



“ABB Ltd. Q1-2012 Investor Relations Conference  
Call”

**May 9, 2012**



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**Moderator:** Good afternoon, ladies and gentlemen. I am Marina, the moderator for this conference. Welcome to the ABB Ltd. Investor Relations Call to discuss the Q1 results for 2012. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will standby for the question-and-answer session. If you should need assistance during this conference call, please signal an operator by pressing '\*' and then '0' on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vikram Kanth. Thank you. And over to you, sir.

**Vikram Kanth:** Thank you for taking the time to join this investor relations call. My name is Vikram, I look after Communications and Investor Relations for ABB Ltd. in India. To take us through our results we have here with us Bazmi Husain, who is the Country Manager and Managing Director of ABB India; we have Amlan Datta Majumdar, CFO; and also R. Narayanan, who heads the Discrete Automation and Motion business. I would now like to take over the call to Bazmi and Amlan to take us through the results.

**Bazmi Husain:** I like to begin by saying that our orders and revenues have remained more or less flat on an overall basis. I think operationally, I will call this strong operational quarter because we have had a challenging environment and the focus that we have had on operational excellence as well as other aspects such as supply chain and all has yielded results and allowed us minus the foreign exchange impact which has been negative this quarter and that I would like to emphasize is notional in nature. We have had operational improvement in terms of profitability.

Now, looking at the orders on an overall basis have remained flat. I think it is important that we also highlight sectoral nature of the differences. The Power side, we have seen actually continued growth. Also, on the products side, we have had growth where in the process automation part which is where we sell the process industry that is the area where because of overcapacities, etc. in the system, there has been actually a lot less orders placed in the market, and that is what has caused the orders to remain on an overall basis flat.

Revenues at the beginning of the year we started with a record backlog and then we continued to do that but the timing nature of large projects business much of what we have, which has contributed to a large backlog it is the timing nature of that variation that in the first quarter, we have not been able to convert larger portion of our backlog into revenues but I would again emphasize that is a timing nature of it, we fully expect that we will be improving that in the coming quarters.

On a process basis, as I mentioned earlier, minus negative impact of the foreign exchange which my colleague Amlan will talk more about in a minute. We have actually improved on profitability and we had almost more than 32 crores of hit that we have taken because of this FOREX variation.

From an outlook perspective, yes, I think we are going through a challenging environment, still an inflation which many are calling, this has really suppressed inflation that might even go up. And, of course, lack of confidence right now for our customers to invest more that time plus combine with overcapacities in certain segments of the market, so these three things are short-term issues they will correct themselves because underlying demand remains to be very strong and we have full confidence in that, and based on that confidence we are continuing to invest.

I am very pleased to also tell you that we announced a few weeks ago, we are investing in building up new factories; one for dry type distribution transformers, one for GIS switchgear, both of these that are coming up in Baroda. We are also in Baroda that expanding our machine manufacturing with big motor essentially up to 10 MW in size, currently, we are manufacturing up to 2.5 MHz motors, now we will be going up to 10 MW, therefore completing a portfolio really. Last year, we put up a new MCB line, Miniature Circuit Breaker line near Bengaluru, in Nelamangala, we are now putting up another line which will double the capacity by another 12 million poles to our manufacturing capability here. We have also started manufacturing the medium voltage drives up to 5 MW in India plus we are doing other addition of capacities in various plants. So, we are very confident about the outlook. We are really continuing to invest both in adding capacities but also in operational excellence and some of that has already begun to give results and we will see more of that in the coming quarters. We have launched a whole lot of newly indigenous and locally developed products in India and we will continue to do that.

In some of the areas that I must also emphasize that our exports grew very well and they have continued to do that, last year we exceeded over a 1,000 crores and I think that is something that we will continue to do more. And Services is another area that we are looking at very well. We are seeing very strong double-digit growth in service and this is we believe that we have a lot of opportunity to grow further here.

In addition to that, there are certain new areas that we are focusing on that I would like to emphasize. One is that you might be aware a little over a month ago, Government of India has finally released the list of more than 500 industrial consumers with clearly specified energy reduction targets for the next three years. This is a big opportunity for us that we are focusing on very heavily.

