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BSE Limited
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(Attn : DCS CRD)

National Stock Exchange of India Ltd
Exchange Plaza, 5th Floor
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Attn: Listing Dept.

Dear Sirs

Sub: Transcript of Analyst concall
Ref: BSE – 500002 / NSE - ABB

We are sending herewith a copy of the transcript of conference call with analysts, which took place on July 24, 2020 post announcement of Q2 2020 results of the Company. The said transcript is also uploaded on the Company's website.

Thanking you

Yours faithfully
For ABB India Limited

B Gururaj
General Counsel and Company Secretary
FCS 2631



“ABB India Limited Q2 2020 Earnings Conference Call”

July 24, 2020

**MANAGEMENT: MR. SANJEEV SHARMA – MANAGING DIRECTOR, ABB
INDIA LIMITED
MR. T.K. SRIDHAR – CHIEF FINANCIAL OFFICER, ABB
INDIA LIMITED**



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Moderator: Ladies and gentlemen, good day. And welcome to the ABB India Q2 CY '20 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Sridhar – Chief Financial Officer of ABB India Limited. Thank you and over to you, sir.

T.K. Shridhar: Thank you. Thank you, Raymond. Very good afternoon to all of you, ladies and gentlemen. This is the Q2 Analyst Call to discuss about the performance of the quarter, April to June 2020. I have with me Mr. Sanjeev Sharma – the Country Managing Director, and the other business heads who run the various core divisions in India. And also, I have Sohini and the communications team along with me listening to this particular call. So over to you, Sanjeev.

Sanjeev Sharma: Thank you, Sridhar. And thank you, everyone, for joining in for this call. I hope each one of you and your family members are keeping safe and doing whatever is necessary to ensure that we pass-through these challenging times. It's no different for the businesses, when we are running the businesses. But during these times, or any time when we have challenges, I think it is the value system of the organization that comes into play, what we really stand for. And that becomes our North Star to take right decisions towards our employees, towards our customers, towards our suppliers, community at large in which we live in, and also all the other stakeholders that we connect with and we impact.

I will take you through some of the highlights for the quarter two. While we are navigating through COVID-19, our focus areas in this kind of a scenario has been prioritizing the health and safety, sustaining business continuity and managing cash and cost in a very effective way. Because these are the elements which we have to keep together to make sure we are able to deliver predictable performance. And here, I have to mention that on the health and safety front, we have a country task force; and also at each location we have a task force, which meets daily and continues to adapt to the new situation that is developing around our plants and our offices. And there are standard operating procedures which are again further adapted at the locational level teams. This has kept us in a good stead, so we could ramp up our operations quickly after lockdown was lifted on May 4. And since then, we have been running good operating schedules in most of our manufacturing locations. Most of our offices are work from home, but there again I think productivity levels are not affected.

Now with respect to sustaining the business continuity, this challenging environment provided new kind of techniques and methods by which we can serve our customers. Most of the customers are all across the country, and our experts are either in Nashik, Bangalore, Faridabad or in Maneja, in Baroda. We could continue to serve our customers using the remote logging-in techniques that we have developed, wherein we could help a customer in Northeast of India to carry out the shutdown of a very large refinery and all the procedures client wanted us to do. Normally, we would send our engineers there, but we could manage it from our Bangalore center



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itself, with many of our experts working from home. And this is one example, but there are many such examples wherein we could maintain the business continuity and also special operational performance, even commissioning some of the robotics projects remotely for many of the projects or the electrical projects for our customers. So we have been adjusting our capacity to demand, but it has been the run rate we see, the days we have been operating is quite good.

On cash and cost management:

We have made structured efforts to reduce discretionary expenses, and we did it successfully in a very collaborative way across all our 16 businesses. And also, our employees made a lot of sacrifices during this period of time to make sure not only we contribute to the society, whether it was in the PM Cares fund, matched by our CSR funding to the same extent as our employees have contributed, but also on taking some other measures by which our cash and cost liabilities on our balance sheets are reduced. And they are quite measurable, and look quite good.

Immediately before the lockdown, we made a high focus on our cash collections and payables, and there we created a lot of efficient measures. We ensured that this company stays debt-free and have enough cash on the books to fund our foreseeable operational obligation. And we succeeded in that as well. Sridhar will talk about it a bit later. We are making only critical business investments which has a direct impact on customer and creating value for the customer, and creating an acceleration for the revenues for our business lines.

Now, this picture, if it is observable to you, I think we are quite lucky, and we must say we are fortunate that we have a very disciplined workforce all across the country. We have plants in Nashik, Faridabad, Baroda, Bangalore, multiple locations. Everybody adopted by taking a pledge that, we will not only keep ourselves safe, our families safe and our colleagues safe. Everybody adapted to the new normal social distancing as well as sanitization and lockout, tagout procedures in all the locations. That was the reason it was easy for us to convince authorities that ABB is well prepared to carry out the operational activities. And authorities have been very supportive to us wherever we are present.

