



“ABB India Limited Q1 2020 Analyst Call”

May 14, 2020

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Moderator: Ladies and gentlemen, good day. And welcome to the ABB India Q1 2020 Analyst Call. As a reminder, all participant lines will be in the listen-only mode. And there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. The management is represented by Mr. Sanjeev Sharma – CEO; and Mr. Sridhar – CFO. I would now like to hand the conference over to Mr. T.K. Shridhar – CFO, ABB India. Thank you and over to you, sir.

T.K. Shridhar: Thank you. Thank you, Janis. And good morning, and a warm welcome to the Q1 2020 results call. So along with me are quite a few people from ABB's side. So we have Sanjeev Sharma, the Country Managing Director. We have Sanjeev Arora, who is leading the Motion business. And then we have C.P. Vyas, who is the Division Manager for Electrification; Subrata Karmakar; and also G. Balaji from Industrial Automation. Subrata Karmakar leads the Robotics and Discrete Automation.

I now hand over to Sanjeev to take us through the business highlights. And then I come out with the financial commentary on the performance part of it. Over to you, Sanjeev.

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

From our perspective, our strategy remains as robust, as stable as it was before. So there is no change in the short, mid and long-term strategy that we have put in place. Our focus on the customers as well as serving them with our products and services remains intact. All our product lines as well as our business leaders, they are engaged with our customers. The only thing that has changed is the management focus, wherein we are taking every day as it comes, given that we were under the unprecedented lockdown condition in India, wherein the government shutdown in terms of their own interface with the businesses to buy and sell, and buy the services. Most of the customers or the corporates, they shut down for last few weeks. And also, of course, our supply chain also got affected. But this is something which is normal for all the businesses across the country. Fortunately, for the last one and a half weeks now, we have the gradual reopening of the industry. All our factories which were shut between 24th of March to 4th of May, have reopened. And now we are kind of, again, sensing the operations, our supply chain and the market demand as this clears up as all other customers and other businesses start re-opening slowly.



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Our first priority as ABB in India was to address COVID-19 issues as they came up. And the first point of response for us always has been to make sure that we take care of health and safety of our employees and all the people who are connected with us, whether they are contractors and laborers who are working on our construction site. So first thing we did is we made sure that there was a dedicated group steering company, and country task force was setup. And we made sure that everybody has right communication on a daily basis and everybody got the guidance in terms of how to act and behave. I believe we did it quite successfully there. And all employees and all our subcontractors, they were well communicated and they were quite stable during this period of time. As we restart, that kind of preparation and that communication and alignment has really helped us, because we had a very smooth restart of our own operations and also our supply chain, which was always connected. They also are responding well. We have mobilized our workforce on a graduated basis. And also, of course, we start looking into cash collection from our customers and also start looking into how the market is responding in terms of taking up the equipment they already ordered, which is in our backlog and how they are going to place new orders and how the cash and credit situation is emerging in the marketplace. So that would have been our focus in the last few days, and together with our core leadership team we keep on adapting on a daily basis as the markets come back to normal in next weeks.

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

With the results, I think we had a good start of first quarter through January, February and half of March, wherein you can see that compared to Q1 2019, our orders grew by 10%; and compared to Q4 2019, our orders grew by 22%. We have a good backlog and we grew compared to Q1 2019, but it grew 8% above the Q4 2019. Since we went into lockdown in the last 10 days of March, and that's where the maximum revenues happen, so though our equipment were ready and those revenues were to be realized, there was a big impact on the revenue for quarter closing. That's why you see a kind of a degrowth in the revenue numbers; and correspondingly an impact on the profit after tax.

If you look into our four core businesses, Electrification, Motion, Industrial Automation, Robotics and Discrete Automation, you get a very good story in terms of what is happening in different market segments, because all these businesses are having a different proposition for the market. On the Electrification side, our orders were nearly flat at 3% growth, revenue went down by 15%. Since the focus is on buildings, including airports, data centers, metro, water, automotive, etc., so there was an impact that came from there.



