

“ABB India Ltd Q1 CY19 Results Conference Call”

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**Management: Mr. Sanjeev Sharma – Country Managing Director**

**Mr. T.K. Sridhar – Chief Financial Officer, Mr. Sanjeev Arora – Division Manager, Robotics And Automation**

**Mr. Subrata Karmakar – Head, Robotics And Automation**

**Mr. Madhav Vemuri – Head, Industrial Automation Division**

**Moderator:** Ladies and gentlemen, good day and welcome to the ABB India Limited Q1 CY’19 Earnings Conference Call. As a reminder, all participants' lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '\*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. T.K. Sridhar – CFO of ABB India Limited. Thank you and over to you, sir.

**T.K. Sridhar:** Thank you, Raymond. Good Afternoon, Ladies and Gentlemen. Welcome to the Q1 2019 Investor Call of ABB India Limited. So just to tell you, we are just out of the shareholders meeting of 69th AGM. So I think it was received pretty well. The shareholders are by and large very supportive to the steps initiatives taken by ABB.

So now to take you through the results of Q1 and also to give an overview of business, I would not like to waste any much of time. Hand it over to Sanjeev.

So, before that on the call, I have Sanjeev Sharma – Country Managing Director of ABB India Limited, I have Sanjeev Arora – the Division Manager for Robotics and Automation and I have Subrata Karmakar who leads the Robots and Automation business and then I also have Madhav Vemuri who leads the Industrial Automation Division for India. So over to you, Sanjeev.

**T.K. Sridhar:** Thank you, Sridhar and good afternoon, everyone and thanks for joining in for this Q1 Call. What I will try to do is to give you a bit of a highlight of the Q1 and also some of the initiatives that we are taking and later on of course you can ask any questions that you may have around it or any other perspective that you want us to share with you.

 Now, with respect to key highlights of Q1, I would say that ABB continues to generate number of milestones through our history of presence of manufacturing in this country for last 65-years and incidentally Sridhar just mentioned that we concluded our 69th AGM for ABB India Limited. So that shows that being a multinational corporation, how long we have been kind of blessed to serve the nation building and also over a period of time we have brought in lot of technology, we have localized them and we operate through 47 factories, 22 offices and that is where we continue to strive to connect with more and more customers, more industries, more segments, more applications and I think that is where most of our time goes. And with the reserves, you can see today that 60% of oil and gas produced in India is monitored by ABB Systems. More than 90% of cementcompanies have an ABB system in operation. More than 5,000 robots are connected across the globe which are monitored by ABB India in ABB Ability Innovation Center. All the 10 out of 13 operational metros systems deploy ABB technology, we have more than 370 digitalization contracts signed across 80 countries wherein ABB India is actively participant and we are of course now focusing a lot on the data center because that is a growing industry. I cannot name the customer, but it is the biggest name in the global industry. They have kind of asked ABB to supply the complete power system as well as automation system for their first and the largest data center that is being set up in the country. So that shows our global reach and our global presence and our local reach and local presence is well recognized by the global players when they come to India and also with the Railways expansion about 300 electric locomotives of Indian Railways, right now run on ABB made traction converters and many more orders are in contribution and just to give you an effect, it immediately increase 40% efficiency of these locomotive as we deal with it. So, lot of technology, lot of market segments, and lot of legacy and these are some of the highlights that we wanted to show it to you.

 Now, in terms of results for the Q1, I think there is a consistency and resiliency of the results being driven by ABB over a period of time through last many quarters. So you can see up to 2018, our journey is upwards, consistent and also if you look into the PAT and PAT percentage that journey is upwards and also if you see our commitment to shareholders and giving returns to then the dividend percentage continues to rise and if you see the most important parameter of EPS it is 22.3% CAGR over last five years.

 Now if you see the Q1 2019, we grew 17% in base order. I think that is a very encouraging sign given that we had some large orders in the first quarter last year and orders on consolidated basis have grown up by 4% but the good story is about the base orders and the revenues grew by 18% and correspondingly you can see that we have a good pick up in PBT of 98% higher than Q1 last year and PAT of 95% higher compared to last year. Our capacity utilization and revenue mix is changing and that is also contributing to the profitability as we go forward and in the last quarter. We continue to invest in smart factory. So if you come to our factory in Bangalore which we inaugurated about 2.5-3 months back, wherein we produce electrical components using robots now. So I think we will talk about robotics application first. We use our own in-house technologies to increase our productivity and just to let you know when we open that line, we have made this factory paperless. So all the OEE that is the operational equipment effectiveness can be measured without touching any data manually and we continue to improve the process. That is one effect. And secondly, most of the operators are able to operate much more effectively because it is a data and fact-based manufacturing. So, it is very-very interesting to see deployment of our own technology to make our factory smart going forward.

