



## “ABB India Limited Earnings Conference Call”

**February 12, 2020**



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*ABB India Limited  
February 12, 2020*

**Moderator:** Ladies and gentlemen, good day and welcome to the ABB India Limited 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 not that this conference is being recorded. I now hand the conference over to Mr. T.K. Shridhar. Thank you and over to you, sir.

**T.K. S-ridhar:** Thank you, Aman. A very good afternoon, ladies and gentlemen, for the Q4 and full year results analysts call of ABB India Limited. So, I have along with me Sanjeev Sharma – Country, Managing Director and the business managers from the different divisions. We have Mr. CP Vyas – Business Manager for Electrification Products; Subrata Karmakar for Robotics and Discrete Automation; and Mr. Sanjeev Arora for Motion Division; and we also have Krishnadas, who leads the Process Industries business. So, apart from that, I have the communication colleagues Sohini and Beena along with me in the room. So, without wasting much of the time, Sanjeev, I hand over to you to take us through the results of full year and Q4 2019.

**Sanjeev Sharma:** Thank you, Shridhar. Good afternoon, everyone. Welcome to the call for CY 2019. This has been another year where ABB in India has delivered profitable growth and quite a resilient performance in rather subdued market. Three words to describe ABB's performance in 2019 - it's been resilient - wherein we have grown despite markets which have been going sideways and staying close to customers with greater market penetration has been our mantra and I think that has worked well for us.

We have been consistent. As you will see that we have been continuing the growth journey in the past several quarters. In 2019, we have grown in double-digits with every quarter. Profitable and continued cash focus has helped deliver growth for all our stakeholders. So that that's my summary for 2019.

If you really look at the orders for 2019 we have grown 4%. Our revenues have grown 9%, PBT before exceptional items noted in our release is plus 30%. PAT before exceptional items is plus 39%. So, as you can see that the full year orders have been on the positive territory, relative to many other industries in the market wherein there have been a much larger impact.

So, this shows the resilience of ABB's portfolio wherein we have distinct product lines which are more than 17 and they go into multiple market segments. So, we don't get affected with one market segment like, say, automotive going down. We do have part of our business which gets affected, but overall, we continue to capture growth wherever the markets and the market segments have been growing.

So, that has been the story for us in 2019. We have been developing our portfolio in a very systematic way, having the global technology in our hand and which we continue to localize to meet the price points as well as the expectation of the market for the high-quality products. As I



*ABB India Limited  
February 12, 2020*

mentioned, revenue has grown across all emerging segments like data centers, food and beverages and many others.

If we really look into the overall environment that we have, you will see that as far as my view and my key management team's view to the market is, we get certain policies and certain macro environment as a given to us. We don't make any commentary on it, negative or positive, it is what is given. Our job is to participate in that market environment and make the most of it. I think that's what we do year-after-year, irrespective of how the macros and how the policies change, we make most of what is available in the marketplace.

On the macro, you can see that our view is, just in a span of six years India has become the sixth largest economy. If you take it from the PPP terms, it's even better position. It is set to become the third largest economy over the next five years. I think that's the projection and we like to believe in it and our preparation for future is based on those kind of expectations.

We know that over last 30 years we have seen many up and down cycles in the economy. But I think what stands out is the robustness of the Indian economy. It has grown on an average 7% over last 30 years, which shows the indication for the future as what kind of range we should expect going forward, given that there is a sentiment right now that the market has been on the downturn. We look forward in a positive way to the market.

We also are looking at the Global Economic Policy Uncertainty Index, many of you may be familiar with it. It is being measured since 2013 and it is also compared to other major economies. The Economic Policy Uncertainty Index, lower the better. At this point of time given the policy and the structural change, which is happening in India, based on that India has the lowest Uncertainty Index, followed by US, followed by global mix and China has the highest uncertainty at this point of time. So, given the way the market is projecting itself forward, we feel quite positive that any investments that we make now, which we continue to make during the down cycles, it will reap us good benefits going forward.

Over five years, you know that the Ease of Doing Business has moved from 131 to 63. In the conversations we have with our global business clients and the global business leaders, we can see that they are optimistic to come to India, stay in India and be committed to India for long-term.

There is a changing landscape on the customer side, customers are looking for getting higher productivity gain by using more automation and digitalization at the same time, sustainability is becoming a strong trend in the marketplace. Most of the customers as well as the investors are becoming more conscious and they want to invest in technologies and companies who can contribute to the sustainability of the planet and our ecosystem around us. So that's also being factored into our portfolio. We do provide technologies wherein the customers gain on productivity, and also our automation and digitalization solutions are very well accepted and well penetrated.