Solar and other renewable sector continues to be a focus area for us as well as we see Smart Grid and Cyber Security, another growth area that we are. At this point in time, working very much with our customers because we see great future potential in these areas.

So, that was just by way of an introduction. I would like now to ask my colleague Amlan to take you through a little bit more detail into the financials and then we will get into the Q&A session.

**Amlan Datta Majumdar:** I must say that this is possibly one of those very unusual times when macroeconomics are playing a larger role than individuals company performances in our country today. With the

rupee fast depreciating and high interest rates still not coming down and low investor sentiments for multiple reasons that we all know, this is a very challenging economic situation. And unfortunately, the Capital Goods sector as predicted is worst affected. With most of the reforms still awaited from the Government, and liquidity crunch still continuing in the market, margins pressures going to extremes, these are the difficulties that are not really ending up. So, this is a background where most of the Capital Goods sector companies are working today.

Coming specific to ABB Ltd. India, actually, our orders grew pretty well on the Power side, both in Power Systems and Power Products, given this difficult market both in double-digits. Low Voltage products also grew in double-digits. The discrete automation and motion was flat and process automation was affected due to the overcapacities in some of the sectors that deserve and also due to the poor investor sentiment that we are seeing across the industry scenario.

We have now been seeing actually on the industry side almost for the last three or four quarters, we are continuously seeing that investments are coming down very fast which is a cause of concern for ABB and companies which operate in this area. But overall the orders have remained more or less flat; a 3% decline. But grow on the Power side, not so well on the system side and the automation.

On the revenue side, revenues have been flat. There are multiple of reasons why we did not grow so fast in spite of a higher backlog. One is typically some projects deliveries are so scheduled that it is not really possible to prepone or postpone it so much. That is one of the major reasons which are affecting, mainly the Process Automation and the Power Systems.

And we have also seen mainly on the industry side a little bit of hesitation on some of the customers to go ahead at full speed with their investments. So, sometimes lifting of our deliveries is a little bit of delayed, that also affected us.

And finally, we are also trying to make very sure that any revenues that we do and any investments that we do in this difficult market are fully secured from the cash perspective. We have been focusing heavily on that as we have been taking business calls based on that. But at the end of this quarter our order backlog remains extremely strong at 9,028 crores, so that gives us a very good visibility into the revenue prospects for the coming quarters.

The good news we see is that as Bazmi mentioned that our operational excellence, supply chain initiatives which we have started five quarters earlier in a strong way, these have now started paying off. And we are really happy to observe that our efforts are coming through.

If you look at our cost of materials from the results that we have published, cost of material has come down significantly to lower than 72%, if I compare with the same period last year it was 75% and we are seeing now the benefits really coming in. It has been a very hard work for five quarters, but we are happy to see the results.

On the personnel expenses, if we exclude, actually just to give you a rider on this that the first quarter results for the current year which we are discussing includes expenses and the results of the three businesses that we acquired from ABB Global Industries and Services Limited. So, if I exclude that personnel expenses of acquired business which we acquired from April last year, our personnel expenses have grown by 13.6% which is mainly on account of normal salary increase to our employees. Our new hirings that we have done on the specialists in engineering, project management, sales and marketing and otherwise, the personnel expenses have not really increased.

Coming to other expenses, the other expenses include 33 crores of foreign exchange loss as against 3 crores of gain in the same quarter last year which was included in last year in other income, 3 crores gain and other expenses of this quarter includes 33 crores of FOREX loss.

Just to touch upon the FOREX loss, as our policy goes for ABB Group and also ABB in India, all foreign exchange exposure for our imports and exports are hedged at a contract commitment stage. That is both on the purchase side and also on the sales side. This is to protect our margin of contracts at the tendering stage. Now, here we have a policy of not trying to speculate. We hedge 100% both on purchase and sales.

As per Accounting Standards-11 and 13, the derivatives along with the embedded derivatives needs to be fair valued on a quarterly and yearly basis. Now, this fair valuation, gain and losses are notional in nature and it does not affect the contract margins eventually. So, the 33 crores of loss that we have is largely a timing difference which will go away with the movement of the rupee in the other direction.