 Now, some of the highlights, like for example, one of the leading hospitality major, I think that is one of the hotel chains we will always like to go, I think it is one of the very well run Indian hospitality chain. They exclusively have been deploying ABB building automation solution in all their new hotels and also existing hotels we are refurbishing with ABB automation technology and direct impact one is of course the user comfort, but at the same time we also preserve in the energy cost. So there are a lot of impacts on the energy conservation building. And as you may know from the previous years, the entire Delhi airport runs with ABB building automation technology and any building of that size the Delhi airport consumes 30% less energy. So I think that is a kind of an impact you have when you apply the technology in the right way. And also, we have a new solution which again is a very unique one called Trounce. It has been established at Bangalore airport. It is about auto transfer switching technology. Those who are technically interested, you can go to ABB website and read about Trounce. It is a unique and very innovative product which have been launched globally and also available locally.

We continue to get a strong pipeline orders from Railways. We had Rs.270 crores order from DLW and there are many orders which are under manufacturing as well as we see there is a growing interest from Railways to buy more of our core technologies.

And of course, we continue to participate on the IoT and the digitalization side and we do have strong engagement with NASSCOM and NITI and a good recognition by these two premier entities in the country. And of course, we continue to participate in national building projects like Kaleshwaram irrigation project which is the largest one and here the drive which actually optimize the forward delivery for the pumping systems for the water, they are with ABB and you may have heard in last year that we had done similar project also across Telangana which is really the life-changing experience for the farmers who are earlier living in areas which were drought one. But because of these technologies and the water availability and the pump technology available, most of the farmers have moved back to the irrigation habitat because they were just going to Hyderabad to become construction laborers. So we have positive impact on the society when we deploy these technologies, these kinds of projects. And we continue to engage with the policy like NITI Aayog or MSME and NASSCOM and continue to create or dealership on the digital adoption of technologies in the industry.

In terms of Exports and Service portfolio, I am pleased to tell you that in the last quarter, we grew our exports by 38% and our service orders or revenues were up by 21%.

Digital, I think is what we talked about but ABB is a very focus company in terms of delivery solution and not only talk about it. So if we see that we have very specific solution which are getting deployed at the customers’ premises and we have lot of orders, lot of interest, lot of so-called proof-of-concept running across the industry, like for example, we have launched ABB Ability Mine Optimize Digital Solution for mining companies, shares good interest in the country. We have the ABB Cyber Security Solutions for petrochemicals majors. And additional service order for ABB Ability Manufacture and also we have the logistics to deploy engine diagnostics and advisory software for ABB Ability Expert to increase overall energy efficiency and reliability for the marine sector and there again we see that there is a good interest.

What we do to create the high awareness of digital and also capture the curiosity of our customers in the digital space who are also new to the solutions, we have a very strong engagement plan. We already carried out 118 customers and partner workshops and most of them were at the CXO level. We never had so many CXOs visiting us in past but last year was a record year with so many CXOs pass through our Ability Innovation Center and we created two very large big bang events at the Ability Center, 600 customer interaction and we have solid POCs orders and concept development working at this point of time part of our pipeline.

Now, we are very much encouraged by the digital technologies focus because once it is really very clear that the industry sees that they will gain lot of productivity by deploying the solution, but in companies like ABB, they need so that we can articulate how these technologies should be deployed in the industry so that they can gain something out of it. This is a typical digital S-curve wherein you can see the ICD industry, media and finance and insurance are at the highest level of digital S-curve, they have grown much faster and we can see the impact of ICD, media, finance and insurance in our day-to-day life how easy it is for as users to accept information and data. And all that dark dot that you see on the screen, these are the typical targeted customers of ABB and these are the customers who will walk through the digital S-curve value chain with us over a period of time and that is where they will gain on productivity in their industry because of digitalization and ABB will have lot of solutions to deliver to them and these are the typical customers who have very strong bonding and relationship with ABB because we have been serving them for many-many decades.

So typically, if you may ask, what is it that the industry is struggling with or what kind of challenges they have, so typically, they are kind of seeking help because there is a shift in consumer pattern, there is a regulation and placeability requirement on that, their infrastructure is aging, environmental concerns are rising and they have a workforce which is aging and there is a skill gap. All these areas lead to flexibility and quality improvement, cost optimization and there are enabler for cost, quality and flexibility improvement. So, in order to do that, we need to focus on the entire value chain which contributes to improvement in the factory or in client’s location. We look into the employee productivity by deploying technology whether it could be advanced robot, it could be assistant systems or it could be asset productivity by having predictive maintenance, quality improvement by taking more data-driven quality control decision, we have planning efficiency and we have logistics productivity around it. We have not only estimated but we have proven it in Indian condition with perhaps the largest cementmanufacturer in the country that we are able to give an improvement of average efficiency… improvement of 20-30% and this goes across the value chain and we have very well crafted programs to help our customers in this area and that is creating a new revenue opportunity and also it has a very good and sticky service model around it so that you continue to serve the customers with this model.