*ABB India Limited  
February 12, 2020*

What are the drivers and risks? We do feel that the improved capacity utilization in some sectors like steel, cement, oil and gas, is a good sign. The resolution of IBC cases in core sectors means this new policy change is finding its roots. That means future productivity of assets can be assured. There will be a much more discipline in the capital allocation and capital utilization by the businesses in the marketplace.

We do feel that there is a focus on roads, good outlay there, urban and rural infrastructure housing, railways, renewable energy and many of these segments work quite well for our portfolio. We do see some risks which are delayed pickup in utilization in core industries, in the sense that it is not as high as it should be. But at the same time, the consolidation is taking place. There are global volatilities, we don't know how they will play out in future, we will see as we enter the future.

Within the government reforms, of course, notably IBC, NPA clearance, tax reforms, favorable FDI policy, I think that everybody likes. We take note of corporate tax cuts which have been provided, we do see there's a bandwidth in our portfolio for us to continue to expand our footprint in future.

If we look into the markets, as you know, that last four or five years have been no different. I think the CAPEX, greenfield story, that not much of greenfield investments coming there, I think we have been playing the market in a reasonable way. You can see over a period of time, our results have been trending in the right direction. I am very thankful to the business leaders we have who are very resilient and very well connected with the market and the market segments which are relevant for them. That is our secret sauce to continue to kind of move over the cycles. We know that as the markets will pick up, when that cycle turns, ABB in India would be rightly placed in a sweet spot to make most of it.

Service and export portfolio, there again our focus remains high. Service portfolio has good focus on smart factories, remote monitoring, frame agreements, lifecycle management and these were the drivers for us in 2019. In exports, we are really making good inroads in Indian subcontinent and in Middle East and African countries. We find that the products manufactured in India are very well accepted and we have gained quite a good ground. I think it's a story which is being written and I believe this story will continue as we go forward. We have also started leveraging our robotics and motion expertise in India to help businesses outside the country, and that will also contribute to our exports.

If I go to the next slide, we have some very good examples out of the Smart City, some good projects taken in Smart City for the distribution of the water, automation and gas transportation in Ranchi and Ujjain, etc. We have commissioned the single largest lift irrigation project using ABB's mega motors and drives. This really is one of its kind in the whole world and we are very proud to be able to kind of participate in such projects and elevate to the water problems in the drought areas.



*ABB India Limited  
February 12, 2020*

Railway spend is also a sweet spot for us, because it really gels well with our portfolio and we continue to gain traction there. This morning only you may have seen the announcement wherein we booked a Rs. 192 crores orders from railways. I think that story continues as railways electrifies itself into the future. We continue to introduce new products and digitalization, and our high efficiency motors have a very good uptake in the marketplace. I must say that we continue to have the very, very strong momentum in this area. So is the case with Emax 2 breakers, and that has a very high and wide acceptance. All these products are also digital ready, so that customers can extract data and make sure that the reliability, availability, maintainability and serviceability of their installations is well maintained. Same way, we continue to have digitalization orders in cement, mining, marine and data storage applications. And of course, data centers, F&B and building automation have been quite good stories for us. I cannot mention the name of the customer but is one of the largest company in the world, they rely on ABB to build their data centers in the country.

Now with respect to certain transformation projects that we carried out in the last year, in 2019, as all of you may be aware that we were demerging Power Grid business from ABB India Limited. I must say that we executed that process with the NCLT approval ahead of time, ahead of our target. Now a new legal entity APPSIL is now fully operational and is a self-sufficient unit with its own management and its own independent board. This erstwhile Power Grid division is working as a separate company to ABB India Limited. So that's why you will not be seeing the result impact of them in ABB India good forward. We have now arm's length distance between the two companies.

ABB Organization Structure Simplification program, that also we ran last year and has been implemented. ABB group recognizes India as a large country operating model, and we have certain strategic elements which have been placed in the management to continue the growth. Businesses are fully empowered, and they work with the global strategy and they get the global support and make full use of the local ecosystem available through the country management.

