cannot give you a specific answer here now, but let me be a little bit more generic. First of all to answer your question about the private players wanting to place larger orders, 'yes,' we clearly see that appetite is improving. Is it back to the days of glory? Not yet. But I think we will get there, certainly we are banking on it, we are betting on that one. But we clearly see a sign, as Amlan said a point of inflection, that is very much the case. Regarding the capacity that we are talking about it varies of course depending on many factors; it varies on what is the average delivery period for the product in question. Products like motors, you may still live in a depressed market, but want to keep it as close to full capacity as possible because it takes so little time to get the order and deliver. Something bigger things you want to keep a little more. But all in all, I do not think we are capacity limited at the moment for growth.

Moderator Thank you. The next question is from the line of Bhavin Vithlani of Axis Capital. Please go ahead.

Bhavin Vithlani: If you can throw little bit of light on the export strategy to the external customers and exports to the parent, you have highlighted a little bit on the annual report. What percentage goes externally, what percentage is to the parent, and how do you strategize the export if we have to look at on a three-to-four year basis, how would export as a percentage of revenue look like?

Bazmi Husain: First of all, ABB is a multinational which means that we are spread all over the world. We have ABB entities all over Africa, all over Middle East, all over Europe. It is not that we are exporting to our parent so to speak. We do both and it is really not so relevant from our perspective. It is only depending on case-by-case, sometimes we go via the local ABB entity, sometimes we go direct, and in either case it is not a criteria from our perspective. We do not have a specific parent at one place that we export there and then it goes wherever it goes. I do not see that as a thing which has any impact on our business as such. Regarding how much we plan to export, this is the question that depends on how much the other markets will continue to be. ABB has a clear strategy that India is one of the countries where in the long run would be an export hub. However, I have mentioned this earlier, we do not actually look at setting up anything here just for the reason of export. If we set up a factory here it is because there is a market for that here and then we export that as well. It is I think a combination of the two, but something which serves this market that also serves globally. Having said that there are some areas where ABB has the concept of feeder factory, where some things are manufactured in only a few places of the world depending on the volume requirement. For example, there are circuit breakers, let us say 66 kV level that are only manufactured here in India. So regardless of where the need is in the market, those will be supplied out of the feeder factory here or disconnect the same thing that we will only do that from India wherever the global market is.

Even looking at electronic products like Relays, certain kind of Relays are only manufactured now in India. There are some Relays that are developed for the market requirements in India. When we talk of market requirements in India, it is not as people typically tell to imagine something which is somehow lower functionality, not actually the case, in many cases, the functionality requirement in India are more stringent than they are in many parts of the world, and we see the other markets which are also getting to such requirements. The things that we have designed for India now also begin to take out. So, it varies a lot. How much do we see export in the next few years we see that as growing do we have a specific target that we need to grow that to. No, we need to grow the entire business including exports.

Bhavin Vithlani: One more house-keeping question; the other expenditure has increased despite flattish revenue. Any line item within the other expenditure that have increased which has crossed diversion? You highlighted foreign exchange losses have decreased.

Bazmi Husain: Actually, it is not a specific line item, of course there are a few, but this will be real granular information. So, I do not think I would like to share that. As I told you, this is more of a conscious decision, it is not something that we are getting by surprise; if you see last few quarters we had kept it under strict control, but we have to pay more money in some areas to get future benefits, you must also realize that. Just to give you an example, of what kind of expenditure.. We have opened up a few factories end of last quarter in Savli, Vadodara. These are two full-fledged factories running - of course, power consumption will go up and our expenses will increase. I can give some more examples - we are chasing export market. So when you chase export market, of course you have more of travel expenditure, right, we grew 29% and overall orders and export grew very fast. So, these kind of things but whatever we did is under full control and we wanted to have it like that. But this may not continue, we will see lower expenditure levels going forward.

Bhavin Vithlani: Has royalty also increased?

Bazmi Husain: We pay a royalty about 3-3.5% if you recollect that depending on which product have grown more and revenues more. So, we continue to be in that range. Royalty actually dramatically does not change.

Moderator: Thank you. The next question is from the line of Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal: First question is on the Power Systems; Mr. Venu was referring to us a very strong pipeline in the segment. Just wanted to get some clarity – this pipeline looks strong because of the large HVDC order in the market and then there are lots of grid stability related tenders in the markets like HPCs and STATCOM or is it in the base orders, something like 765 kV for that kV substation, where the pipeline is looking strong?

- N. Venu:** As you know, ABB operates in both Power and Automation and Infrastructure segment, both utilities as well as industries and the infrastructure. The pipeline includes HVDC projects, includes grid stability systems coming from the central utility and also it includes a large number of substations coming from the various state utilities.
- Madan Gopal:** The state sector, when you are referring to are they 400 kV or is it 765 kV?
- N. Venu:** Basically state utilities are up to 400 kV, but some states we also see a traction of 765 kV substation.
- Madan Gopal:** Second question on...recently you bagged the 765 kV Transformer orders from NTPC and PGCIL. Are the pricing there are good enough to maintain the current margins, so currently you do somewhere like 9-10% in Power Products?
- Pitamber Shivnani:** The margins are good, but we cannot say the margins are good enough to get double-digit.
- Moderator:** Thank you. The next question is from the line of Amit Sinha from Macquarie. Please go ahead.
- Amit Sinha:** My question is on Power Products; we have seen a sustained margin improvements since last 10 quarters. Just wanted to understand is it majorly exports-driven or is it also driven by the competition?
- Bazmi Husain:** It is driven by many factors but the most important factor in there is our efforts to improve our competitiveness – putting new factories up, improving our existing factories, focusing on quality, focusing on supply chain, focusing on new product development – we are just basically far more competitive right now, that is what driven it. Now, improved in all these areas it gives us more opportunity to export, more opportunity to increase our volumes and market share in the local market, and that in turns helps our profitability, that is what makes us believe that we have a sustainable situation there, and thank you very much for noticing that we have been growing consistently in Power Products. Pitamber, would you like to add on to that?
- Pitamber Shivnani:** Bazmi, you have already covered; basically it is operational excellence, localization, export, cost reduction - various actions we have taken, as well as setting up new factories.
- Amit Sinha:** What is the contribution of exports for Power Products roughly?
- Pitamber Shivnani:** It is around 25-30%.
- Amit Sinha:** What was the contribution two years back?
- Pitamber Shivnani:** It was around 20-25%.
- Moderator:** Thank you. That was the last question. I now hand the conference over to Mr. T.K. Sridhar for his closing comments.

T.K. Sridhar: Thank you, everyone for attending this call from ABB India for the Q1 Results. In case you still have some unanswered questions, do please feel free to send me an e-mail or to Sanaj, so we will get back to you quickly.

Moderator: Thank you. Ladies and gentlemen thank you for choosing Chorus Call Conferencing Service. This concludes the conference call for Analysts. For further updates on ABB in India, you can follow ABB India on Twitter. The account name is ABB India. Thank you for your participation. You may now disconnect your lines. Thank you.