

“ABB India Limited Q2 Calendar Year 2019 Earnings Conference Call”

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**Moderator:** Good day, ladies and gentlemen. And welcome to the Q2 Calendar Year 2019 Earnings Conference Call of ABB India Limited. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please not that this conference is being recorded. I now hand the conference over to Mr. T.K. Shridhar – CFO of ABB India Limited. Thank you and over to you, sir.

**T.K. Shridhar:** Thank you, Margret. Good morning. I think most of the people are from Mumbai, I then welcome to the call of Q2 2019. Right? So, this is here where we will discuss the results of ABB's performance in quarter two. I think it has been interesting quarter for all of us, with a lot of macro activities which has taken place in Q2. We had a board meeting on Friday, because of the weekend we could not have one call immediately, which we normally used to have. And so we follow it on a Monday. I am sure that we have loaded the presentation to the website and you have been able to access that.

On the call I have Sanjeev Sharma – Managing Director for ABB India Limited.Madhav Vemuri – Division Manager for Industrial Automation, Sanjeev Arora – Division Manager for Motion, Subrata Karmakar – Division Manager for Robotics and Automation, and also CP Vyas – Division Manager for Electrification Products. Apart from that, I have my communication colleagues, Bina and Sohini also on the call. Over to you, Sanjeev, and then we can give them a perspective.

**Sanjeev Sharma:** Good morning to all of you. Thank you, Sridhar. I will briefly give you an overview of what we observed in last quarter and how the results relate to the macros, as well as with respect to the efforts which company has been doing in the marketplace. We know that last quarter was a big event, which was the national elections. I think it's the one of the largest exercises any nation carries out, or India carries out. a lot of resources get channelized into the market for the government as well as there is a bit of lag in the marketplace in different market sectors. But what we observed for ABB business, if you compare the results of FY2018 quarter, versus the results that we had given in last quarter, we have seen overall growth. We have grown compared to the last quarter, the quarter last year, we have grown in orders, we have grown in revenues, we have also grown in profitability.

If you really look into the macros, the macros point in two directions, which shows that the markets have been subdued. But as far as the forecast for the economy is concerned, there is optimism there. The core impact I could say for the macro, some of the things which were happening in the quarter two are, on the revenue side, the uptake of the revenue was bit sluggish. I think that represents the confidence the customers had in terms of what they were doing in the marketplace. But then all those revenues will pass through in this quarter. And I think that uptake is reasonable for us.

If you really compare the performances starting from FY2017, 2018, and how our H1 2019 looks like, you see where we are on the H1, our run rate on H1 is higher than preceding years, in orders, in backlog, in revenues, in operational EBITDA, in operational EBITDA margin percentage, PBT percentage and PAT percentage. So, this is pointing in good direction. Typically, at the half year mark if the run rate is good, that gives us a pretty solid feeling in terms of what we expect in quarter three and quarter four, wherein the push becomes even higher from our side in the marketplace.

If we compare Q2 2019 and Q2 2018 numbers, our orders are up by 23% quarter-to-quarter, revenues are up 4%, PBT is up 61% and PAT is up 57%. And if we compare H1 2019 and H1 2018, our orders are up 14%, revenue 11%, PBT 80% and PAT 76%. We have seen growth across all our businesses and majority business lines. We run multiple business lines which have exposure to multiple market segments and multiple geographies. we play these metrics to extract growth from the marketplace. So, among all the business lines, I think the traction has been quite satisfactory for us. The growth in the base orders is going in the right direction, it is up 16%, exports have been up for us. We continue to make investments in our facility expansion, R&D and special customer connect initiatives which increases the penetration and expansion of our capabilities in the marketplace. We do believe that we are able to deliver good and attractive shareholder returns.

If you take some of the recent highlights, we are currently engaged in delivering a very large data center project. I cannot name the customer because of the non-disclosure agreements, but it is the largest global company in the world and they are the ones who have been setting up a very large data center here and they rely on ABB technology for power distribution, as well as the electrical distribution control system, which is part of our ABB ability digital platform.