If we take out the 33 crores of loss which is sitting in other expenses, the other expenses are really flat. Actually, if I take out further acquired company expenses, which came from April last year and now also sitting but was not there in the last quarter, first quarter of last year, then actually other expenses have come down on an overall basis.

So, we are also extremely happy that finally our cost control measures have started working. Apart from that I have already mentioned about the material cost benefits which we got while price realization in the market remains fairly the same. So, these are the two cost of benefits that we are seeing.

On the other two items are relatively smaller, depreciation and interest, the increase in depreciation as compared to the first quarter of last year is mainly on account of the depreciation on assets from the acquired company. And interests are slightly higher. The reasons being there have been borrowings with the market liquidity going bad and further interest rates have been extremely high. So, they are still not showing much signs of coming down, though there has been some few basis points decrease but is still high. But anyway that is not a very high importance item on our P&L account as you can see.

So overall, both profit before tax actually as we gave in our press release has actually increased to 105 crores as against 85 crores, if you just simply remove the foreign exchange impact of 33 crores loss of this year and 2.9 crores of gain last year. So, on an operational point, we have grown from 85 crores to 105 crores in profit before tax. That exactly I would fully agree with Bazmi that this has been a very strong operational quarter which we are happy about. And our OPEX and balance sheet are really paying out dividend.

Parallel we are also focusing on various other initiatives which I am sure during our Q&A we will discuss more, that is on our product competitiveness, our localization efforts, Bazmi mentioned about various initiatives we have taken for the new products launches and products which are meant for Indian market. So, this will possibly give a sustainable profitable growth in the near future that is our belief.

Looking at the various segments, actually, most of the segments, Power Systems has completely turned around which has been a lot of worry for all of us earlier but now we are able to get back to our better times. And rural electrification has come through a very low level of 25 crores of orders in hand and this will take time to get away because these are the orders we will have to see whether we execute or we do not. But Power Systems on the overall is showing better.

Discrete automation and motion is also showing growth but if you look at the results that we have published this also includes the impact of this FOREX in Discrete automation and motion. If we remove the impact Discrete automation and motion segment has also done well.

Low voltage products, though it is showing a little decline in the results but if I remove the FOREX impact it has done better. We definitely have downside on the power products, on which there are a multiple issues we are working on, it can be a very clear plan to work on that.

On an overall basis, we have a strong operational quarter. Excluding the FOREX impact we have done well and we are looking forward to better times as the quarters pass, but we will certainly need a lot of help like any other company from the macro angle. That means I think we will really strongly expect some of the reform measures to come in and the interest rates to go down to enable our customers to invest more and more. With that I will get back to Vikram for the continuation. Thank you very much.

**Vikram Kanth:**

We can now take some questions if any of you have any to ask.

**Moderator:**

Thank you. We will now begin the question-and-answer session for investors. The first question is from Renu Baid from B&K Securities. Please go ahead.

**Renu Baid:**

My first question largely is on the FOREX loss which is a good hit in the current quarter. As you have mentioned in the commentary there is a substantial contribution for sharing of these costs towards DAM segment as well as low voltage products. So, would it be possible for you to just give a broad idea on the business segment wise how is this loss shared across business

segment so that we can have a clearer picture whether it was to only largely Power segment or Automation business were we took the hit?

**Amlan Datta Majumdar:** Actually, very specific details we do not share as you know, but I will largely tell you actually across all the segments this impact is there, this is very unique this time we have seen across all segments this loss is spread.

**Renu Baid:** Because the amount compared to the previous quarter is significantly higher, 33 crores, so that was the reason why I was just trying to understand to which segments are they attributable, any particular large projects?

**Amlan Datta Majumdar:** Yes, as you know, this is notional. This is something mark-to-market and this is across all our five business segments that we publish results. I have the numbers in front of us but then we do not publish very specific numbers and it is all across, no segment is specially impacted but discrete automation and motion has the biggest hit.

**Renu Baid:** So probably had the hit not been there, it would have maintained its normal margins of...?

**Amlan Datta Majumdar:** Better margins, not normal, actually results would look better.

**Renu Baid:** And relating to this itself, typically, we have seen FOREX gains also being adjusted in the line item before the operating profit. But as you mentioned last year's FOREX gain of 3 - 4 crores came into other income. So, part of other income or netted against other expenses itself?

