



REF:INABB:STATUT:LODR:ANALST_TRNSPT:

August 13, 2024

BSE Limited
P.J. Towers
Dalal Street
Mumbai 400 001
(Attn : DCS CRD)

National Stock Exchange of India Ltd
Exchange Plaza, 5th Floor
Plot No. C/1, G Block
Bandra-Kurla Complex, Bandra (E).
Mumbai 400 051

Attn: Listing Dept.

Dear Sirs

Sub: Transcript of Analyst concall

In continuation of our letters dated August 5, 2024, August 8, 2024 and August 9, 2024, we are enclosing a copy of the transcript of conference call with analysts, which took place on August 9, 2024 post announcement of un-audited financial results of the Company for the second quarter ended June 30, 2024.

The said transcript is also uploaded on the Company's website.

Thanking you

Yours faithfully
For ABB India Limited

Trivikram Guda
Company Secretary and Compliance Officer
ACS 17685

Encl: as above



ABB India Limited

Q2 & H1 CY2024 Earnings Conference Call

(April – June 2024)

August 9, 2024

MANAGEMENT: **MR. SANJEEV SHARMA** – COUNTRY MANAGING DIRECTOR
MR. T.K. SRIDHAR – CHIEF FINANCIAL OFFICER
MR. KIRAN DUTT – PRESIDENT, ELECTRIFICATION
MR. SANJEEV ARORA – PRESIDENT, MOTION
MR. SUBRATA KARMAKAR – HEAD, ROBOTICS
MR. GANESH KOTHAWADE – HEAD, ELECTRIFICATION
DISTRIBUTION SOLUTIONS

Moderator: Ladies and gentlemen, good day, and welcome to ABB India Limited's Q2 April to June quarter and half yearly CY 2024 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded and any unauthorized recording of this call is strictly prohibited. The recording will be made available on the company's and SEBI's website subsequently.

I now hand the conference over to Mr. T.K. Sridhar, Chief Financial Officer of ABB India Limited. Thank you, and over to you, sir.

T. K. Sridhar: Thank you, Michelle. Very good morning to all of you, ladies and gentlemen. Welcome to the Q2 (April to June) investor call. So I have with me here Mr. Sanjeev Sharma, MD of ABB in India. I also have Sanjeev Arora, who leads the Motion division, and I have Kiran Dutt and Ganesh Kothawade from electrification business; and Subrata Karmakar from robotics.

So over to you, Sanjeev, just to start off to give a feedback as to how the quarter went.

Sanjeev Sharma: Thank you, Sridhar. So those of you who are familiar with the ABB in India and also those who may have joined for the first time, an overview about ABB India. We are in India doing business for the last 74 years. We are manufacturing in the country for the last 74 years. We are in 75th year this year and we operate four verticals, namely electrification, motion, process automation, robotics and discrete automation and collectively, we have 18 business divisions organized under these four verticals.

In Electrification, you may know that we have solutions around distribution solutions, which is the medium voltage switchgear, which powers big cities, large industries and infrastructure projects and also automate and provide more reliable power to the large consumers. Smart power, smart building is the low-voltage switchgear businesses, and they are businesses which really help the infrastructure as well as industry to distribute power with the low-voltage technology. And then we have installation product, service, and the EV portfolio.

Motion is all about energy efficiency. Our product in drives, whether it's low-voltage drive, medium-voltage drive, NEMA Motors, IEC LV Motors, large motors and generators, they positively contribute to customers' greenhouse emission possibilities, when they use it because they are highly efficient equipment when they are employed into different high-energy-consuming projects or infrastructure projects.

Process Automation is all about again, energy efficiency and automating core process industry, be it in the energy area, process industries, marine and ports, measurement and analytics. Robotics and Discrete Automation is all about providing the next generation of productivity for the manufacturing and the shop floor, be it in automotive, electronics, fast-moving consumer goods companies and many other applications wherein the automation helps improve the productivity of the plants.