We take a lot of pride in having commissioned the largest single location lift irrigation project globally wherein all ABB motors, drives, relays, switch gears, breakers are involved. You must have seen this in the in the news. This is not only a technology feat in the country, but it will help a lot to farmers who will get the water at their doorstep to irrigate their lands. We had other segments for example we supply drives and smart sensors for food chains, that also shows the diversity of the portfolio and the diversity of the market segments we operate in. We had the solution supply for robotics palletization for edible oil company. That's another area wherein right now we are experiencing downside in the auto industry, and we have been rapidly diversifying ourselves into the non-automotive sector so that we ensure that the robotics business continues to stay on the growth path or sustains itself. We are seeing some very good traction in non-automotive sector in terms of absorption of robotics.

We continue to invest in our customer connect program in Tier-II cities and also enhance the digital demand. We typically do these investments based on ROI – we put some dollars out in the marketplace, we like to see positive returns on those efforts. And we monitor them, so for all the efforts we are making in the marketplace, we get positive returns.

Few more examples of expanding ABB ability portfolio in India: we do have some good absorption or solution by a beverage company and other distribution control systems that we are supplying. We have been able to give good cyber security solutions for a petrochemical major, digital service order for mining sector, and repeat orders for cement industry in the digital space.

Now, what I like to mention here is that there is a lot of talk out in the digital side in the market, and people are trying to give different propositions. The way ABB operates is that we have a very solid base of portfolio, installed base, and a very loyal customer base. What we offer and what we deliver is the layers of digital on top of what customers already have, and that creates an immediate value. It is not a standalone small software here or small software there, it is about creating a solution and an ecosystem which extracts more productivity out of the assets which are owned by the customer; we understand them well and it has an immediate and direct benefit for the customer. That's where our story is and typically customers really respond very well to our proposition.

On the export side, the exports have been growing, so is the service portfolio. We are also experiencing a good leverage of a good spread out short cycle order and we have reduced dependence on large orders, which is positive for us in terms of the net results that you see from us.

A very quick overview in terms of how each of our divisions performed – For the electrification division, it was a strong execution and growth orientation in quarter two, orders grew 19%, revenues grew 14%, and PBIT was up 24%. There are a lot of things which this particular division is doing in terms of pushing itself in the marketplace. We are seeing that the results are very, very positive and good. We have a good story ahead with this.

 For motion division, the orders were up 14%, revenues are up 9%, and PBIT up 10%, ; we continue to see a very strong movement in this particular business. Not only in the domestic market, we see this division also expanding its footprint globally in the export markets as well.

On the robotics division, orders were down 16% relative to quarter two of the previous year. Because of the automotive sector, it certainly took a nosedive. At the same time, our pipeline is healthy and we are diversifying into other segments like food and beverage, pharma, segments wherein we are testing out certain applications for those segments. We find the uptake of robotics across these sectors is quite high and the interest is very, very high. And it is not only with the large players, we see that Tier-II, Tier-III customers are also showing very high interest in using robotics in their lines, as we go forward.

On the industrial automation side, we did see orders going up 15%, revenues were flat and PBIT was down. We are seeing the initial shoots of recovery in energy orders and metals, but still I think it is taking time for them to recover. Our focus on serving our existing customers, delivering value added services, and looking into new offerings within the digital domain are paying us good dividends in this particular area.

A very quick comment on power grids. We are sustaining focus during transformation. Our power grids colleagues stay close and focused on customers. Given it was a hard quarter compared to last year, still we have cash cover, our performance, is at best flat. You can follow the peers in this particular segment and see these results are really good compared to what's happening in the marketplace at the moment.

In terms of our 2019 priorities, I do read about macros, but I focus more on micros. Given the product portfolio as well as the market diversity we have in the country and the geographical diversity, we keep tracking the segments wherein we can do better and we can gain market share. That's exactly where the resilience of our teams come. And I think that itself is a testimony why you see the growth in the results in previous quarters. That typically is a mix that we keep and that's a kind of a focus we have, and our focus going forward, given our growth in backlog, will be to improve our revenues, we will continue to focus on quality as well as very resilient approach in terms of reaching each and every nook and corner of the market where our products and services can be delivered.

