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Ladies and gentlemen, good day, and welcome to the ABB India's Q1 2020 analyst call. (Operator Instructions) Please note that this conference is being recorded. The management is represented by Mr. Sanjeev Sharma, CEO; and Mr. Sridhar, CFO.

I would now like to hand the conference over to Mr. T.K. Sridhar, CFO, ABB India. Thank you, and over to you, sir.

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [2]

Thank you. Thank you, Zana, and good morning, and a warm welcome to the Q1 2020 results call. So along with me, are quite a few people from ABB side. So we have Sanjeev Sharma, the Country Managing Director. We have Sanjeev Arora, who is leading the Motion business. And then we have C.P. Vyas, who's the Division Manager for Electrification; Subrata Karmakar; and also G. Balaji from Industrial Automation. Subrata Karmakar for Robotics and Discrete Automation, right?

So without wasting much of our time -- so I think we've already waited couple of -- yes, 10 minutes late. This is more for people to joining this particular call. I understand there were some difficulties or waiting time for that, apologies for that.

So I now hand over to Sanjeev to take us through the business highlights, and then I come now for the financial commentary and then the performance part of it. Over to you, Sanjeev.

Thank you, Sridhar. Good morning to all of you. And thanks for joining this call. I'm sure many of you must be joining or most of you must be joining working from home. So this is something we see as a new normal in the world of global pandemic. And I think given the age group all of us belong, probably this is our first experience of such a global pandemic. So within the experiences we have, all of us know that nobody had a playbook for the business as well as for the state or the country or the global economy, how to deal with such a pandemic, though there were some early warnings by some wise people that how to deal with it. But now we are in the middle of it. And all of us are adapting to the new normal that we see ourselves in.

From our perspective, our strategy remains as robust, as stable as it was before. So there's no change in the short, mid and long-term strategy that we have put in place. Our focus on the customers as well as serving them with our products and services, remains intact. And also all our product lines as well as our business leaders, they are engaged with our customers. The only thing that has changed is the management focus, wherein we are taking every day as it comes, given that we were under the unprecedented lock down condition in India, wherein the government shutdown in terms of their own interface with the businesses to buy and sell, and buy the services. Most of the customers or the corporates, they shut down for last few weeks. And also, of course, our supply chain also got affected. But this is something which is normal for all the businesses across the countries. And fortunately, for the last 1.5 weeks now, we have the gradual

reopening of the industry. And all our factories which were shut between 24th of March to 4th of May, they're all reopened. And now we are kind of, again, sensing the operations, our supply chain and the market demand as this clears up as all other customers and also other businesses start opening up slowly.

Now what our first priority was as ABB in India is to address COVID-19 issues as they came up. And the first point of response for us always is to make sure that we take care of health and safety of our employees and all the people who are connected with us, whether they are contractors and laborers who are working on our construction site. So first thing we did is we made sure that there was a dedicated group -- steering company and country task force setup, and we made sure that everybody has right communication on a daily basis and everybody got the guidance in terms of how to act and behave. So I believe we did it quite successfully there. And the -- all employees and all our subcontractors, they were well communicated and they were quite stable during this period of time.

And as we restart that kind of preparation and that communication and alignment has really helped us because we have a very smooth restart of our own operations and also our supply chain, which was always connected. They also are responding well. And we have mobilized our workforce on a graduated basis. And also, of course, we start looking into cash collection from our customers and also start looking into how the market is responding in terms of taking up the equipment they already ordered, which is in our backlog and how they are going to place new orders and how the cash and credit situation is emerging in the marketplace. So that would have been our focus in the last few days, and we keep on -- together with our core leadership team, we keep on adapting on a daily basis as the markets come back to normal in next week.

So while we were doing this, we -- our operations though we were only work from home, (inaudible) what we had seen, which were mobilized to help different aspects of the business. Like, for example, we powered up an isolation ward for COVID hospital in 48 hours in Kerala, for that matter. And then we also helped a company to expand its sanitizer production, because there were certain processes which needs to be fine tuned in a different way. And we also have lot of customers who were allowed to work during the lock down to make sure that they have reasonable continuity of operations, and we bought special partners and permission from the customers to help them.

Next slide. So with the results, I think we had a good start of first quarter through January, February and half of March, wherein you can see that compared to quarter 1 '19, our orders grew by 10% and compared to quarter 4 '19, our orders grew by 22%. We have a good backlog, and we grew compared to quarter 1 '19, but it grew 8% above the quarter 4 '19. And revenue since we went into practically lockdown in the last 10 days of March, and that's where the maximum revenues happen, so though our equipment were ready and all those revenues were to be realized, so there was a big impact on the revenue side for quarter closing, and that's why you see a kind of a degrowth in the revenue numbers, and correspondingly, an impact on the profit after tax.

Now if you look into our 4 businesses, Electrification, Motion, Industrial Automation, Robotics and Discrete Automation. So that tells you a very good story in terms of what's happening in different market segments because all these businesses are having a different proposition for the market. So in the Electrification side, our orders were mainly flat at 3% growth. Revenue went down by 15%. And since the focus is on buildings, including airports, data centers, metro, water, automotive, et cetera, so there was an impact that came from there. Then we had a 30% order growth in the Motion division because we got a large contract by Indian Railways. And also, we had a good traction in first quarter for export orders. But for the reasons explained, the revenues in first quarter were down 21% on a year-on-year basis. And also, there were -- water project was slightly slow for us during this period. And that, in fact, is more affected.