In the country, we operate in 5 manufacturing locations, namely Nashik, Vadodara, Faridabad and Bangalore, and we have 25 plants in these locations. We serve our customers with 28 sales offices and service offices across the country. We have very strong channel partners or integrators in different categories of the businesses which help us to reach even the deeper side of the market in Tier 1, Tier 2, Tier 3 markets wherein our serviceability is enhanced by our partners.

Going through the business highlights of the last quarter. We recorded a strong performance with orders and revenues growing by 13%. And we see a strong momentum with large orders from emerging sectors. That was the highlight. Revenue, based on our backlog as well as book-to-bill, we are seeing a steady execution across the market segments. Because of our operational efficiencies and many measures we have been taking over the years, now we are seeing the convergence into our both top line as well as bottom line. And our profit after tax expanded by 50% due to the revenue mix and superior order execution by our 18 divisions. Operational EBITDA was up 64% for the quarter. And Board, which met yesterday, they unanimously approved the interim dividend of INR10.66 per share.

On the portfolio side, we introduced part of our Motion low-voltage motors. IEC low-voltage IE4 cast iron super premium efficiency motors. As I mentioned, Motion division and our Motors division is all about providing more energy efficiency to industry and infrastructure projects across the country. And that's why we continue to enhance our portfolio and localize it. And this is having a good uptake, especially among the customers who are more and more conscious about sustainability agenda as well as making sure cost input on account of energy is optimized in their setups because that's one of the big cost elements for all the industries and this consciousness is spreading quite rapidly across the industry, and we are direct beneficiaries of it. And also, we introduced IE3 aluminum motors for reliable and energy-efficient solutions.

We had an introduction of AquaMaster, electromagnetic flowmeters supporting India's water industry. As you know, water industry is expanding quite well in the country and our portfolio of electromagnetic flowmeters find a very good installed base across the countries and across the states.

We celebrated a milestone of 100 years anniversary of ABB miniature circuit breaker. You may know that the circuit breaker that you use in your houses and your offices, ABB is the pioneer of this device, which was developed by Hugo Stotz in Germany. And this year marked the 100 years anniversary of it. And the same products and same technology is, which is produced in our highly automated plants in the country in Bangalore is also available to Indian consumers.

As part of expanding our partnership, we partnered with Witt India to deliver advanced tunnel ventilation solution, enhanced safety and operational efficiency in India's infrastructure projects. So it's not only the product selling, but also the tactical and strategic partnerships wherein the players who are expanding and helping build the nation's infrastructure, we continue to partner with them.

On sustainability in practice, we have a very good agenda across all of our locations. Now we are also training our suppliers – more than 300 suppliers across 14 divisions in sustainability and green products participated. We continue this because we will make sure not only Scope 1 and

Scope 2, but Scope 3 emissions are also properly captured and contained across the value chain across our supply chain.

Now just to give you a data point that IEC low voltage motors installed base for last 5 years saved about 500 gigawatt hours annually, and it is matching the state of Sikkim's yearly energy consumption. So that's the impact because we may see them as a product, but I think when you use the right product in the heavy energy infrastructure and the industrial projects or anywhere the consumption, whether it's in HVAC if you use the right motor, right drive which ABB has, I think it directly contributes to energy saving. And that means that much of less energy has to be produced or that energy, which is saved can be deployed more productively in other areas.

Just to give you a bit of a breakdown of what we saw in the market. We see positive market momentum across segments. I think this has been developing over a period of time, but now the momentum is there. And that's where it reflects in our orders, as you have seen and we talked about, plus 13%. Our export orders also grew by 39%, largely contribution from specialty chemical service orders from an energy major. More and more of our divisions are participating in the exports. But we are very, very selective, and we are making sure that whatever we deliver out of ABB India and India has a good reputation in the minds of the customers who receive our products and solutions globally.

In the power distribution and energy, we are seeing much deeper adoption of power equipment, compact substations, switchgear, renewable energy. So these are across the segment of power distribution, the business electrification run by Ganesh. I think you're seeing a very good adoption as well as in the low voltage run by Kiran, I think that is seeing a very, very good adoption across.