Just to give you an illustration about ABB Ability which is the digital platform of ABB which is built on Azure Microsoft, it has AI component from IBM, it has a digital twin component from Dassault Systems and it has the Edge Computing from HPE, they are our partner in this and we are the one who have the domain expertise and conversion capability of our customers, problem statements are into solution by using this open platform. So it means ABB does not develop those core technologies or platform, that is developed by best-in-class suppliers globally which is accessible to our customers and easily on top of those platforms is the ABB Ability Solution, is a very unique application with our domain expertise which creates more productivity and efficiency for our customers. And that is where the value gets added, that is where that value gets converted into a price and that is how that price has a premium when you deliver a very well-articulated value. So just to see the differentiation between typically aero plane wherein only an engine as a component is monitored, what we do is, we monitor every component inside the plant and we optimize it for the total performance and it deploys all the technologies like IoT, S-Computing, Cloud, AIML, Predictive Maintenance, you name it. And once you are able to balance it and you are able to strike a good total performance equation for the customers there are benefits we had and it is more relevant in India than anywhere else because typically there has been a lot of productivity gap of Indian industry relative to the west which was largely due to the manpower skills. But with the digital technology that gap can be bridged and that is why most of the industrialists in India are very-very encouraged and very motivated right now to invest in these technologies so that they can gain those productivity gains as well as bridge the gap between quality, productivity with the west run manufacturer per se. So that is where there is a good stickiness of this proposition from ABB.

We have very well-defined solution for our Electrification division, Motion division, Industrial Automation, Robotics and Discrete Automation. Here we have Cloud solution, we have the Edge solution and we have the connected devices which completes the loop for the customers.

From the market overview and ABB project wins, ABB India story is shaping along nascent growth journey. If India pans out globally in terms of the growth story we have and I think we continue to chug along that journey. All of you know that in 2007, we were only $1 trillion economy, now today we are about $2.5 trillion economy in 10-12-years and another 7-10-years we will be $5 trillion economy. So it means there are a lot of growth and there are a lot of growth centers, there are a lot of new segments, there are existing segments and our endeavor is to engage with each of these customer centers and these market segments and make sure that we have penetration with the existing customers, innovative solutions to the existing and the new customers and expansion into new geography and the new customer and new market segment. That is what we call as our five strategy and that is working and that is what shows in our results as we talk about.

So, going forward, ABB as a pioneering technology leader in digital industry will have five focus areas. We were in power, we have been in production, power in the work areas, living areas and movability which is the transportation. So just to give you an example on the power plant digital automation upgrade in Nepal for hydro projects, so my remote control care for utilities for effective remote monitoring. That is the one example of how we will impact the power equation. If you see produce, the manufacturing, whether it is the cement manufacturer or oil and gas or food and beverage, we will have lot of digital solutions as well as very core technology solutions going into these areas. In the work area, we will have the smart manufacturing and we are proving these technologies in our own plant and then customers get motivated and they feel confident to deploy these technologies in their own areas and then we are getting into launching new products which are smart products and then of course we are getting into new areas like data center, which are the workhorse for digital industry.

Lift whether it is in the hospitality sector, with the hotel, whether it is in case of airports, we have the solutions like the hospitals, or we have the automation and forward safety management solution called retail, we have good assortment of portfolio which is finding its way there.

In the transportation sector, we have very solid solution portfolio for railways, metro, and also for the shipping industry and those are the areas which are also growing solidly in the country and they will continue to grow for time to come.

So 2019 priorities for us is running the company the way we are. So, our entire management team and the leadership team is totally focused on customers and our saying in the company is that the only source of income is customers and that is where we focus every dollar and rupee that we invest goes in that direction and all the efforts in terms of time and hours, that is where they get invested and nowhere else. At the same time we are doing the transformation which is a PG demerger which is on track and also we are trying to create a core leading business operational by April 1st which has already done and we will make sure that the market takes benefit of it. So the country management is managing the transformation but the business leadership is totally focused on the customer. So that is how we are managing this particular process.

This is the overview from my side and I look forward to the questions when we have interactive session. I hand it over to T.K. Sridhar, our CFO, who will take you through Financials.

**T.K. Sridhar**: Thank you, Sanjeev. I think you guys will be able to see this particular slide where we are talking of how our performance has been. Orders as what Sanjeev has mentioned was Rs.1,780 crores, an overall base and large orders put together. So last year we had Rs.180 crores of a large order which is not there in this particular quarter. The good part of it is that these are all base orders, I mean, very credible visibility of the future revenues and also customer base.

Order Backlog: We are at Rs.4,726 crores and it is a 12% increase over the 2018 when we closed. Revenues Rs.1,850 crores which is a growth of 18% YoY. So I will get into more details as I go forward. Profit before tax is at 7.5% margin and PAT at 4.8% and are definitely better than the previous quarter same time.

