



“ABB Ltd. Q2-2012 Investor Relations Conference
Call”

August 9, 2012



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Moderator

Good evening ladies and gentlemen, I am Marina, the moderator for this conference. Welcome to the ABB Limited's investor relations call to discuss the Q2 results for 2012. For the duration of the presentation all participant lines will be in the listen only mode. I will stand by 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.

Vikaram Kanth

Welcome ladies and gentlemen to the investor call to discuss the ABB India Q2 2012 results. With me I have Bazmi Husain – the Managing Director of ABB India, Amlan Datta Majumdar – the Chief Financial Officer, Priteesh Mahajan who heads our Process Automation Business and Venu is on call who Heads the Power Systems Business. I will hand over the floor now to Bazmi and Amlan to share the Q2 results for ABB India.

Bazmi Husain

Thank you very much for joining this conference call. As you have seen from the press release we are very happy to report that we have had a steady growth in a rather mixed environment that we have around us at the moment. This is a quarter in which all the five divisions have shown revenue growth. I think this is after several quarters that we have had such a situation and I think this is due to several of the initiatives that we have taken, which we talked about since Q1 of last year. One was really that we are going to focus more on our core business of power and automation, both on the product as well as on the project side. We focused a lot on the cost reduction part of it, both cost of operations as well as looking at accelerating a program that we call in country, for country; where we are looking at making sure that the products that we have are very relevant to the market here. We also talked about looking at capitalizing on the mega trends that we have, the metros, the solar renewable energy part of it, those are the areas that we focused a lot on, we are also focusing on cyber security and the smart grid areas so we see many of those efforts that we have taken have begun to show results. Also last year when we were talking about PS we had several projects in non-core areas, especially in rural electrification, where to complete the projects we had, we took a lot of heat. We did that and we can see we have begun to recover from there. Looking at it from a sector perspective, I would say that power continues to be a very strong sector for us. In the market right now, because of certain uncertainties like fuel linkages, etc., there is a certain hesitation, but we do expect that this will go away shortly with the measures that the government is taking now. When it comes to the automation side, I think on discrete automation we continue to be a strong performer there. We have made a lot of investments in the low voltage side especially on increasing the capacities like we talked about during the 3rd Quarter last year, especially on the MCB lines where we tripled our MCB capacity from 4 million to 12 million poles. Now the impact of that we will begin to see in Q3. On the process automation side I think there is right now on the industrial side, a fair amount of over



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capacities in the system and that is why there are new investments that are there in the plans that many of our customers have. They are waiting for the plant load factors to go up before there is new investment and growth. So, I think all in all, in this challenging environment to have a 14% growth in order, a 10% growth in revenue and also to continue to grow in our profitability is a clear indication that we are on the right track and all the actions that we have taken are the right ones. Two other things that I want to emphasize, on which we focus a lot is, service and exports. Service has been, for ABB Group, a very focused initiative and we have done the same in India, and our recovery in the market – that is beginning to show now – is also based on getting better performance in service, as well as an increased growth in the exports area.

So, all in all, this has been a good quarter for us. I think we are satisfied with the performance that we have had. I think, given the market situation, this has been good. It is where we target ourselves to be. We think that we will continue to improve on the performance when the markets recover. I think we will be very well placed both in terms of the efforts that we have taken to get our cost rates right, to improve our capability, to deliver projects as well as focusing largely on our core areas, but also looking at new global mega trends that are giving us new business opportunities.

So, at this point in time, I will ask my colleague Amlan to really take you through to the numbers and then we will have a Q&A session.

Amlan Datta Majumdar

Good evening all of you on this call. I will take you through the results of the quarter ending June and then we can take the questions later. First, to start with the macroeconomic situation, Bazmi gave his comments, but if you look at the market scenario, it is not yet so encouraging. The GDP forecast is being talked of in the range of 5 to 6% that is sub 6% we are talking for our FY13 which is not good news. Let us hope that it improves with the various measures being expected from the government. The interest rates are yet too high for anyone to get motivated, take money and invest. So that is a dampener. Rupee depreciation of over 20% in a year is possibly not helping much. Coupled with that, if you see the global outlook, especially in the European zone, it is also not encouraging, so needless to mention, we are in challenging times. Looking at our own markets, our own industry, the capital industry has been severely affected. You can see that all over the place. While in the power sector we can see still some investments coming in because of the government, on the industry side there has been an overcapacity and also the high rate of interest is a big deterrent for investing, so there the investments have been pretty slow. Looking at ABB's 2nd Quarter performance that is the quarter ending June, it has been a mixed quarter and again largely triggered by the external environment and the macroeconomics that we are all aware of. We grew in orders by 14%, which is pretty encouraging in this market because orders are not too many and we think we are becoming increasingly competitive in the market so that is good news. And the revenues