Data Center has been a highlight for the last quarter. We bought some very large contracts relative to the past. And we have been talking about these data centers as a segment for the last 3, 4 years, and we find that it is now really converging into a good scale up as we go forward.

Discrete Automation, automotive sector, the investments are driven by EV. And there again, we are participating. Demand from energy industry, metals and minerals and mining are consolidating. Though they have not been participating in past, but in the last few quarters, we see now the momentum is building up there, especially from the customers who look for our products and services.

On the transport side, traction and propulsion equipment for railways and metros, they continue to have a very good uptick in our order intake and also sitting in our backlog, which has grown 23% to about INR9,500 crores compared to same quarter last year.

So if you see the first half of the year highlights, we have a double-digit top line growth aided by all divisions. It is not by one division or a few. It is across all the divisions, and also, we are seeing a cyclicality across 23 market segments we participate. There are some market segments which are very strong in one quarter and then the leadership is taken by the other segment. So that's the resilient business model we have in the country wherein we participate with multiple divisions, which have the 18 business models. And then when we participate in a spread of the

market segment, this gives us a very good resilience to ensure the growth as well as execution of our contracts. So, in the case of EPS, we have expanded by 67% and cash has grown by 19%. We continue to be a debt-free company with good cash on our balance sheet.

So just to give some flavour about where our products and solutions are finding their place. Transportation and mobility system, if you focus on propulsion equipment for Indian railways, traction order including for motors in metro rail in segments in three cities, robotics application of a production line upgrade for energy major, passenger vehicle, auto major.

Then in the industry, the efficient power distribution solution for a data center major, which is the global major, which is expanding rapidly. And this is a trend we see, it continues, given the data consumption by the country and the policy infrastructure which demand that the data has to be stored within the country. This particular market segment has, I think, a very long runway ahead of us and it is very starting point in my point of view. Same way in the terminal automation for energy major, compact substation or to switchgears and metals industry and, of course, analyzers and emission monitoring solution for an EPC. So these are some of the examples just to give you what industry is consuming from us just as a top slot example.

On the decarbonizing and sustainable operations, there's an uptick in that area. Like for a hydrogen project, we have supplied switchgears and also for a 4-gigawatt solar project in one of the largest solar parks in Gujarat, our medium voltage switchgear has been selected and being installed. And of course, we have modular high-voltage motors for a supercritical carbon dioxide extraction for Middle East energy major. So what you see here is our solutions go a number of places in different shapes and forms, and that creates a collective demand for us.

The core reason why in last 3 years, we have been growing 27% CAGR, I think, is because how we connect with our customers. And we continue to connect deep in the market and the market segments, and we continue to find new partners and continue to find new customers and convert them into ABB solutions. This is an ongoing activity. And any time we speak with each other, you will always find either a partner or a customer activity is going on in Tier 2, Tier 3 cities, so that it takes us the deeper end of the market. We know that despite this growth rate, which is multiple of the GDP growth here in the country, we still have a very good runway ahead as we engage more with the marketplace.

Just to give you a colour to which of the market segments we participate. And you can see we have tabled them under high growth, moderate growth, and moderate to low growth. And the moderate to low-growth still contribute quite heavily to us in our businesses, in our volume. And the enhanced in the focus market segments. These are the new market segments we picked up developed say, 2015 or '16 onwards, and this is something which we are kind of reaping the benefits of growth because these have come on their own. And that's what we continue to do is to keep on adding high-growth market segment as we grow forward.