The next slide shows how it looks in comparison to the last quarter of 2018. I think here we need to look at the fact that last quarter 2018 is always the best quarter and that would happen every quarter. So that being so, it is not sort of like-to-like benchmark what I would see. But certainly, the same quarter last year is a good benchmark to compare the first quarter of this year and when we do that I could see that in the overall performance there is definitely credible improvement.

The next slide is about finer details as to how our P&L account is structured. So our expenses are pretty much steady. Personnel expenses still at 8.5% compared to last year of 9.3%, other expenses slightly increased and that is more because we have revenue increase which has happened and also with respect to the other cost which has inflation impact on certain items.

The other elements are pretty much stable. So the interest cost is basically something which we need to look at it from two parts – there is an interest income because if you know ABB had redeemable debentures last year to the extent of Rs.600 crores. So we were running cash positive entire year last year as well. So that happen to be an extra cash which was deposited in the bank and that was an interest on that particular deposit is classified as an income while the expense is in the expense. So in a nutshell, on account of interest impact between this thing, net gain what we have had compared to the previous quarter, this quarter is round about Rs.2 crores. So that means the interest cost last year was about 5 net and this year we are at Rs.3 crores. So that is something finer bit of information which you guys would definitely be requiring. When it comes to tax, we are at 35%, almost in line with the local laws. I would say there are no avenues to sort of do a tax planning which could save the tax. The rules of the land are very clear.

So now we get into more interesting part where you look at the division wise performance. So I would definitely give a bit of more commentary on how it is happening division-by-division. So for Electrification products, we are at orders of Rs.800 crores for the quarter which means we are at a growth of 15% and orders compared to the previous quarter, Robotics and Motion at Rs.729 crores roughly, so we are at 38% growth and we have Digital Automation at Rs.312 crores which is down by 24%, it is merely because we had sluggish decision-making on the matters on oil and gas sector’s orders but whereas the service and other inflow started to remain stable. So, this is something which we have on the order front. And when it comes to the revenues, I think definitely all the divisions both electrification products, robotics and industrial automation grew and electrification of course do the fastest with 16% growth and Robotics and Motion at 9% growth and industrial automation at 1% growth. Sorry, I beg to differ, so basically revenues of electrification products at 12%, Rs.800 crores of Robotics Motion and 34% growth in revenues and Rs.361 crores of Industrial Automation at 20% growth. So, I would say there was an overall good performance across the divisions.

As you all know, there was a legacy project of EBoP which was there in a part of unallocated. So those revenues were only Rs.9 crores in the order.. So we have actually pinned down that particular business for the last couple of years and so we have less of backlog to carry forward as well.

When it comes to the profitability part of it, each division has definitely improved when compared to the previous performance. I think only EP had a bit of challenge when it came to the PBIT margins. The reason is because of more on account of the volumes benefit was offset by part of revenue mix and the FOREX impact and also the market price challenges in solar. When it comes to Robotics and Motion, they had PBIT of Rs.79 crores, it was more delivered because of a huge jump in the revenues and fantastic customer base and mix which support the margin expansion. When it comes to the Industrial Automation, the margin dipped when compared to the previous year and that is more because it is a product and the service mix. So last year, in the same quarter we had a good service revenue in export orders which came up, which were executed. In this particular quarter, it will happen in the coming quarters as well.

So, on a nutshell, I think if I look at the takeaway for electrification products, I think it will remain to focus on building data centers, metros, water and automotive and they will continue to improve, work upon their margin improvement initiatives. Industrial Automation will leverage and backlog execution, they will try to grow so as to enhance earnings in cash. When it comes to Robotics and Motion, I think they have to simply secure the capacity utilization and keep the momentum. So these are the takeaways what we have.

When it comes to the order backlog, the split of the order backlog, Electrification products Rs.1,411 crores which is 16% higher than the previous and of course Industrial Automation is Rs.1,286 crores, Robotics and Motion Rs.1,798 crores and the total is Rs.4,726 crores which is definitely higher than what we closed in 2018. So, our efforts to improve cash continue to remain our key focus area. So if you look at it, the capital employed, it’s still only with 11% growth and that is also mostly coming from the inventory build-up which is going to service the backlogs in the next few quarters to come.

Moving to the next slide, this is what I would like to show how the new ABB will look like. So it would be more of products, services and less of projects. So we have a good story to say that it has lot of base orders, good customer base and better capital employed situation, networking capital and I think it is more predictable in other words.

The last slide we have which is DSOs are at 89, were down from 110 in Q1 2018. Networking capital is Rs.1,980 crores which was Rs.2,165 crores earlier. We have strong net cash position of Rs.1,466 crores and earnings per share at 4.2.

So, this is the overall story on how the numbers look like.