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across the segment that we report have grown and this is after a very long time that all the segments grew in terms of revenues. The overall revenue growth has been 10% and I must mention that these days, because of the market situation we are very careful, we are trying to become more wise than we have been earlier while deciding whom to work with, how much to work with, which sector to get in, so we are a little bit careful on that so we do not want to push the revenue growth beyond a point, except what is contractual. Our order backlog at 9175 crores is one of the highest ever and which provides good visibility in the coming quarters and our revenue growth should continue based on this backlog and book and bill business that is the business which is short cycle that is also likely to continue. The profit before tax increased by 30% over the same period last year 2nd Quarter and profit after tax by 33%. I think this has been a significant improvement compared to almost 8 to 10 quarters now. If you look at more details in the results, if you recollect we had told you since last 7-8 quarters that we are working very sincerely on supply chain management, operational excellence and our multiple initiatives in terms of indigenous designs and indigenization of many of the products which were earlier imported. We also had indicated that we are not in a hurry, we are not in haste, we give it the due time and we will start seeing improvements in the results. And our cost of material and services if you see has now settled around 72%. It has been similar last quarter coming down from a 75 to 76%, which we had seen three quarters back that was consistently at 75-76%, so now we are seeing the real impact of various initiatives taken a few quarters earlier. This is some more good news. The personnel expense grew because of the general increments that we have given to our people, because it is very important in a difficult market situation like this that you retain your talent, keep them happy, keep them motivated, keep them engaged and keep them productive; so that is what we are doing and as we have told earlier we are sometimes not so much concerned with short-term costing fees in some areas, so we are very focused on our people. We are increasing our skills in project management, sales and marketing, engineering continuously exactly like material cost is showing sustainable good results, now we expect that productivity in terms of our execution capabilities will improve over time. The other expenses showed an increase of 14% period to period basis and we have also been taking stringent cost-cutting initiatives, but we do not want to go overboard on this. As far as customers are concerned, our execution is concerned, we are not at all hesitant to spend money there, but we are trying to reduce our internal costs for internal meetings and discussions and we are trying to optimize as much as we can, but in the core areas we are not hesitant to spend money because we expect that it is going to give us long-term returns.

If you look at division-wise performance, actually power products grew double-digit, 12% in the revenues and the increase in profit is a result of the revenue growth and their efficiencies are also increasing over time, we are also making a lot of indigenization efforts mainly in the power products sector. On the power systems side, this is one of the business segments that we reported has been a big concern for the analysts and investors since it was not doing well, yes, because of the rural electrification, but because of some other reasons also, which we had



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shared about six quarters earlier. But we are happy to report that we are now coming out of the problems and from a negative in the Q2 of last year, we are able to report a reasonably good result of 5% profit before interest and tax in the power systems business. Some of our businesses in power systems, which have been our core businesses, are also showing good results. Though we did not share business-wise results, but I must tell you that. In terms of rural electrification, I am sure this question will come, but we are now left with 7 crores of orders in hand which are cases in which we are discussing with customers, as we have told earlier. We are not sure whether we will execute or we will come out of the contract, depends on what customers want, what serves the interests of ABB as well. But the good news is that the negative impact on results on account of rural electrification is now over. It was also not there last quarter and this quarter also it is not there, so we are out of that problem. The Discrete Automation and Motion division continued with its good profitability, that is our strong area, we have been always market leaders in most of the product lines there and that is continuing. Low voltage products, Bazmi has mentioned this, we had a very good growth in revenues but the profitability was not expected because of multiple reasons, we have made some investments and it is more of the operational cost and depreciation of that which has come in, but the revenues are yet to follow. We expect to see better results in the second half of the year it has also a little bit of combination of the revenues, some of the businesses produce better results and some are not so good, so I think the not-so-good profitable businesses had more share of revenues in the 2nd Quarter of low voltage products. So, this we expect, in the second half of the year should look much better. We will have, anyway, a separate discussion for process automation, there is overcapacity there and Bazmi has also mentioned about it. Good news that I want to share with all of you is ABB Limited continues to be a debt-free company as on 30th of June and this has been the same position for the last three quarters as well. And we do not want to really pat ourselves on the back, but I think we should be satisfied enough that in a very tight cash situation that we see in the market and with the high interest rates that prevail, we have been able to come to a situation where we are debt-free again at the end of the quarter. We had some borrowings in between.