Every call we take a theme, and today, we have taken Energy Transition as a theme which, of course, is seeing a good investment from energy major as well as the business houses who want to be in this area for a long term. And there is a good investment potential here. We have actually tabulated renewable energy generation, green energy corridor, EV and charging infrastructure,

and green hydrogen and certain data, that's how we read in the marketplace. I'll let it be available with you as a data point. But from ABB's point of view, our offerings include medium voltage and low-voltage switchgears in these segments, low-voltage components, battery energy storage systems, motors, electrical drivetrain packages, rectifiers, electrolyzers, wind turbine controllers, automation and instrumentation and robotics and digital solutions. So these segments will grow at their own pace based on the development. But our portfolio, which is distributed across our business area and divisions, these are the typical product packages that go into the new market segments we are focusing on where the investments are expanding.

In terms of sustainability in practice, we are tracking our goals, and it's a very well-focused program. And here, in Scope 1 and 2 GHG emissions, we are ahead of plan. Water recyclability is our focus. We have already converted a number of locations into water positive. That is we put more water in the ground than we take it. And we have already reached a zero waste to landfill unit in one of the locations. And by 2024, we will have two locations out of 5, which will be zero waste to landfill. And that's our commitment that while we grow and while we do work, this is the right thing to do for a country like us wherein we are water stressed and as well as waste needs to be managed in a more meaningful, more thoughtful way. So we will continue to do our contribution.

Now our margins have expanded. Our profitability has expanded over a period of time, so have our CSR funds, and we feel very pleased about it because one is to deliver higher margins to the stakeholders. But at the same time, we have other stakeholders in the society, where we are able to spend much, much more. Compared to a couple of years back, now we are spending almost twice as much as we had part of our kitty to spend, and we feel very good about it and our focus is on the education and skilling, and communities and environment, as well as also we contribute in the infrastructure, wherever we feel we can make it safer for communities or safer for the factory workers, safer for the women to come and participate in the industrial area.

So that's why you can see in Nelamangala, we are doing rural road upgradation. Peenya we have done a lot of upgradation. And every year, we continue to add in. So you put forth a few more years and then you steadily see that the whole area gets transformed.

So I will stop here, and I'll hand it over to T.K. Sridhar, our CFO, to take you through some financial highlights.

T. K. Sridhar:

Thank you. Thank you, Sanjeev. So good morning to all of you once again. So just to talk about how did we perform when we see the number side of it. I think it has been a good quarter once again, so therefore, we could say probably that we have consistent track record of delivering performance, which is better than the previous quarter. And hopefully, we should be able to continue that for some more time. That's what we see.

Orders, we have logged INR3,400 crores of orders, which is 13% up. Our backlog, as Sanjeev was mentioning, is INR9,500 crores. This also had almost 40% to 50% I would roughly say, which is about long gestation projects and the balance 50% to 60% comes from short cycle orders, which will be executed over the next 6 to 9 months period of time.

Revenues, I think INR2,800 crores, up by 13%. We could have done more. I have been here in the same sweep. We could have done almost INR200 crores more, but I think that was more because of an alignment with the project schedules which was important for project businesses to do.

And also because it was elections time and also the budget time which was there, so people had delayed the decisions that means we did not lose any revenues. It was only a postponement of the revenues with the customer, which was very momentary for the particular matter. So I think this should probably answer a question as to why did we not do revenues. I thought that's why I put a bit of more colour on this topic.

So profit before tax, I think this is INR594 crores, right, and 51% up and which is also the same as far as PAT is concerned, which is 50% up. So consistently, if you look at it, so we have been delivering the profit as well as the revenue numbers quarter-on-quarter. So this has resulted in a good pickup of earnings per share. and also in terms of how much do we convert this profit to cash, we always make sure that we are there at 100%.

Just to do a bit of a second level deep dive because we still have a third level which will become more interesting going forward. But I think on the first -- second level, I think orders, we were flat on base orders, and that was the reason why we said the second quarter had quite a few macro factors which were impacting them.

We were successful in large orders, which came from basically from emerging sectors. That was something which was pretty strong in a way. It is also in line with Q1 '24, where we do. So 13% up on orders, but sequentially, we were minus 5% and that's more because of the base orders, which remain flat.

The order backlog we discussed about it, INR9,500 crores, 23% up. So we have done 2 years scrutiny of what the order backlog quality is. We are confident that would be executed as per the delivery schedules agreed with the customer. So therefore, we don't have to see any risk in this particular topic.