**Amlan Datta Majumdar:** No, the FOREX gain of last year was included under income from operations in the SEBI report I am saying under 'other operating income.' This includes 2.9 crores of FOREX gain last year.

**Renu Baid:** This is part of the other operating income and not other income?

**Amlan Datta Majumdar:** Yes, that is right.

**Renu Baid:** My second question would be as you have mentioned that you have seen very good growth coming into exports and services and services growing very strongly. On this side if you could provide some more color in terms of services, largely would it refer to aftermarket services from the process segment various industries that is ferrous and nonferrous other customers and so from power as well then what would be the kind of size and just some color on the segment per se?

**Bazmi Husain:** First of all, our service growth is across all the divisions that we have. Largest component of the service growth of course is in the process industry side which is there, we have had more service coverage. So, it is there all across but more in the process automation side. We do not share individual data about how much service needs but as I mentioned, we are seeing very strong double-digit growth and we believe that in our installed base given our long history in

ABB in India we have a substantial amount of installed base that we have yet to cover. So, we see continued growth which is in a way you can say crisis-proof.

**Renu Baid:** But this would be approximately not more than 10% of our business portfolio?

**Bazmi Husain:** At this point in time it is slightly more than 10%. Our target is really to increase that very substantially.

**Renu Baid:** And on the exports side, as you have mentioned, any particular segment other than the low voltage products and DAM segment as are trying to look significant increase in the exports with the parent as well to other customers?

**Bazmi Husain:** We are of course, as you correctly said, our exports are across, there are some areas where we have the global feeder factory for ABB India, that means whenever it is used ABB globally we actually export that out of India, but what has grown is not that segment as much as what we are supplying to end users in different parts of the world, especially focusing on the Middle East and Africa markets. So, we have growth everywhere but we have a clear focus in growth, and those areas we have started to actually position our people in those growth markets to get a better understanding of those markets as well as to improve our understanding and promote our factories there. So, this is again an initiative that we started last year and we have started to see clear benefits coming out of it.

**Renu Baid:** But any specific product categories or product lines which you posted in MENA region.

**Bazmi Husain:** Again, across but the biggest increase is in the power products side.

**Renu Baid:** And as you had mentioned on the energy efficiency side of the business where you are seeing a lot of push and probably business enquiry coming through, what kind of traction do you see on the drive in the motor segment as well as in the smart grid segment of the market?

**R. Narayanan:** Whenever the industry is actually down that is the time a lot of people invest in drives, because you want to do energy savings so that the factories can save power when it operates at a lower capacity. So the traction in drive is pretty good. We have also started the manufacture of the medium voltage drives because now even in the HT Motors customers are going in now for variable speed drive to control the costs as well as the energy efficiency, energy cost. And as far as the motors is concerned, there is a new regulation called as the IE2 and the IE3 motors which will replace the EFF1 and the EFF2 motors which is there, which is again high energy efficiency motors. So, ABB will be one of the first companies which will be launching the IE2 motors in India and we have already started securing orders.

**Moderator:** Thank you. The next question is from Aditya Bhartia from CLSA. Please go ahead.

**Aditya Bhartia:** Just wanted to understand how does the outlook for automation business look like? Do you expect a pick up in orders over the coming few quarters?



**Bazmi Husain:** If you look at the consumption per capita of any of these items such as Cement or Steel or anything, we are amongst the lowest in the world. So, there is clearly a not just the potential but almost a certainty for growth. Two things I want to highlight. One is of course, when would people holding back some of the investments because of the uncertainty, number one and number two, we have to also realize that the increase in capacities kept changes whereas the increase in consumption is a more linear function, so therefore what happens is that the investments in new capacities which is very important for us these things happen in step and right now because of the low capacity utilization there were plans that many of the customers had but they are either putting that on hold or they are delaying it to see the offtake improvement and then it will come back. So, one line answer to your question, absolutely, yes, we will see the growth in what timeframe, well as soon as certain macroeconomic factors that Amlan mentioned get in place.

