



“ABB Limited, India Investor Relations Conference Call”

May 8, 2013



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MODERATOR: **MR. VIKRAM KANTH – HEAD, COMMUNICATIONS AND**
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Moderator: Good evening ladies and gentlemen, I am Inba, moderator for this conference. Welcome to ABB Limited's investor relations call to discuss the Q1 results for 2013. For the duration of the presentation, all participant lines will be in the listen-only mode. I will stand by for the question and answer session. If you should need assistance during this conference call, please signal an operator by pressing * and then 0 on your touchtone telephone. Please note that this conference is being recorded. I would now like to hand the conference over to Mr. Vikram Kanth. Thank you, and over to you sir.

Vikram Kanth: Thanks Inba. Good evening ladies and gentlemen. My apologies for the late start of the call by 10 minutes and welcome to the Q1 Investor Relations Call for 2013. Along with me I have Mr. Bazmi Husain, the Managing Director of ABB Limited in India, Amlan Datta Mazumdar – the CFO, Mr. Narayanan who heads our Discrete Automation and Motion business, Mr. Subir Pal – Head of Business Development and Marketing and N Venu – who heads the Power Systems business in India. To take this call further, I hand over the phone to Bazmi Husain who will be followed by Amlan Datta Mazumdar.

Bazmi Husain Thanks Vikram, and good evening everyone. I do realize it is late in the day, so I appreciate you who took the time and joined the call. Looking at Q1 results for ABB India, first of all I am happy to tell you that we had robust growth in our revenues. We grew 10 percent... more than 10 percent in revenue. Our short cycle orders, which are very important for us because these are fast moving orders, those registered a growth of I think, close to 10 percent. So I think, as discussed, it was the major project there, which I think you are all aware of, the sentiment in the market is such that people are hesitating to take decisions. The discussions are going on, the projects are not as such shelved. It is the delay in the decision making that we are experiencing right now. For the past several quarters we have been talking about the cost focus that we have had in increasing our operational efficiency, whether it is on the shop floor, whether it is on the project side or looking at optimizing our supply chain. I think these are things that have continued to help us in this uncertain economic environment, as I would call it. Looking at the numbers, we were a little over 1500 crores in this quarter. That is down for sure, 8 percent down compared to last year, but as I said, if you look at the composition, the short cycle orders or the long cycle orders, the large project orders which have contributed to it. I think our strong backlog has really helped us and that has helped us grow also on the revenue side, adding in Power Systems, we have had very robust growth in revenue and this was also helping us grow in the top line part of it. Profitability, if you look at the profitability before income and taxes, then we are better than last year because of high interest charges, and Amlan will talk more about that later. I think that is where we have had higher interest charges.

One of the things that we introduced about three quarters ago was operational EBITDA, because increasingly this is something that we would like to highlight to you, because that really looks at our operation that we are continuing right now, to what their performance there was and then there you can clearly see that there is an increase, we had a 17 percent increase



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in operational EBITDA this quarter compared to the corresponding quarter, beginning of last year.

Some of the areas there I think I would really like to highlight to you, is that we continue to have good growth in our service, we continue to maintain our service rate – that is helping us, I think in our orders and also in exports we are performing much better than last year. So I think these are areas where we have done quite well. I also would like to highlight one of the areas that we have been talking about for several quarters, which is solar. I think, starting from scratch in 2010, we got to the top slot in terms of inverter sales to this market last year. I am also happy to tell you that we have successfully executed a 50 MW solar project and this is a very fast track project.

And to give you a feel (Inaudible) 6:5 this year it will be more than 1000 MW that will come, so it is really a very good growth opportunity for us. You might have also seen that ABB has recently announced a bid to take over a company called Power-One, which is one of the top companies in the world for inverters and there is a great deal of synergy between ABB and Power-One as soon as that merger is through, the acquisition is through. They have a great deal of synergy. So I think that will make the identified focus market even stronger for us. When it comes to the large projects though, I think you are all aware of the uncertain market environment we have at this point of time, I would not even like to give any estimate of how long it will remain like that. However, I think the long term, the demand side of the equation in India continues to remain strong and robust. So it will turn around, it is the timing of it which is uncertain at this point. And, therefore, we are continuing our focus on looking at new opportunities for growth, going stronger in new areas such as energy efficiency, such as solar. We are also, as you are aware, upgrading our factories, putting up new factories for GIS, for dry-type distribution transformers – we will be the first one in the country, a global company of dry-type distribution transformers, and in this coming quarter, we will have the first transformers that will roll out. So that is the overall summary, I now want to hand this over to Amlan, who can take you a little bit deeper into the numbers and after that we will take your questions.