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Then we had a 30% order growth in the Motion division because we got a large contract by Indian Railways. We had a good traction in first quarter for export orders. But for the reasons explained, the revenues in first quarter were down 21% on a year-on-year basis. The water projects were slightly slow for us during this period. And that, in fact, is what affected. In the case of Industrial Automation, we saw 10% order growth wherein we had some good wins in the Energy business, in Turbocharging business, but we did have shortfall on service revenues. And then this is something which we are building up as we go forward. We also had good cash collections in the Industrial Automation. Robotics, which is primarily exposed to the automotive industry, and the automotive industry and the ancillaries, so it reflected the slowdown in the automotive industry. And also the revenues were down and now we are focusing on cost rationalization in this business.

Our immediate priorities are, of course, health and safety. Our protocols are pretty stringent. We follow all the government guidelines, and also we increased those guidelines to even higher standards, because we have learned a lot from our Chinese and Italian operations. Plus, the practical measures that we are taking at a local level, are ensuring that our people are safe. We assume that these conditions will remain for many months to come. We will have a new way of adapting and running our operations going forward. And we have a very strong cost mitigation planning, wherein different aspects of cost have been kind of covered, whether it is material cost, personal cost or discretionary spend and many line items. So we really have a fine form through our line items. We have a fairly solid plan there to mitigate the cost.

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

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

This is a brief commentary from my side. I will come back again when the question and answer session is open. Now for financials, I hand over to our CFO – Mr. T.K. Sridhar.



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T. K. Sridhar:

Thank you, Sanjeev. So I think we go to the financial highlights, and I think it's where I expect lot of questions to come. But I will make sure that I give all the necessary information that is required. If you look at the Orders, and if I exclude the solar business, which was included in the orders last time, we will be up by 18 % quarter-on-quarter.

So on the revenue front, I think the backlog, of course, has what Sanjeev was mentioning earlier, compared to the previous quarter we have an increase, but compared to the same quarter last year we definitely have a decrease. These orders are all confirmed orders from customers with whom we have a good revenue visibility going forward. They are equally spread across all the divisions. I think this should basically help our planning for future deliveries to the customers. At this moment of time, depending upon the scenario we are looking at, we don't see any alarming situation on the backlog not getting converted or getting stuck at this point of time. We believe that once the markets revive, we will have a fair visibility to plan for the execution of these particular orders.

So profit before tax, I will dwell up on it a bit later because this requires a bit more deeper explanations, which we will do. On an operational basis, we were down 78% with the majority coming from three elements, which is the volume shortfall. The other one is the one which was beyond the control of anyone is about the FOREX and the commodity inflations, what we are looking at mark-to-market impact. And the last one is about the fixed cost which we have, which we need to recover and the mix which we had. And another one which came to our sort of a good improvement upside is about how we dealt with the interest income from the refunds which we had from our government department, which materialized in the first quarter. And also about the sale of solar business. So I will come about it also in the next couple of slides when we can deal more about how the solar business is.

So the solar business, when it comes to how it looked at in 2019 and how it looks at for the full year. For the first quarter of 2019, solar business constituted roughly around about Rs. 170 crores of volumes and the profitability was just breakeven or slightly higher than that. For the full year it was roughly around about Rs. 700 crores and with a margin levels of similar margin level, not so attractive. Overall, if anyone wants to know what is the sort of an impact which came out of the lockdown which happened for the three weeks in month of March, that was absolutely damn crucial. We lost about Rs. 175 crores on orders, around Rs. 200 crores on revenues, and also Rs. 175 crores on our collections. So, yes, this was an impact which definitely could not be converted due to lot of issues we had. But given the fact that we are in the situation, we will make sure that going forward we have a better mitigation strategy.

We will look at the performance summary in two parts; one, which is dealing with the orders and the order backlog, which is there in front of you. We had an order book for the current quarter – Electrification to the extent of Rs. 670 crores; roughly, Industry Automation had a good growth of Rs. 743 crores and Motion had a fantastic growth of Rs. 843 crores. And this was basically the order which we missed in Q4 and which came in for the traction converters from the railways. Robotics, of course, we are exposed to the automotive sector, so we have



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been facing continuous headwinds in this division. Order backlog, looking at the order booking what happened in Q1, so at this point of time we have a strong order backlog with visibility to convert it to revenue.