We continue to have lots of programs which are increasing the productivity in the system, be it in the execution, cash and cost out. As far as the transformation projects are concerned, which is a pretty heavy hand for us this year, the PG demerger is on track, I think we are ahead of the curve there, all the key decisions are in place, so we are keeping the timeline. We announced the divestment of solar inverters business and we are ensuring that it follows a good path. So by end of this year, quarter one, we have that in place. While we are doing this demerger, the new ABB or the rest of ABB that will be future ABB, we are ensuring that there is a proper structure in place so that we really focus on the diversity of the market as well as on the growth topics. So, those also have been put in place by us parallel to this activity.

So, now I will request TK Sridhar – our CFO to take us forward on the numbers.

**T.K. Sridhar:** Thank you, Sanjeev. first of all, I want to say this quarter was a pretty interesting quarter, and as I mentioned about quite a few macro moving parts and in spite of that I think we were full of diligence to pull out and give this performance. that's how we all, as a team, look at how we could perform. This sets the base for the next coming quarters going forward.

The next slide, which is on the how it looks for the quarter. So, I mean most of it was base orders, and, what I see is for the continuing business. This doesn't include power grids at this point of time, I will give the power grid information separately so that we have a total picture on hand. The total orders which we had received in this quarter is roughly about Rs. 2,000 crores and this was up by 23%. As Sajeev was mentioning, we got a large order of Rs. 110 crores from the lift irrigation and the EPC contracting teams.

Order backlog was pretty much robust, Rs. 4,600 crores. If I look at the breakup of these orders, for the half year, division wise, electrification division, Rs. 1,645 crores is the order booking for H1; MO has an order booking of Rs. 1,270 crores; robotic and automation has Rs. 158 crores; and industrial automation has Rs. 786 crores. So, totally after netting it off we have Rs. 3,769 crores as the order book for H1.

When it comes to the order backlog, we have a pretty solid order backlog which was able to give us visibility into the revenues. I think they are all really executable order backlog and we make sure that before we dispatch the material or take it out for production, the financial securities are in line because it's very important in the market where there is a liquidity crisis, and we do not want to end up with receivables so we believe that cash over revenue still follows a better method to drive the businesses.

Without netting off, we have an order backlog of Rs. 4,656 crores. This is up 9% than the previous half year, and augurs well for the future revenue plans.

Profit after tax, grew at 61% quarter-on-quarter, and I will come to the sequential later. And profit after tax was Rs. 70 crores, with a growth of 57%, and for the half year we were 76% up on the profit side. And I am proud to say that we have a squeaky-clean balance sheet, which will provide us with all the leavers to have a profitable growth going forward.

Coming to sequential quarters, on the orders we were up by 12%, last quarter was Rs. 1,780 crores of orders and this year this quarter was Rs. 2,000 crores. The revenues and profitability were down, revenue was down by 6% and profit after tax was down around about 18%.

I will go to quarterly financial summary. so this slide is more for information as to how our credible performance continues. the next slide where we deal a bit more in detail about the financial numbers. So, if you look at this particular slide, it's a very informative one from the point of view of looking at how the cost structure of the company is now really shaping up. We have material cost of 65% for the quarter and almost 67% for the half year, which is less than the previous years. It's mostly driven by the mix of the orders, and more of product execution which has got a lot of indigenization on the ground When it comes to the revenue mix, I think product revenues, though the service was slightly down, impacted slightly the profitability the bottom-line. Cash position, definitely strong at Rs. 1,300 crores. And when it comes to the PeX cost, I would say that we are modest at 8% of the total revenues as PeX cost, but on year-on-year we still are better than the previous year.

When it comes to the other expenses, this was an expense which has increased compared to the previous quarters as well as the sequential quarter. It was driven by the operations and so it's more due to contract at services, warranty provisions for new products which we supplied in motion and also in EL, and part in robot automation. We had, in the last quarters, reversals for provisions based on the commissioning of the project sites as well as claims which we received. This was a one-time gain which was there. On a half year to half year basis if you see, our expenses are at the range of 70% is what you would see.

Our higher tax expense was more due to non-deductible on the MSME interest, which is as per law, we can do nothing but will really run out over year end. This is overall comments on the quarterly financial summary. So, I think the ETR was at 36.8% for the quarter, and that as what I mentioned, was around because of the non-deductibles which we had impact.