In the case of Industrial Automation, we saw 10% order growth and where -- we had some good wins in the Energy business and Turbocharging business. But we did have shortfall on service revenues. And then this is something which we are building up as we go forward. And we also had good cash collections in the Industrial Automation.

Robotics, which is primarily exposed to the automotive industry, it's -- and the automotive industry and the ancillaries, so it reflected the slowdown in the automotive industry. And also, the revenues were down. And now we are focusing on cost rationalization in this business.

So our immediate priorities are, of course, as I started with, is health and safety. Our protocols are pretty stringent. We follow all the government guidelines, but also we increased those guidelines to even higher standards because we have learned a lot from our Chinese and Italian operations because how they went about. And plus, the practical measures that we are taking at a local level. So we are ensuring that our

people are safe. And also, we will assume that these conditions will remain for many months to come. So we will have a new way of adapting and running our operations going forward.

And we have a very strong cost mitigation planning. So wherein different aspects of cost has been kind of covered and -- whether it is material cost, it is personal cost or it is discretionary spend and many line items. So we are -- really have a fine form to our line items. And yes, we have a fairly solid plan there how to mitigate the cost.

And in terms of Transformation, we have the ABB digital tools, all across the businesses have adopted. We -
- our ability to connect with the customers virtually is pretty strong. And I think during last 1.5 months of lock down, I think we have a much stronger interface with our customers during this period by educating customers in the technology, while our customers were also held back actively at their homes. So we had scores of webinars for our customers for each area. And I think we had a very, very good coverage there. And it was much appreciated by our customers as well. And we are using all the new remote technologies, and I believe that will stay with us for future. I don't think we are going to return to how it seems to be in the past. It will be this company and the interface, whether it's global or local or with customers or internally, it will run on a very different way in future. And probably, it will have a very high cost leverage for us for every point of contract we make with the customers and the external world.

We have identified the right market segments post lock down, and we already have a plan to how to engage with the customers and how to do the account management. So that's where -- again, we prepared our sales team in a very strong way in the last 1.5 to 2 months how to look into the market and how to engage that and how to serve it. So obviously, our focus will go in the market segments, which are going to bounce back quickly and need the support from us, and that's how we have aligned ourselves going forward.

So this is a brief commentary from my side, and then I'll come back again when the question-and-answer session is open. Right now for financial, I hand it over to our CFO, Mr. T.K. Sridhar.

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [4]

Thank you, Sanjeev. So I think we go to the financial highlights, and I think it's where I expect lot of questions to come, so -- but I'll make sure that I give all the necessary information that is required, okay?

So orders, if you look at it

(technical difficulty)

and if I exclude the solar business, which was included in the orders over there, we are -- we will be up by 18 percentage for the quarter-on-quarter, right? So on the revenue front, I think the backlog, of course, has what done -- Sanjeev was mentioning earlier. Compared to the previous quarter, we have an increase, but compared to the same quarter last year, we definitely have a decrease. So this -- and this order -- orders from confirmed orders from customers, which will -- we have a good revenue visibility going forward. And this is all spread across all the -- equally spread across and all the divisions. And so I think this should basically help our planning for future deliveries to the customers. At this moment of time, depending upon -- I'm looking at the scenario what we are, we don't see any alarming situation on the backlog, not getting converted or getting stuck at this point of time. So we believe that once the market revives, we will have a fair visibility to plan for the execution of these particular orders.

So profit before tax, I will dwell up on it a bit later because this requires a bit more deeper explanations, which we'll do. So on an operational basis, we were down 78 percentage and the majority coming from 3 elements, which is the volume shortfall. The other one is definitely the one which was -- and not beyond the control of anyone is about the ForEx and the commodity inflations, what we are looking at mark-to-market impact. And the last one is about the fixed cost which we have, which we need to sort of recover and the mix which we had. So -- and another one, which came to our sort of a good improvement upside is about how we dealt with the interest income from the refunds which we had from our government department, which materialized in the first quarter. And also about the sale of solar business, right? So I will come about it also in the next couple of slides when we can deal more about how the solar business is.

So the solar business, when it comes to how it looked at in 2019 and how it looks at for the full year. So in the month of -- for the first quarter of 2019, solar business constituted of round about INR 170 crores of

volumes and the profitability was just breakeven or slightly higher than that, right? And for the full year, it was roughly around about INR 700 crores and with a margin levels of similar margin levels, not so attractive, right? So -- and when it comes -- and so now overall -- so if anyone wants to know what is the sort of an impact which came out of the lock down, which happened for 3 weeks in month of March, which was absolutely time crucial, right? So we lost sort of about INR 175 crores on orders, around INR 200 crores on revenues and also INR 200 crores from -- INR 175 crores on our collections, right? So -- yes, which was an impact which definitely could not be converted because due to lot of issues, what we had, right? So -- and -- but given the fact that we are in the situation, so we will make sure that going forward, we have a better mitigation strategy from there.

So looking at -- we lose -- we'll look at the Performance segment -- performance summary in 2 parts: one, which is dealing with the orders and the order backlog, right? So -- which is there in front of you. So we had an order book for the current quarter, Electrification to the extent of INR 670 crores. Roughly, Industry Automation had a good growth of INR 743 crores and Motion had a fantastic growth of INR 843 crores, and this was basically the order which we missed in Q4 and which came in for the traction converters from the railways. And Robotics, of course, we export to the automotive sector. So we have definitely have been facing continuous headwinds in this particular division, right? So order backlog is likely -- looking at the order booking, what happened in Q1, so at this point of time we have a strong order backlog with visibility to convert it to revenue.