So going to the next slide, it's about the financial structural analysis of how our costs are behaving. So if you look at it, the other income went up by roughly Rs. 26 crores, and that is more because we had Rs. 18 crores of refund which we got from the income tax department for the assessment what was made for the earlier year. That also tells us that our coordination on the documentation of the income tax and the government department is strong enough that we could get the refund. And the other thing is about the material cost. Material cost saw a decline or an improvement compared to the previous quarter, so from 68.5% to 65.2%. And it's coming up from the localization initiatives, what is continuously happening across all the divisions. The other expenses is mired by the FOREX impact. I will go to it in the next slide. We had an exceptional item on the profit on sale of solar business. I will explain it in the next couple of slides. Overall, I think it was a quarter where we were challenged by the operational earnings, but that was offset by nonoperational items.

The next slide, I think is something which we are explaining for the first-time through a waterfall, which would give a good view of how our PBT movement has happened. So if you look at it, we started with a profitability of Rs. 139 crores from the last quarter at the same time. We had a revenue shortfall of almost Rs. 320 crores, which resulted on a contribution shortfall or what we call theoretically an under absorption at Rs. 112 crores, which was offset by good material cost production initiatives to the extent of Rs. 55 crores. But again, this was taken away by the market impact of the FOREX and the commodity because we do on hedging. So the mark-to-market impact really was quite sizable in this quarter, as you all would know. So that's extended to the extent of Rs. 35 crores. And then the other expenses like the personal expenses and the other costs, which is more fixed in terms of nature was a Rs. 35 crore impact. There were some upside, due to interest income on the income refunds and the solar business.

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

Just to have a view of segmental performance, while we had already explained the order part of it, now we are explaining the profitability part of it. If you look at it, all the divisions had a shortfall of revenues compared to the previous quarter. And the reasons are quite similar in all the divisions, because they had a delay in dispatch clearances, the customers were not ready to take the material, there were logistic hurdles about to transport the material. And of course when we do this, we knew that this is coming up, so we are also cautious about to whom we ship the

material because the materials should not get stuck on the road or go to a customer who is facing a cash challenge. There was a cautious scrutiny of to whom we do it as well. Similarly, when it comes to the profitability, it's clearly due to an under-absorption in almost all the segments. But cumulatively with the FOREX impact coming up in segments where we have quite a large import and FOREX transactions, which is between EL, IA and MO. In the case of RA, we had definitely some volume shortfall and a mix impact between the project systems and services. This is a trend I will not go deeper into because this is a trend. With the current picture, this doesn't seem to be so exciting according to all of us. On the share of the business, I think this was clearly the same direction as what it was in the previous quarter and the previous year. And EL and MO are basically the key divisions which contribute to both the top-line and the bottom-line, with IA slightly picking up from what it was from the previous quarter to this year.

How our business model is, is a different topic but this is important for all of us to understand on how the spread is between distributors, direct sales and other elements of it. If I look at it, we are equally spread. Direct sales contribute major 40% of it, and the distributors contribute 26% of it. That means that we have a very diversified spread of customers; we are not locked to one sector, but we have a good base on which we could start working and penetrating. When it comes to the geographies which we want to cover - our exports were based on revenues what we see over here. And during the last year, we had 14% of exports, but this quarter we could only do 10% of exports because they were all lined up for the last two weeks, which we could not ship out. When it comes to the offering with respect to project, services and systems, products seem to be the major fit, almost 80% of it is coming from the products, and 8% from the projects and 14% from the services. Overall, the mix is also a key player, because we are lower in exports, we are lower presently in terms of revenue. And naturally this also played out in the bottom line earnings of the company.

So key financial, I think I will skip this particular slide, but that was anyhow loaded, because you guys would always be doing it in your own way. So with this, this is probably the last slide for me. And with this I hand over back to Janice to start the Q&A session.