We have been making special efforts to get closer to the customers. I did talk about virtual tools and remote technology we have deployed in a big way. We have allowed many of our cloud services to the customers available for free for next one year, so that the customers can take benefit of it during these times when we are not able to make some kind of physical visits to them because of the movement restrictions. But all those tools when they are available in the hands of the customer, they could also experience the power of remote and digital technology, and also how ABB can serve them with the new technology and new methods and new techniques. And that has created a very new level of confidence in our customers.

We also have, for the segments and the cross business, co-discovery workshops. A huge number of customer interactions have taken place in the last 3.5 months. I must say, it has been very efficient and very productive for both customers and us, because our experts sitting in one



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location are able to connect with the customers across. I think this is a new learning and new adaption by our customers to receive our expertise from a remote location. Our own technology for our own operations also helped us to be able to carry the continuity.

Some of the highlights we have seen for last quarter:

We wrote an MoU with Titagarh Wagons to supply the equipment for their wagons. And also SCADA orders from the energy major, which is the largest SCADA system operating in the country, I think we are going to upgrade it. We have the Kolkata Metro buying technology from us. And so is the case for Nepal's biggest hydro project and data centers. And of course, the wind projects receive our induction generators. So you can see that we are present in multiple market segments. In fact, almost 18 to 19 market segments we serve with 16 distinct business divisions have a unique proposition and product lines of their own. This metrics of multiple products for multiple market segments creates a good flow in the market in terms of order flow and the revenue flow. Even when there is a cyclicity in different market segments, we are still able to perform, because if one segment is down there is another one which is picking up.

On the Quarter Two 2020 Results:

Overall, business did get impacted due to the lockdown, because from the last week of March and till mid-May, operations and movement were severely restricted for all of us. During that period the order book got impacted as COVID-19 uncertainties persisted. I have to mention, that on 15th of May when we started, May was better than April, June was better than May, and we see that July is better than June. The velocity of the orders as well as revenues for the days we are operating, if I compare it with the similar days in 2019, we have double-digit higher run rate that we are experiencing during this period, both on the orders and revenues. But of course, we can't make up for the lost days, but I think lost days are lost days, that has been corrected by us in correcting our cost and our cost cash liabilities in the balance sheet. But going forward, the velocity and the effort and the connection that we have with our customer, seems to be showing us a good run rate.

There are a lot of opportunities towards the plant upkeep, reliability and optimization and customers are investing. Most of our customers are large industrials, medium-sized industrials and also a lot of infrastructure players, railways, metros, data center, food and beverage industry, buildings, hotels, residential buildings. There are a number of market segments that we serve with different products and services. So we do feel that the large and the medium-sized segments are doing well. Lower segments, because the credit flow is expected, we are seeing some sluggishness there. But I believe that the moment the credit situation gets sorted at the real estate level, etc., we will also see good flow there. However, our exposure on that side of segment is minimal. We have a fairly large exposure to the large side of the industrials and the infrastructure project, as well as the medium-sized projects which are reviving quite well.



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On the Electrification side and the Motion and Industrial Automation and Robotics and Discrete:

All these four divisions have been focusing on some unique proposition for their customers. Like Electrification now carries out virtual factory acceptance tests, which is very productive for the customer and us because we carry out a similar test and give the assurance to the customer. That has helped to carry out the revenues, because customer doesn't need to visit us. Focusing on data centers, metro, water, automotive is paying off. And we also have a very solid partner ecosystem developing for the Metro EPCs, data center development and digital SMB, healthcare, all these segments, as we engage more, I think the reward ratio is quite good.

On the Motion side:

We have business continuity, 24/7 remote with many applications for critical applications of the customer - we are monitoring and supporting them. Our moved focus on transportation like railways, metro, digitalization and services is paying back. Large proportion of business is from low to moderately impacted end market, so that also is reasonable for us.

On the Industrial Automation:

Yes, we did have some challenges. But then, our Industrial Automation team is engaging with the customers in a very good way. The FES team is making virtual visits. And also we record digitally what customers want. We were able to kind of create quite a good conversion ratio during this period.

F&B and Electronics, customer continue to invest. That's where Robotics is also penetrating. Robotics was overtly exposed to automotive industry, but now we have diversified into other market segments. Still, there is a weakness there, but we do believe Robotics and Discrete Automation has a long way to go. We are investing in this business because we see future growth opportunities in this area.

On Service and Export portfolio:

We have been expanding services businesses, because we have been in this country for 70 years, we have a strong installed base and very good loyalty with the customers. So that pays off by preparing more and more services-oriented businesses. Each business has a good solid service strategy. On the export side, given that we have a very competitive manufacturing base here, and we have localized most of the technologies, now our group has started opening-up the global markets for us to export out of India. Some geopolitical headwinds, are developing. For all our 16 business divisions which are localized and have good competencies in India, I think as we go in next quarters and years, they will be able to take benefit of it, and not only serve Indian customers but more and more customers overseas.



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So that was the business outlook during this time – the segments which are working well for us and the ones where there are more challenges. But here you can see that engaging in multiple market segments and spending time where the action is, I think that is what is paying off. We are deploying our resources where there is a good movement, rather than trying to go everywhere. That is for the greenfield businesses. But for the services businesses, all customers, irrespective of what color you see, they are served with the same velocity and same kind of strength, because all customers require these services support. But in terms of CAPEX investments and the incremental investments, I think the ones in the green and yellow, they are the ones under our strong focus.