I think that is the overall summary of the results.

Moderator

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

Renu Baid

My first question coming on the profitability side of the business where in process automation there has been loss. So two questions on this side related to profitability first, reasons for losses in process automation, despite seeing a flattish volume QOQ margins from plus 2.5% have



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dropped to minus 2.5% so any particular reasons for that? Second, what kind of FOREX gains were there in the current quarter vis-à-vis 10 crores of gains in the same year last quarter?

Bazmi Husain

I will address the first part of your question, this is on the process automation side and I will ask Amlan to address the FOREX part. First of all I am very glad you asked that question. Now in process automation, what has happened in the project execution, we have had a few projects where we have had cost overruns and we have a clear policy that when we see a risk we provide for it. So the dip that you see in the profitability only reflects the fact that we have seen some of our projects and there were a couple of them, 2-3 of them that have had this problem, our policy is clear, we see a risk we provide for it. Now are these projects in our core business? The answer is absolutely yes. These are our core business projects. We have had two cost overruns from them. We are providing for it and that is about it, so that is as simply as I can put it. These are clearly our core business, we will continue to go with them. As ABB we have never had a situation where we have walked away from a solution. We will end up with satisfied customers. I will also like to point out that for us automation gives us long term revenue streams in terms of service. So while in projects themselves the 20.47 represents a drop in the margins, but over the lifetime, all these projects generate a lot of cash and profits for us. So that is the first part of the question.

Renu Baid

As you mentioned these relate to the core business segment, would you like to highlight which particular business segment? Are they related to steel, a particular sector that you would highlight?

Bazmi Husain

I would not really highlight a particular sector, but you are right, if you look at process automation they are oil and gas, steel, minerals and all the projects are not in the same sector. They are across. Some of these are fairly large, old projects and we have had this issue so we are just addressing them. We do not see that as a problem, that is, an endemic problem. These are just project related issues that have come and that we are basically saying okay, fine, we have had this problem, we will provide for it and we continue to deliver the solution. There is no direct relationship with any particular business segment at such.

Renu Baid

But what would be the quantum of cost overrun provisions that we have done in the current quarter?

Bazmi Husain

I am really not going to get into that because I have said that more than one project, but what I would say is that without this we would have had better profitability than we had last year.

Renu Baid

We would have been at least positive had these cost overruns not been done?



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- Bazmi Husain** Not just positive, we should have been better than that. We are just being very transparent and open with a situation – that we have had a situation, we have addressed it, we will move on with it.
- Renu Baid** Also on the FOREX part of the business?
- Amlan Datta Majumdar** FOREX impact for the current quarter ending June 2012, that is, these three months, is 9 crores gain against a loss of 12 crores in Q2 that is April to June 2011, a gain of 9 crores this year in this quarter against last year same quarter's 12 crores loss.
- Renu Baid** There was a loss last year, but, as far as I recollect it was mentioned as approximately 10 crores last year.
- Amlan Datta Majumdar** No.
- Renu Baid** Okay it was a loss as you have mentioned that. And these will largely pertain to the projects business?
- Amlan Datta Majumdar** It is a combination of all items that come under.
- Renu Baid** A last question on that side we have seen a relative reduction in working capital year-on-year basis especially a reduction receivable and the other side, but on loans and advances there is a substantial increase of 20% plus. Any particular reasons why we have seen this sharp jump in loans and advances?
- Amlan Datta Majumdar** No particular reason, it is typically business as usual, there is nothing that is worth mentioning I would say. These items keep going and sometimes receivables will go up and sometimes inventory will go up but on an overall basis these items keep fluctuating, but so long as we are able to handle the working capital at the same level in this market I think we should be reasonably satisfied.
- Moderator** The next question is from Puneet Bamba from B&K Securities. Please go ahead.
- Puneet Bamba** One thing was, in the last quarter specifically, you had mentioned the way your project delivery schedule is pretty much skewed to the second half looking at project assessment, given that in the 1H we had done roughly about 4.5-5% YOY revenue growth, is it reasonable to assume 15 to 20% in the second half especially given the project schedules that you mentioned last time?
- Amlan Datta Majumdar** First of all we will not address this and give you a number because as a policy we do not give guidance on what we will be in this thing. But historically what you have just said is correct,



second quarters are typically better quarters. You know our back log, you can put two and two together.