So going to the -- next slide is about the financial structural analysis of how our costs are behaving. So if you look at it, the other income went up by roughly around about INR 20 crores -- INR 26 crores, and that's more because of -- we had INR 18 crores of refund, which we got from the income tax department for the expense what was made in the -- for the earlier years. So it was -- those tells us that we have been pretty much -- our coordination on the documentation of the income tax and the government department is strong enough that we're able to get the refund. And the other thing is about the material cost. Material costs saw a decline or an improvement compared to the previous quarter, so from 68.5% to 55.2%. And it's more coming up from the localization initiatives, what is happening -- what is continuously happening across all the divisions, right? So -- and the other expenses is more mired by the ForEx impact, what has come in that. So I will go to it next -- in the next slide, right? And of course, we had an exceptional item on the profit on sale of solar business. And to explain -- I will explain those in the next couple of slides. So overall, I think it was a quarter where from another -- we were challenged by the operational earnings, but which was offset to a good extent by nonoperational items from the operations as such.

So next slide, I think this is something which I think we are first-time explaining through a waterfall, so which would give a good view of how -- movement of how this happened. So if you look at it, we started with a profitability of INR 139 crores from the year beginning -- I mean, the last quarter at the same time, right? And we had a revenue shortfall of almost INR 320 crores, which resulted in a -- on a contribution shortfall or in what we call (inaudible) periodically and under absorption at INR 112 crores, which was offset by good material cost production initiatives to the extent of INR 55 crores. But again, this was again sort of taken away by the market impact of the ForEx and the commodity because we do an hedging. So on the mark-to-market impact really was quite sizable in this particular quarter, as always know. So that's the extent of -- to the extent of INR 35 crores. And then the other expenses like the personal expenses and the other costs, which was -- which is more fixed in terms of nature was a INR 35 crore impact and that was -- I mean, there were some upside as what we said due to interest income on the income refunds and the solar business.

So solar business is -- the logic is the transaction value was estimated based on the balance sheet of 2019 December. So -- and then with an effect -- with an adjustment to be done for the cash, which -- to ABB's account. So during the quarter, we collected quite stably on the receivables, and that's why we were able to improve the value of the balance sheet, and that's why the transaction value over the net assets what we transferred was higher, which came up to this particular -- and the profitability -- profit on the sale of transaction, right -- on the business. So with this, we reached the profitability of INR 87 crores, right, for this particular quarter.

Just to have a view of segmental performance, where we had already explained the order part of it. Now we're explaining the profitability part of it, right? So -- and if you look at it, so all the divisions had a short fall of revenues compared to the previous quarter, right? And the reasons are quite similar in all the divisions because they had delay in dispatch clearances. The customers were not ready to take the material. There were logistic hurdles about to transport the material. And of course, when we do this, when we knew that this is [familiar], so we also -- we are also pretty much cautious about to whom we ship the material because it's not happened. The material gets up on the road or go to a customer who is -- who are facing a cash challenge. And so there was a fortuitous scrutiny of to whom, which we realized well, right?

And similarly -- and when it comes to the profitability, clearly due to an under-absorption in quite a few -- in almost all the segments, but cumulatively with the ForEx impact coming up in one segment where we have for a large import and ForEx transactions, which is between EL, IA and MO, right? And in the case of (inaudible), we had definitely some volume shortfall and a mix impact between the project systems and services. This is a trend which I'll not go deeper into this because, of course, this is a trend. And I think this - with the current picture, this doesn't seem to be so. It's rising according to all of us, right?

On the share of the business, I think this is -- this was clearly in the same direction as what it was in the previous quarter and the previous year, right? So EL and MO are basically the key divisions, which contribute to the -- both the top line and the bottom line with IA slightly picking up over -- from the previous quarter to this year.

So this is a different topic to understand how our business model is. This is pretty much important for all of us to understand between how are the spread between distributors, direct sales and other elements of it, right? And if I look at it, I think we're equally spread. Direct sales contribute a major 40% of it. And the distributors contribute 26% of it. That means we have a very diversified track of customers. So we are not locked to one sector, but we are -- actually have a good base on which we could start working on and penetrating, right? And when it comes to the geographies which we want to do, right? Our exports -- this is based on revenues. What we have -- what we see over here, right? And during the last year, we had 14% of exports, but this quarter, we could only do 10% of exports because overall lined up for the next -- last 2 weeks, which we could not ship at out, right? And when it comes to the offering with respect to project services and systems products, seem to be the major feed, almost 80% of it is coming from the product, right, and 8% from the projects and 14% from the services. So overall, if you look at this, the mix is also a key player because we are lower in exports, we are lower in -- presently, in terms of revenue. And naturally, this also played out in the bottom line earnings of the company.

So key (inaudible), I think I will skip this particular slide that was anyhow loaded. So because you guys would always be doing it in your own ways. So with this -- this is probably the last slide for me.

And with this, I hand over back to Zana to start the Q&A session.

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Questions and Answers

Operator [1]

(Operator Instructions) We take the first question from the line of Ashwani Kumar from Nippon India.

Ashwani Kumar, Nippon Life India Asset Management Limited - Senior Equity Fund Manager [2]

My question was, if you have a backlog of, let's say, INR 6,500 crores or INR 6,600 crores, once the factories -- all the factories open up, is there any fear or risk of cancellation of these orders? And second, since the factories might be working underutilized in April and particularly in May also for the first 15 days. Can you make up the turnover by, let's say, working extra shifts? And can you do that backlog -- complete that backlog and reach the normal turnover for a quarter in, let's say, July to September?