Now I will hand it over to our CFO – T.K. Sridhar, to talk to you about the financial highlights for the last quarter. Over to you, Sridhar.

T.K. Sridhar:

Thank you, Sanjeev. We are looking at some numbers at this point of time. If you look at the comments what we made for Q2. On the orders, we have Rs. 1,200 crores, this is basically what we are talking of in the 45 days' time in which we had got to work. And compared to the previous years, we were down by 40%.

Just a bit of an inflection which could be a data point for all of you guys - in the last year, for Q2, we had solar. Solar is a part of our performance numbers what has been provided so far. While solar as a business stream was top-line heavy, when it comes to bottom-line it was not an attractive proposition, and that is the reason why we had taken an organic auction over there. The numbers relevant to what solar was there, included in the previous year, orders were Rs. 240 crores for the quarter. And for H1, which is the full six months, it was Rs. 400 crores almost. This is basically on the orders. The revenue included Rs. 139 crores for Q2 2019; and for H1 2019, we had Rs. 307 crores. These are basically the numbers included in the component values. When you look at the valuation, this is some data points which you could consider to normalize.

Revenues were down 43%. And as Sanjeev was mentioning, if I do a linear relative calculation as to how it is for the quarter, we saw an uptick. This is also a result of pent-up demand, which could not be dispatched in the last couple of weeks of March, and came up in revenue in Q2.

Then the profit before tax I would come up with, is Rs. 21 crores compared to what was Rs. 113 crores. The impact of solar was very negligible as I was saying; it doesn't make any material difference, a couple of crores here and there. Broadly the numbers in that same range, so we are talking of roughly about 80% down. We had an exceptional item, because the solar transaction was consummated in Q2, and that's why the fine-tuned number gave us an exceptional item of Rs. 2 crores. So overall, the profit before tax was Rs. 23 crores. I will dwell upon more elements as to how this profit came up and what are the major triggers for this going forward.

Order backlog:



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Order backlog is Rs. 4,671 crores, and it remained pretty much steady with the previous quarters as well as the quarter ending March. So in a nutshell, we have a visibility of these orders getting executed. The order backlog is strong, as there are some customers who have a potential to execute. There are not many slow-moving orders or we don't find anything which needs to be held back other than fine-tune it according to the project schedules of the customer, which will happen. And going forward, the scenario that could unfold in Q3 and Q4, probably assuming that we don't have any impact of the pandemic as it's today, on both the customers' end as well as the suppliers' end, I think this order should be executable in the coming two quarters. Of course, there are certain project orders which will move into Q1 2021 based on the delivery schedules. In other words, the book-and-bill scenario remains the same as what it was in the previous quarters.

Cash balance:

We still are holding on to Rs. 1,500 crores roughly as a cash which is there. We did have a dip in the last quarter slightly, but I think we came back to normalcy in this particular quarter, despite having a lesser number of days to work on. The focus was both on collecting cash, not only from our trade items but also from certain items like, which is non-trade items like tax refunds and other stuff, which helped us drop off the cash levels. We also make sure that the CAPEX we spent is more focused on what is required rather than what could be futuristic and what it is. In other words, there is also a CAPEX rationalization. So overall, I think this quarter was a quarter where we learned quite a lot, and we had to adapt to a lot of changes in the external markets as well as the internal way of working. I would say, it was a learning quarter for all of us and then probably the same with the other customers as well.

Orders by division:

On the orders, if I go by division, Electrification is Rs. 504 crores. If I remove the impact of solar, which was there in the particular business, compared to the growth, the growth percentage would be a (-5%), otherwise, it looks pretty much a 40%, so it would be roughly around about 7%, 8% of de-growth. In Industrial Automation, we had a good strong Q1, but Q2 was very subdued, and it's more driven by the market sentiments and the CAPEX rationalization by the conventional metal sector and the other core sector customers. The next one was Motion. Motion is a business which is definitely growing in certain parts of this thing. So we had a large order in the last quarter, which was not there in this particular quarter. And that's why the Motion business definitely has a lower order in this particular quarter. In Robotics, as everyone knows, we cater to the automobile and other sectors, that being the source, so which is saddled with a lot of headwinds. I think that was basically an issue.

Overall, with the orders, definitely we found a challenge, I think more from the customers' cash availability standpoint to take an investment decision and also the less number of working days. As you look into ABB, quite a strong portion of the orders come from the channel partners and the OEMs and the other distributors. They, in turn, supply to the various industrial customers,



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so it's also dependent on how they could see the cash rotation and the cash system helping them to forward the business. On the order backlog, it is equally spread across all the divisions, with majority of them from Electrification, Industrial Automation and Motion. All these orders are executable. We have a clear visibility as to when they will execute it. We are confident that as the market opens up and the customers start to execute their projects, I think this should definitely happen.