Amlan Datta Mazumdar

Good evening, ladies and gentlemen. Let me take you through the first quarter results of 2013 for ABB Limited, India, some of it could be a little repetition of what Bazmi said, but I would try to dig deeper into it. The orders were down 8 percent, compared to the same period last year, but as we said, that was mainly impacted by lower, large orders of 75 crores and above. But on the orders below 75 crores, which we call our base orders, we grew by almost close to double-digit, which we are not unhappy about. We will be happier with higher volume, but we are not very unhappy about what is happening.

The market is tough and you have to also keep the market in sight. The good news is of course, revenue, that too in a difficult market like this, and you are aware of our focus of cash over revenues, that is, we are first trying to secure the cash of the company before we go aggressively behind the revenues, because the market is forcing us to go in that direction. So

even in spite of that, we have grown 10 percent in our revenues and thanks to Power Systems division, who had difficulties for a few quarters in the past, but this quarter they are fully blown in terms of revenues. The backlog has helped them, but it is also execution of the backlog. We have been talking to you on our execution capabilities, operational excellence and our focus on project execution. I think it is coming to a good shape, and hope that this would continue for a while.

Coming to the results, you have seen the SEBI statements which we have put on the web, I think the market was already tipped, we had (Inaudible) 10:52 put it but it is already available to all of you. Looking at the cost of materials and services, actually we are just lower than 73 percent, we are 72.9 percent, which is very similar to the same period last year and of course, much better than the last quarter of last year which was December-ending. We had some extraordinary impact in that quarter, but March quarter of 2012 and 2013 are very similar in terms of material cost and we did not have – I know these questions would follow – we did not have any major impact of any long-gestation project in these results. (Inaudible) 11:35 remains fairly steady. Our operational excellence and supply chain initiatives that we had taken earlier are pretty robust. We are seeing benefits already and we expect to see more and more. I want to reemphasize that the HCM and OPEX benefits are now flowing into the results of the company, even during this hard time. When it comes to the employee benefit expenses, our absolute value, if you compare March to March, you will see an increase of about 13 percent, but just to tell you that last year March we had a reversal of a bonus provision of 16 crores. We had disclosed to you at that point in time that that was the bonus not payable as per the incentive scheme of 2011, which we reversed in 2012 March. So if I remove that impact of 16 crores in 2012 March then our personal expenses have increased by only 2.5 percent, while the increment benefits have been much higher than this. So, we have actually optimized our work force and manpower and we have optimized our operations much better. So, there has been virtually no impact on employee expenses, which is good news. Other expenses have increased by a meager 5 percent, which is very much in line with the inflation in the market. AFS are going up, the power tariffs are going up in many of the states, so it will be a little bit impacted by 5 percent, in fact, I would say it is very reasonable. And profit before interest and taxes PBIT level, if we see actually our results have increased from 77 crores in the quarter ending March 2012 to 83 crores in the quarter ending March 2013. I am talking about profit from ordinary activities, before finance costs and exceptional items. So actually at operating level, we are about 10 percent better, with a 10 percent growth in revenues. But where we are a little uncertain is on the interest cost, the financing cost that we had, some borrowings on our balance sheet read normally compared to the industry standards. It is very minimal, but from 5 crores in the previous quarter ending March, it has gone up to 20 crores in this quarter, so that has impacted our results and as a result, the profit before tax has come down to 64 crores as compared to 72 crores in March 2012. But while talking on the interest cost or the finance cost, it is a good idea to touch upon and recapitulate – all of us together – the external environment and the macroeconomic scenario.

Actually, we are very pleased to see the various reform measures that have been taken by the government in the last six months in terms of policy reforms, and that is a lot of encouragement, but it is also true that it will take a while, we do not know how long, before this really starts showing effect on the business. So far it is based more on sentiments, but whether investor sentiments have really improved we have to wait a bit and see, because we have not yet seen that kind of enthusiasm in the industry circles, and utilities are still facing issues with project clearances and all. So these things are remaining. So, with some reduction that the RBI has shown in terms of rate reduction, interest rates are still far too high and as a result there is a great reluctance to borrow money for any investment at this stage, and the overall environment being a little more uncertain than we would expect it to be. So, till we see that tendency in the industry not to part with money, some of our funds are getting blocked in that and then we are ending up with this interest cost.