Talking about each of the businesses; Electrification grew double-digit. With better product mix, the margins have improved. There have been focused activities in certain areas and that has paid dividends. So is the case with the Motion division, that also continues to grow double-digit. We continue to not only have good product push, but we also execute mega scale projects. A lot of digitalization solution and remote monitoring solutions are built into part of this product, portfolio and services. Industrial Automation was flat, but that's a reflection of what the industry is doing at this point of time. But at the same time, there was growth in sub-segments, in gas transportation and distribution, hydro power and water automation segments. We did have some margin impact coming out of industrial automation for certain legacy projects, especially our exposure to power plants and infrastructure business which was part of our books. In Robotics and Discrete Automation, we have proven offerings and customers really have very high acceptance and preference for ABB solutions. Here the penetration rate of robotics in India is not very high compared to other economies, and that itself is giving us a very high accelerated



*ABB India Limited  
February 12, 2020*

kind of growth rate, both in the automotive and the other. Automotive was subdued this year, other industries continue to use robotics, F&B and other areas. Next level of opportunities we see are in transportation, building and airports, digital and Smart Cities, Tier-2 and Tier-3 cities. Here in the outlays of the investments are clearly laid out. As those spend goes through these initiatives and in these segments, we will continue to take the benefits of it.

We continue to focus on sustainability as our core. We have a very high focus on safety. 98.1% of hazards which are noted, they got resolved in 2019. We also had 88.4% of employees participate in global health challenge. We have 17 community projects impacting over 1 lakh lives positively. That goes into different CSR focused projects. We recycle 90% of our waste, 26% of total energy is green power, but we continue to improve it. 8.4% reduction in water consumption since last year. We also have done a lot of training man hours within our organization to make sure that the depth of it is well understood.

And I now hand it over to Sridhar, and maybe later on I will come back when you have some questions. Sridhar, over to you.

**T.K. S-ridhar:**

Thank you, Sanjeev. I think as Sanjeev was mentioning, 2019 was a year which was marked by several events, which is quite different to an earlier ABB structures what you have seen. So, we had the major carve out of PG as an organization, and then we ran another transformation project for Simplification Organized Structure. Also, we had a solar as a business announced as a business which we will discontinue, so we are not attracted with it, based on the reasons that it is not adding value to the portfolio of ABB.

Also, we had the macroeconomic factors which were not so conducive for a growth environment. Given this particular background, and the results what we see in front of us, orders for the full year we grew around about 4%, and revenues we grew 9%, and we also had a profit before exceptional item on the growth of 30%, and after tax 19%. So, some bit of color which I would like to throw on people who definitely have been used to our earlier quarter-on-quarter results as well as in 2019, the last quarter you would see something which is unusual to ABB's previous trends. The reason is pretty simple. I think the patterns what we had shown earlier is quite different than the patterns what we are showing in this particular year. The results have been pretty much equally distributed over the four quarters, rather compared to the previous year where it was heavily loaded in the fourth quarter. That means, what we are talking is, we are comparing the current year performance of a fourth quarter with a heavy base of a fourth quarter in the last year. So that's why, if you can see, it is explained in the next couple of slides where we are able to demonstrate that with a lot of focus on the way we operate, on the quality of the orders and the execution what we have, we have been able to deliver a consistent improved results on a quarter-on-quarter basis. So that's why I started from the full year and came down to the quarter to explain what's the difference.

As we have always been a hallmark in terms of transparency and governance, so wherever we found that there are likely to be impacts in the future on account of delays or any other



*ABB India Limited  
February 12, 2020*

circumstances which we need to properly account for, we do not wait for anything to happen but we may basically estimate and take that forward at the time when it is required. We did the same with respect to some of the legacy projects in Industrial Automation and also when it came to solar, because solar we had declared as assets held-for-sale.

So, that being the case, according to the accounting standards, we were supposed to value the assets which are held-for-sale in the market on net realizable value. Based on independent valuation what was done in terms of the realizable value on these assets, we have understood that we need to create a provision of Rs. 70 crores, and that has been clearly stated with respect to solar business.

So, while we have this particular circumstances in front of us, our efforts to garner cash gained strength to strength. On the balance sheet we have Rs. 1,600 crores of strong cash position. Also by the way, because the Power Grid company had just been started, we had an inter-corporate loan to the Power Grid company to the extent of Rs. 350 crores, which has been repaid by the way, at this point of time, as we speak. So, they are also self-dependent and self-reliant with their banking limits.

So, in a nutshell, the real cash which we have in hand would be Rs. 1,595 crores, plus almost Rs. 340 crores which we would receive from PG as end of 2019. So, net net, I think the cash has been robust. Yes, we do have some projects in Industrial Automation which will get closed out over the period of next one or two years. But I could say that it has been a focus area so far in ABB and we have been consistent on the particular approach.

With respect to the tax, I know you all have been aware that the tax rates have been reduced starting from July 2019. So, our effective tax rate is in the range of 25.7% for the two quarters, but the deferred tax assets which we were carrying assuming that we will get 35% of our future, have also been revalued to get an advantage to the renewed tax rate. So, the last two quarters, tax rates have been in the range of 31%.