This is around the cost structure or the financial summary of how we performed. And if you look at it, we had definitely a good saving. The material costs remained consistent, so we are at 65%, 65.2% levels, and so it remained consistent with that. That means there was not much of an impact because of the volatility in the market prices or in the FOREX prices per se, on the realized part of it. When it comes to the personnel expenses, we did take some actions. There were certain actions like leave accruals where we took a decision that it will not be accrued; the bonuses, the performance incentives, which is accrued on a normal 100% basis was fine-tuned to an estimated level of performance which is expected from now on. As Sanjeev was mentioning, a couple of months of capacity, which was lost is lost, we can do nothing about it. So naturally, then the other results had to be fine-tuned to those new levels of achievement And that was an impact of what we had already implemented. We had taken some structural impacts of how we fine-tune our manpower in terms of hiring, etc.

That was broadly how it happened. I think it's a contribution also because in these times it's pretty clear that all parts of the organization have to contribute. And so we as employees of the ABB and organization, we made sure that we stand up to the occasion, rise to the occasion to set a benchmark for ourselves. This was done across globally as well, and so India also follow the same. But good part is that we implemented it in a very swift mode. Within in the last six to seven weeks, I think we made sure that these actions are implemented, communicated and employees are taken into confidence to help them understand the situation and adapt to the new way of working. This means, these levels of cost and personnel expenses would be valid for this year. But going forward, there is only for this, particularly, there is a special sort of a situation what we need to deal with.

Other expenses:

Other expenses, I think, I would say it's driven by two factors. One is, of course, the discretionary spend that will be a permanent sort of reduction. But when it comes to certain other costs, like travel or communication expenses or staff welfare expenses, which will come up as and when the business picks up. So, we address the cost in three different buckets, one is the material cost where the businesses have to look at closely as to how they could renegotiate, I would say, with the existing vendors for the supplies for the future orders, A. And B is about: let me tell you, it is not an easy task because quite a few of our vendors are MSME vendors; it's a tight rope walk. We need to really balance as to how we can push the vendors to what extent. I think most of it is focused on design optimization so that any change in material cost which comes, stays for a longer time.

PEX:

The personal expenses what I had explained to you. And when it comes to the other expenses, I think it has two parts. One is definitely the FOREX impact, if you all remember, in the previous quarter we had roughly around about Rs. 50 crores as an impact due to volatility of FOREX. But in this quarter, we got a gain of Rs. 34 crores, which helped us to improve the numbers. So that's a part and parcel of the game because we look at PBT as an end number to reckon with. And the other expenses, discretionary spend, is about the travel, the advertisement, the communication expenses, the consumables and the rent. We are also looking at how do we look at our real-estate footprint to make sure that going forward we are managing it in a reasonable way, and also in terms of how we spend on our stationery. In a nutshell, this situation pushed each one of us to rethink how do we conduct our business in current situation in a new way of working, and adapt it as we go forward when the market opens. So it was an interesting quarter, that's what I would say. So interest costs remained flat. And also the ETR remains at 25%, 26% as per the new standards, as the new guidelines for tax.

PBT bridge

Coming from previous year same quarter, compared to that we lost almost Rs. 240 crores on account of share volume and the mix impact. We also spent a bit more of cost on the IT because we need to make sure that our future products are IT enabled and the way it could work. And as I was mentioning to you, Rs. 34 crores came up as an upside on the FOREX. We had savings in terms of the group fees, the receivable provisioning because we focused on a lot of overdues to be collected, so we could be successful with that collection because that would help us. And of course, the third-party services were minimum compared to what we used to normally take because the people who are available were already there to carry out the work, so that was used selectively. And that is why we arrived on a PBT of Rs. 21 crores on a lower base. Overall, I would consider this as a reasonable performance in this particular point of time. Good to say is that we did not have any extraordinary incomes like what we had in the last quarter as well or the quarter before in terms of solar or in terms of income tax refunds or something like that. Yet, we managed to scrape through the numbers in a reasonable way.

And this shows about the trend. Electrification products and Industrial Automation, of course, a challenge. These are based more on the revenues which will pick up, and then we should be able to do better profitability going forward. And there is more about the capacities what we had. Motion had an impact of the FOREX last quarter, which has regained back, and similarly on Robot Automation to a certain extent. This is the pie of how our businesses are. Predominantly dominated by EL and MO to more than 75%, so that remains consistent with the previous years as well. But if you look at it, I think slowly MO and EL are becoming stronger. Hopefully, when the demand picks up, probably a correction could happen with respect to Industrial Automation also picking up some orders and becoming than what it is today.



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This is my last slide; that was about how do we see our businesses getting structured with, in terms of channels, in terms of geography, in terms of offering. If you look at it, in this particular quarter, we had definitely a lesser export content than what we normally used to have. This was largely driven by the fact that the other geographies were not ready to accept the material or they were also having the same issues what we had, the transportation of the material was not so smooth, as what it normally should be. This is also one of the reasons tmo why we have a slightly reduced offtake on the exports part. And when it comes to the other segments, we remain consistent. So overall, I would say, the direct sales has been subdued at this point of time, and that's been reflecting the sentiment in the market. The sales to the system integrators, panel builders and everything is picking up as what it is in this current situation.