Revenues, INR2,800 crores. Revenues grew definitely across all the divisions. So we were 13% up. And as we said, that we missed INR200 crores, and that's more because of the reasons that I mentioned. And profit before tax, yes, 21%, probably the highest in the quarters, what we saw till now. And coming to the cash balance, we have INR4,872 crores, and this is after paying the dividend which we paid in the month of May. We have upwards of 4,700 people to deliver this service.

So this slide we repeat because there is always a question. So if the group gives a colour to India, how does India numbers stack up. So if you look at the left side of the slide, I think this states what group sees from India. So it looks at third-party customers who give orders, both -- to ABB India Limited, to other ABB companies in India if it is there and also ABB companies which are outside India.

So when we take this, this is called a demand-side view from India, the growth is roughly run about 2%. But when you look at India, India, which consists of customers who give orders to

India, ABB India Limited, both from outside India as well as from India, so we are 13% as what I mentioned.

So EBITDA performance, I think we are 19% at this point of time and PBT before exceptionals is what we said. And if you look at the PBT bridge from 15.7% for the last quarter, same time and to 21%, of course, the volume and mix contributed to the major portion of the improvement with 6.3% coming from their improvement. And of course, we did have other expenses which increased because we are delivering more revenues. The growth phase is on, and therefore, it's slightly definitely higher.

But we want to tell you that there was a forex gain. It's a swing of INR30 crores compared to quarter-on-quarter, right? And that's something which also was an important element to factor in as for the results are concerned. But –is it a major one? According to me it is not. So it doesn't matter much because the number of the value which we are talking of profitability is far higher on that.

So overall, I think we did 21% at INR595 crores. The drivers for that was definitely better margin orders, we did have positive price movements across and we did benefit from steady material cost -- material commodity cost at this point of time.

Yes, the next slide. So about -- how are we doing on the profitability side, the next slide. So this is a Level 3 deep dive so to understand how the structure of a P&L at this point of time. So our revenues, we did talk about it. So the other income consists majority of interest income, which is coming from the deposits, what we have of almost INR2,800 crores.

And the material cost is 57% at this point of time compared to 63%, what we were earlier and 59.8% in the previous quarter. And the other expenses are more or less in line with what we have delivered in the previous quarter. And only change is about exchange and commodity variation. We had a gain of 9.5%, but the swing between 9.5% and a cost of 29.8% is almost INR40 crores as what was mentioned earlier.

So other elements of depreciation and minor interest costs and discounting, et cetera, remains pretty much stable. So the ETR is 25.5% as what we see. So overall, I think this is how did we perform.

But other important thing which I would like to share with you is I think there could be a bit of a question mark. So how did we really go down and what is contributing from 63.5% material cost to 57.2%. Just to give you a bit of colour. I think there are different factors, which are external and there are certain factors which are internal.

So when I want to say, which is external, we are talking of a revenue mix, price push to the markets what we are talking of and of course, on the design optimization and the SCM savings what we have. So this roughly contributed to a 3.6% of the movement, which happened. And the internal levers that we have in terms of operational efficiency, in terms of capacity utilization sort of stuff contributed for the balance percentage, if you move from 63.5% to 57.2%. So this is something which I think could be interesting.

And this is actually spread out across all business units in different forms, and not all businesses had the same, right? But I think it depends on how business is positioned in the market as well as in its own operation locally.

So we go to a bit of a colour on how did Electrification, Motion and Process Automation and Robotics performed. Motion and electrification, this quarter did INR1,432 crores of orders. And sequentially, they are slightly lower. On an average, they are pretty much ahead of the curve as what we see, right? And Q1 '24, while it was higher because normally, as you know, that's a financial year for quite a few Indian customers locally. So that's the time when they would exhaust the budget and say for the ordering it's speedier than what it normally is with the other quarters.