Moderator: Sure. Thank you very much. Ladies and gentlemen, we will now begin the questions-and-answer session. We take the first question from the line of Ashwani Kumar from Nippon India. Please go ahead.

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

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



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T. K. Sridhar:

It is Rs. 4,400 crores. I think Rs. 6,000 crores is more on the...

Sanjeev Sharma:

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

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

Moderator:

Thank you. We will take the next question from the line of Renu Baid from IIFL. Please go ahead.

Renu Baid:

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

Sanjeev Sharma:

We have four divisions, and all of them are exposed to different market segments. Accordingly, each one of them has a different kind of transmission in terms of what the markets are doing for them. We had a fairly good run for Electrification and the Motion division, which is more product based and these products go to the end user, the EPCs, OEMs, channel partners, distributors, panel builders, integrators and all that. There was a fairly good uptake by these market segments from us which shows that the underlying market in these segments was good.



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We were also gaining market share in these particular segments because of a shakeout happening with some of the players in the marketplace. I think our engagement was good.

When it comes to Industrial Automation, which is exposed to oil and gas, pulp and paper, cement, steel, metals, all these areas had a bit of a soft demand last year, but there was a good pickup this year, especially in the energy area. But still the demand is not that dominant as we like it. We will have to see when the markets open up in a full way, how that demand plays out in those core segments that we serve. And of course, our Robotics and Automation division is exposed primarily to auto and auto ancillaries. There the overall CAPEX scenario, we will have to wait and watch. But then the Robotics and Automation division really has diversified into the new areas, be it in food and beverage, be it in packing and pharma areas. So we will see. There is a pickup of growth, We are investing in the Robotics and Automation side on our facility and are not pulling it back. On a generic basis, as we say, I think as markets open up, we will get better visibility end of May or mid of June, how the markets would perform. It's too early to make predictions around it. It is very clear that the Q2 will be very tough for us and for the industry, so that's something we should count in, both for orders and revenues, given that already one, one and a half months have been lost of this quarter. That will not be very, very, very strong. But we are now looking into gaining back into quarter two, in whatever time is left and then after gaining back into quarter three and quarter four.

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

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

T. K. Sridhar: Renu, just to complement to what Sanjeev was mentioning is that, our view is that I think the more clarity could emerge in the next three to four weeks when we are looking at the middle of June or end of June, where we would understand how the next two quarters would pan out. We remain absolutely cautious about what is going to happen. And the reason why I am saying is this, we have got a few schemes what the government has launched, we need to realize how it is going to get translated into actionable policies on the ground. We are too premature at this point of time. So indications from a financial standpoint, I always would be cautious to look at the markets getting beyond what it was earlier. So that's our take on it.

Moderator: Thank you. We take the next question from the line of Bhavin Vithlani from SBI Mutual Funds. Please go ahead.