Puneet Bamba The trend of seasonality in Q3 and Q4 is known, this was very specific since last time you had said a combination of a project delivery schedule and delay in listing of few of the orders by few of the clients.

Amlan Datta Majumdar That was for Q1.

Puneet Bamba Yes. So that is why I was asking the general seasonality of Q3 and Q4 being higher is very much across in this?

Amlan Datta Majumdar Absolutely, and you can see in Q2 – directly the revenue grew by 10% which was not the case in Q1. When you do long gestation projects over a period, normally what happens – you average out the delays, but sometimes it happens that you get a timing where most of the shipments are scheduled for beyond the quarter or something and that was one of the things that we had in Q1. It was not due to anything except that; it just happens like that sometimes.

Puneet Bamba In that case would it be fair to assume that you do not have any more request in terms of any slow-moving orders where further in Q3 and Q4 clients coming for deferring the delivery schedules or slowing down the projects?

Amlan Datta Majumdar The thing is like this: that right now the market is uncertain. It is in specific cases that can always happen, even in normal circumstances. Chances of that happening are higher in today's environment but given the large volume and the number of orders and the number of projects that we sell, we do continue to see growth despite some challenges that will come.

Puneet Bamba My second question would be, I needed a clarification on the RE orders. When you said you had about 7 crores of outstanding orders vis-à-vis the beginning of the year, if I am not wrong, it was close to 25 crores. So over the past two quarters, have these 18 crores been executed and has there been no negative impact whatsoever of this in the P&L?

Amlan Datta Majumdar That is true, what we have executed did not have any negative impact because if you recollect in the last year, we had upfront taken lot of provisions, that is why our results were not good. See, that is our policy. When we see a risk in a project we do not wait for the risk to come and hit us and then provide. Like Bazmi mentioned within process automation what we have done is when we have seen risk in few projects we have immediately taken care of that because the risk might actually arise later, might not arise in some cases also, but we have a conservative accounting policy so the project executed during this period did not have any negative impact on the bottom line.

Bazmi Husain

Just to highlight one thing, I am going to say we provide for the risk as we see it, whether or not it has yet happened, at the same time it also doesn't mean that we do not have action plans in place to mitigate those risks. So a lot of time we are able to mitigate those risks, yet our policy is such that we don't kind of factor in against it. If there is risk that is coming, as per the original estimate we take that risk.

Moderator

The next question is from Sumit Kishore from JP Morgan. Please go ahead.

Sumit Kishore

On the order inflow growth that was reported in the 2nd Quarter at 14%, could you just outline what percentage of orders came from the private sector versus the public sector and broadly what was the split of power versus industry because I understand power was definitely the growth driver this quarter. And the second question is you mentioned both services and exports being a growth engine, so what percentage of your revenue roughly is service and exports as of now and what kind of growth are these seeing?

Amlan Datta Majumdar

Coming to your first question I must tell you that while we report an order receipt at company level, normally, you have seen, we have never given this break up of how much is private, how much is public and how much is power and how much is automation. But to tell you that growth has been significant in Q2 on the power sectors, while the industry side as you know the investor sentiment is low so the growth has been much lower in the industry sector – that is, process automation and discrete automation areas – but the growth has been very high in power sector and also we have divisions like 30.59 products which serves across all the segments that also had very significant growth, but the industry side has been more affected.

Bazmi Husain

I will address the second part of your question which was about export and service part of it. Again, these are things that we do not really report, but let me give you an idea where we are in that. In exports basically we are growing double digits and in service too. So we have a double-digit growth in both these areas. What we have done in the export is, we have started to place people in other territories, like we are focusing a lot on Africa, where we are actually having people now – present and stationed out of there – so that we are better able to understand those markets and be able to serve them well and that we started, I would say Q2 of last year, and that has really begun to show us very good results. Last whole year we had over 1000 crores worth of exports and that is the number that we gave that time and we will be far in excess of that this year, so that growth continues. Service, clearly as I mentioned, we are looking at services, I would say we still have a long way to go to reach our potential. We have a huge installed base in India and as I mentioned earlier, both in power and automation side, and especially in automation, service has a very high long term content – typically between 15 to 20 years after installation we see service revenue that comes from there. So both strong double-digit growth is what I would say.