I think this is something what you would definitely be interested to see, I think what has been the orders by segment, what is the backlog which we have by segment, and what are the revenues and profit before interest and taxes. Electrification has gone by 8% , Motion by 0.3%, its worth pointing that in the last year we had almost Rs. 300 crores of orders coming in as a large order in the last month of December from railways on account of traction converters. Whereas we don't have that heavy large order in this particular quarter. While I say this, I would say that we missed the large order, which we got in January as announced today. So, had it come in December, the numbers would have been far better than this. But the good part is that we converted into an order and we have a good start for 2020.

Industrial Automation, I think it the reflection of more of a market situation and also the scenery that we have that railways is moving into the electrification. So the turbocharger division which has products which are more catering to diesel driven locomotive is facing headwinds at this



*ABB India Limited  
February 12, 2020*

point of time. But contrary to that, is that the Motion division which supplies traction converter is benefited, because that's where a clear example that ABB's portfolio is resilient and we have products with regards to different types of market changes which is happening in the country.

So robotics, I think it's a growing segment. They are exposed to automotive sector at this point of time. So, we have a tepid growth for the year and this is definitely a promising sector. So now this is something which we are very much interested, they should put up for good growth in the coming years is what we see.

The order backlog, we have Rs. 4,123 crores spread across all the divisions in a very nice way. And they cover more than six to seven months of revenues, in a technical term. We have a good visibility and with faster revenues and execution going forward and the orders what we get should help us to keep up with the momentum of the growth.

So PBIT is what I explained as before. I think Electrification is definitely a business which is giving definitely different profitability than what it was. I think they have recovered from a situation where they were struggling for volumes last year to what it is today. So they have really improved on their performance per say, and so is Motion. Industrial Automation, as what I told you, is more about some legacy project impacts what we had taken in Q4 and also lower revenues compared to the previous year.

So, this is about the commentary on the financial performance by division. So now if I look at ABB, as you look at this donut chart, 75% of the business comes from Electrification Products and Motion, followed by Industrial Automation and Robotics. So, this gives us a sort of comfort that the results of ABB going forward will be more predictable and has no exposure, or I would say, in terms of to the sectors which could be more prone to risk from liquidity or from the infrastructure side of it.

The next slide shows about how our expenses have behaved over the last year. And if you look at it, our material costs have definitely improved compared to the previous year. So we are talking about material cost of 66.3% versus 67.5%. Our PeX has remained quite constant, at 7.9%. If you are wondering, why PeX is Rs. 146 crores in this quarter vis-à-vis Rs. 100 crores of last quarter, as we grow we also have to fine tune our systems. What used to happen earlier as per the practice is that as per the accounting norms the actuarial gains on the pension funds used to be recognized once in a year at the quarter end. Which we made a difference in 2019 by taking the evaluations every quarter, so that the results what we declare on every quarter represents an absolute true and fair view. That's how we have made sure that while the other quarters had a gain, the last quarter looks as if it's a large expense, but which is not the case. Which could be corroborated with a total expense what has been incurred for the total year, where it only says that Rs. 50 crores has been increase in PeX, and that's more due to an annual increase what we have given to the employee. So in other words, this is nothing but a timing impact on the actual valuation accounting.





*ABB India Limited  
February 12, 2020*

Other expenses pretty constant, 18.3% to 17.8%. It's more driven by volumes. Interest, of course, as we said, it's pretty much better because we have less of projects, more of cash, and that's more determined by the next slide which I will show as to how we have been cash rich on this particular quarter-on-quarter.

So, this slide is something which is very easy to understand. So, this is how we have performed on a quarter-on-quarter basis in this particular year. If you look at it, the Q1, Q2 and Q3 profit abilities are far higher than what we had in last year. This is where we say that we have become more predictable and sharper in the way which we account for our revenues and costs and provisions.

So, solid cash balance throughout the quarter. And definitely in Q4, again peaking up in spite of the liquidity issues what we see in the market. This really tells about the quality of the revenues and how we manage our receivables as a topic within the organization and the focus which our business managers have got on this particular element. It also resonates with the statement, ABB transformational program of full responsibility and accountability inline with the business, how it gets reflected in this particular performance.

So, quarterly trend, I think, as I said, Electrification Products and Motion are pretty much which contribute to 75% of volumes, are in a good direction momentum. Industrial Automation at this point of time in a bit of a cleaning up mode and we will definitely come back as industry kicks up. They have an under absorptions which would be covered by the time and they should be back. Robotics, of course, is a smaller operation but poised for growth for the future.