**Moderator:** Sure, thank you very much. We will now begin the question-and-answer session. The first question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

**Bhavin Vithlani**: A couple of questions on the margins if you could highlight how do we see Electrification margins? You mentioned there was some impact of the solar inverter. And similarly could you also highlight on the PG part where we saw significant drop in the margin. So is there any specific one-off and how do you see it on a sustainable basis?

**T.K. Sridhar**: I forgot to mention about PG. Orders of PG for this quarter was Rs.670 crores, revenue is Rs.895 crores, backlog of Rs.5,629 crores and PBIT of Rs.42 crores. So if you look at it, clearly two, three drivers which have impacted the PG margins at this point of time. It is one, clearly, the revenues which are short compared to the previous quarter and the next part of it was previous quarter the same time had a good amount of exports which happened and this time it was more concentrated from the local orders. While I say so, I think it is more because of the local orders are always price-sensitive to that way, so we will have better order execution of exports in the coming quarters which should sort of pull up the margins going forward. So we believe that PG business did a fantastic 2018. So their targets are also to make sure that it is in line with 2018 performance because they still have 800 which would give them the volumes and the margin expansion opportunities and there are quite a few export opportunities on which the PG division will work. So I think I do not see any panic at this point of time and they are well positioned to get back to this thing and I would say that Q1 was rather a blip. On the solar inverter side, yes, we have challenges in the price, but the good part of it is that we are also scrutinizing a portfolio in terms of to which customers we cater to. I think as you would be knowing solar factory or inverter factory of ABB is a global feeder factory. So we did the transition from the other factories into this factory last year. So those revenues will start to come in going forward. We are focusing more on exports going forward. So today we still have a backlog which is to be catered for the local market. So that is a mixed scenario at this point of time.

**Moderator:** Thank you. The next question is from the line of Vishal Biraia from Aviva Insurance. Please go ahead.

**Vishal Biraia**: So what would be the import content in Industrial Automation and Robotics?

**T.K. Sridhar:** Import content depends on what are the products which we give. Industrial Automation does not import much directly, but they import through the products, they source from Robotics and Motion. I think that is an information which we do not normally give it. I would reserve my comments on that.

**Vishal Biraia**: Any guidance that you would like to give for the profitability of the IA and RM segments for medium term, how do you look at these?

**T.K. Sridhar:** We do not give any guidance but I could always tell what the drivers are. Here I would request if Sanjeev and Madhav can chip in as to how they would like to provide margins. Sanjeev, over to you.

**Sanjeev Arora**: So definitely margin is one thing which is always the focus of our division. And when we talk of margins, it is basically once we have the backlog, we have better utilization of the factories, overheads are protected and hence the contribution flows in the margins. So that is one strategy. The other strategy what we have is that we have grown handsomely in export. Going forward, ABB India would be with the global bigger factories for specific products. When we talk of the margin protection again, when service is one of the businesses, which is helping us in protecting our margin and add to that we are heavily focusing on the install base. So, I think these are the three drivers and the other driver I could say is that we are having good products wherein we are quite competitive when it comes to the local market. I hope I have answered your question.

**T.K. Sridhar:** Thank you, Sanjeev. Madhav, do you have anything to say in short about how you would see the drivers for IA performance?

**Madhav Vemuri**: Thanks, T.K. It is the profitability arising out of the service install base and also the revenue mix exports. These are the typical gains for some business-like Industrial Automation.

**T.K. Sridhar:** Very good. That is basically in a short-term if you say. Thank you very much.

**Vishal Biraia**: What was the contribution of exports to the revenue of IA and RM?

**T.K. Sridhar:** We will not give it by segment wise, but I could give you at the entity level, we still are looking at 12-14% of revenues from metros.

**Moderator:** Thank you. The next question is from the line of Sumit Kishore from J.P. Morgan. Please go ahead.

**Sumit Kishore**: My first question is with reference to the EBoP legacy projects that you mentioned as a part of the backlog and are sitting in unallocated in terms of cost and revenue. It appears that reduction in unallocated expenses has also contributed to margin improvement that we saw for the continuing operations in first quarter of CY’19. Could you please describe till how long these legacy projects would continue and what is the quantum?

**T.K. Sridhar:** I think the business of PG which is consisting of balance of plants has come down drastically. So we have very less of backlog. At this point of time, it is pretty much led. That is what I would say. It would continue up to this particular year-end, the backlog execution and that should taper off quite substantially by this year-end and could have some tails in Q1 2020.

**Sumit Kishore**: So the way we should understand is that the net of unallocated income should become a very small number, maybe in the next financial year?

**T.K. Sridhar:** Yes, it would come back to the normal levels as what it was earlier.

**Sumit Kishore**: My second question, Sridhar, is in relation to the order backlog which is up 12% if I compare it with December 2018 to March 2019. While I see for the continuing operations, the inflows are almost matched by the revenue number. So what explains the 12% increase in backlog?