- Moderator** The next question is from H R Gala from Quest Investment Advisors. Please go ahead.
- H R Gala** My question is for the H1 that is first half, how much is the net FOREX gain/loss this year vis-à-vis last year, if you can just clarify that?
- H R Gala** For the first half of this year, that is six months ending June 2012, we had a 24 crores loss and last year, same period, we had 9 crores loss, that is first six months of last year.
- Amlan Datta Majumdar** My next question is how much capital expenditure we have spent so far and what is our plan for the full year?
- H R Gala** In the full year when we say, it is not always a very representative number because it is also timing but would be happy to share that we have spent in straight capital expenditure in our plan, so far 80 crores we have already done, but do not want to commit for the balance part of the year.
- Amlan Datta Majumdar** 80 crores in this quarter or in the first half?
- H R Gala** First half of the year. And in the second half we have many plans so we will have to see, depending on how the market is developing, how much we are going to spend and there are other impacts, like when we say investment, we also do R&D for the group, that is an investment, we are developing products here, so we base an overall package but I am giving you only pure capital expenditure in factors and products.
- Bazmi Husain** I would just like to add something to what Amlan said out here, I mentioned earlier that last year we tripled the capacity of our MCB, the Miniature Circuit Breaker plant from 4 million poles we went up to 12 million poles. We will within the next one year double that again. At the same time I am not going to name the areas but we have several new factories that are under construction. So we are increasing our manufacturing footprint. We are betting on the sentiments and the market turning around. We want to be ready for it. We have been focusing on getting our cost base right. We have revitalized many of our management. We have increased our technical competence. Done a lot of investment in increasing our R&D. Also physical investment in new plans, upgrading existing plans and all that, so we are positioning ourselves for the future and we do believe that the markets will be there and we want to be ready for it.
- H R Gala** That would be great. This 9 crores gain on FOREX which is in Q2 CY12, is it sitting in the other income?
- Amlan Datta Majumdar** 9 crores gain is in sitting in the other income.



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- H R Gala** Whereas all your losses are in the other expenditure?
- Amlan Datta Majumdar** Absolutely. Yes.
- H R Gala** Just a last question from my side, just book keeping, as on 31st December we had a current liability of 230.35 crores payable for businesses acquired. So when is this money payable?
- Amlan Datta Majumdar** We have an agreement and on fulfillment of certain conditions we will pay, so this has got to do with transfer of land in the name of the company and all that.
- H R Gala** This is for Baldor or some other acquisition?
- Amlan Datta Majumdar** This is mainly for some three operating companies from ABB Global Services. We will pay based on the conditions fulfilled in the contract.
- Moderator** The next question is from Amol Rao from Antique Stockbroking. Please go ahead.
- Amol Rao** Just a couple of questions on the low voltage front. You mentioned that in process automation in low voltage the competition seems to be considerable, yet we seem to be looking at expanding in these verticals, if I am not mistaken that is what you said in the call so far?
- Amlan Datta Majumdar** Absolutely, low voltage we see a lot of expansion and so in process automation across the board actually. And to answer your other question I think it would be nice to find areas where competition is not increasing. I think that is the nature of the exercise of the whole game and growing globalization I think we should expect more of it. I would also like to say to our peers that we think we absolutely welcome it and are ready for it.
- Amol Rao** The reason why I asked this I wanted to get a kind of confirmation from you as to whether we are pursuing these two verticals aggressively with the hope of getting service and export revenues particularly in these two fields as in comparison to other verticals?
- Amlan Datta Majumdar** I would not say that specific service and revenue with respect to only these two fields, but it is a fact that process automation has a higher service potential and therefore, we focus on it, but this is not to say that in other areas we do not have service potential, our highlighting the service potential of cross automation is in the context of the fact that we are taking hits on certain projects, if you look at the lifetime of those projects then those projects are going to be profitable for us.
- Amol Rao** Last question from my side, more on the direction which the company is setting, most global companies in India using India as a lynch pin to go into, let us say Africa, Middle East, Far



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East. So where do we stand in the overall scheme of things? Has our global parent identified that geography or have we identified such geographies for ourselves?