So, this is another slide which you would definitely be interested to look at. This is the difference between what the consensus estimates are expected of ABB and what it is. So as I look at the volumes, one is, of course, analysts read ABB and if I look from an accountant's standpoint as to how this has been evaluated, I think it's more driven by the past period, past quarters' quarter-on-quarter growth, applied on a heavy base of 2018, which makes expectations pegged at Rs 2,162 Cr vis-à-vis what we have at Rs 1,953 Cr. So, while I say so, I would like to restate that we have not lost any volumes. We have made sure that the volumes what we have delivered in the last quarter are fully what is collectible and it goes with right customers with the right quality and right stuff, so that's also a bit of a cardinal principle which ABB follows since at least the last six to seven years to make sure that it is fully collectible. That's how it is also reflected on our cash balances and collections.

PBT before exceptional is basically more contributed towards the contribution shortfall compared to the volumes what is expected. The PAT, of course, if you add up to the contribution loss on the volumes what we don't have as per the consensus and add it up with the exceptional item of the solar business revaluation of the balance sheet items due to accounting norms, that is something which is explainable.



*ABB India Limited  
February 12, 2020*

This is something interesting to see. So, EPS is at 14.3 at this point of time, after taking into account all the impacts and the dividend we are consistent at 240%. So, a few words on dividend, I think we should all realize that the PG profitability is no more with us. In spite of that the Board was actually very much mandating us to say that we do not know if PG would give a dividend or not, this being the first year. So it's always the responsibility of ABB towards the shareholder to ensure that what it has been giving in the past is also at least maintained as an absolute value on this particular term. Technically speaking, 240% right, even though the profits of PG is missing in the total accruals what we have in this particular year, we still are able to maintain. With the strong reserves what we have and the strong cash balance what we have, I don't think given the 240% of dividends will be a stress on the ABB holdings as such.

So a couple of words as to how definitely a shareholder could have seen an ABB organization in this particular year. Yes, the shareholders get some APPSIL shares because of the carve out that happened. We get the same dividend as what it is. If PG declares a dividend, which I am not sure, may give an additional bonus on performance. So, we have made sure that shareholder interest, the external customers and the employees interest are one of the key parameters for the management to drive it going ahead and be consistent with other value principles what we carry.

So this is it from our side. So thank you for a patient hearing. I could see a queue of questions coming in. So Aman, if you could open up the call for questions.

**Moderator:** Thank you very much. Ladies and gentlemen, we will now begin the question and answer session. First question is from the line of Renjith Shivram from ICICI Securities. Please go ahead.

**Renjith Shivram:** Sir, if you can just explain how much was this provision related to Industrial Automation, if you can quantify the amount?

**T.K. S-ridhar:** Renjit, we normally don't quantify this particular amount. If you look at Industrial Automation for the quarter, I think they were less in revenues to the extent of what they had done in the last quarter. And we had some legacy projects where we had to take the impact, we normally don't disclose it.

**Renjith Shivram:** And how much of this legacy projects are still pending in the order book of Industrial Automation?

**T.K. S-ridhar:** I think, see, it is like this. Number one, it's a question of legacy projects and number two, is definitely, do we see any challenges in project execution going forward, as of today, answer to that is, no. So, we have customers from various core sector, who have their typical execution pattern and the management is putting all the efforts to make sure the projects are executed, decisions are delivered on time and negotiated well to make sure that the interests of ABB is protected. So, I don't see at this point of time any major challenge unless and until due to any unforeseen circumstances occurring beyond our control.



*ABB India Limited  
February 12, 2020*

**Renjith Shivram:** When I look at the exports performance for the last year gone by, we had around 54% growth and it is now around 18% of our revenues. So, how is the momentum going forward and where do you see this, will be a 20% of your revenue, what is your outlook on that?

**T.K. S-ridhar:** Okay. So let me answer this particular question. Right. Sanjeev will definitely add, and we have other business managers who can add, right. Export is a very dynamic subject at this point of time, because we are making sure that all efforts the business is taking, every opportunity of export comes the India way. So, we are today, as you mentioned, 18%, 19% of our orders, I mean, that could also be the same for the revenues as well, comes from exports. This is, now we could say, without PG, because PG was a major export to the erstwhile ABB India structure. So, this way, I think we are able to make inroads, being it in EL or IA or MO with new markets and products getting into different customers globally. So, the rate of growth on exports, we always make sure that is in line with what our growth expectations. Sanjeev, you want to add something.