Other dimension of projects and services:

You can see that large CAPEX is not picking up, which is reflected in the share of orders, and sort of projects not picking up in terms of their contribution, total revenue profiling. Overall, we remain on the product and service supplies as a major stream of revenues going forward. We did not have, in this particular quarter, any major issues with legacy projects impacting us in terms of overruns or delays or something like that; we are keeping a close watch on that because that's an important point at this point of time because there are quite a few customers who could be vulnerable in the current circumstances. As per the assessment what we did in Q2, we did not see much of that. We hope so that going forward we don't have such circumstances grow beyond our control, and as everyone would agree.

I think the pandemic which we are facing at this point of time, if anyone could guess when it could sort of normalize and come back to a situation we were at in the last year, so I think we need to give some time to make sure that we have a reasonable uptick in the revenues. But while we look at it, it's good that we are aware that this could impact us. But we are prepared to handle it as we go forward to make sure that all engines of the organization are working in tandem.

That was it from my side. Thank you very much. So Raymond, we can open up for questions and answers, please.

Moderator: Thank you very much. We will now begin the questions-and-answer session.

T.K. Sridhar: Just to let everyone know, while we get the questions, Sanjeev and I will try to answer the questions. And where it requires certain division specific focus, we will also request the respective division managers to give in their views, which could be a good viewpoint to share.

Moderator: Thank you. We take the first question from the line of Abhishek Puri from Axis Capital. Please go ahead.



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Abhishek Puri:

Congrats for a decent set of results in the tough environment. Sir, two questions. First, in terms of the net working capital, the cash flow has been negative. What has been the reason for debtors and inventory and other current assets all to have gone up, if you can speak about that?

Secondly, in terms of Automation business, the Industrial Automation business has posted the best revenues, I mean the decline is the least, let me put it that way, while other segments are much weaker. So despite that, why are the margins lowest amongst all the sectors in IA and Robotics? Is the cost structure high or is the import component high and that has led to the hit? Or is there any FOREX component that has also led to the hit, if we can elaborate on that?

And any change in the direction that you have seen post this pandemic in terms of technology, in terms of essence for some of the specific products and sectors, especially digitalization and automation products if their demand and inquiries have gone up? If you can elaborate on that as well, please. Thank you.

T.K. Sridhar:

Thank you, Abhishek. Let me answer your first question, which is the net working capital. I know that you are picking up this particular question, and there is also a question that came up in today's AGM. We are looking at the balance sheet and where you could see the net working capital movement, an adverse net working capital movement, and that's how you look at it. We need to remember that we still have non-novated contracts of PG, which is causing this disproportionate movement. We are quite close to where we would have all our contracts novated till the time it is as per the delivery scheme approved by the court, we have those particular contracts passed through ABB books. And that's how you see a net working capital movement.

But while I say this, I think we need to look at, and this would throw up a question as to then if this has been the net working capital, how did we still manage the cash? And I think there, I would like to tell you, we had different sets of actions. One was net working capital focus, which was driven by the businesses. There were other items like tax refunds, we almost got Rs. 88 crores of tax refunds in this particular quarter. The sale of solar which gave us somewhere like Rs. 57 crores - Rs. 60 crores of money. And also the other agreements and other sales to PG which also gave us the money.

In other words, what I want to say is that in today's scenario we are not looking only at operating cash flow, but also at free cash flow so that we are able to manage cash as a resource that is available to the business for conducting the future trade transactions. And this anomaly will remain till such time, till the PG business is able to set its foot on ground after novating all its contracts with the customers. As you know, it's a lengthy process, it takes time because we are dealing with government department, government customers, who have their own processes to adhere to.

Your next question was about the profitability of Industrial Automation and why it is low and so is Robotics. I think and here, it is clearly coming up as revenue. If you typically look at



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Industrial Automation, it has two very vital components, exports and services. Both these components of the businesses were not active at all in the Q2. I think the service, even though we could do remotely certain definite projects in terms of how we could continue our business with the customer, but the mobility of the service people to the sites was hampered. And so that did not give us the leverage to push our service revenues.

And also the exports, as I was mentioning, was also beleaguered tower stuff. When it comes to Robotics, you can understand the revenue levels are far too low compared to what they would normally used to produce, right? While I say this, I would like to tell you, we are also getting trained, retrained, rather I would say, as to how do we set our breakeven points and the fixed costs with the new levels of what we need to work with. This is a journey which we have started, which will come into more legible scenario going forward. Over to you, Sanjeev.

Sanjeev Sharma:

I think there was one question from you about change in direction in post-COVID world, Abhishek. I think it's not a speculation or projection, but what are the likely cases that will happen. In the number of market segments that we operate, we do see that there are very strong players with their balance sheet and there are some weak players. One thing we will see in current market segments is that the consolidation will take place because of that reason. It means you will have medium-sized and larger sized companies consolidating their positions.

We also foresee that there will be investments in productivity, energy efficiency related issues, because companies which have a good balance sheet they will typically invest in these kind of assets so that they are able to create more distance from the lowest cost competitors who could be struggling going forward. Investment in Industry 4.0, Robotics, Automation, and energy efficiency equipment, we do see the trend already forming, and the inquiries also suggest in that direction.