Sanjeev Sharma, ABB India Limited - MD & Director [3]

Thanks for the question. So I think there should be a correction in the number of the backlog. I think it's not INR 6,500 crores...

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [4]

It is INR 4,400 crores. I think INR 6,000 crores is more on this.

Sanjeev Sharma, ABB India Limited - MD & Director [5]

So it's INR 4,444 crores. Yes, absolutely. So I think it is fair to expect that the markets in different market segments and different customers can react in a certain way. So a certain percentage of customers may delay accepting the delivery of the equipment and some of them even may kind of postpone there. So I think it can happen. But that visibility is not available to us at this point in time. You should know that we are only 1.5 weeks of partial lockdown uplifting, and most of the customers are returning to their operations. And our teams are making an assessment with each of the customer wherein the deliveries are due in our factories, what their plans are. And of course, we are insisting that all the equipment that has been prepared (inaudible). And our view is that majority of it will go and some of it might get affected, but not with a large percentage.

Now with respect to making it up, that's exactly what the plan is. We have about 7.5 months to go for the rest of the year. So that's a runway available with us. And that's the runway we will use based on the backlog delivery, based on book-to-bill orders that we will engage with the market and obtain for this year. And also converting -- also making good of the under-absorption that happened in the month of April and partly in May, and that can be only done by producing more and delivering more. So that will be part of our operational plan. But it will all depend upon the strength of the market and how the market demands our products and services as we go forward. And I think we will have a much clearer view of it by end of May as most of the customers open up. And many of them would like to ramp up, and we will also see what is the effect of the package that has been announced, Credit guarantee package that has been announced yesterday by Finance Minister in terms of infusing more confidence in the end user to buy as well as supply chain also to kind of to be able to deliver it into the system. So yes, all those cards are on the table, and we will ramp up the kind of number of shifts and also number of hours based on the demand that will come from the marketplace.

Operator [6]

We'll take the next question from the line of Renu Baid from IIFL. (Operator Instructions)

Renu Baid, IIFL Research - VP [7]

Sure. So the one question that I would like to ask is a much more broad-based on demand environment. Given the fact that until now we received good orders, minimum slippages as well, but now as we get into the second quarter and subsequent years, how is the business environment with respect to new project orders, inquiries? With this as a backdrop that pre-lockdown itself or pre-COVID, we have started seeing signs of softening in the end market. So overall, from a CapEx and from business environment, how does the outlook for new CapEx and order into a pipeline look like for us?

Sanjeev Sharma, ABB India Limited - MD & Director [8]

Okay. So as I said, we -- in my commentary, I said that we have 4 divisions, and all of them are exposed to different market segments. And accordingly, each one of them have a different kind of transmission in terms of what the markets are doing for them. So we have a fairly good run for Electrification and the Motion division, which is more product based and these products go to the end user, the EPCs, OEMs, channel partners, distributors, panel builders, integrators and all that. So that you can see there was a fairly

good uptake by these market segments from us. So that shows that the underlying market in these segments were good, and we were also gaining market share in these particular segments because of some shakeout happening with some of the players in the marketplace. So I think our engagement was good.

When it comes to industrial Automation, which is exposed to oil and gas, pulp and paper, cement, steel, metals, all these areas last year had a bit of a soft demand, but we saw that there was a good pickup this year, especially in the NLG area as well as in the other area Atria, but still the demand is not that dominant as we like it. And we'll have to see when the markets open up in a full way how that demand plays out in those core segments that we serve. And of course, our Robotics and Automation division is exposed primarily to auto and auto ancillaries. There the overall CapEx scenario as well as -- so we'll have to wait and watch. But then the Robotics and Automation division really has diversified into the new areas, be it in food and beverage, be it in many other packing and pharma areas. So we will see. There is a pickup of growth, and we are investing in the Robotics and Automation side on our facility. So we are not pulling it back.

So just to -- on a generic basis, as we say -- I think as markets open up, we will get better visibility, end of May or mid of June, how the markets would perform. It's too early to make predictions around it. This is very clear that the quarter 2 will be very tough for us and for the industry. So that's something we should count it in, both for orders and revenues, given that already 1, 1.5 months have been lost of this particular quarter. So that will not be very, very, very strong. But when -- we are now looking into gaining back into quarter 2, in whatever time is left and then after gaining back into quarter 3 and quarter 4.

Renu Baid, IIFL Research - VP [9]

So broadly, in the second half of the year, post the lockdown some of the impacts are done, do we broadly presume market environment should be getting back to normalized levels? Or you think there could be headwinds to that extent also?

Sanjeev Sharma, ABB India Limited - MD & Director [10]

Well, it's very difficult to predict. Quite frankly, I can give you an answer which sounds good today, but I will not -- any guesses at this point in time.

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [11]

Renu, just to complement to what Sanjeev was mentioning is that our view is that I think the more clarity could emerge in the next 3 to 4 weeks when we are looking at the middle of June or end of June, where we would understand how the next 2 quarters would pan out, right? So we remain absolutely cautious, not common about what is going to happen. And the reason why I'm saying is this, we've got a few schemes, what already the government has launched. We need to realize how it is going to get translated into actionable policies on the ground, and we are too premature at this point of time, right? So indications from a financial standpoint, I always would be cautious to look at the markets getting (inaudible) as what it was earlier, right? So that's our take on it.