When we look at our capital employed in the SEBI report, actually it has remained pretty much the same, if I compare March 2012, if I compare December 2012 and if I compare March 2013 – it is pretty much the same, 1 percent-2 percent increase here and there. But the borrowing is a bit of a problem, so we are trying to keep a very close watch on the cash portion. We are not allowing it to go out of our hands, but it would have an impact from there. So, on the cost side, to summarize, I would say we have done pretty well. All our initiatives are working well in every division, it is coming out much better. In terms of revenue growth, we have done well in executing, which is also good news.

Our operational initiative and project management initiatives are working well. Capital employed is roughly at the same stage and can improve, with little bit of support from the market. We are making all efforts; we are keeping track of everything. So, I think that gives you a brief summary of the situation. Order backlog remains the same. We are hopeful, but cautiously optimistic because the market has to support to produce a little bit better results. I mean we are not really out of the industry, we are very much in the line of the industry, but you will see a clear improvement in all our initiatives when you see the results.

Moderator:

Thank you very much sir. We will now begin the question and answer session for investors. Our first question is from Renu Baid of B&K Securities. Please go ahead.

Renu Baid

Sir, good to see that none of the segments this time have reported anything in red and things have improved, but if we look in terms of the order side of the business, yes, you have mentioned that short cycle orders have grown by more than 10 percent, will it be possible for you to share broadly, what is the share of these orders in our intake for the quarter and overall from which particular business segments or which industries have you seen these orders getting through, because some of the peers who have already reported the results have indicated major headwinds in production short cycle businesses. So have you gained market share? What are your views on this? It would be helpful if you can share them.

Bazmi Husain

We do not give very fine details because we have a policy on that, but here I can say that if you look at short cycle orders, clearly some segments, as I said solar is a short cycle business, there orders have clearly grown. If you look at the building segments especially in the south of the country, I think that has also been done there. So there are clear spots, industries, it is a mixed picture. Let me put it like this, had we remained in the traditional infrastructure industry that we were in, I do not think we would have been able to grow even in our base orders. We have been able to grow in our base orders because we have aggressively gone after newer segments, solar, more in the building segments. And the other thing my colleague just reminded me is also railways, because this is a very high growth area for us. You know that railways is, for example increasing the amount of power electronics that goes into locomotives, and we supply both the turbochargers as well as power electronics. So, we are I think, perhaps unique in that offering towards the railway segment and we see a large growth potential coming from that.

Renu Baid

Sure, but sir overall if we look in terms of the project and the product businesses, broadly margins have been maintained, but the provisioning that we have done in the last one year, will that translate into slightly better operating performance as we go ahead when these projects are executed?

Bazmi Husain

You know, like I mentioned last time, the provisioning that we did was because of our policy of taking any cost escalation, whether it is due for even issues that are not attributable to us for such project delays etc. We take it upfront; they are not for cost overruns that have happened. They have a future cost and of course, we are in discussion with all our clients, so clearly those are not cost overruns that have been provided for, but there is no protection for the future and at the same time we do not give up our discussion with the customers who actually get compensated for that.

Renu Baid

Sure and sir my last question if you can just get through this, interest cost as you have already shared has been concerning you, debt has remained high. So is there any particular timeline where you think you should be able to reduce these debt levels or what is your view on the working capital, is it further stretching out or improving on that side?

Bazmi Husain

In debtors, in our long cycle businesses, both in power systems and also in process automation we have highly contractual retention, because these are systems which are supposed to work for years and the practice in the Indian market is to have contractual retention. Now these retentions are sitting in terms of large projects, so which is pretty high. And also I just mentioned in my initial briefing that the liquidity position in the market is not good. There is a lot of money in the market, but nobody wants to use that money. This is a very peculiar situation, so we are working on that, we are working very closely, but it will take a while for this to come down dramatically. But it is in the right direction. I can only assure you things are not out of control.