The segments which will consolidate and will expand in a way, will be in the data centers. I think we will see this just because of digitalization and also the kind of the services that needs to be provided locally as well as the data needs to be managed locally, and the expansion of the usage of data by the population, the data center business is expanding quite rapidly. So that's something witnessing much larger expansion. There is going to be a boost in the electronics manufacturing, we already see. You may not know but electronic manufacturing is a big user of robotics. And there, again, we see a lot of play for us coming up.

So is the case in the food and beverage and pharma industry. There again, we see quite a good uptake and absorption and adaption of Robotics technology in different parts of the application. That's why, though the Robotics numbers quarter-by-quarter may look at slightly weaker on the back of their exposure to automotive, but at this point of time, we are investing in that business because we see a forward trend in the robotics side, given the penetration rate of Robotics per 1,000 people is pretty low, quite low relative to comparable economies in the world. I think that is an area we will see that the growth will come.



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Now, Services, I think they will pick back up quickly. I mentioned earlier, exports is something with geopolitical issues. We might see some traction there. Given the post-COVID world, there will be different pressures in different corners of the world. I think India has capacity and the training among the people and among the employees of companies like ABB, which can not only engineer, which can not only manufacture, not only service, not only manage projects, but also manufacture at very competitive rates and also in a good productive levels relative to the world. I believe that kind of forward-looking trends emerging then we will see how the whole world opens-up. There are a lot of surprises in-store for us, but we are adapting as we go forward.

Moderator: Thank you. The next question is from the line of Bhavin Vithlani from SBI Mutual Funds. Please go ahead.

Bhavin Vithlani: Congratulations for good numbers despite challenging times. So my question is first to Sridhar. We saw a sharp drop in the other expenses, absolute basis as well as on a percentage of sales. So what percentage of this is actually more sticky and will stay here? And what actually can come back? You mentioned one item there is an FX gain, so I am not sure whether it's classified in that.

The second, again, is on the previous question, sir, follow-up. In the parents' call, it was mentioned IA margins actually came down because of inability to service, and some of these recurring AMCs were not active in the lockdown. So that impacted in that. And once the situation comes back, we will see the margins back to the double digits. So any color here?

And last is on the automation side of the business, maybe more structurally. When I look at ABB versus your peer set on the automation side, so two areas where I see an opportunity for ABB or whether gaps, is the building automation side and second is on the warehousing side. So any efforts on that side would be useful.

T.K. Sridhar: Very good. So thank you, Bhavin. So let me answer the first question, which was more focused on the other expenses. Other expenses reduction, the major portion is what I was mentioning, is due to a favorable FOREX compared to the previous quarter. If you look at the slide what I have given to you, the impact is about Rs. 43 crores. If you probably adjust that, you will come to a revised number. And from that if you look at it, so there will be certain expenses which are volume-driven, and there are certain expenses which are fixed, irrespective of volume. So the volume -driven expenses like packing, freight, consumables, and etc go with the revenue increase.. But there are certain expenses, which will not behave, which more like travel, could be a new normal. Today, we don't travel, or I would say, there may not be so much of travel like it used to be earlier. In terms of using branding or other stuff, I think, could be less, not much of events which will happen.

Whatever we discuss at this point of time is something which will stay for some time till the situation becomes growth oriented and demand picks up so steeply that people have to travel and sort to network and try to get the things done. When the projects open-up, people will have



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to go to the service side to make sure that the customers are attended to. I think this is the first quarter where we have seen that we have come to this expense level at this point of time.

Sanjeev Sharma:

Yes, I think there was a question about the global call and the IA margins, service and AMC. Which is true because of the movement restriction, service and AMCs do get impacted. We also allowed, during this period of time, certain digital services should be offered free to the customer, because in these times we need to support our customers. Since we can't physically be with them, we have given them enabling tools so that they can carry those activities themselves or they can interact with us remotely. But at the same time, the business continuity is not only for ABB, business continuity for our customers is very important. But as a side effect, most of our customers who never used to use these digital services and technology before, are getting used to it, and I think that will become sticky when we withdraw our offer of not delivering them for free of cost. That's one change that will come. But yes, it is just what it is. During this period, we had a lot of missed days of serving the customers within the AMC. I think AMCs are not that affected because we are able to deliver our commitments remotely. While the physical service of where we need to deliver, elements have been restricted either from the customer side or our inability to travel during the lockdown periods.

With respect to your comment on building automation, warehousing, you are right. I think building automation is indeed one of our focus areas. The Electrification division and partly our Motion division has lot to offer in terms of efficiency. Just to let you know, the whole of Delhi airport is on ABB automation systems. The many new hotel chains which are coming up, they are on ABB building automation system. And you can check with the owners, not only does it provide better comfort to the occupants, but also it aids into a lot of energy efficiency, so definitely its part of the trend. In India, there has been a less absorption of this technology, but it will catch up to the other trends we have in other cities. That's a good area which we have, and we have best-in-class technology there. Warehousing and logistics, because of the advent of e-commerce I think there's a big move. Because of GST rationalization a few years ago, there again I think multiple avenues through our channel partners, we were able to tap into those market segments. Yes, we have a good growth in those segments. We do see it will continue to grow in a good way going forward.