Amlan Datta Majumdar

We are a global company. When I say we are focusing on Africa as a growth market, that is part of the global strategy. We will serve more and more offerings in Africa and Middle East, more from India. In fact in some of the areas, and we are serving multiple, and I want to just highlight three things here, these are three broad buckets. One is of course the product part of it. I had mentioned that two quarters ago, we are launching a product called Safelink and that product might not mean anything to you, but the product basically is meant to increase the reliability of power supply in city areas so it is basically a product that we indigenized, we designed out here, though for a more suitable 40.48 Indian market. We see huge amount of export interest in that product. When we launched it in our exhibition called “Automation and Power World” in September last year there were a lot of visitors that had come from across the world and we got from Middle East, Africa, Europe, we have in fact a lot of interest in those kind of products, so of course, we felt in the world market the product and there are certain other products like some circuit breakers, etc., that India is a global factory for ABB, so no matter where the requirement is, it is going to be fulfilled out here. There are some areas like vacuum bottling plant front that we have, where the only two places where ABB makes that is in Germany and India. So we are already a part of that thing. The product is one thing. The second aspect is the project. So, we are executing projects pretty much in every geography including the US, including Middle East, including Africa and including our neighboring countries, Bangladesh and Sri Lanka as well. I think we should certainly not forget that those are great opportunities for us. So we serve on products, we serve on projects. The third aspect which is related to the first one also is that we have developed in the last several years a lot of R&D capabilities in India. So, we are actually looking at new markets, and say, what are the products that will be the most optimal for that particular market. So, clearly India is very much a cornerstone of global ABB’s thrust in many of these developing markets.

Moderator

The next question is from Madan Gopal from Sundaram Mutual Fund. Please go ahead.

Madan Gopal

In 2011 we had a good growth in Discrete Automation. If you can explain where the growth came from? Which kind of an individual industry that the growth came from?

Amlan Datta Majumdar

In Discrete Automation and Motion we serve pretty much every industry there is. We serve a lot of our products that drive the motors, frankly speaking, whether you are making steel or you are making petrol you still need all our products. So, this is one of the advantages that we have with that portfolio, that it is agnostic to which particular industry is growing, because over so long, there are some industries that are growing, we are in there. So, I think we have a very wide spectrum in Discrete Automation business where we serve the market across all kinds of industries.



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Madan Gopal From the current economic situation do you think that kind of a growth is possible or at least maintaining at those levels of order booking is possible this year?

Amlan Datta Majumdar You might have heard of, let us say there is a scheme that was launched by the government of India that I think all the list was finalized somewhere end of Q1 this year, which is called 'Perform Achieve and Trade' which is basically looking at improving the energy efficiency of the Indian industry, how much energy does the plant consume per unit of output. Most of the output that we have and most of the products that we have in Discrete Automation and Motion are energy efficiency projects so the beauty of that business is that it is not just relying on new Greenfield orders but a lot of Brownfield and existing plants, which earlier were being forced for reasons of improving on their own performance, but now there is an added component that the increase in energy efficiencies is being mandated by law. So, the government of India has published a list of some 500 or 478, in the neighborhood of 500, different consumers of industrial energy in the country that together account for some 65% or so of the energy consumed by the country and they are required by 2015 to meet specific targets that have been given to them, of energy efficiency. So we see a lot of growth in that market. To give you an idea, one of the products from that business is something called drive. That is something which makes a motor more efficient. And just to give you an idea what kind of market potential we are looking at, less than 10% of the motors that are there worldwide almost, in India even lower, have a drive associated with it. Now we are talking about existing installation, not talking about the new capacity that will have to come up in India that will satisfy the demand. So this is just as large a market, we are nowhere near saturation point.

Madan Gopal When such a demand comes up it will depend more on the installed base that ABB will probably be having in India or you can put your drive **(Inaudible) 46.43** in the install base of your competitor as well?

Amlan Datta Majumdar Yes.

Madan Gopal Second, you said process CAPEX is weak. so automation orders are not coming, how is factory automation doing?

Amlan Datta Majumdar Factory automation actually are the drives, the motors and PLCs are one aspect, but I think what really puts ABB apart is our offering in robotics, which is also part of the discrete automation business. So, there we are actually seeing a lot of growth coming up in India, both historically in material handling it was there, but we see quite a large expression of interest in painting solutions and all these things are mainly robotic solutions today, driven one, by the quality of what they want to produce, the consistency of paint and the other thing is also driven more and more by environmental and health reasons. So things like in paint shop people do not want to inhale paints and things like that and also the paint wasted from environmental

perspective, so robotic solutions for factory automation. So, we are offering a combination of robotics, of drives and motors and PLCs and ABB I would say is the only supplier in the world which has a combination of all three. So this is not something that historically ABB has been more present in process automation and the reason why globally discrete automation and motion division was formed was to increase our focus and penetration in this particular market and yes, we are doing well in that. You can see that from the DM result.