**Aditya Bhartia:** Are you seeing any improvement in the pricing environment on the Power side?

**Bazmi Husain:** On the Power side, it is over a period of time, prices only move in one direction. The point is that one job to another, I think they have begun to stabilize I would say in the last quarter or so, they are not going down in the same way that they were going down before. But at the end of the day I think prices will be what they will be.

**Aditya Bhartia:** On the current kind of prices, what do you think would be the sustainable margins that can be earned?

**Bazmi Husain:** We have already given that over a longer periods of time we have a margin corridor that we will stay in and I think there we factor in both the fact that prices will go down as well as we will continue to innovate and then invest in more productivity measures to maintain those margins. I do not see that in the long run that will be the limiting factor for margins.

**Moderator:** Thank you. The next question is from Rajesh Panjwani from CLSA. Please go ahead.

**Rajesh Panjwani:** Three questions from my side. First is the reduction in the material cost as a percentage of sales in first quarter, what do you attribute as to and is it sustainable? And second is does the weaker rupee make you more competitive for exports in certain areas and could it be a positive impact on your exports going forward and third is as far as the power products is concerned, earlier we saw reduction in competitive intensity but in the fourth quarter Chinese players have picked up a lot of market share. So, are you concerned about this? Also, you have production facilities in China in a parent company and wondering how is the cost of production in China versus India and are the prices at which some of these Chinese companies are quoting sustainable in the longer run?

**Amlan Datta Majumdar:** First, let us take your first question on the material cost reduction. Actually, this material cost reduction as I told in the initial briefing that we have been telling for the last five quarters that we have taken a number of measures and we have brought in a number of specialists who are very experienced in this area to drive our operational excellence and supply chain

management. Now this kind of things take time. So it has taken a normal due time to give us results. Yes, I will say that we are also very pleasantly surprised to see the material cost now coming down, it is 2% which is very nice to see. But if you ask me, if this is a sustainable thing? Yes, plus/minus 0.5%, this is 100% sustainable, we are on the right track. That is answer to your first question. The second question you said about the depreciating rupee and does it help us for export. You know we are a net importing company. Almost 35% of our materials are imported and so with a weaker rupee we are actually in a much worse situation than. Yes, on the export side we might get benefit, which is sure, but there will be a lot of problem there. We do take a lot of measures as I told when I was explaining the results that we do hedge 100% of our purchases and sales but that does not cover fully, you can hedge only for a specific transaction for a specific period. So, as a net importer we will have pressure, and in case of exports, we might get benefit. That's the way we look at it.

**Bazmi Husain:**

I would like to your other part of the question regarding the market share, the Chinese companies during the last quarter as well as being a global company we, of course, have a lot of manufacturing also in China. Yes, I think quarter-on-quarter these things vary up and down, that's sometime there handful of the projects, it is not like there were 50 projects or whatever, so it depends sometimes, yes, we have larger market share, sometimes the competitors have larger market share. So you have to average that over a period of time, not any particular smaller window of times. So I would say that as I said we have seen the rate of decline becoming less than it used to be. So, that is certainly a good sign, number one. Number two, about the competitiveness, outside India perhaps is not the most competitive market in the world today. We are here, we have been investing in India for a long time, we started our first factory in the 60s, and we continue to do so, so we are here for the long run. We do believe that having local manufacturing, local support will give us a long-term sustainable advantage. So, yes I think we are taking a lot of measures both on the operational side, but also on the rapid indigenization and indigenization is more than just local sourcing and manufacturing, it is really optimizing the design to suite local condition to make it more competitive. So, we do believe that, yes, these are things that we are able to address. From a market perspective we think that the market prices are stabilizing and we just have to learn how to make more money in that.

**Moderator:**

Thank you. The next question is from Sandeep Tulsian from JM Financial, please go ahead.

**Sandeep Tulsian:**

Firstly, I would like to know you were mentioning in opening remarks that the revenue growth was slower as your delivery schedule do not permit you to execute more orders which were already there in hand despite having a very high order inflow in the previous three quarters. So do you expect a pick up or a jump in revenue execution in the coming two to three quarters?