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- Amlan Datta Mazumdar** If I can just add onto that we have a great focus on our receivables. Whatever category they belong in, retention or otherwise, we examine them in a situation like this with even more focus. And I can confirm to you that our receivables are good, it is a delay on the part of our customers to be able to pay us, but we have no doubt in our mind at all that (a) they are due and (b) we will get paid. Timing, I have to say that this is something which is a little bit of a thing, but I do not think, hopefully as soon as the markets begin to recover we will see movement.
- Moderator** Our next question is from Amit Sinha of Macquarie. Please go ahead.
- Inder** Hi, this is Inder here. My first question is regarding the competitiveness in the T&D business. Have you seen any improvement there and what we understand is, post-November Power Grid would allow only the companies with domestic manufacturing capacities to bid for projects. Do you really think that will have a significant impact on the competitive intensity in the space?
- Bazmi Husain** Well, for sure I think there are people beginning to invest in India to manufacture, is I think we welcome that move because first of all it gives everyone a level playing field and secondly competition is always good for everyone including the people, (Inaudible) 24:59 the suppliers. So we also have faith in our ability to outperform competition when it comes to innovation, so it is a level playing field, I think we are certainly in a better position. You might have heard, we mentioned this now for several quarters – we have an initiative in progress called in-county, for-country, by-country, and here we are actually developing in India with ABB's global technological resources products that are actually suitable for the market. To give you an example, I think in February or March this year we were able to deliver to PGCIL at 1200 kV transformer that, unlike many other people, this was fully tested as a production unit not as a prototype. So, it has passed all tests. We became the first ones to supply both the transformer as well as the 1200 kV breaker for the test lines that PGCIL is laying right now. So, I think to answer your question again in summary, we have a semi-level playing field initiative, something that we welcome. We are confident of our ability to do better than anyone else.
- Inder** My second question is on the gross margins. Now we are seeing for the last three quarters, gross margins kind of improve from 30 percent kind of levels they now come to closer to 35 percent. I know you do not give any guidance, but can you enlighten us on your hedging policies, because we have seen commodity prices come off, so do you think that there is going to be any significant improvement on the gross margins because of that in the next few quarters?
- Amlan Datta Mazumdar** We are taking all measures to work on PAT improvement area, but I am sure you also realize that there is a function of the market prices. So in a bit of a muted market it is very hard to predict how much it will improve. Our intention is to improve and it will improve marginally for sure but the rate of improvement would also depend on how the market is moving, if the

sentiment of the investors improves, the investment will improve dramatically, otherwise it will improve at a slower pace.

Bazmi Husain

I just want to add to that, at this point in time our focus is really cost optimization. We believe that we have a lot of opportunities in our current setup for further cost optimization. Some of it we have already seen, but I would like to say that we have a significant amount of cost optimization that is further possible and that is a combination of operations, of supply chain, of technology and we are really all these three things and it is really the coming together of the three dimensions that is so very important, that we are focusing on. So, we see a lot of cost optimization potential. Some of it we have recognized, but we have a lot more that we can.

Inder

If I may squeeze just one more question, we have seen recently the cabinet committee on investment approved some 10 transmission projects. Are there any projects out of that where ABB is involved and would see improvement in offtake and delivery?

Subir Pal

Recently, as you rightly said, the cabinet will upload the transmission project, so basically those projects will come for bidding on a build-own-operate basis and we are actively working with operators who are qualified for this and we see a good traction in those for ABB for Power Systems and Power Products.

Moderator

We will take our next question from Jai Kakkad of Standard Chartered. Please go ahead.

Laxmi Narayanan

This is Laxmi Narayanan. My first question is on the product business margins and they have turned very volatile. I thought there was improvement in the last two quarters, there seems to be some slippage there, so what would you attribute that to? That is question number one. Secondly, could you talk about the mix that you have in your backlog and today in terms of the industry versus utilities versus Power Grid versus ECBs versus industry and how do you feel about the margins as you execute these orders over the next 12 to 18 months because as we speak, commodities have slightly softened, so would you see that benefit flow through?