**T.K. Sridhar:** If I look at it the backlog for Electrification products goes up by 16%, 9% up in Robotics and Motion and Industrial Automation is 1% up. If you look at it totally I think that is how it is. The only thing if you look at the consolidated number would be the depletion of the order backlog which we had in EBoP. So that is something which we do not consider. So we look at it on a continuing basis and that is where the business backlog comes from.

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

**Renu Baid**: So two questions from my side: One was to understand your export portfolio a little more closely. In CY’18 annual report also and previous discussions you mentioned of increasing penetration of the rail products portfolio in the export market, even motors which is a part of R&M, more export opportunity which was not there earlier. So if you can help us understand how the export has in absolute value terms grown for the core portfolio over the last three years? And if one has to take a view for the next three to five years for the exports, what category do you think you could see significant growth in terms of exports and in absolute value terms what could be the CAGR growth that we can expect here? As you mentioned the exports story for ABB has just begun. So if you can help us understand more closely?

**T.K. Sridhar:** Renu, I will not give the values, but let me divide this question in two parts. Let me give you the number perspective of it which we normally look at export as in component of the total sales which is what I will tell you, just to how it has increased and when it comes to the export drivers, I think I would request Sanjeev to sort of elaborate as to how we as a company are focusing on exports by each division. So now coming to the number dimension of it, I think in the core business, two, three years before, we were at near to double digit number of 10%, today we are talking of 13-14% for revenues on an increased revenue base is actually a higher component. That means our exports YoY has grown more than our domestic business. So that is how I would see. I would now leave it for Sanjeev to give a dimension from the qualitative standpoint.

**Sanjeev Sharma**: Renu, when you look into the construct of a company, you need to see where the fundamentals are. So if you really look into a large multinational corporation like ABB operating out of India and manufacturing over a period of time, what you do is your manufacturing base becomes deeper and deeper, your value chain with localization becomes more entrenched locally, your local value add increases and then you are operating in a very competitive environment in India wherein the competition is very strong. So that means you get fine-tuned to deal with that particular market situation and still make money out of it. Once you are in that situation, the direct impact is that for certain products and solutions, those products are extremely attractive for the export market because in our export market, there are selected markets wherein the price quality is better than what India offers. So that means if you have a technology which is as good as the one that we produce anywhere but we have a value chain which is cost competitive at the local level. If you reposition that product portfolio outside, you start gaining traction on it. But we have been very careful about it. We have not leashed all the forces in this area because I remember that 3 and a half years back when I came here, I think there was a perception outside India about the products manufactured in India. So first, you have to do is to prove yourself in small steps to ensure there are the customers who receive deliveries out of India whether it is engineering exports or it is the manufactured exports, that they are extremely satisfied, they are as satisfied as say any deliveries coming out of Italy, China, Spain or wherever. Just to give you one example, I have my colleague, Sanjeev Arora who was responsible at that time for the motors, we did a simple trick, we said, okay, if you want to compete, our motors should be as good as or better than what is produced in China or Spain or Italy. And we imported motors from these locations, our own factories, we have put them right in the middle of our manufacturing plant and then we had a challenge to our old team that our products should have a better performance and they should look better aesthetically than what we produce, because there was a perception difference and also we could see it. And let me tell you our team did an extremely good job in six months’ time and once we reach that level then our global business managers start opening up new markets for us. And that is where when you start competing, then you start offering. We are able to easily compete on behalf of ABB in those markets, and that has again increased the penetration of ABB global into those markets, supply coming out of India. So that is one example I can give you a classic case, but this is a game of patience, game of nurturing and then also making sure what your strengths are and also what are the careful steps you need to take so that the markets which receive our products and solutions have absolutely no objection or in fact they are delighted that we are able to buy products from that. So I think that has been a preparatory mode for us for the last 3, 3 and a half years. Number of product lines have been prepared in that direction and that is why you can see a lot of robotics is being playing a key role in many of our factories so that the quality is assured and also the repeatability of the quality is assured. And once you have that base, the confidence level of our global leaders who give the allocation of the market that is on the rise. Now we can see as ABB transformed itself to the next level, we are getting mandate to connect to more and more markets. And I think that is the reason where our comment comes from that we are at the starting curve of this journey, not in the middle, not in the upper curve and of course we will take very measured steps as we grow this business, and even now we are taking measured steps, last year we grew 50% in exports. So I think better part of the story is yet to come as far as exports are concerned.

**Renu Baid**: My last question is just to understand a bit on the investment cycle. This quarter you still see a healthy double-digit 17% growth in base orders, but over the last quarter or so, have you seen the domestic market being a bit soft around election which you think could soften out the growth for the full calendar year or you think broadly your end market continue to remain pretty robust with respect to giving out your projects, what is the read on the broad market?