**Sanjeev Sharma:** So I think as far as our strategy and focus is concerned, ABB India's prime focus is on the domestic customer. So, we are here to build the industry infrastructure and all the opportunities come from India, I think that remains the prime focus. While we have these facilities, which are connected to a very competitive supply chain, also able to take benefit of it into the export markets. We understand the terms and conditions of those markets well, we understand the expectation of those markets well. So, we consciously graduate very carefully and that's why as we understand the market, we will continue to expand the portfolio into those markets. So, from my point of view, there are a lot of long runway and highway in front of us for the exports. But what we will do is, it's not what is the size of the market and opportunity for us outside, we will continue to cautiously participate in the market so that we can give the same level of service and same level of customer satisfaction.

**Renjith Shivram:** We would like to understand, is there any target in which that we would be targeting around 20% exports and then plateau?

**Sanjeev Sharma:** The point we are saying is that the market size available to us and visible to us is pretty large outside in the country. But our prime focus stays in India market, because that's where ABB India is focused to serve the market. But given the opportunity, and as we understand the export markets my participating there, the terms and conditions, the customer expectation, our capability to service them, we cautiously expand ourselves from market to the market and also continue to expose our portfolio into those lines. So, the pace of our participation will be managed by us in a cautious way. We will not accelerate it beyond a point for the simple reason, what we focus is, first is the stability of a business, second is the profitability of the business, and the third is then we go for the growth. So, that's what we do when we are stable and we understand the market well, we accelerate the growth part. At this point in time, we are connecting our portfolio with multiple markets and then in future we will accelerate.

**Moderator:** Thank you. The next question is from the line of the Sandeep Tulsian from JM Financial. Please go ahead.



*ABB India Limited  
February 12, 2020*

**Sandeep Tulsian:** First question is on the solar inverter business sale, if you could help us understand what is the current revenues that are part of the ABB entity, which will go away once this business is hived off? Within that, how much is exports and domestic? Also, if you could throw light on the profitability of this particular business.

**T.K. Shridhar:** So, as I was mentioning to you, I think the earlier conversation as well, our solar revenues are roughly in the total portfolio what we have is about 7% to 8% of our revenues. The margins are pretty thin, not so great story. I think everyone understands what is the prices of solar, how it is opening up in the market as well. So we don't have a great story to say.

**Deep Tulsian:** And the breakup of exports and domestic within that?

**T.K. S-ridhar:** Exports would be about a mixed bag, 50% could be exports as well as the local market.

**Deep Tulsian:** Second question is on the EV chargers business, we do understand our sister entity, ABB Power Products has signed an agreement with Ashok Leyland for the flash charge technology. We wanted to understand which verticals are within the continuing operations within EV chargers, and have we executed or formed up any contracts for the same?

**Sanjeev Sharma:** The EV charging portion, which is the fast charging solution that we offer is part of our Electrification business. The flash charging the business, which is our Power Grid's entity, erstwhile Power Grid entity assigned, that's where the bulk is. So the solutions that we have are meant for the cars which require fast charging. One of the requirement for the fast charging is that the voltage level of the battery should be higher. Now we see that there are some new car manufacturers who are bringing new models which are getting some good traction in the marketplace. So, we feel that the market formation will take place over a period of time and accordingly the EV charging solutions will also spread accordingly.

We have acquired recently a company in China, which is also in the EV charging but on the lower voltage side, and that portfolio also will be available to us in the near future and then we will be able to cater to the broader market as it forms. But yes, EV charging and the EV market at the automobile or car side, it is in the early stages of development. Globally, we are number one. And if you go to Singapore, everything, EV charging is ABB. Right now, all the EV chargers which have been placed in Singapore, and quite a substantial number of them, it's all provided by ABB and so is the case in Europe and so is the case in America as the concentration and penetration goes on. So similar story would be repeated as the market matures locally.

**Moderator:** Thank you. The next question is from the line of so Sudeep Jain from ASK Investment Managers. Please go ahead.

**Sudeep Jain:** Sir, just to add to the previous question. So how do you articulate what remains with the continuing business and what goes to the ABB PG business? For example, the last mile chargers are with us, the TOSA charging system goes through ABB PG in this particular deal with Ashok



Leyland. ABB Ability Solutions for the fleet, they also remain with us. So how do you articulate what remains with us and what goes out?

**Sanjeev Sharma:** So, I think as far as the Power Grid is concerned, they had these flash chargers which are for the buses, wherein you create a very strong power network close to the charger, because when you are giving a boost charge to above in 20 seconds, you need to deliver a lot of power. So they not only give charger but they also create a infrastructure for it. So that part of the portfolio for the buses and for the flash charging at a very high voltage level and delivering a lot of power, that stays with the PG side. But all the plugin charges that you require, which are part for the pillar which is available in the shopping malls or in the opportunity charging wherever you need to do for the cars and for the lighter mobiles, or even for the buses which require a plugin charging, that remains with ABB and that stays as a part of our electrification business.