So, leading to the transformation, updates on the PG demerger, and as well solar inverter business. I think demerger is progressing as per regulatory guidelines, so we have a court convened meeting happening on the 9th of August for the shareholders and creditors. We have the internal processes of forming a subsidiary which is on track. We have the various work streams working together to make sure that we have a solid carving out which happens by January 1st. And then June 31st will be the day one. On solar, I think the board has accorded its in-principle approval for the sale. The subsequent actions are in progress at this point of time, so the income statements we have provided includes solar, and other things, whereas we have held assets and liabilities of the solar, as asset held for sale.

The next slide is about the quarterly trend in Q2. So, this is bit more interesting. If you look at it, the electrification products, looking at a nice uptick in the margins as well as the revenues and the order. I think it also tells about the micro factors which Sanjeev elucidated, and also on a better product portfolio which is there, and solar is all export based. When it comes to motion, I think it's more concerted focus on markets and for volumes, and, of course, a deeper focus on operations with respect to how the capacities can be utilized, and how the material costs could be driven. Industrial automation is a mixed bag, as you rightly said, it's more about projects, less a better product and less of services. In spite of this, I would say that during Q2 industrial automation showed good pickup in order, and I think therefore it secures its future revenues. Robot automation reflects the market scenario, one of our major customers being automotive where we find a challenge at this point of time, I think but they are well poised for a future growth. Once the market picks up, they should be better off.

Next slide gives a view of how our total mix of orders and revenues by division. So, by and large, if you look at these particular slides, you can see the orders come majority from the product.Products form almost 75%, projects form just 10% to 12%, and then the services form 15%; this is the overall split of order. When you go by the divisions, how each division contributed, electrification products forms almost 40% of our orders and revenues, and motion forms 25% to 30% of our revenues, and profitability as such. What I would like to mention here, the higher the revenues and orders of electrification and motion, so I think that drives the profitability, because it's more product based and naturally the capacity advantage is driving when they move moreover the breakeven. And the contribution of IA has been constant that 20%, 21%; and robotics form 4%.

So, the last but the next slide, the penultimate slide, key ratios. I think this is one of the new inputs which we wanted to give as to how… and I am 100% sure this you would also be doing independently when you assess the companies, thought we should bring this outside in view and look at for ourselves as to how we behave. So, I think if you look at it, so EBITDA margins, growing consistently and here 2016 includes PG, 2017 onwards doesn't include PG. So, if you look at it, EBITDA margin are on a right trend, EBIT margins are on a right trend, PBT and PAT also on the right trend, up to the half year, and ROCE is also on the right trend. So, hopefully I think by H2 when the revenues peak and the numbers peak, I think this should show a better solid result going forward.

EPS at 11.63 for the half year, and we should be able to maintain or better the EPS as what it was in 2018. And we are happy to see the cash earnings per share, because this is something which reflects the health of the business and real flexibility to operate and the decisions we could take. This is also pretty much healthy at 28.49. When I look at the gearing, we have repaid the non-convertible debentures in last year, so we don't have any debt on the balance sheet, so we are a zero-debt company, so NWC at 1.58x. DSOs and DOPs and DIH, the inventories are trending in at right direction. The conversion cycle was slightly higher, I am sure with all the efforts which we will put in the next two quarters, we should be able to bring it back to normal, because we have a target to make sure that we have a leaner balance sheet than what it was.

So, the next slide, we would also like to give you a view as to how the market expected from us, and how we fair against it. This looks at how we would like to position ourselves vis-à-vis with the expectation. Revenues, I think we performed Rs. 1,725 crores; the market expectation, this is an average of the analysts who had given the estimates, and what I looked at it was we were down by Rs. 145 crores. All efforts were taken to make sure that we maximize the revenues, but not at the cost of the cash and bad receivables which it would create. Q2 being April to June quarter having quite a few macro events in the country. I think even the offtake from the customers were pretty much subdued, and so we had a sort of a slow growth on the revenues. And that reflected in the profitability and PAT. So, really seeing if Rs. 145 crores is what has been lost in the revenues, and had it happened, theoretically, I think we would have been better off in the profitability as what you would expect. So, in other words, I would have said that you'd have almost read the expectations of what it is.

So, this is how we performanceed in Q2. I think with this we can open up for questions.

**Moderator:** Thank you very much. We will now begin to question and answer session. The next question is from the line of Bhavin Vithlani from SBI Mutual Fund. Please go ahead.