Operator [12]

We take the next question from the line of Bhavin Vithlani from SBI Mutual Funds.

Bhavin B. Vithlani, SBI Funds Management Private Limited - Senior Analyst [13]

Just one housekeeping question. On the other expenses, where there was a INR 35 crore of foreign exchange loss, but even if I take that out, it is actually up about 13% on a Y-o-Y when the revenues are down 18%. So if you can just help us on this?

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [14]

Yes. I think if you typically look at it, I think it is comprising of 3 elements, right? And if you look at the commentary as well. The personal expenses, I think it went up by INR 7 crores, INR 8 crores, right? And then apart from that, we had the other expenses like your electricity, rents and other stuff, and also the what you call other third-party services and these type of expenses, not fixed in nature, but if you look at it in comparison to the Q4 numbers, it is well below control. So it is basically an inflation which has caught up over 2019 levels.

Bhavin B. Vithlani, SBI Funds Management Private Limited - Senior Analyst [15]

Okay. So actually, I mean, there is a -- if I was actually looking at historically when other expenditure, which was INR 1,340 crores last year where approximately 8%, 9% is variable. Including of royalty and other services (inaudible) fixed. So while we understand fixed expenses will remain, but variable expenses should perform in line with the revenues. And then when I look at the reported other expenses of INR 351 crores, even if you take out INR 35 crores of foreign exchange loss, at INR 317 crores, they are still up by about 13% year-on-year, whereas the revenues...

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [16]

So Bhavin, I will tell you. I think last year, we did not have any ForEx. Net impact to the bottom line was absolutely negligible, okay? So last year the same quarter. So what we are looking at is compared to the previous quarter of INR 280 crores, which we had as other expenses, right? We are looking at a comparable value of roughly around about INR 300 crores, INR 310 crores, okay? So on INR 280 crores, INR 279 crores to INR 310 crores is around about INR 30 crores and INR 30 crores basically came up on the various of the services what we had already availed and kept the goods manufactured in an inventory in WAP process where has already been consumed. So we can do nothing about it. It is also being a cost, right? So that's how it is. And of course, the cost has been incurred in terms of shipping the material out and inside the factories to get the -- I mean, for the manufacturing up and running.

Bhavin B. Vithlani, SBI Funds Management Private Limited - Senior Analyst [17]

Understood. But secondly, can you just help us with what are the cost elements. Maybe if not giving directly -- directionally that you can -- I mean, these costs can be taken out. And in the recent interaction with the analyst by the parent, it was mentioned that simplification of the structure of the company and the rationalization of the cost, especially with respect to technology is 2 focus area of the new CEO. If you can just help us directionally on that, how best be India can benefit out of it?

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [18]

See, I will not give you a global view of it because we are more focused on the local operations, right? And let me tell you, so when we are working on this cost rationalization programs, we have 3 work streams already working on -- very intensely on this particular project, as Sanjeev was mentioning. I think this is one of the action points left to us of the 2. We have no other option but to look at it for the next few quarters to come, right? So we have a work stream working on material cost, which looks at localization. It looks at shifting country from where it could be sourced or the cheaper source, and also looking at how could we mix and also how we could use existing inventories with an optimal way so that we could have overall impact on the material cost. And there are targets, which goes up to the BU levels, and they also are pretty much aligned on that.

And when it comes to the personal expenses, we definitely look at it. So we do not want to have immediate reaction at this point of time. We look at it as the market develops, and we'll implement those things as and when it is appropriate. When it comes to discretionary spend, right? So if you look at the discretionary spend, I think we have quite a few actions on ground, right? To -- I mean, to mention a few, right, I think definitely, the logistics cost is definitely a key element where we would look at it as to how we could optimize. And then we are looking at the power and the fuel, which we consume in our factories and our workplaces where we could do better. And then also on the third-party services and the professional engagements, what we run for varieties of projects where we could do away with them, right? And of course, the -- I mean, the low-hanging fruit of travel and conveyance will be more spent on digital equipment and enhancement of that. And then, of course, repairs and maintenance, I think this has slightly increased because given the fact that we were not working for 1.5 months that we need to set it back. And the other thing is about rent and -- rent which we pay for our offices. There is also an optimization program that is running and the warranty of the -- sorry, the facility management and the other costs, right? So I mean, there are various line items. We are definitely in discussions with the service providers and the other businesses, how we could optimize across the value chain. I think -- that was a long explanation almost running through the P&L account, Bhavin.

Operator [19]

We take the next question from the line of Sumit Jain (sic) [Sumit Jain] from ASK Investment.

Sumit Jain, ASK Investment Managers Limited - Portfolio Manager [20]

Just a question on working capital days, whether improvement or deterioration, cash flow from operations for the quarter. And Industrial Automation margins still continue to lag. We thought that closure costs have been taken out in that segment in Q4, but the margin is still at 1%.