**Bazmi Husain:**

Absolutely, we don't expect a hiccup. This was the timing that was not really in that sense unknown, we know that these are large projects with clear timing of the execution and timing of deliveries. So, it was to a very large extent that timing that prevented us from converting the backlog into revenue. In the coming quarters, as planed they will convert into revenue, as of now we do not see any risk of that not happening.

- Sandeep Tulsian:** And secondly, you had mentioned that your services orders are seeing a double-digit growth. If you could just give us some sense based on the current backlog, how much of it constitutes from service orders?
- Bazmi Husain:** Service orders is almost short delivery orders, whereas backlog is generally what you have for large project business. So, much of the service orders are booked and billed very quickly.
- Sandeep Tulsian:** And lastly I would just like to know this nature of FOREX loss, this is the MTM on trade payables or how does it actually work?
- R. Narayanan:** On a both actually, it's both on trade payables and trade receivables, but mainly on trade payables.
- Sandeep Tulsian:** So, the conversion time for it is generally about 60 to 80 days or how long does it take to get converted?
- R. Narayanan:** Conversion time takes longer actually, it tends to take three to six months.
- Moderator:** Thank you. The next question is from Bhavin Vithalani from Enam, please go ahead.
- Bhavin Vithalani:** Three questions, one, we are seeing the royalties as a percentage of sales going up steadily from past five - six years about 1.5% of sales to above 4% of sales plus. Could you explain us what could be the sustainable trend for the royalty and is this proportion includes some one-time payments on technology transfers, or there is a completely recurring expenses? Second is, as you highlighted about services business, we are seeing proportion of services steady over the past couple of years at 5.5 - 6% of sales are you seeing that trend increasing significantly as a percentage of sales in the quarters coming by. The last question is on the Motors business, if you can highlight how has been the trend both in HT and the LT motors, we have seen difficult environments, but outlook is more specific to the next three or four quarters, how do you see the business shaping up, how is the competitive environment within the industry?
- Amlan Datta Majumdar:** See, first of all, the question on royalty, I am sure that is not related to Q1 results so much.
- Bhavin Vithalani:** I am looking at the balance sheet data for the royalty.
- Amlan Datta Majumdar:** You are referring to 2011. It is not a question of royalty going up or coming down, yes in the recent times, there have been steep increase and continuous increase, but you have to also see these royalties are related to certain technology. And these technologies ABB being a typical technology company we keep on upgrading and bringing in a new technologies, which are developing various parts of the world for the group. So, it is not that every year it will increase, it might be increasing in a span of three years and it might not increase much in the span of next three years that's the way it works. So, the royalties will change based on what technologies we are bringing in. In the last three years there have been a lot of shakeups in ABB in India and we have been trying to bring in the latest technologies or the latest products. So recently, like we have taken 765 kV we have brought in, we are working on HVDC. And

also the discrete automation and motion, there are various items which are coming which we never used earlier and these are state-of-the-art technology. It is very difficult to predict how it will behave in the next one to three years because it depends on what technology we are bringing in, what product we are bringing in. So this is the answer to your royalty. The second question was on service, which Bazmi actually answered, but let me repeat what Bazmi said and it is in excess of 10% but our intention is to grow it much farther. This is the answer that we can give now. We have high ambitions on this, we have great focus, and we are working in separate teams to push our service businesses. As you know globally also this is an initiative. And on the question on motors, I think Mr. Narayanan will be in a better position to give you a flavor of the motor market how it is developing.

**R. Narayanan:** So motors actually we have to think one of the low voltage motors, that is smaller type motors and the other is the high voltage motors or the medium voltage motors. One is the low voltage motors that is the smaller motors there has not been much drop in the demand, it has actually been increasing because there is also replacement market where people want to go in for higher energy efficiency motor, etc., there the trend has been good. As far as the medium voltage of the HT Motors is concerned, it is primarily used by the process industries namely, Cement, Steel, Oil & Gas and also the Power plant. There the Capital Goods sector has not been doing well in the last couple of quarters, so the sentiment is primarily down as far as HT motors is concerned. Then the new plants coming up, it should start in the coming quarters

**Bhavin Vithalani:** Follow up to questions, on the R&D expenses, how much would you believe is towards the payment of acquiring new technologies and how much is recurring in nature?