**Bhavin Vithlani:** Could you give us some color on the exports, how were they during the quarter and how do you see the exports going forward? A comment on the PG division's exports also would be helpful.

**T.K. Sridhar:** Okay. So, Bhavin, let me give you a view on the exports. I think during the quarter, both PG as well as the running businesses of ABB, showed a good uptick on the exports. we were registered more than 30% of the Exports growth. this was more driven by PG. So, on a half year basis, on the non-PG side we were 20% up and PG side we were more than 50% up.

**Bhavin Vithlani:** And how do you see this trend going forward, especially given the global environment that you are seeing, any color on that also will be helpful?

**T.K. Sridhar:** Yes, PG has got a dedicated fleet of factory for its businesses; and Bangladesh and Sri Lanka provide adequate opportunity for the system orders. So, I feel that PG will continue its growth strategy on the export side of it. So, the continuing business, it's a very interesting space which is developing. We will have our divisions like motion, industrial automation gearing up to provide more into the newer markets, would like to have a more share of exports in which they have improved quite drastically from the previous years. As industry picks up in the external market, definitely IA we will see a corresponding growth. when these orders come up, definitely you could see a corresponding uptick in the profitability as well.

**Bhavin Vithlani:** My last question is, in your opening remarks you mentioned auto being soft. It will help if you can give us some sectoral breakup between your top five, six sectors and how are you diversifying out of auto that the negative impact of the auto is offset by the other sectors?

**Sanjeev Sharma:** As far as auto is concerned, as I said, I mentioned only about robotics. Our major exposure is on the robotics portfolio for auto sector. Rest of the portfolio, we focus on the larger industrial side. In the industrial side you have all the core sectors, I think our trend in the case of the engineering, EPCs who execute the contracts is up, oil and gas sector is up, metal sector is up. And if I look into automotive, overall if I see it is not negative, it is flat. if I look at transportation, it is heavily up, the pulp and paper is up for us. There is a significant traction in health and social sector areas where we participate; education sector we have good orders, agriculture and forestry. These are the segments that we follow. So, these are the ones which have been showing the uptrends. So, on the order side, I think that's the kind of a break, and of course, since we participate in different market segment, so there's always a cycle built into the segments. Since we don't have an overexposure to a particular market segment, that's where we are able to ride through wherever there are changes in the formation of the sectors take place.

**T.K. Sridhar:** So, Bhavin, I think to continue on Sanjeev's statement, I think if you look at our sectors, manufacturing which is more to deal with the wholesalers, the retailers, electrical equipment, that has also shown definitely a marginal increase than what it was in the previous half year. So, that more is due to the fact that we have been consistently focusing on the micro factors rather than the macro factors alone, getting into segments of Tier-I, Tier-II, Tier-III cities which has helped us keep this particular momentum, even in such sectors where market sales is downtrodden at this point of time.

**Moderator:** Thank you. The next question is from the line of Fatema Pacha from ICICI Prudential Life Insurance. Please go ahead.

**Fatema Pacha:** Could you just explain this entire solar inverter transaction, because we have set up a dedicated feeder factory on the solar inverter manufacturing side, and we understand that the opportunity in the solar EPC is huge globally. So, what is it going to be like for ABB India on that front, like the plant, everything will be transferred or what is it?

**Sanjeev Sharma:** Well, it is true that the solar segment per se is quite large. And now as we see in the market place, you are getting more concentrated players who are becoming active in that market. So, in the case of solar, we are transferring this business to a company which is dedicated to solar business, which is Fimer of Italy. And they will get all our assets in terms of the capabilities that we have built as a feeder factory in India, both people as well as the capabilities to continue to produce the equipment and the technology that we have. So, we will transfer it all. So, it means in terms of serving the market that capacity will remain, and hopefully they will expand it going forward. But as far as ABB is concerned, we have decided to step out of solar inverter manufacturing business.

**Fatema Pacha:** So, can we get whatever cash consideration on this whole thing?

**Sanjeev Sharma:** Yes, there is an overall deal structure at a global level, we are evaluating what it means for India.

**Fatema Pacha:** And sir on the general environment side, what is your sense like April, May I can understand it was election season. But how is it going, like are you seeing any improvement going forward or what is it like, like are you seeing June better than April, May and then July looking okay?