Bazmi Husain

First of all I will tell you one part of the question that you asked that I am not going to cover is margins going forward. We do not get that guidance so therefore, I will not cover that, but regarding the other things, let me repeat so that I get it right. One is on the product side, some of that what we saw improvement in last quarter and not all product businesses affect that and second thing you asked for the mix that we have in our backlog. If you look at our products, I think Power Products really continues along the right path, because that is again a business which is far more well-defined in terms of what we have, the transformers, and the breakers whatever. So, I think there we continue along the right path. In the other two businesses, Discrete Automation and Motion and the Low Voltage Product business, the business is really a mix of... there are a couple of reasons in the business and both are similar reasons for both the businesses' profitability in this quarter to be lower than before and that is due to the fact (1) is the business mix because there are some large projects that are delivered, typically large projects are the ones where the margins are lower. So it is a business mix, part of it. (2)

Because of the commodity prices, that has also increased the input cost in there to some extent. (3) Third thing that has happened in there is, we see it as a short-term phenomenon. We do not, as I said the business mix changes, I think this was just the quarter in that that happened. We have analyzed that **(Inaudible) 33:06** I can assure that because what you are saying is such an obvious thing for us as well, because there is something we have focused on a lot. We see no real issue of this continuing forward or from the project mix perspective. I think that will stabilize. In Low Voltage Products business also, there is low-voltage systems which is also more of a project business with similar issues, and then of course, there are issues like FOREX volatility, or commodity prices and these can of course, continue to have some impact both positive or negative, depending on how they go forward. So again I think this is not coming back to any basic issue that we think that was left unaddressed. It is just simply a combination of the revenue mix as well as the issues that we have had in the markets. We believe that going forward we should be able to recover from that.

Laxmi Narayanan

Perfect, and the second question on the mix in your backlog.

Bazmi Husain

If you look at the mix in the backlog and I am going to really talk about... first of all, as I said it is a reflection of what I said that we have short cycle orders more than the major project orders. So, we have actually more on our product side right now than we have on the project side. **(Inaudible) 34:47** the mix right now, earlier I was indicating that we have 55-45 projects in products and projects, now it is 60-40 – 60 products and 40 projects. So it has changed a little bit more towards the product side, that is for sure.

Laxmi Narayanan

Just a sub-question to that as we obviously look through for some recovery. Would the products dominate, would that continue as a strategy because that is what you are basically building?

Bazmi Husain

I will tell you, typically the recoveries are short cycle order recovery, the products recover faster, but given the state of what has happened, as I mentioned earlier, the projects are not canceled, they are delayed in the final decisions. So, when it begins to turn around, actually we could see a project recovery very quickly this time. But what is going to happen, I cannot really say.

Laxmi Narayanan

My question was more on the products dominating your mix going forward, also because that is a stated objective...

Bazmi Husain

We do have that and as I said, we always lean a little bit more towards products. Sometimes depending on the order intake, sometimes it moves one way or another. But 55-45 is what we would like to have, or 60-40 is also not bad for us in our backlog.

Moderator

Our next question is from H R Gala of Quest Investments. Please go ahead.

H R Gala Can you tell us how much is the debt in our books because that is what you said is an area of concern because of the stretch working capital?

Amlan Datta Majumdar It is around 500 crores.

H R Gala And my second question is, in the Quarter 1 of CY12 we have Rs. 33 crore FOREX loss. How much was in this quarter?

Amlan Datta Majumdar FOREX loss is 21 crores.

H R Gala In this quarter?

Amlan Datta Majumdar Yes.

Moderator Our next question is from Bhavin Vithlani of Axis Capital. Please go ahead.

Bhavin Vithlani First is on the power systems business, I see about 45 percent decreased in the order inflow on the annual report and you have articulated it is due to absence of large orders of Isolux and HVDC. My question is, what is the outlook on the Power Systems market? What do you see? Do you see large projects like HVDC coming through this year and because of a decrease in the ordered input last year, would there be a decrease in revenues in the year going forward, while we have seen a significant growth in the Power Systems revenue in the current quarter?