And when it comes to revenue. So we are -- they are INR1,121 crores cement here is what I say that there was a bit of an alignment and definitely a holdback for the customers assuming that budgets could have certain favourable impacts for them. So -- and profit before tax and interest, I think because led by the revenue mix and good margin orders which were executed and also operational efficiencies impacting them positively, they were able to deliver 23% of PBIT. And the order backlog is 39% up from INR2,000 crores what it was last year the same time.

Next slide. Coming to Motion, which is a very interesting segment is what you all know, and it's directly relatable to the industries to which we are catering to. So Motion was up in orders with 18%. Revenues pretty much aligned with what the backlog execution patterns are. So 17% up over there.

And order backlog and all time I have INR3,930 crores. I think we should be aware that this order backlog has a major orders of traction converters from railway segment and that service, long-term service order as well. If we sort of eliminate that, you would see the same amount of increase in the order backlog as compared to the orders, what they have to do. That means, on a real-time base volume, it should be 20-22% higher compared to what you see, right?

And PBIT, again, a fantastic traction as what I would see 23%. Of course, they did have a positive impact also of the foreign exchange coming in over there for the momentary at this point of time. But I think it's a cycle which always has a sort of outcome then comes back to the balance sheet at later date.

Process Automation. So last quarter, we definitely, last year, same quarter, we did have certain major orders from the metals sector and oil sector, so which were not there in this particular quarter. So we did INR533 crores. So we are slightly less compared to the quarter-to-quarter. Whereas revenues given the good backlogs, what they have, I think we are 24% up on revenues and profitability tracking well at 16%, mainly aided by services revenues and export revenues over there and efficient project execution and the mix from higher contribution orders and higher margin orders.

So here is Robotics, which is a very fantastic market segment, which all of us know. So they are back on track with INR157 crores of orders this quarter, slightly less of revenues on this because these order backlogs would have been currently received, will fructify into revenues going

forward, and they track certain profitability of 14%, 15% at this point of time. So I think there's also a good contribution of service, which help them boost the margin front of them.

This is the last slide. I think this is just to show how does our business model look like. So I think if you look at it, so we are basically a product-oriented structure is what we see with EL and MO forming part almost 75% of our total business model. And with -- from the offering side of it, again, it represents because EL & MO being product businesses majorly. So then we are 76%, 75% of product businesses and 12% on services and exports similarly 12%.

And when we come to geographies, we said that our exports increase, and that's why we could see the percentage of our revenues looking at 12% and 88% from the domestic revenue -- from the domestic consumption.

So overall, I think we are primarily focused on India. So India is in a sweet spot as what we say in terms of growth trajectory as well as the investment capex cycle, which has kicked in at this point of time. So therefore, we feel that we are in a position where we could take leverage of the investment climate which is developing so fast. So that's it from -- as far as commentary is concerned.

Michelle, we can open up the call for our Q&A.

Moderator: The first question is from the line of Mohit Kumar from ICICI Securities.

Mohit Kumar: Congratulations on another status state of results. First question on base orders sir, base order is slightly weaker in the first half. Are you seeing increase in inquiry levels going up post the election?

Sanjeev Sharma: We did have this election as well as budget period coming. So I think they have a bit of a slowdown in the marketplace. But going forward, I think we can give you a more granular view from our business heads starting with MO. Sanjeev, the question is how do we see inquiry buildup going forward, followed by Kiran, Ganesh for ELDS and Subrata.

Sanjeev Arora: Yes. Thank you for the question and thanks Sanjeev for getting this opportunity to answer this. As we all know that now the government has formed that it's quite stable. Things are in the right shape. And the growth story of India is very much predominant still. So we feel that be it heavy industry, light industry, transport and infrastructure, all this piece where ABB is present in each and every segment, we have a strong conviction that this will show a steady growth path. Of course, there would be some cycles, some headwinds, maybe some global impacts, how the world is behaving, but I think underlying strength is for India is that we will see opportunities coming up as we move forward. So that's from my side, Sanjeev.