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [21]

Thank you for this question. So let me address the first question, which is about the cash, right? Cash, I think we started with around about INR 1,500 crores, INR 1,600 crores at the beginning of the year, right? So we lost INR 200 crores on account of lower collection, is absolutely clear. But this was again refunded back. I mean, filled back with the control -- with the sales consideration, money which we received in sale of solar business. So we are back at INR 1,500 crores, right? So roughly INR 1,464 crores to be precise. And this would basically take care -- I mean, for the next 1.5, 2 months, if I don't have any collections, 0 collections from the market, right? So that's the thumb rule, which I'm looking at the burn rate going forward, 1.5, 2 months with the low volumes, which we have, right? So -- but having said that, I think we have enough -- I mean, as you know, that we are a debt-free company at this point of time, and we are looking at cash which we have plans to be utilized for the businesses. And definitely, government -- we have the headroom of our bank over our facilities and the funded limit, which would be enough for us to standup in the market to deliver what we have in the backlog, right? And having said that, I think today, there is a paradigm shift in how we look at cash. But earlier, we used to have -- we used to say cash is the king, but the mantra within the organization which has been spread in this cash is emperor, okay? So that's

the -- a tagline which we have, so -- and I think all the FES, all the business lines are working on cash as one key element, which they will focus on day-to-day basis. So -- and it is definitely -- and all said and done, our exposure to utility customers and infrastructure projects are considerably of manageable volumes. So we believe that once the industry revives and these type of initiatives what the government has taken comes in on the ground into the system, I think that should ease out the system. So I feel that there would be definitely be cash challenges in the coming couple or 2 quarters. And probably, I think we could see some green shoots in the fourth quarter onwards, right? So fourth quarter in the sense, what I'm talking is October to December, the fourth quarter of ABB India, right? So this is it from my side. So anything which I missed out?

Sumit Jain, ASK Investment Managers Limited - Portfolio Manager [22]

Working capital days, cash flow from operation.

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [23]

Yes. I gave you the cash, right?

Sumit Jain, ASK Investment Managers Limited - Portfolio Manager [24]

Okay. And margins, Industrial Automation?

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [25]

Yes. Margins, industrial automation. I think it's more with the mix, which has to do. I think all the -- all were projects from those sectors and less of services, as you -- what you would see -- what you would have seen in my profiling -- business profiling slide, right? And so -- and that has actually impacted the Industrial Automation. And also the ForEx. ForEx also was another element of that.

Sumit Jain, ASK Investment Managers Limited - Portfolio Manager [26]

Okay. And just to understand the...

Operator [27]

Mr. Jain, I'm so sorry to interrupt. May I please request you to rejoin the queue for your questionnaire, as we have people waiting for their turn (Operator Instructions) Next question is from the line of Renjith Sivaram from ICICI Securities.

Renjith Sivaram, ICICI Securities Limited, Research Division - Assistant VP [28]

Just a quick -- if you can share the outlook regarding the exports. Have the export logistics improved and given the overall pandemic situation globally, what's the outlook there? Will there be a stress on the overall export for this year?

Sanjeev Sharma, ABB India Limited - MD & Director [29]

Yes. I think -- Sanjeev here. So we had a good uptake of exports in the first quarter. I think it was tracking quite well. And it is more for the -- from the reason that for the last 2, 3 years, as we have been explaining that we have been kind of making a lot of efforts to connect with the export markets and also make sure that they believe in ABB producing in India and delivering for to them. And I think that has been handled exceptionally well by our businesses. Our brand equity as well as within ABB Global as well as with the markets we serve is pretty solid. So as the markets open up and and as the demand in other markets pick up again, we do see a continuous progression of that in the positive direction for us on the export side.

Operator [30]

We take the next question from Charanjit Singh from DSP Mutual Fund.

Charanjit Singh, [31]

So I just wanted to understand from -- going forward from a demand perspective, which sectors you see that maybe the demand destruction could be lesser or the recovery could be faster? And also on your services business, how large it is -- I mean, this environment maybe? So if you could do better than [on] new product businesses. So if you can just give a color on both these aspects.

Sanjeev Sharma, ABB India Limited - MD & Director [32]

Okay. So on the first part of the question about the demand perspective, and I think which Renu also had asked earlier. See, typically, when you come out of a pandemic like this, there are certain segments which we will -- we feel will come out more strongly. One is the utility infrastructure. We do feel that the water infrastructure will have more spend; power generation infrastructure; other infrastructures, which are handled by the PSUs; food and beverage; pharma and chemicals; and data centers. So this we will see top of the line market segment, which will rebound very quickly. And that's where our engagement is quite good. And then, of course, the other market segment, as we said, that we are in touch with the customers, both the end users, EPCs who have the backlog -- OEMs, which supplies the machinery into these large industries, our integrators who bring our products and integrate them into more value-added systems, the panel builder partners who supply into buildings -- commercial buildings than any other places. So we want to give you a true -- honest answer. So right now, within 1.5 weeks of opening of economy, that visibility is not 2020 at this point of time. But we will allow ourselves another 2, 3 weeks time to make a judgment on it, how that demand shows up. But compared to the market segment, which I talked to you about, they are, for sure, we believe will bounce back quickly and well. And we will be watching other market segments, which will show the quicker recovery then we will add to our pipeline. But at this point in time, we are really connected with all the market elements right up to the endpoint in Tier 1, Tier 2, Tier 3 cities to really make that assessment and this is a daily task for us. What was the second part of the question?

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [33]

This was it, yes.

Sanjeev Sharma, ABB India Limited - MD & Director [34]

Right. Next, please.

Charanjit Singh, [35]

Hello?

Sanjeev Sharma, ABB India Limited - MD & Director [36]

Yes. Charanjit, so do you have any other?

Charanjit Singh, [37]

Yes. I ask the second question on the services part, sir.