N Venu First of all, in the last year first quarter there were also no Isolux and no HVDC orders. So basically, last year we equipped NTPC, Sholapur, Mouda and couple of other power generation projects. So this year basically, as Bazmi told in the opening remarks, we have some of large project which (Inaudible) 38:29 basically got delayed, but we have grown our base orders. Base orders as explained are lower than 75 crores. So those orders from both industry as well as utilities, those orders we have booked. Coming back to your outlook, as you are aware of the Power Systems outlet, a lot depends upon what kind of actions and feedback from some of the government, kick start of their reforms, a lot depends upon how fast we get land, how fast this financial closure will take place, how fast these fuel linkages and other things will happen in that. But meanwhile, while we know that there are challenges in our traditional markets, like transmission and distribution, but our concentration is on the new markets which are developing such as our FACTS, SVC markets, the central utilities have already floated the tender and there are many more tenders in the pipeline, and similarly we have to focus on solar where many states have already come out with a policy clearly. For example, recently the state of Andhra announced it has come close to 1000 MW, and we will be focusing on those markets to take care of these short-term impacts.

Bhavin Vithlani Could you clarify on SVC?

N Venu FACTS, it is Flexible Alternating Current Transmission Systems.

- Bhavin Vithlani** How big is the opportunity?
- N Venu** It is quite big. One tender, which is public knowledge, PGCIL has come out with, is close to \$100 million, one tender. Many of these kinds of tenders, PGCIL has already announced.
- Bhavin Vithlani** But cumulatively what is the opportunity of SVC or FACTS?
- Bazmi Husain** Let me just try to give you another dimension to the picture that Venu just painted. If you look at the demand side as I mentioned earlier, the demand side of the equation is very strong and we are stronger. There is a need for having more power in India, but for that to be realized there are several issues; some steps have been taken, perhaps a lot more has to be taken. Eroded health of the discoms is clearly going to play an important role, how much do they want to really distribute out, because power that you generate is only useful when somebody begins to consume it and pay for it. So that is one aspect of it. Second thing, there is a big need of large projects amongst other things, for large projects for generation, large projects for transmission, distribution, and there would be increased investments **(Inaudible) 41:20** on the execution side as well. And I mentioned earlier if you recall, about the dry-type distribution transformer factory that we are setting up, because that comes of use in the distribution side. On the transmission side of things, there will be growing investment in large projects, but I think I will just kind of highlight, that up until now in India, most of the investment on the transmission side has gone into adding to the capacity of the network. SVCs and other such devices are investments that are made, which actually add to the stability and the performance of the network. So that will be a new dimension that will come in. Now, how big is that opportunity I can tell you, that is a huge opportunity. At what pace that is going to come? Well, I think that will remain to be seen, but it is a huge opportunity and fundamentally the difference is that that kind of opportunity will make the grid more reliable, more secure and better performing, at the same time there is a need for the grid to be in place to handle more capacity too. So, both will happen.
- Bhavin Vithlani** When you said the opportunity in SVCs, is it like about a billion dollars a year?
- Bazmi Husain** That depends, there is a whole lot of discussion going on and SVC is only one element of equipment that is needed to make and improve the performance of the grid, what exactly is decided by the experts that are in place in the government to decide such things, they will decide on the size of the opportunity. But I would not be surprised by the number you said.
- Moderator** Our next question is from Lokesh Garg of Kotak Institutional Equities. Please go ahead.
- Lokesh Garg** My question actually relates to observation from the balance sheet over a period of time. What we have been seeing is that payments which are going to the parent entity, which is the royalty payments and technical know-how payments and sometimes information technology related payments, have sort of steadily gone up from a level of about 2-3 percent to more like 5-6 percent now. So, just want to ask you what is driving this change and if this stays elevated or

goes up further, does that sort of take away a little bit of average profitability that we had seen from ABB over the last 7-8 years apart from these last 2-3 years, the cyclical downturn which was about 10 percent. So, steady state margins in good times may not necessarily come back to 10 but may come back to 8 or 9 only.

Amlan Datta Majumdar

Let me understand your question. One is on royalty. I think in the last call I mentioned this. Royalty, what we see is 2.5 percent basically of the revenues in that range, 2.4, 2.5, 2.55 – it is never more than that. Sometimes what happens when you pick up from the balance sheet, I mentioned this earlier, but let me clarify once again, see every company presents its balance sheet in a certain way, subject to the regulatory requirements. Now sometimes when we work in the global markets from India, we do need certain expertise and certain functionalities, which we borrow from some of our ABB companies. It is not essentially the parent company in Switzerland. Now when we pay them, it is disclosed in a certain fashion. So it may be a reimbursement of cost in some cases. It has nothing to do with any fees or any royalty or this kind of stuff. So, if you add up all that you pay to some ABB company, it is actually, essentially not a payment to the parent, kindly appreciate that. What is it? It is payments for a certain purpose. I gave this example last time, that when we first sold 765 kV in India, we needed expertise. When we first sold HVDC in India we needed expertise of people who have done it earlier. Now, for being a global conglomerate, we do not need to go outside the group, it is available within the group. So we took a service, we took their expertise. For that we need to pay, but it has nothing to do with the group headquarter or payment to parent. So, if you pick up those numbers then it will look like 3-4 percent, otherwise I can confirm to you royalty and technology fees paid is 2.5 percent of our revenues.