**Sanjeev Sharma:** Well, its anybody's guessing game, and I believe there are enough experts available every time every day on the news headlines as well as on the television on every minute basis.

**Fatema Pacha:** You are the guys who have the pulse of the market, we could just be speculators.

**Sanjeev Sharma:** Yes, that's what I am saying. So, there are experts available, which can actually transfer the macro trends into the real economy parameters. I think what we do is we do what we know the best. And what we know the best is our product portfolio, and the market segments where they apply, the proposition we have towards those market segments and also the geographical spread which we are penetrating. So, quite frankly, we are not a dominant player in any of these market segment or any product line, so that means that the headroom that is available for us to grow the market share by concentrating and focusing our efforts in the right way that pays dividends. So, I believe whether the market is up and down, at least I am a personal believer with respect to with my team is, it doesn't matter, because the size of the market in India is big enough and headroom that is available for us is large enough. And if we make the right strategy and right foot forward, you will see the results that you have seen in quarter two wherein we have a substantial growth in our order. So, I think that's what carries us. We are a very long kind of player for India. So, for us these small micro trends which go up and down don't really matter much.

**T.K. Sridhar:** So, yes, I think while we are basically focusing on it, as Isaid that cash over revenue will prevail. We will make sure that we are able to do the revenue required to sustain the momentum and going in to the right sectors.

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

**Renu Baid:** Firstly, I would like to congratulate you for an extremely detailed press release over the weekend, as well as a very informative presentation. So, congratulations for continuing to being fairly more open and transparent there. Sir, my first question, continuing with what Fatima was asking, I was just trying to understand the business environment, because we hear a lot of headlines which are not as comforting. But from your perspective on a day to day basis wise are you getting concerning input from your customers, from your clients despite having the orders in hand with respect to headwinds on execution? So, from your perspective are you seeing the broad market and from customer and business environment, improving, deteriorating, remaining status quo, what are your feelers from the market?

**Sanjeev Sharma:** Going by the sentiment of the market, I think it looks sluggish. And I think our more concern, or at least my concern is more in terms of cash realization from the market in such an environment, because we have a good order backlog, so we are very selective and we are very careful in terms of how we generate revenue so that we are able to convert cash when we place the revenues out in the marketplace. So, I think that's our first priority. Second priority with respect to the sluggishness in the marketplace is concerned, I think that is quite visible. But again, as a company, what we do is we double up our effort during this period of time to compensate for that. So, that's typically the outlook we take as a management.

**Renu Baid:** Sure. And broadly if you see, for the first half we have grown double digit in terms of revenues, 11%, order backlog is strong, the influence has been good. So, would it be broad, as in, safe enough to say that if the macro doesn't deteriorate further the way it is, one should be broadly able to see a similar double-digit for the year? Or you think there could be risk despite having orders in hand?

**Sanjeev Sharma:** Well, at every start of quarter, when I speak to my business president, they are always very careful. So, if you want me to be careful towards you, I can do that as well. But, by the time we end the quarter, it turns out to be quite reasonable. if you see our performance in last 12 to 14 quarters, there has been the story. In my view our engagement plan is pretty solid, unless something really falls off the cliff in the marketplace, I think we should keep the momentum.

**Renu Baid:** Sir, my second question would be on the railway portfolio. Now that solar is probably on its way out, how are we seeing the business momentum, both in terms of orders, revenues and new portfolio addition and the rail equipment side of the business? And does the environment, both from the metro as well as a mainline railway, how is the market environment looking on that perspective?

**Sanjeev Sharma:** Well, the railways look pretty solid, but I can pass this on to my colleague Sanjeev Arora who heads the motion division. Sanjeev, what is your outlook for railways, metro and the associated areas?

**Sanjeev Arora:** Sanjeev, thanks for that. I would say that the next growth story for India lies with the infrastructure growth and traction. we are very upbeat, we are expanding, as Sanjeev has mentioned earlier, so we are expanding in our product range, we are expanding our operations. So, I think this is there to stay. And this is more to come, it's just a tip of the iceberg.

**Renu Baid:** Any new categories that you would like to highlight within railways as product range is expanding?

**Sanjeev Arora:** Renu, this is a bit sensitive information, so we would not like to disclose it in this particular call, please.