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [38]

Okay. On the services part, I think, our -- the average -- the services portion is about 17%, 18%, right? Our revenues constitute service revenues in a normal scenario. But this quarter, of course -- I mean, people could not travel, right? The plants were shutdown at the customer level itself. So we were not able to render the so-called services business, which always used to be a most profitable stream as everyone knows, right? So I mean, our focus on service is something which will not take a rise off, rather we get deeper into places where we could support customers when they are probably opening up the plants, up into operation. So that should help us to resurrect this particular slide, which we have signed at this point of time.

Operator [39]

We take the next question from the line of Puneet Gulati from HSBC.

Puneet J. Gulati, HSBC, Research Division - Analyst [40]

Just if you can give a little more color on the Industrial Automation side. There is also a bit of EPL related provision. What would that number be roughly?

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [41]

Yes, I think that's a good listing point. So I think as a very sort of a prudent policy, which we always follow and then as per the accounting guidelines, the -- as we embrace Ind AS 3 years before, and we are supposed to review the Ind AS policy at different points of time. And so it was time for us to do it at the beginning of this particular year. Depending upon the profile of the customers who we have today, depending upon age of outstanding whom we have and also depending upon the factors to whom -- to the -- sorry, the sectors to whom we are actually working with, right? So -- and also, the other point is that with PG, which has gone out of the profile of ABB, it was absolutely important for us to do, right? So as a matter of fact, I think we did have some -- not so great impact about it, but we definitely had some impact in the IA division, but I don't think it's a major element to be worried. But from a disclosure standpoint, because it's CDs and policy change, we thought of bringing it to the notice or the -- to disclose it in the press and the (inaudible).

Puneet J. Gulati, HSBC, Research Division - Analyst [42]

Yes. So which customer segments does it relate to?

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [43]

It is mostly relating to metal sector, right? It is also to the power generation sector, right? So -- and that how it is.

Operator [44]

We take the next question from the line of Vishal from Aviva Insurance.

Vishal Biraia, Aviva Life Insurance Company India Ltd. - Analyst [45]

Sir, on the vendors and the supply chain, so how are they positioned? Because that will be critical for you to scale up the business once the lockdown ends.

Sanjeev Sharma, ABB India Limited - MD & Director [46]

So I think what we do is, we -- now we give you a perspective of supply chain from our business president. So I'll invite, Sanjeev Arora, our Motion division President, to make a comment how you see the supply chain behavior. And also, we can get an impression from C.P. Vyas, who heads our Electrification division. And while you are there and for the benefit for all, if you have an additional comment, on the demand side for the benefit, you can also add to that. So supply side and demand side, over to you, Sanjeev.

Sanjeev Arora, ABB India Limited - President of Robotics & Motion [47]

Yes. Am I audible?

Sanjeev Sharma, ABB India Limited - MD & Director [48]

Yes, Sanjeev. You're audible. You can cover both for our Motion division.

Sanjeev Arora, ABB India Limited - President of Robotics & Motion [49]

Right. So thank you, Sanjeev and Sridhar, and thanks all. So a very good afternoon. So I think -- yes, I think Sanjeev and Sridhar has already explained very well the situation, where we are and how we are placed, then what is our way forward. But coming specific to the supply chain part, I would say that this is of total value chain and each part of the machinery after this lockdown needs to be briefed properly. So yes, suppliers are also opening up. They have started working in a limited way. And I think we all are aware that there are some red zones, green zones, orange zones. So depending upon that, their ramp-up is behaving according to the circumstances. Having said this, so how we are supporting our suppliers is that whatever are the good practices, as Sanjeev has explained earlier, as a company, we have developed and utilized this 1 month lock down to develop this good habit and how to handle this COVID, post-COVID operations. We have engaged with our vendors also and tried to help them to come up quickly, so that they are not required to reinvent things. But I'm sure with 25%, 30% operations, what they are doing today, they will gradually ramp up and support us in all aspects. So if any specific question regarding suppliers, I'm ready to answer, but this is just a top level view.

Sanjeev Sharma, ABB India Limited - MD & Director [50]

Thank you, Sanjeev. C.P.? Can you unmute C.P.Vyas, please?

Operator [51]

Yes, sir. He's already unmuted.

C. P. Vyas, ABB India Limited - President of Electrification Products [52]

Can you hear me Sanjeev and Sridhar?

Sanjeev Sharma, ABB India Limited - MD & Director [53]

Yes, we're able to hear you clearly.

C. P. Vyas, ABB India Limited - President of Electrification Products [54]

So good morning, everybody. As Sanjeev Sharma, Sridhar and Sanjeev Arora explained, and is same for Electrification business. I'll put in 3 baskets. We are saving health and safety with our suppliers with the complete value chain, even if it is vendor and with our customer also, so that they also really use the best

practices of ABB. We are also talking to our suppliers who are already open in zones which are possible. So we are really helping to our transport management system also so how we can take care of everybody. The third and most important is that, the business continuity point of view, we are really looking from them which are the product and component we need on the priority, so we can serve on the customer. So we have a dialogue bilateral -- and one more I add, Sanjeev, we also created a taskforce of the supply management team at the country level and each business are part of that discussion. And we are sharing all the expertise which we have, and we are discussing it with suppliers. I see a few challenges still. I'm not saying we 100% recover. There are these challenges which we have to really come out and we are really confident that we can, in a few weeks, we'll come out. That is on the supply side. Demand point of view, from Electrification, I can say -- I see, as Sanjeev Sharma told, I see a lot of activities going to happen in a data center, F&B segment, hospital invest has been in the building, I see in the infrastructure more on the hospital sector. We started talking to the health care team, and these are the sectors I see the fast recovery sectors from Electrification point of view.