Lokesh Garg

So essentially you are saying that in absence of such services being taken, which are one-offs in nature, which might actually go down as some of these newer components are indigenized, in terms of know-how in technology might actually reduce going forward, possibly. The other question that I wanted to ask you was related to Power Systems, is it possible for you to suggest any specific projects, which has led to this spurt in revenue booking?

Bazmi Husain

I am afraid we do not give any project names that affect information. Only when we book a large project, we have a press release for that, but other than that we do not give information that is individual project specific.

Moderator

Our next question is from Girish Nair of BNP Paribas. Please go ahead.

Girish Nair

The first one is, were there any provisions, or a reversal of provisions in this quarter? For example, we noticed that the margins have been quite volatile and you have had losses in certain segments in the previous quarters. So, considering that all of them have returned to profitability. Is there an element of a write-back of some of the provisions there?

Amlan Datta Majumdar

We have neither made any significant provision nor written-back any provision during this quarter. This is a very eventless quarter from that perspective.

- Girish Nair** Second one is, is the contribution of Baldor Electric material to the sales EBITDA in this quarter?
- R. Narayanan** The total revenue from Baldor for this quarter will be approximately around 8 to 9 crores in that range. That gives the average profitability of the Discrete Automation and Motion division **(Inaudible) 48:37**.
- Girish Nair** Okay, it rules up into Discrete Automation segment.
- Amlan Datta Majumdar** That is right. See, we do not disclose the complete details from the subsidy, at least in the quarterly calls, but it is what Narayanan said.
- Girish Nair** And would it improve the competitiveness in the Indian market? What sort of synergies would you see from Baldor here?
- R. Narayanan** Baldor actually has got three product ranges – one is the NEMA Motors which OEMs from India export, especially to America. We have a lot of OEMs now who want to buy these types of models. Then we have certain mechanical products, which is an opportunity for us to grow and third would be Servo/Motion products, which is again an opportunity for us to grow in this business. So these are actually not any competing products, all are new products getting added to our portfolio and all have got growth opportunities.
- Moderator** Our next question is from Nainesh Rajani of Tata Mutual Fund. Please go ahead.
- Nainesh Rajani** Just a couple of questions from my end – just wanted to understand, structurally has the competitive intensity increased over the last one year or have you seen some kind of competition actually coming off in the Power Systems division specifically? What I am trying to understand is, obviously we have seen volatility in margins due to project-specific issues, but are we structurally seeing uptake in margins across segments, specifically the Power Systems one?
- N. Venu** That is not the case as of now, because of the extremely competitive situation in the market, the number of projects which are getting finalized are rather on the lower side. So naturally, we have pressure on margins, and that could continue until the markets recover.
- Nainesh Rajani** So, can we safely say that structurally there is... I mean the volatility in margins probably can continue and this I am not referring just to you, but probably to companies within the sector because of lower orders and high competition?
- Subir Pal** This pressure will continue I think till the number of projects available in the market increases. If that happens, of course we will come out of this.