**Renu Baid:** No issues, thank you so much. And if you can just mention what is the order backlog at the power grids business at the end of the first half?

**Sanjeev Sharma:** I think I mentioned it, so I will repeat it for your benefit again, its Rs. 5,383 crores

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

**Abhishek Puri:** Two clarifications actually, one is on the slide number nine on the export and services portfolio. You said that the exports are up significantly, so could you explain the chart that has been given the three-year average looks much bigger than first half?

**T.K. Sridhar:** That's a three year average and there is the first half. So, if you extrapolate the first half into the average, we said that we will beat the three-year average. That's what is the meaning of that particular chart, that's how we see it.

**Abhishek Puri:** Okay, thanks for the clarification. And question on this postponed decisions that you have mentioned in this slide as well on the digitization, is it on the order side? or is it on the revenue side that you are seeing postponements here?

**Sanjeev Sharma:** On which orders this is basically on?

**Abhishek Puri:** Export slide.

**Sanjeev Sharma:** It's more from the order side of it, and also partly because this happens to be a mix of products and services. So, some part of it also move into the revenues as well, because they are all booked and billed.

**Abhishek Puri:** My second question is on the segment wise margins that you have reported, if I look at the overall numbers, it remains at 9%, the four continuing segments, . Whereas your EBITDA growth has been very strong when we look at the consolidated numbers, which is about 38%, and the margins have increased almost 180 basis points there, as per the presentation. So, what has led, if the segment wise margins are not increasing, what has led to the overall margin increase for the company?

**Sanjeev Sharma:** I didn't get you the correctly, what you mean to say is that the segment wise margins remain consistent, but whereas the overall margins? That's a good question, right. So, if you look at it, so we definitely had in the previous quarters, I think previous years you had the close down or the discontinuance of the EPC business which was forming part of the total result, and that seems to be coming to an end. So, you definitely have a stronger build up on the bottom lines of this. So, whatever be the margins which the company has earned through the running divisions has translated to the bottom-line margins.

**Abhishek Puri:** So, you mean to say the EPC business or the projects part of the business was under the cost segment earlier which is not there right now?

**Sanjeev Sharma:** Which is very less at this point of time.

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

**Ranjit Shivram:** On the other operating expenditure, it has gone up. So, you mentioned that there is some provision related to warranties and other things. So, is there any number which you can share which is kind of one-off which has led to this higher other expenditure?

**T.K. Sridhar:** Ranjit, first of all, we don't give those numbers. I think these numbers itself what we have given is far more granular than what we used to give earlier. The next thing is about why this warranty? Of course, as you see we have increased the exports footprint quite substantially, so when exports come up it is prudent to have certain warranty provisions to take care of that. We also have new product ranges being implemented in the first time supplies from the motion division as what Sanjeev Arora was mentioning few minutes before. So, that's some of the reasons, and it is absolutely as per the guidelines.

**Ranjit Shivram:** And there is nothing like one time on this factor?

**T.K. Sridhar:** Yes, one time because that was not there, that production and supply was not there in previous quarters, but it has come up in the current quarter, and that's why it is there.

**Ranjit Shivram:** So, is it fair to assume that this kind of warranties will continue going forward?

**T.K. Sridhar:** It will continue going forward till the supplies are completed and the commissioning is done. And after that it's a matter of fact that how we sort of experience has been and finally then you have a flattening of the warranty costs later.

**Ranjit Shivram:** Okay. And was there any FOREX related gains/loss, anything to mention about in this quarter?

**T.K. Sridhar:** Yes, it was there, definitely it was there. But I thought that it's a normal thing, which used to happen every quarter and that's why I highlighted the major ones.

**Ranjit Shivram:** Okay. And lastly these solar inverters, we have not put it in discontinuous in P&L. So, from next quarter onwards we will move that to discontinuous, or will it continue the similar way?

**T.K. Sridhar:** Tt depends totally on the board decision. So, we cannot at this point of time give any direction to that, Ranjit.

**Moderator:** Thank you. The next question is from the line of Apoorva Bahadur from Jeffrey. Please go ahead.

**Apoorva Bahadur:** Just wanted to know, in continuation with the last question, the solar invert business. So, if you could share the broad-based financials for the business, the revenue, EBITDA, PAT side?