**Bazmi Husain:** Maybe we can make a separate discussion on this, we should stick to the first quarter results here.

**Bhavin Vithalani:** Sure, and follow-up on the motors, as highlighted, the demand in the low voltage has been better, so if you can help us with growth numbers, maybe ABB and the industry on both high voltage and low voltage?

**R. Narayanan:** Low voltage motors has been growing, we have grown better than the market. That's all I will say, I will not talk in terms of percentage actually. And as far as HT motors is there it is actually down because not much of orders have been finalized in the market by the core sectors.

**Moderator:** The next question is from Sumit Kishore from JP Morgan, please go ahead.

**Sumit Kishore:** I have three questions. In your opening remarks, you mentioned both Power Systems and Power Products segment saw double-digit growth in order inflows. Could you put a number to what was the total Power System plus Power Product inflows in first quarter of CY12? The second question is we have been seeing the working capital of your peers deteriorating quite a bit on a QoQ and YoY basis. In the results they have reported so far. So, qualitatively could you comment on working capital, and how it has moved over the past one quarter? Finally, my

third question is on the results reported by the ABB Group. Their presentation stated that India order inflows have grown 18%, of course it implies that the group has booked a fair amount of growth in inflows outside of ABB India. Very qualitatively quick a comment you know on what kind of orders is ABB Group booking which ABB India is not able to capture?

**Bazmi Husain:**

Let me start with your last one first. You are right on the ABB Global results the orders growing 18% and that was really an impact of an order that was the Northeast Agra project that from the group perspective or portion of that was actually booked this quarter, So that is why it was an order that the India portion we had already booked in December. The part of the global portion was booked this quarter and that was the reason for that gap. Now regarding your other project about order intake on, I did mention that, yes, for Power side we saw really continued strong growth I would say in the Power side of the business, both in the Products as well as the Systems. We don't really give you a sector breakup of numbers, so that is something I would refrain from it, but say that the differences was really, as I mentioned, in the Process Automation, Systems part of the business, Automation part of the business which is the product part was still up although not as much at the power side.

**Sumit Kishore:**

Sure, basically all the companies which have reported so far especially Siemens for the March quarter, we saw working capital deterioration, so just want to understand during March quarter how have you been seeing any deterioration in the debtor or the inventory cycle or even particularly if you could comment on the working capital.

**Amlan Datta Majumdar:**

Generally, in the Capital Goods sector, especially in areas where ABB works, one major challenge or I would say a major condition of working in the sector is many of our projects will have large retentions. So, our receivables are generally higher than people operating in other sectors, not Capital Goods sector, for example. So while there has been a severe pressure on the liquidity in the market, but fortunately, in this quarter at least we have not seen really that kind of pinch on our debtors. Our debtors remain almost the same, we do not publish the results very specific but I can tell you debtors did not increase. Now, this also is not only because anything has improved much in the market, but I think today we have taken as our top priority that we should be very cash focus, which we told in our last conference call, when we did the full year results. So, we are working on that and this has helped us highly to manage our receivables. Of course, there are some concerns because in this uncertain market, you would like to really stock some inventories so that your deliveries are secure, so the inventories, we have been maintaining the way it is, sometime a little bit increase and we did not see really so much of problem, yes, with the suppliers.

**Bazmi Husain:**

I just want to add a little bit on that. I have mentioned earlier the timing of the projects is important for our revenues, but many of our power equipments side you would understand is sometimes multiple months from the time we get that into our inventory to the time it is a finished product. And because of the timing nature clearly, some of that inventory that we need to actually do the revenues when they are due. Yes, I am just trying to give body to what Amlan just mentioned on the inventory side. Again I want to also highlight that in this environment we have continued to remain debt-free.