**Sanjeev Sharma:** Our read on the broad market in last many quarters, not only this quarter or previous quarter have been that the markets are very mixed. There is less industrial investment, there is government-led investment but the market across the segments are very mixed. But the way we play the market is we have 55 product lines and we have scores of market segments that we focus on and then we have a very distributed geographies as export market and service market. When you have a portfolio as wide and segments as wide, what happens is some segments are always going down and some of them are picking up as the cyclical time and there are new segments keep adding like food and beverage, data center, etc., and we keep playing this holding point to connect our 55 products lies into that. So quite frankly, the markets have been the way we saw for long time on the industrial side, but I think it is to be credited to our leadership in the teams who lead the business as well as our people who are serving the customers that we continue to focus in the right areas, at the right point of the cycle of the segment and we continue to gain that. Now to your question about this specific quarter, I think Q1 was no different, we looked at it and we engage, value the marketplace, we are running some customer connect programs which are giving us good yield. So the good thing is that our market shares are not 100%. Our market share is say 10%, 12%. More you push in the market, better results you gain out of the market growth as well as you gain out of your competition. So that is the name of the game as far as we are concerned in terms of growing ABB portfolio. But general commentary of the market, right now the Q2 looks difficult and I think that is how you should make your projections. You can see that the broad market parameters in the automotive, in the FMCG and others, they are dropping pretty sharply. We do not know, we cannot read it very well given the big political event happening in the country, how to read macros and the political equation, I think it is beyond us. So you excuse us this quarter to give you any projection. So I think maybe next quarter, we can maybe do an analysis backward/forward.

**Moderator:** Thank you. The next question is from the line of Aditya Mongia from Kotak Securities. Please go ahead.

**Aditya Mongia**: My question was more on the services business which today is 14%, 15% of your portfolio. If I see other peers of yours in India, let us say Rockwell, Yokogawa, Honeywell, Schneider, these operate at much higher levels of about 25-30% of their revenues coming from services. What I wanted to ask from you is that what different can ABB do to reach these levels sooner rather than later?

**T.K. Sridhar:** Madhav Vemuri who leads our Industrial Automation business also had a second gap of leading the service business. So Madhav, over to you first, whether you agree to that statement that we have a gap in delivering services or do you think we are at a good point and how our future looks like and what are the things we are going to do in this area.

**Madhav Vemuri:** Let me answer this in two parts: One, the definition of service itself has to be something which we need to harmonize. ABB has a very clear definition what we consider as part of service. That is one portion of it. And second, it also needs to be looked at what is the composition of the installed base. ABB Industrial Automation or ABB industry side, if you look at it, we have almost 30% to 40% bought out items and we not just only supply the products like in case of some of the names that you mentioned, we actually supply large projects, where we have significant component of Electrical, Automation and also a lot of other associated components like Cables and things like that. So the service as a percentage of installed base yield is something which will vary from industry-to-industry. And also as part of the revenues, it will vary because our revenue mix is including all these types, it is not just only core product, automation product and things like that. So that I think we need to keep it in mind when we compare with the peers or competitors. Second, are we at the right levels in terms of service as a percentage of the overall one? Definitely no, we still have areas to improve and we are working on that. If you see in the last three years, year-on-year we have increased the service content as a percentage of the overall revenue and then we also have initiatives to really take on the digital journey so that we actually start getting the better share of the service wallet from the customer side. Right now most of the service activities are shared between ABB and the channel partners, freelancers and all. So the digital infusion into the service portfolio, ABB is the direct engagement with the customers will increase and hence the overall service revenues also going forward will increase.

**Sanjeev Sharma:** Thanks, Madhav. Just to kind of round up the answer here, since you mentioned certain companies like Rockwell, Honeywell, and others, you are right, if you compare them with ABB and you compare the service level, it is not an apple-to-apple comparison. If I take that part which is comparable to Honeywell, you mentioned about Rockwell, I think you mentioned about 27%, so within that space our service component is 40%. So we are fairly deeply penetrated in terms of delivering services when you compare peer-to-peer comparison with the names that you mentioned. But as Madhav is saying that our install base is very rich and we continue to monitor our penetration level into that install base and that is the journey that we continue to perform every year. That is why we have the percentage increase, our service revenues every year because we continue to walk through those installed bases, but peer-to-peer comparison, of course, we would like to do better, but purely by percentage wise we are around 40%.

**T.K. Sridhar:** I think we are near to that.

**Moderator:** Thank you. The next question is from the line of Ranjit Sivaram from ICICI Securities. Please go ahead.

**Ranjit Sivaram**: If you can help us with last year how much was the EBoP-related losses under the unallocable expenditure and for this quarter what was that number?

**T.K. Sridhar:** Last year to this year number? I could give you this year number, but last year number is bit of a challenge. This Q1 is about Rs.5 crores to Rs.6 crores loss which is included in the unallocated. Last year, I do not have, but it does not matter, I do not think so it is much of an impact, it is slightly higher number I would say.