Madan Gopal

The last question, you spoke about how we are spending a lot, mainly on manufacturing facilities or we are planning to do what for the next two years. Is it more going to be on power or automation and follow-up question on that is have we completely indigenized in the power substation equipment up to 765 kV, say transformer plus switch gear completely, or there are some gaps?

Amlan Datta Majumdar

It is like this, anything to do with equipment is not a static exercise. The world is built on continuous innovation, continuous improvement. We have become confident yes, but have we reached an end, the answer is no, for just about any offering that we have. And I think that is what I would say is our strength because our capability to continue to do that is, I would say, what sets us apart.

Moderator

The next question is from Lakshmi Narayan from Standard Chartered. Please go ahead.

Lakshmi Narayan

My first question is, obviously you have talked about the order growth being driven from the power side of the business. Could you throw some more light on what kind of orders, were they more from projects or products? What kind of customers, more power grid driven or are you seeing traction from the states also? Is it also driven by, despite coming from lower competitive intensity, because of the rupee? Could you throw more light on this please?

Amlan Datta Majumdar

Just to repeat, so that I understand your question correctly, you are asking on the power side whether the growth was driven more by projects or products. Answer to that question is very important because we do see our growth as a balanced growth between project deliveries and product deliveries so our growth really comes from both of them and that is what happened last quarter too.

Lakshmi Narayan

Are you taking shares because of the rupee weakness and some of the Chinese and Koreans not being there in the market place?

Amlan Datta Majumdar

Surely. It is a combination of a lot of things. We have improved our competitiveness and whoever the competition is there, we will address that and be competitive in that situation and our goal is of course, to take more and more market share.

- Lakshmi Narayan** Second question is if you foresee more than a year of this kind of slowdown in the industrial side, how are you bracing for that and would there be more focus on power again on the same lines of taking more shares from competitors, ones that you lost a year ago because of rural electrification?
- Amlan Datta Majumdar** I am going to ask my colleague, Priteesh Mahajan, who heads Process Automation Division in ABB to take this question. But just one comment I want to make, you asked me about competition, I would not want to talk about specific competition names or whatever, that is not the way we operate, so we see competition what is there and we try to win against that.,That is our policy when we talk about what we are doing to be competitive, not what others are doing, because we cannot talk about that.
- Priteesh Mahajan** Like we mentioned earlier, process automation is a core part of the business and we focused on the aspects that we mentioned. One is on the cost, second is of course, growth in services, while the industry picks up and we are waiting for the industry to pick up. In addition, what I would like to share here is that after some time we did see some pretty good orders last quarter, even though the overall numbers are smaller both in cement and in steel in terms of processing lines and for a complete cement plant. In the short term, we clearly focus on the cost part and on the service part of our business to tide over the situation that we have now and I am pretty sure once the market starts to pick up we would be ready to grab a greater share of the prices going forward.
- Lakshmi Narayan** One last follow-up question on PSI, I remember last similar downturn post-Lehman, the customers were actually splitting orders placing it to several companies in order to lower their own cost, especially with the PSI. Is that happening again now?
- Priteesh Mahajan** It is a mix of both and at ABB I think, we are trying to gain – either way customers go – because if the package is split we are pretty strong on the product side, so whether it is the power products or the DM division or low voltage we still stand to gain on the product side as well. So, from an ABB perspective we are open and you cannot really say that it is now more packaged or more split; depends on customers.
- Amlan Datta Majumdar** We are watchful of the market and whatever is the requirement you know you have been tracking ABB a long time so you know that we have increased on both sides.
- Moderator** Thank you. Ladies and gentlemen due to time constraints that was the last question. I now hand the floor back to Mr. Vikram Kanth for final remarks.
- Vikram Kanth** If any of you have specific questions please feel free to write in and we will respond to your answers. Thank you so much once again.



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Moderator

Ladies and gentlemen, thank you for choosing Chorus Call conferencing services. This concludes this conference call for analysts. For further updates on ABB India you can follow ABB India on Twitter, the account name is ABB India.