**Sudeep Jain:** And one more question if I can ask is about the digital business.

**Sanjeev Sharma:** ABB Ability?

**Sudeep Jain:** ABB Ability. So, you may not talk about numbers, what kind of traction the business has? When does it reach a meaningful scale, let's say, 5% or more of sales, what trajectory do we see for the business?

**Sanjeev Sharma:** So, I think the way one has to see is not as a standalone business, you have to see it as a value add business to the current portfolio that we have. So that means, all the products that we have and the solutions we have, they are getting digitalized. Once you extract that data and how you bring that data into cloud and how you bring it back from it, that's what ABB Ability platform allows. You also interface other technologies like machine learning and AI and intercloud exchange etc. This is an enabling platform, and that's what ABB Ability platform is able to bring to the customers as an extra value. So, what we see at this point of time that the interest level globally as well as locally is quite high, and we are executing several projects wherein the digitalization is full of productivity improvement of the customer, be it in cement plants, steel plants, food and beverage plants and many others. We continue to deploy our solutions there. So I do have our business manager Krishnadas online, who specially has been delivering these solution into process industries. Krishnadas, would you like to add something on top of it?

**Krishnadas Manjapparra:** Sure. So, like Sanjeev said, a lot of what we do is an enablement on top of what we have been doing as legacy solutions. From a business standpoint it gets a little bit difficult to say exactly what a proportion of what we do is that. But today if you look at most of what we do, it has a very solid digital enablement layer sitting on top, that makes it a lot more value add for the customer, probably from an energy efficiency standpoint, probably from an optimization standpoint, could also be from an asset management standpoint, it is a pretty integrated offering that we have these days.



*ABB India Limited  
February 12, 2020*

**Sanjeev Sharma:** Thank you, Krishnadas. We have implemented these solutions, and I can see the declaration made by some of our customers, I am not at the freedom of giving the names of those customers. They are showing extremely high savings and productivity improvements. The rate of return is very, very quick with the solutions that they are providing. So, you should see ABB Digital Solution as ABB's core portfolio is getting digitalized. Our targeted customers are getting more value out of their assets by the additional solution and the digitalized solutions implemented by ABB. So, segregating it as a standalone, I think that's not something which is very easy to do or we want to do. It is a part of our integrated offering, taking the customers to Industry 4.0 journey through ABB handholding them through this journey. That's how it should be.

**Moderator:** Thank you. The next question is from line of Ashwini Kumar from Nippon India. Please go ahead.

**Ashwini Kumar:** I have two questions. One is that, when you have two companies, ABB India, the listed one, and the ABB Products which is the erstwhile Power Grid business. Now, the supply chain of both the companies, suppliers to both the companies for components, domestic as well as international, do the economies of scale get impacted because the company becomes half the size? So, are there any suppliers who are suppliers to ABB Hitachi, that company where you will not get the price advantage? So, does it in any way impact the economies of scale of purchase for ABB, although ABB still holds 20% stake in that company?

**Sanjeev Sharma:** Good question. But if you really see what the portfolio of Power Grid was, it was high voltage switch gear. So, it means that it is an ultra-high voltage and you require very different insulation levels and different set of components there. So that has its own ecosystem. Again, for the transformers, transformer had its own ecosystem, the core seal, oil, etc., which you don't use in other products.

So, if you really see, at the core level, I don't see we had much of overlap in the supply chain. But at the commodity level or in the indirect purchases, like in any other company, there may have been common suppliers, but then that doesn't form the part of very high percentage of our material cost.

**Ashwini Kumar:** Sure. Sir, railways has a very big program over the next 10 years. Which company out of the two will really address that? They have a significant program which they are outlining, more clarity will emerge in due course of time, but how is ABB positioned to take advantage of that?

**Sanjeev Sharma:** So, we are already taking very big advantage of what railways is doing. So basically, main theme of railways is to electrify their tracks as electrify the locomotives and also modernize their passenger cars. So, in the so called electrification of tracks, we have EPCs which do the electrification of those tracks, they buy a lot of stuff from us, on the switchgear as well as track-side transformer, so that's a good business for us. That's not direct order from railways, but indirect orders that come from EPC who execute those orders.



*ABB India Limited  
February 12, 2020*

Then we have the direct purchase from railways, they buy some components from the Power Grid division, which is essentially to do again with the transformers. They buy a lot of components from our Motion division, especially in the area of traction converters and in future maybe we will also be able to supply traction motors to different suppliers or different integrators in the marketplace. On the electrification side, our portfolio also goes into the railways using different panel builders and integrators who use our components to provide those solutions.