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



- T. K. Sridhar:** Yes. If you look at it, it is comprising of three elements. The personal expenses, I think it went up by Rs. 7-8 crores. Apart from that we had the other expenses like your electricity, rents ,etc, and also what you call other third-party services and similar expenses that are not fixed in nature. But if you look at it in comparison to the Q4 numbers, it is well below control. It is basically an inflation which has caught up over 2019 levels.
- Bhavin Vithlani:** Okay. If I were looking historically at other expenditure, which was Rs. 1,340 crores last year where approximately 8%, 9% is variable, including of royalty and other services, and the balance is fixed. While we understand fixed expenses will remain fixed, variable expenses should perform in line with the revenues. When I look at the reported other expenses of Rs. 351 crores, even if we take out Rs. 35 crores of foreign exchange loss, at Rs. 317 crores, they are still up by about 13% year-on-year, whereas the revenues...
- T. K. Sridhar:** So Bhavin, I will tell you. I think last year we did not have any FOREX. Net impact to the bottom-line was absolutely negligible, last year the same quarter. What we are looking at is compared to the previous quarter of Rs. 280 crores which we had as other expenses, we are looking at a comparable value of roughly about Rs. 300 crores, Rs. 310 crores. So on Rs. 280 crores, Rs. 279 crores to Rs. 310 crores is around about Rs. 30 crores. And Rs. 30 crores basically came up on the various other the services what we had already availed and kept the goods manufactured in an inventory and WAP process where it had already been consumed. So we can do nothing about it, it is offsetting your cost. And of course, the cost has been incurred in terms of shipping the material out and inside the factories to get the manufacturing up and running.
- Bhavin Vithlani:** Understood. Secondly, can you just help us with what are the cost elements? In the recent interaction with the analyst by the parent, it was mentioned that simplification of the structure of the company and the rationalization of the cost, especially with respect to technology is a focus area of the new CEO. If you can just help us directionally on that, how best can ABB India benefit out of it?
- T. K. Sridhar:** See, I will not give you a global view because we are more focused on the local operations. And let me tell you, when we are working on these cost rationalization programs, we have three work streams already working very intensely on this particular project. As Sanjeev was mentioning, I think this is one of the action points left to us. We have no other option but to look at it for the next few quarters. We have a work stream working on material cost, which looks at localization, it looks at shifting country from where it could be sourced to the cheaper source, and at how could we mix. It also looks at how we could use existing inventories in an optimal way so that we could have overall impact on the material cost. And there are targets, which go up to the BU levels, and they also are pretty much aligned on that. When it comes to the personal expenses, we definitely look at it. We do not want to have a knee-jerk reaction at this point of time, we look at it as the market develops, and we will implement those things as and when it is appropriate.

When it comes to discretionary spend, we have quite a few actions on ground. To mention a few, the logistics cost is a key element where we would look at to see how we could optimize it. And then we are looking at the power and the fuel, which we consume in our factories and our workplaces where we could do better. On the third-party services are the professional engagements we run for varieties of projects, where we could do away with them. And of course, I mean, the low-hanging fruit of travel and conveyance will be more spent on digital equipment and its enhancement. Repairs and maintenance increased given the fact that we were not working for one and half months that we need to set it back. The other thing is about rent and the rent which we pay for our offices, there is an optimization program that is running and the facility management and the other cost; there are various line items. We are in discussions with the service providers and the other businesses on how we could optimize across the value chain. I think that was a long explanation, almost running through the P&L account, Bhavin.

Moderator: Thank you. We take the next question from the line of Sujit Jain from ASK Investment. Please go ahead.

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

T. K. Sridhar: Thank you for this question. Let me address the first question, which is about the cash. Cash, We started with around Rs. 1,500 crores, Rs. 1,600 crores at the beginning of the year. We lost Rs. 200 crores on account of lower collection, is absolutely clear. But this was filled back with the sales consideration money which we received in sale of solar business. So we are back at Rs. 1,500 crores, Rs. 1,464 crores to be precise. And this would take care for the next one and a half, two months if I don't have any collections, i.e., zero collections from the market. That's the thumb rule, which I am looking at, the burn rate going forward, one and a half, two months with the low volumes, which we have. But as you know that we are a debt free company at this point of time, we are looking at cash which we can utilize for the businesses. We have the headroom of our bank overdraft facilities and the funded limit, which should be enough for us to stand ourselves up in the market to deliver what we have in the backlog.

Having said that, today there is a paradigm shift in how we look at cash. Earlier we used to say cash is the king, but the mantra within the organization which has been 'spread in this cash is emperor'. So that's the tagline which we have, and I think all the FES, all the business lines are working on cash as one key element, which they will focus on day-to-day basis. All said and done, our exposure to utility customers and infrastructure projects are of considerably manageable volumes. We believe that once the industry revives and these initiatives that the government has taken comes on the ground into the system, I think should ease out the system. I feel that there would be cash challenges in the coming couple of two quarters, and probably we could see some green shoots in the fourth quarter onwards. So fourth quarter in the sense,



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what I am talking is October to December fourth quarter of ABB India. Anything that I missed out?

Sujit Jain: Okay. And margins, Industrial Automation?

T. K. Sridhar: Yes. Margins, industrial automation. I think it's more with the mix, which has to do. I think all were projects from core sectors, and less of services what you would have seen in my business profiling slide. And that has actually impacted the Industrial Automation. And also the FOREX. FOREX also was another element of that.