- Moderator:** The next question is from HR Gala from Quest Investment Advisors, please go ahead.
- HR Gala:** I wanted to ask two questions, one question was, can you broadly tell us what will be our capital expenditure plan for 2012 and next few years?
- Bazmi Husain:** I will actually look at more what is our investment plan for this. Last year we invested actually more than \$100 million and that as I mentioned in the previous call that that was the run rate that we have had for the previous several years and we do not see that going down. So, we don't give exact numbers from a plan, but I can tell you that is the way that we will continue with.
- HR Gala:** My second question pertains to this Q1 CY12 results. Do they have been any brunt of our past rural electrification contract?
- Bazmi Husain:** We were waiting for someone to ask that question. Yes, thanks for that question and no, we did not have any impact on the first quarter.
- HR Gala:** But do we have anything which might come up in the ensuing quarters as you close those contracts or things like that?
- Amlan Datta Majumdar:** We have 25 crores of contracts to be executed. It was a similar figure in the last year. We have been seeing how we execute, where we execute and in the contract we are executing, if something comes that is not only through for rural electrification, it is true for any business that we have done but we do not see anything large going forward which can impact our results.
- Bazmi Husain:** I think that story is over. The tale and the tails are generally long but there is no significant impact.
- HR Gala:** And just last question from my side, how do you see overall scenario? You did say that currently the investment climate is a bit negative, but overall as you approach your customers for different products and services, is there any bullishness or something like that over a period of next few months, things are likely to improve?
- Bazmi Husain:** In all honesty what the timeframe is we send you, but the thing is that what is clear and as I mentioned in the beginning, the fact that we are continuing to invest and is not small amounts, is a clear sign that we have long-term confidence in this market. These are things that happen and I think we are going through a particular phase, the world economy is uncertain, the previous time that was the case, India escaped pretty much unhurt, this time, clearly, that is not the case.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints we will take one last question from Pawandeep Singh Bhatia from IL&FS, please go ahead.
- Pawandeep Singh Bhatia:** The question I have is you told us that there is 9,700 crores is order backlog?

**Amlan Datta Majumdar:** 9,028 crores.

**Pawandeep Singh Bhatia:** Could you just give some breakup as in what kind of revenues are you expecting from the new initiatives?

**Amlan Datta Majumdar:** No, actually this we do not give so specific information. This 9,000 crores is across new and old initiatives.

**Bazmi Husain:** I think your question is really, I am just trying to understand your question, please help me if I don't understand that correctly, the backlog is what we have, new initiatives is what we will get?

**Pawandeep Singh Bhatia:** No, I mean the breakup of your backlogs I wanted like your five verticals that you function in, what are the kind of...

**Bazmi Husain:** You know these are growing, these are growing segments, obviously, we see each one of them potentially as a large business. If you go back some years when we started electrical balance of plant, the first order was just maybe 3 crores or 4 crores. Today ABB is responsible for well over 15 GW of generation in this country for which we have done the electrical balance of plant. So every area that we have identified that we are focusing on the areas that mentioned we believe are significantly large markets, the rate at which they have developed, and uncertainty there for every new markets. So, we cannot comment on it, but we do believe that the reasons for that market to develop in India as well as the size of the market are in the right direction and that's why we are investing in it.

**Pawandeep Singh Bhatia:** One last question I have is you had some 33 crores of FOREX loss that you said. Due to the recent weakness in the rupee, do you think this is a one-off loss or you can get some higher losses in the coming quarters?

**Amlan Datta Majumdar:** It is very difficult to predict and as you know we are not really so concerned, to be honest with you because these losses are notional, these are not real losses. These are basically a fair valuation of derivatives and embedded derivatives which will go away and in every quarter get values. This will depend on movement of rupee in terms of US dollar, Euro and Swiss Franc, it is very difficult to predict. As I told in the beginning, especially ABB we do not try to do it in speculation in the FOREX, we will be rather very conservative going with hedging and everything. So we do not keep our track of this market so well at all from our side, we cannot predict.

**Pawandeep Singh Bhatia:** I asked because 33 crores this time was a large jump when compared to last quarter. So anyways thank you so much for taking my call.

**Moderator:** Ladies and gentlemen that was the last question. I would now like to hand over the floor back to Mr. Vikram Kanth for final remarks.



*ABB Ltd.  
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**Vikram Kanth:** Thanks everybody for joining in the call. If you have any questions please do feel free to e-mail the questions to us and we will get back to you as soon as we can.

**Moderator:** Ladies and gentlemen thank you choosing the Chorus Call Conferencing Service. This concludes the conference call for Analyst. For further updates on ABB in India you can follow up ABB India on Twitter. The account name is ABB India. Thank you for your participation.