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- Nainesh Rajani** So, if I can just say volatility in margins for your Power Systems division and Power Products division can probably continue going forward?
- Amlan Datta Majumdar** See, some volatility will be there in the power sector, industry sector and entire capital goods sector, but we can only assure you, we have taken every action to see that we are ahead of the curve and our volatility is lower than anyone else's.
- Nainesh Rajani** My second question would now be: any slow moving order is part of your order book or any orders that are just not moving at all, any sticky receivables?
- Amlan Datta Majumdar** There will always be some orders which are slightly delayed or sometimes more delayed, but there is no sticky receivable nor sticky order in our backlog, just to confirm that.
- Nainesh Rajani** Can you give us a quantum of that slow moving orders as part of your order book?
- Amlan Datta Majumdar** See, I might feel that one week's delay is slow moving, you might feel one month's delay is more slow moving. There is nothing which we should highlight to you or share with you. It is steady, we can confirm that.
- Moderator:** Our next question is from Piyush Mittal of Franklin Templeton. Please go ahead.
- Piyush Mittal** My question is for Mr. Narayanan on the industrial side, there have been some market reports on the motors and drives business in general, that there is a lot of pressure over the last 3 to 6 months. One of your peers who reported, has confirmed the same. So I was just wondering, what are you seeing on the motors and drives, products sales in the market over the last 3-4 months?
- R. Narayanan** One is, we cannot actually respond to any market rumors on this particular thing, but generally, one thing is that the industrial climate, that is the process industry that is the large cement, steel, etc., is in a subdued state. So definitely the offtake of price in motors is slightly subdued from the segment, but then there is no real long-term threat, because whatever the industry, motors are definitely required and considering the cost of power, drives also will continue to be used and the use will only increase in the short term as well as the long term.
- Piyush Mittal** The second question is more for the chairman, I guess if I look at the company's margins, let us say from 2002 to 2008, this is something that has been discussed in previous questions – the margin profile on the EBIT side used to be more like a 10 percent, or in excess of 10 percent. Whereas it has changed to maybe more of a sub-5 percent over the last 3-4 years. I guess the question that all of us, maybe investors and even the analysts on the sell side are trying to understand is, is there something fundamentally different in the way you are doing business? You know today maybe it is procurement, maybe it is buying more from the parent, I mean that has meaningfully changed the margins today as compared to maybe in the history so, when things do rebound, if the market does rebound, everything normalizes. Do we expect to

get back to the same number, or it would be maybe be a lower number? I know you do not give guidance. I am just looking for things which explain the performance outside of the cyclical aspects.

Bazmi Husain

First of all, I am not going to give any guidance about this. Let me put it like this: all the actions that we have taken, fundamentally everything, goes to improve our situation, that we used to have. As the markets recover, we definitely have every confidence that we will be able to take good advantage of that market recovery. We have been able to reduce our cost, we have been able to... and you mentioned about buying more from our parent. You heard me talk about this 'In Country, For Country' initiative. We talked about setting up a factory. In 2002, let me tell you we started making MCBs, we had just started, few hundred thousand poles in that year. Last year we finished with a capacity of 12 million. This year we are doubling that to 24 million poles per year. That makes us the largest single manufacturer of MCBs in the country. We are talking about GIS, a completely new factory. We are looking at Dry-Type Transformers, we have several new factories that are coming up or are being refurbished, so we are actually long-term players, we really look at these cycles as opportunities to prepare us to take advantage of the upturn. Also remember that in the year that you are talking about, the average GDP growth in India was around 9 percent. When that happens again, I think we are in a better position than we were at the beginning of that cycle. That is all I would say.

Amlan Datta Mazumdar

I would like to supplement here, Bazmi. You indicated in your question one sentence – are we buying more from parent? I can tell you we are not buying anything more or less from parent. We buy what is most optimum to buy, which makes more sense to the customer and for our project or product order. We are not doing anything like that and as you know, we have a very strong board and we always supervise that, all of us.

Piyush Mittal

The reason I am asking this question and sorry to push you guys, I mean I do not understand the hesitation on you guys part as to – why not give a guidance? It can be a vague guidance as the goal for the company is to achieve 10 to 12 percent profitability. I do not understand why you guys are being so shy to even suggest that, without putting a timeline to it.

Bazmi Husain

It is not a question of ending, we just simply have a policy, no discussion around that. We have not done it before. We do not intend to do it.

Moderator

Ladies and gentlemen, due to time constraints, that was our last question. I would now like to hand the floor back to Mr. Vikram Kanth for final remarks.

Vikram Kanth

Thank you everyone for joining us on the call. Should you have any questions please feel free to write in to us and we would be glad to answer them. The transcript would be up on about Friday and thanks for taking the call. Have a great evening.



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Moderator

Thank you very much sir. Ladies and gentlemen, thank you for choosing Chorus Call's Conferencing Service. This concludes the conference call for analysts. For further updates on ABB in India you may follow ABB India on Twitter. The account name is [@ABBIndia](#). Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.