So, I would say in Power Grid side, you have the SCADA system, you have the capacitor banks, you have the so called traction transformers. But on ABB side you have traction converters and you have the electrification portfolio that goes into the railway expansion. So, it's pretty substantial. And if you see news this morning, we got a Rs. 192 crores of an order from railways directly.

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

**Renu Baid:** Sir, I have two questions. First would be, you mentioned in terms of traction transformer, etc., the orders you have received. Can you also highlight as we were also executing certain orders for electrical equipment supply for the railway PPP factories. So, how has been the execution on those projects and have you started to scale up materially? Because these are, again, long-term contracts which we have.

**Sanjeev Sharma:** We did have some contracts from OEMs, like Alstom, Bombardier, etc. Those are the ones which are under execution. So, we did write some frame agreements, if that's what you are referring to. I think there was a contract with PG and Sanjeev Arora, our Motion division head, would you like to comment on that to be more granular?

**Sanjeev Arora:** Yes. So, thank you for that. We are working with many reputed suppliers, as Sanjeev has mentioned. The contract, I would not say that it is very long drawn, we have fast moving contract also, and things are perfectly balanced from railways side, at least for ABB.

**Renu Baid:** Sure. And sir, my second question is a little more on the broader context of the overall market and the demand outlook. As in this year, as in inflow wise we still manage some growth order backlog is marginally down. So, when it comes to outlook for CY20, how do we look at the end markets? Should we anticipate the investment environment to improve, order flows to improve? Or you think it's a far more challenging year compared to what we saw last year? So some more qualitative comments on the market outlook and the growth drivers.

**Sanjeev Sharma:** So, there you are taking us into the crystal ball area, your guess is as good as mine, Renu, in this area. That's on the lighter side. But our view is following, and I think you should know how we think and how we act. We believe that the market is big enough in India, and even if there is a downturn, while we think we participate in multiple market segments on the market, and also the multiple geographies, we haven't saturated them yet. So typically our growth and our push comes from the higher participation in the same market segment and higher penetration in the



*ABB India Limited  
February 12, 2020*

new geography which we have not covered so far. So that has been so far our story. The market goes up and down, if it is into a good float we get even more accelerated volumes. If the market is on the down in the particular market segment, we do get impacted. But then there are other market segments who benefit us. I will give you an example, like in railways we have been supplying a lot of, so called, turbo chargers. Now since they are moving from diesel to electrification, so they may have a small impact on the turbocharger business. But then we have a big pickup on the Electrification side of it. So, that's how it balances itself. We make sure that we are ready with our production as our capacity to be able to cater to the new demand. Same thing goes for, for example, steel maybe not so robust, but then the data center has become a new market segment wherein we are providing very good solutions and we are able to penetrate and very large data centers we are building. Data center is nothing but power supply and power supply at medium and low voltage which goes right into core of our portfolio. That's something which we are doing quite well.

And then other is, our penetration in Tier-2 and Tier-3, the real growth story of India is being written in those cities. So that's where earlier our penetration was not high, but since we have penetrated, the response rate of the market and the OEM sitting there is quite high and quite good for us. That is the advantage for us now with the new portfolio of ABB India, because it's very fast moving, and it is being used by OEM. It is not dependent on very large contracts. It is based on how much customer connect we have in the marketplace. So maybe it's a long-drawn question, if market does well, very good. But even if it doesn't do well in short run, we continue to penetrate and continue to sustain our growth as we go forward. That's the mindset I have, that's the mindset the business presidents have and that's the mindset our business leaders have.

**Renu Baid:** Perfect. Just one add on here. In a market which is flattish, do you think especially business like Motion can significantly gain because of consolidation? One of a reasonable player in the market is not been doing well, they are struggling, so there could be clear market share gains on motors, drives with the increasing distribution reach that we are focusing on.

**Sanjeev Sharma:** Since you hinted me, I can also hint at you with an answer, yes.

**T.K. S-ridhar:** Thank you. Thank you very much, Renu. I think we are running short of time and thank you for a patient listening. So, with this we end this particular call. If you still have certain questions which have still not been answered or require more clarity, feel free to get in touch with Sohini or me, we will be able to do our best to make sure that you get your proper inputs. Also to the management and the business managers, the teams below, who have really, really put in a very credible performance in this challenging year, thank you very much. Thank you for all the support from the analyst team as well.

**Moderator:** Thank you very much. Ladies and gentlemen, on behalf of ABB India Limited, that concludes today's conference. Thank you all for joining us. And you may now disconnect your lines.