Moderator: Thank you. Next question is from the line of Renjith Sivaram from ICICI Securities. Please go ahead

Renjith Sivaram: If you can share the outlook regarding the exports; have the export logistics improved? And given the overall pandemic situation globally, what is the outlook there? Will there be a stress on the overall export for this year?

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

Moderator: Thank you. We take the next question from Charanjit Singh from DSP Mutual Fund. Please go ahead.

Charanjit Singh: Sir, I just wanted to understand, going forward from a demand perspective, which sectors do you see where the demand destruction could be lesser or the recovery could be faster? And , how large is your services business? In this environment, maybe services could do better than our new product businesses. So if you can just give a color on both these aspects.

Sanjeev Sharma: Okay. So on the first part of the question, about the demand perspective, and I think which Renu also had asked earlier. See, typically when you come out of a pandemic like this, there are certain segments which we feel will come out more strongly. One is the utility infrastructure, we do feel that the water infrastructure will have more spend; power generation infrastructure, other infrastructures which are handled by the PSUs; food and beverage; pharma and chemicals; and data centers. So this we will see top of the line market segment, which will rebound very quickly. And that's where our engagement is quite good.

Then, of course, the other market segment, as we said, that we are in touch with the customers, both the end users, EPCs who have the backlog, our OEMs which supplies the machinery into



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these large industries, our integrators who bring our products and integrate them into more value-added systems, the panel builder partners who supply into buildings, commercial buildings than any other places. We want to give you a true honest answer. Within one and half weeks of opening of the economy, that visibility is not 20-20 at this point of time. But we will allow ourselves another two, three weeks' time to make a judgment on how that demand shows up. But compared to the market segment, which I talked to you about, we believe, we will bounce back quickly and well. And we will be watching other market segments which will show quicker recovery and we will add to our pipeline. At this point in time, we are connected with all the market elements right up to the endpoint in Tier 1, Tier 2, Tier 3 cities to make that assessment and this is a daily task for us. What was the second part of the question?

T. K. Sridhar: Yes. Charanjit, so do you have any other?

Charanjit Singh: Yes. I asked the second question on the services part, sir.

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

Moderator: Thank you. We take the next question from the line of Puneet Gulati from HSBC. Please go ahead.

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

T. K. Sridhar: Yes, I think that's a good listing point. As a very prudent policy, which we always follow, and as per the accounting guidelines, we embraced the IndAS three years before, and we are supposed to review the IndAS policy at different points of time. It was time for us to do it at the beginning of this year. Depending upon the profile of the customers we have today, depending upon age of outstanding whom we have and also depending upon the sectors we are actually working with, and given the that PG has gone out of the profile of ABB, it was absolutely important for us to do it. As a matter of fact, we did have some not so great impact about it, but we definitely had some impact in the IA division, but I don't think it's a major element to be worried about. But from a disclosure standpoint, because it's CDs and policy change, we thought of disclosing it in the press release.

Puneet Gulati: Yes. So which customer segments does it relate to?