Operator [55]

Well, ladies and gentlemen, due to time constant, we take the last question from the line of Abhishek Puri from Axis Capital.

Abhishek Puri, Axis Capital Limited, Research Division - Executive Director of Capital Goods, Infrastructure and Power [56]

Sir, 2 part questions. First, I think just to understand the material cost for you is down. The proportion of services business is lower at 14%, exports is at 10%, again, lower than normal, which are both high-margin portion of the business. So what is leading to this gross margin expansion, what the company has done differently? And second part of the -- the similar question is that the international businesses are expected to come to India. And as a matter of that trend reinforcement, has ABB parent decided to move more of supply chain into India over the past 6 to 12 months?

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [57]

Okay. So I will take the first question. So probably I think Sanjeev will also complement that. And afterwards, the other question. So Abhishek it's like this. I think why the material costs reduced despite the change in the mix, which is unfavorable, right? So that's a question to that. I think we have been continuously saying that there is a domestic market where we go to the product. And definitely, our initiatives on going to Tier 2 and Tier 3 cities, where the (inaudible) aware, we have a brand image in that connect, has helped us diversify the customer base and thereby get better price realization there as well. Number two is about our localization initiatives and operation -- design optimizations, which run on projects and systems, right? This is something also which is earning the -- I mean, resulting in a price reduction -- in the cost reduction of the material what we finally enter in the P&L.

So these are the 2 sort of leading factors on this particular topic. But other than that, I don't think there is anything else. Sanjeev?

Sanjeev Sharma, ABB India Limited - MD & Director [58]

Yes. So I think the second question was about the...

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [59]

Abhishek, can you repeat the second question, if you don't mind, please?

Abhishek Puri, Axis Capital Limited, Research Division - Executive Director of Capital Goods, Infrastructure and Power [60]

Yes, sir. So I was referring to international businesses are excited to diversify their supply chain. So as a matter of time, has ABB parent reinforced that trend to you in terms of moving more products into India as a supply chain diversification.

Sanjeev Sharma, ABB India Limited - MD & Director [61]

Thanks, Abhishek. So we have done a very deep analysis for the group as well as for ABB India, for both how to serve the long-term and mid-term demand from India as this economy was supposed to expand, and it should expand as we go forward. And also how to make use of India as a base to serve the kind of the demand market outside India. So we already have that in action and play for last few years, and we continue to kind of grow it. But our attitude always is to first to establish ourselves as a domestic player for a product line, stabilize it, bring the quality levels to an ABB international standard, and then start exporting.

Now with the new plan that we have discussed with the ABB group, it has been very clearly laid out how India can be very impactful for not only serving the demand market, wherein we are practically all the domestic localization done and also the same products can find acceptance in the global markets. And that also helps us because our import of the components will get balanced by the export of the products. And if we balance it then also we become ForEx fluctuation neutral and it becomes a natural life. So that's the kind of a plan. And also, if your rupee continues to devalue against rupee -- dollar. But if you create this natural hedge, your future pricing and the cost in the market also gets naturally hedged. So it's a very well recognized back by the group, and we have plans in place for each and every product line, how they will expand in future, either they will supply the expert services, which are built in out of the experience -- domain experience we have gained in our businesses and also the manufactured good that we go. And you should know that on our balance sheet, if you watch it carefully, we have a number of locations in Nashik, Maneja, Bangalore and Faridabad. And we have lot of adjacent expansion capacities available. So we can very easily expand our plants, and we have made a very detailed assessment of each location, how much expansion we can carry out, and that is very attractive. So that means without buying an inch of land, whatever is already putting into our -- which is sitting in our book, we can leverage it for expanding production capacities and delivery capacities. And this has been well noted by the group, and it has a very positive ROCE impact for ABB India as well as contribution to the growth. So all those are falling in the right place.

Now given that what is happening post pandemic world and also the government now making 3 -- 4L strategy, which is the land, labor, liquidity and there is another fourth one, wherein they will bring some reforms in that area. They don't directly impact us because we already have being a 65-year-old manufacturing location company in the country. We already have the assets that we need with our dependency on those parameters is not so high because we can leverage our assets and the land as well as the know-how. We already have to expand our capacities to serve outside. And we do believe in the post-COVID world. Many people are talking about China plus 1 strategy. We do believe India will gain in it, and especially the multinationals, which are well-established in the country. They will try to leverage it well, especially because India demand, combined with the global supply side, I think it's a good combination for the companies which have a long-term view for the market.

So yes, in short, yes, I think that's very much in play going forward.

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [62]

Very good. I think -- Zana, so...

Operator [63]

Thank you. Yes, sir. That was the last question. I would now like to hand the conference back to Mr. T.K. Sridhar for his closing comments.

T. K. Sridhar, ABB India Limited - CFO & Chief IR Officer [64]

Yes. So thank you, everyone, for attending this particular call, right? So I think we are in a situation in where this is the future -- in the near future, is a bit troubled water, right? So we think that we have to strive and survive in this particular world. So -- and we will do everything what is required to be there in the market, visible to the customer, visible to the stakeholders and add value to the organization and employees, right? So with that, thank you once again, and -- yes, so we'll meet again next quarter.

Operator [65]

Thank you. On behalf of ABB India, we conclude today's conference. Thank you all for joining us. You may now disconnect your lines.