**Ranjit Sivaram**: In the order backlog, what is the component of export?

**T.K. Sridhar:** Order backlog is order backlog, we do not look at it over the exports and what is services. As what you said you could apply the same logic of what is in orders and revenues which is 15% from sort of export is what will apply also on the backlog because exports follow very predictable execution cycle, so it is not like a system order where you have a milestone, but it is more product base and so you have an advantage of doing that. So you can go safely with an assumption of what is there in the order booking and revenues is what will also remain on the backlog.

**Ranjit Sivaram**: Overall order backlog is only short cycle in nature, there is currently no major long orders in the order backlog?

**T.K. Sridhar:** Not really.

**Ranjit Sivaram**: Services as a percentage of sales, you mentioned exports you have 13% to 14 % target. So what is your target for service as a percentage of sales?

**T.K. Sridhar:** As a percentage of sales I think if you look at, service is around 14% of the revenues today as of the first quarter, I think it only increase from there. We have put a slide where you can look at it. We do not give any guidance. You are not new to ABB call.

**Moderator:** Thank you. The next question is from the line of Abhishek Puri from Axis Capital. Please go ahead.

**Abhishek Puri:** Robotics and Motion division has clocked a solid revenue growth. Your commentary talks about largely traction drives and Railways orders. Could you speak about the Robotics, what projects would you have delivered and what is the typical time line to deliver these?

**Sanjeev Arora:** First of all, thank you for that comment. So the journey would continue and not only in the segments what you have named, but as Sanjeev Sharma has already mentioned, we have various product lines in Robotics and Motion also. So not only are we covering the heavy industry or the infrastructure piece, but also we are covering widely the light industry and hence I am pretty confident that the way in which we are projecting the growth it would have the same momentum in coming quarters.

**Sanjeev Sharma:** Question about robotics, what kind of significance, orders or type of industry?

**Sanjeev Arora:** When we talk of the segments, I was not very specific in mentioning the name of the customers, but definitely the segments would be the food and beverages, the plastics, the tyre industry, apart from traction, apart from lift irrigation projects and of course automotive industry, which has really helped us especially the Robotics business.

**Abhishek Puri:** In terms of the power grids business, if you can just give us the order inflow numbers as well please?

**T.K. Sridhar:** Orders is Rs.670 crores.

**Abhishek Puri:** Lastly, the slide #27 that you have given, I was just grappling to understand the order backlog number. Q4 2018 is about Rs.4,200 crores and Q1 2019 is Rs.4,726 crores, so roughly an increase of 500 crores.

**T.K. Sridhar:** Yes, it is 12%.

**Abhishek Puri:** But in terms of the orders that you have received is Rs.1,780 crores and you have already delivered a revenue of Rs.1,850 crores.

**T.K. Sridhar:** We had an opening backlog also. Basically how this works is whatever backlog you have at the end of December add with that the orders which you have received for the Q1 minus the revenues of Q1 and then you have what is the order book position at the end of Q1. This basically talks of what is the revenues which you need to deliver in the coming quarters.

**Abhishek Puri:** Opening backlog will be similar to the closing of Q4, if I am not mistaken?

**T.K. Sridhar:** It should be 12%, less similar to that, yes, you are right.

**Abhishek Puri:** So, which is why I am unable to get the math that backlog is increased by Rs.500 crores whereas the order received is less than the revenues by almost Rs.70-odd crores. So ideally the order backlog should have reduced by Rs.70 crores as it has increased by Rs.500 crores?

**T.K. Sridhar:** But you will have consolidations also in between, right.

**Abhishek Puri:** Some intersegment order you mean to say?

**T.K. Sridhar:** Absolutely.

**Moderator:** Due to time constraints we will be able to take one last question. The last question is from the line of Indrajeet Bhatia from Macquarie. Please go ahead.

**Indrajeet** **Bhatia**: I wanted to understand what is the basic margin profile in the products Vs services or / projects. Is there kind of a significant difference in terms of margin profile?

**T.K. Sridhar:** We would give you a very qualified answer on this. First of all we do not look at margins by the channels to the market. We look by more in terms of how the division because there is P&L at the division and the division when it gives the performance view, then it has a mix of orders, revenues, products, projects and services. So that is how it is. Right now coming to your question of services versus products, I could give you a very qualitative answer, service definitely could have higher margins, and exports would have higher margin, sometime the domestic products and domestic projects.

**Indrajeet** **Bhatia**: Second question is on the PG business. Could you quantify what is this big-ticket order that we have, how much of that is left in the order backlog right now?

**T.K. Sridhar:** We have I think at least 30% of it is still remaining, Rs.1,300 to 1,400 crores.

**Moderator:** Thank you. We will take that as a last question.

**T.K. Sridhar:** Ladies and gentlemen, thank you very much for attending this particular call and thanks to the team who was able to prepare for this particular call and the set of slides are available on the website and in case of any still unanswered questions even after saving so much of data, please feel free to contact me or Sohiniwe will try to give it to best of our ability. Thank you very much.

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