T. K. Sridhar: It is mostly relating to metal sector and to the power generation sector.



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- Moderator:** Thank you. We take the next question from the line of Vishal from Aviva Insurance. Please go ahead.
- Vishal Biraia:** Sir, how are the vendors and the supply chain positioned? Because that will be critical for you to scale up the business once the lockdown ends.
- Sanjeev Sharma:** We will give you a perspective of supply chain from our business President. I will invite Sanjeev Arora, our Motion Division President, to make a comment on how he sees the supply chain behavior. We can also get an impression from C.P. Vyas, who heads our Electrification division. And while you are there and for the benefit for all, if you have an additional comment, on the demand side for the benefit, you can also add to that. So supply side and demand side, over to you, Sanjeev.
- Sanjeev Arora:** Right. So thank you, Sanjeev and Sridhar, and thanks all. So a very good afternoon. So I think, yes, I think Sanjeev and Sridhar have already explained the situation very well, where we are and how we are placed, and what is our way forward. But coming specifically to the supply chain part, I would say that this is about the total value chain and how each part of the machinery will be after this lockdown, needs to be briefed properly. So yes, suppliers are re-opening. They have started working in a limited way. There are some red zones, green zones, orange zones depending upon that, their ramp-up is behaving according to the circumstances. How we are supporting our suppliers is that whatever are the good practices, as Sanjeev has explained earlier, as a company we have developed and utilized this one-month lockdown to develop a good habit on how to handle post-COVID operations. We have engaged with our vendors and tried to help them to come up quickly so that they are not required to reinvent things. But I am sure with 25-30% operations, what they are at today, they will gradually ramp up and support us in all aspects. So if any specific question regarding suppliers, I am ready to answer, but this is just a top level view.
- Sanjeev Sharma:** Thank you, Sanjeev. C.P.?
- C. P. Vyas:** So good morning, everybody. As Sanjeev Sharma, Sridhar and Sanjeev Arora explained, and same for Electrification business. I will put in three baskets. Firstly, we are sharing health and safety with our suppliers with the complete value chain, even with vendor and with our customer, so that they also use the best practices of ABB. Secondly, we are talking to our suppliers who are already open in zones where possible. We are helping our transport management system on how we can take care of everybody. Thirdly and most importantly, from the business continuity point of view, we are looking at which are the products and components that are needed on priority, so we can serve on the customer; we have a bilateral dialogue. And one more I add, Sanjeev, we also created a taskforce of the supply management team at the country level and each business is part of that discussion. We sharing all the expertise which we have, and we are discussing it with suppliers. I see a few challenges still. I am not saying that recovery is 100%. There are challenges but we are confident that in a few weeks we will overcome them. That is on the supply side. From demand point of view, for Electrification, I can say, as Sanjeev Sharma



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told, I see a lot of activities going to happen in a data center, F&B segment, hospital investment, especially in the building, I see in the infrastructure more on the hospital sector. We started talking to the healthcare team, and these are the sectors I see as the fast recovery sectors from Electrification point of view.

Moderator: Thank you. Well, ladies and gentlemen, due to time constraint, we take the last question from the line of Abhishek Puri from Axis Capital. Please go ahead.

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

T. K. Sridhar: Okay. So I will take the first question. Sanjeev will also complement that. The material cost is reduced despite the change in the mix, which is unfavorable. We have been continuously saying that there is a domestic market where we go with the product. Our initiatives on going to Tier 2 and Tier 3 cities, where we have a brand image in that connect, has helped us diversify the customer base and thereby get better price realization there as well. Number two, is about our localization initiatives and design optimizations, which run on projects and systems. This is something also which is resulting in a price reduction and the cost reduction of the material what we finally incur in the P&L. These are the two leading factors on this particular topic. But other than that, I don't think there is anything else. Sanjeev?

T. K. Sridhar: Abhishek, can you repeat the second question, if you don't mind, please?

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

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

Now with the new plan that we have discussed with the ABB Group, it has been very clearly laid out how India can be impactful for not only serving the demand market, wherein we have practically all the domestic localization done and also the same products can find acceptance in



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the global markets. That helps us because our import of the components will get balanced by the export of the products. And if we balance it then also we become FOREX fluctuation neutral and it becomes a natural part. So that's the kind of a plan. I Rupee may continue to devalue against dollar, but if you create this natural hedge, your future pricing and the cost in the market also gets naturally hedged. So it is very well recognized, back by the Group.

We have plans in place for each and every product line, how they will expand in future, either they will supply the expert services, which are built in out of the experience, domain experience we have gained in our businesses and also the manufactured good that we go. On our balance sheet, if you watch it carefully, we have a number of locations in Nashik, Maneja, Bangalore and Faridabad. And we have lot of adjacent expansion capacities available. We can easily expand our plants, and we have made a very detailed assessment of each location, the extent of expansion we can carry out, and that is very attractive. So that means without buying an inch of land, whatever is already sitting in our book, can be leveraged for expanding production capacities and delivery capacities. This has been well noted by the group, and it has a very positive ROCE impact for ABB India as well as contribution to the growth. So all those are falling in the right place.

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

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

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

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



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