Moderator:

Thank you. The next question is from the line of Bharat Shah from ASK Investment Managers. Please go ahead.

Bharat Shah: You see, in the case of ABB is at a vantage point of some very interesting remaking or reordering of the world manufacturing in industrialization, like you described it is Industry 4.0. Many important technologies, digital technologies, robotics, process automation, industrial automation, energy efficiencies, mobility, 3D manufacturing and what not. Despite the external opportunities, and probably internal preparedness of ABB to deal with each of these opportunities, if you see over the last several years, performance of ABB has been on the top-line kind of barely rolling, and on the bottom-line even more indifferent. So when do you think



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ABB will rise to its own potential? As always we saw the state of very interesting and exciting opportunities which have been in the environment?

Sanjeev Sharma:

Okay. I can take that. See, ABB's mix of businesses were very different when you look into the last years. We had the Power Grid business part of it, solar business which went through higher and the lower cycles. And now we are out of those businesses. Power Grid is a separate company in itself, it will deal with the Codman business as well as utility business and some industrials on their own, and you can listen in what their strategy is. And also on the solar business into a company which is somewhere else. Now if you really look...

Bharat Shah:

Sir, sorry to interrupt. I am not referring to the recent changes. There has been a series of structuring and restructuring over six, seven years. I am saying on a longer-term basis when you cut through all of these changes, are we satisfied as to where we are? And whether we think going ahead our true potential vis-à-vis opportunity, where do we see it being harnessed?

Sanjeev Sharma:

Right. So, I think I was referring to you since you mentioned about the last few years' performance, so on a relative scale, yes, the portfolio mix has changed dramatically within ABB. Currently, it's about 75% is our Products business; 15% is Services, ABB India Limited; and about 10% Projects. The velocity of the business in relation to the market demand that will grow as we come out of this pandemic situation, we see that velocity happening for us because the product business, even after the lockdown, as I mentioned, the run rate that we have on the product business is much more robust even during the period when we operated post lockdown. We do see that velocity purely based on the nature of the business that we will carry forward. That's number one.

Number two, if you closely watch the market trends and you watch our portfolio, wherein you talk about electrification, basically whether it is going to the distribution systems into the smart cities or the industries, Robotics and Automation, Industry 4.0 trend, Industrial Automation and the Digitization, wherein all the large industries are digitizing their assets, that falls into the sweet spot. And the Motion business, which is purely on the energy efficiency basis, the best-in-class portfolio, that's a play we are placing. If you see the global trends of energy efficiency, managing energy properly, bringing higher productivity by Automation and Industry 4.0, that's where our portfolio is positioned at this point of time. That's kind of a trend we foresee that we will ride going forward with our 16 distinct business divisions.

Bharat Shah:

If you take a gaze into the future, over what kind of a time frame do you believe the size of our business probably will be at least double, given all the exciting opportunities, and internal preparedness of ABB? Would you say it will be three years, four years, five years, when?

Sanjeev Sharma:

So I hope my answer doesn't disappoint you. I am not looking anything beyond December this year at the moment. Given the pandemic situation we have, we are not really projecting ourselves forward. We are really managing our operation and the safety of our employees and the operation and the cash in a very stressed situation we have today. So that's where we have the scenario for



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likely scenario, best-case scenario and worst-case scenario. But we do have a strategy which is in place for each and every business division, and that is where you can see the multiplier growth. If you have listened to our new global CEO's direction, he is looking for ABB, at a global level, to operate 15% EBITDA margin level. And that will have a corresponding effect on all the units globally. That is where our ambition gets set.

Bharat Shah:

I hope it reaches that. Thanks.

Moderator:

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

Renu Baid:

I have two questions. First would be, you did mention that the geopolitical situation today opens up new export opportunities. So would you have anything to share in terms of details what could be the likely product line for services where we can add up our export opportunities? And the likely CAPEX on this, even from a 12 to 18-month perspective?

And the second question would be, if you look at the P&L, despite lower share of revenues coming in from services and exports, gross margins have been pretty steady for the last two quarters. So is it entirely because of the price renegotiation and benign costs that we have looked at? And as we move forward over the next two to four quarters, with improvement in sales mix from both services and exports, can we expect gross margins to improve further from here?

Sanjeev Sharma:

The geopolitical situation, I think it is still playing out. There is a stress level with the U.S. and China trade issues, so we don't know how it plays out coming November elections in U.S. That's purely a global scenario. As far as we are concerned, we are very well prepared. Our first port of call is to serve our domestic customers here in this country. That's the reason primarily we are here for. Most of these businesses, since they are well-established, today we had our 70th AGM, so we have been here for a long time. Right now, the group and the business leaders globally, we do hear from them, they would like to leverage India for the global scene. Not necessarily because of the geopolitics, I think it is purely out of the competence and the scale that we have been able to create. That has been a trend which has been going on for a period of time. Being a multinational, we have equally high investments in China. We have production capacities there, so we are not stopping a plant here, at one place, and moving to India. What we will do is, all the new opportunities that will come which are affected by the geopolitics, I think that's where probably we will have something to gain. But that picture, I cannot paint it very clearly at this point of time, but it's more of a trend.