**T.K. Sridhar:** So, we don't do that normally. as we normally say, I think I could give you a very qualitative impact on that. I have been always been saying that solar revenues are around about 7% to 9% of our total revenues in the order mix, and the margin is not so great, because we have challenges in the market as what we see, and that decision goes forward to the ultimate diversified.

**Apoorva Bahadur:** Okay. Sir, also wanted to know something on this, in the budget the government had come out to with a directive on increasing the public shareholding, so have received any communication or any sort of a trajectory that we have decided on this?

**Sanjeev Sharma:** No, we are also part of the news which has come out as a part of the budget, so we still await more information on it. And I think it is more of a proposal, it will take time to take its shape into more as a directive or a law. And yes, we wait and see, we don't react to it at this point of time.

**Apoorva Bahadur:** Okay. Sir, last question, I think I missed this part when you provided the order book break up between the various segments, if you could do that it will be very helpful.

**T.K. Sridhar:** Order book or order backlog, I think, what you mention is order backlog, if I'm not wrong, right?

**Apoorva Bahadur:** Right.

**T.K. Sridhar:** I am giving you round numbers, so I think you guys will tally it up and say they are not matching, but just want to sort of caution you there so that is easy for us to remember. EL is Rs. 1,400 crores; MM is Rs. 1,600 crores; robotic automation is Rs. 150 crores; industrial automation is Rs. 1,400 crores. So, all put together would be in the range of Rs. 4,600 crores as what is there.

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

**Aditya Mongia:** I had a few questions from my side, these are more on the margin front. So, I will start with the electrification product segment wherein you are seeing a smart improvement in margin happening over the past few quarters. Is this just a play of capacity utilization or is there more to it in terms of improvement in margin?

**Sanjeev Sharma:** Okay. So, I have the division manager of electrification division, CP Vyas on the call. CP, would you like to sort of explain the margin movement?

**CP Vyas:** I think the two or three reasons was definitely the product mix and the capacity utilization of the factory also helping us to improve the margins.

**Sanjeev Sharma:** And also, to add to that, I think we also have good export revenues out of EL division at this point of quarter. So, that has also helped.

**Aditya Mongia:** Sure, that explains. A similar question on the industrial automation side, now I understand that the top-line over there is not growing. But my sense is that obviously a segment where in project exposure is also there, in that kind of a segment a sharp decline in margin has been seen. So, if you could provide some more granularity as to why this margin decline is happening in that segment, and are there any kind of takeaways for margins in the future?

**Sanjeev Sharma:** Okay. So, I will first put my comments, and then afterwards I think I have Madhav who could probably give us more expert and deeper insights into that, right? First of all, industrial automation, the major customers lie in the core sectors. And most of the orders come from the core sector of cement, steel and mining part of it, and pulp and paper. And that segment, , as you really see the macros, does not favor that. And so, you have an off take which is pretty much flat. And a good part of it is that, while the markets are de-growing, we are able to keep it consistent and make sure that our revenues and revenue streams are pretty much protected. And if you look at the profitability mix, I think the reason why it has probably gone down in this particular recent quarters is more about the mix, so service revenues I think if you look at the slide which we have given on service, I think we have clearly articulated that it's because of a higher base which we had in the previous year. So, I think that's something which you could draw your comments on. And of course, the exports will slightly less compared to the previous quarter. So, anything else you want to add Madhav?

**Madhav Vemuri:** No, I think that’s correct, it's more of the revenue mix. And business service also. **Aditya Mongia:** Also, just a clarification, when you said the solar business is 8% to 9% of the revenues, these are continuing business revenues that you are focusing on, right?

**T.K. Sridhar:** Yes, you are right.

**Moderator:** Thank you. Ladies and gentlemen, due to time constraints that was the last question. I now hand the conference over to Mr. T.K. Sridhar for closing comments.

**T.K. Sridhar:** Thank you, Margaret. And thank you to the entire team who could put up this particular presentation, and also the participants and my management team who is here on this particular call. And just in case if you still have any unanswered questions, please feel free to come back to Sohini, Bina or myself, so we will more than glad to give you more insights into, just in case is it’s still not answered. Thank you very much. And wish you a good week.

**Moderator:** Thank you. On behalf of ABB India Limited, that concludes this conference. Thank you for joining us. And you may now disconnect your lines.