Renu Baid:

Would it be spread across both products and services or more so focused on products like, to the cash as well?

Sanjeev Sharma:

So I will see more on the product side than on services.

T.K. Sridhar:

So Renu, the other question was about the margins. I think, one question is the choice of customers and how do we push? Because till now the net price realization always had a positive



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impact, and that helped us. These are all orders which were taken in the good times, which are actually giving us the margins at this point of time. I think going forward, with the market conditions and not such a very opened up market at this point of time, we will try to maintain at what levels we are at this point of time. That's what we are when it comes to the contribution levels. And that's exactly what we are trying to see, is that material cost which is a major component of the cost structure should be something at the 65% levels, which should not hover very much because we have less sensitivities when it comes to projects, it's more products. That's why we are, at this point of time, saying that we would like to maintain our position. As I mentioned, the other cost is basically something which we are fine tuning. We need to look at it in the next two quarters when the market opens up, at what levels they go and stabilize. Then that becomes the base for the next few couple of more years to come with from where we start. In other words, it's becoming an indirect case of a zero-based budgeting mode across all units in the organization.

Renu Baid: But your comments on gross margin, do they also imply that the recent orders which are coming in the tough environment are coming with lower contribution margins or with increased price intensity?

T.K. Sridhar: It's a mixed bag, I would say, at this point of time because it's a demand-supply situation. For example, if you look at probably a traction converter side or something like that, if it is a large order, it's a system order, so it could come up with not a great margin like what a normal product or an export order would have. But in case it is a highly digital-focused product, like smart products and sort of stuff, it comes up with a better margin. We need to look at how does it positions itself and what could be the mix which could come up over there.

Moderator: We take the next question from the line of Deepesh Agarwal from UTI Mutual Fund. Please go ahead.

Deepesh Agarwal: Congratulations for managing tough times very well. My first question is, can you help us understand the breakup of your business in terms of exposure to government, PSU and private sector on the domestic side. Breakup on, say, trailing 12-months revenue or order book, which is handy would be helpful.

Secondly, I understand there are some overhead expenses which we are recovering from ABB Power System for using our infra. Can you help us clarify when ABB Power Systems move to their own offices and ERPs, would there be a net increase in power overhead which is attached to P&L? And if yes, can you quantify.

And lastly, if I read your annual report, it seems the bulk of your export growth in CY '19 was led by increase in sales to an entity called Power-One Renewable Energy, USA. Is it linked to solar inverter? And if yes, would the business cease with the divestiture of the solar inverter?



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T.K. Sridhar: The last question first. Solar Power-One, yes, it pertains to solar. Solar is no more there, so the Power-One business will not be there. Other than, in case if we get some components with some of the Electrification products to supply as a part of that particular offering to Power-One or it could also be owing to the local solar organizations which have been formed. In other words, it is not a number which you could rely upon going forward. That's about it.

The next part is, what are those services, what are you going to give to PG and how does it come? Okay. This is basically a global contract, what we have for ABB as such at this point of time. Those contracts have also to get novated for PG, and it takes some time, especially when it comes to the IS portfolio, because that means we need to resize the entire IS setup what we have for ABB with PG. When that IS restructuring of the sizing happens of total IS systems, then the cost and everything moves over to PG. So it will not be a standard cost for ABB at this point of time. What we are giving to is only those costs which they are not able to incur, we are trying to build them where they are not able to do in the current structure, where they are seeking services from ABB to front-end them. And going forward, it would probably reduce.

The IT systems and this thing will take a longer time. So the horizon at this point of time is minimum two years as what we see.

Deepesh Agarwal: Breakup of your order book or your revenue in terms of government, PSU and private sector?

T.K. Sridhar: Okay. So I will draw your attention to the last slide of my presentation, where it is by channels, which you can see. And if you look at it, most of it would be probably through industry and the private customers. And in terms of the government customers, which is basically what we have, comes from distribution businesses and probably something from Industrial Automation businesses. My rough estimate should be around about 10% maximum, balance is all through industry and exports.

Deepesh Agarwal: 10% to government you are saying?

T.K. Sridhar: Yes, government and public sector undertaking.

Sanjeev Sharma: The government railways and some utilities.

T.K. Sridhar: Yes. Railways, utilities, and some public sector companies.

Moderator: Thank you very much. We will take that as the last question. I would now like to hand the conference back to Mr. Sridhar for closing comments.

T.K. Sridhar: Raymond, thank you very much. Thanks to the management, and thanks for the analysts on the call. This was a tough quarter for all of us. I hope that the next quarter is at least better than this. So we may hope to meet you again and talk to you again in the next quarter. Thank you for taking this call and supporting us on the performance what we have delivered in this particular



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quarter. And of course, the management who is there leading these particular businesses in their respective divisions, I think, a good job done from their side. Thank you very much.

Moderator:

Thank you very much. On behalf of ABB India Limited, that concludes this conference. Thank you for joining us, ladies and gentlemen. You may now disconnect your lines.

(This document has been edited for readability purpose)



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