Sanjeev Sharma: And same question for you, Kiran, for the EL.

Kiran Dutt: Thank you. See, from my side, adding to what Sanjeev Arora said, what I would like to say is we did see some challenges in the building sector. And we have also had some informations where the building sector would have de-grown by almost 18% as a market in terms of the pickup of apartments especially in the residential side. And that could be for many reasons in

the macroeconomics, as well as it is also what we saw was some base order decrease probably due to the delay maybe because of budget and things like that due to elections. So that's what we saw in some of the sectors of the market.

But what we see is also probably the Tier 2 and the Tier 3 cities coming up. So that's what we see on the positive side, which could pick up in terms of the base orders.

Sanjeev Sharma: Thank you. Ganesh, from the Electrification Distribution Solutions side.

Ganesh Kothawade: When it comes to the distribution solution, obviously, there was a natural hold of the delays due to the election and because the budget was not announced, because some of the infrastructure projects where government has to really clear the cash to the EPC people. But if we see to the pipeline, we see a very strong pipeline, which is coming from industry as well as the upcoming segment, and we can see an increase in the base order in the coming quarter if you look it at the pipeline.

Sanjeev Sharma: Thank you, Ganesh. Subrata, from the Robotics, and on your segment which you cater to, how do you see the pipeline going forward?

Subrata Karmakar From Robotics' point of view, I see that it's a constant growth in the market. I never seen because of election market was flat or going down and again going up. It is not like this. It's a constant growth. Still automotive holds major share of Robotics. However, I feel that small customer, base customers are growing. Number of robot sales in the Indian market has grown by more than 50% between '22 and '23. And I think that, that growth will be constant in coming years.

Sanjeev Sharma: Thank you, Subrata.

T. K. Sridhar: Thank you. I think, Mohit, you got the sort of colour from all the divisions representatives, I think which is more comprehensive in a way.

Mohit Kumar: Understood, sir. My second question is order inflow for us versus the group within India. Is that a market share inching as compared to group companies by Indian orders? Are you producing more products through Indians companies, so Indian companies are getting more share -- wallet share?

T. K. Sridhar: I didn't get your question, Mohit.

Mohit Kumar: Sir my question is on the order inflow for us versus the group. Our number, 13% up, right, compared to group for Indian orders were 3% -- 2% up, right? My question is, is the market share inching us? Are we getting more orders from the global export orders but because you're producing more products indigenously? Is it the right understanding?

Sanjeev Sharma: So I think we haven't established any correlation, and we don't pay too much attention to that because that's more of a flow, which happens based on how the group companies and the global players may be exposed, right? So other channels would be exposed. So what we can confidently say is about the India numbers, how we are exposed directly to the market. And those numbers

are more predictable from our point of view. So we haven't established a correlation, maybe this is something we have to think about.

Moderator: We'll take the next question from the line of Sumit Kishore from Axis Capital.

Sumit Kishore: My compliments on a very strong quarterly performance. Two questions. The first one is, over the last 5 years, the EBITDA margin reported by the MNC parent were higher than ABB India. Over the last couple of quarters and particularly Q2, ABB India EBITDA margin was higher than the parent. Your comments on the sustainability of this phenomena given ABB India pays royalty technology fee to the parent and there are imports that ABB India does from the parent. That's the first question.

The second question is, we've seen large orders and long cycle orders from energy and core industry segments, which contributed to order inflow during the quarter. Could you give us a sense on how is the mix of base orders and large orders in the order book roughly? And what is your sense on sort of what kind of execution –schedule does it entail across this and large orders in your four reportable segments?

Sanjeev Sharma: Sridhar, you can take the second question first.

T. K. Sridhar: I think I have already replied the second question, but for the sake of benefit, I said that the order backlog, which is roughly about INR9,500 crores today has 40% to 45% made of long cycle and project progress. That's number one, right? And that gets executed over a period of time. And normally, the execution of projects normally hover on about 15 to 18 months, depending upon to which sector they cater to. And the balance 55% to 60% is short cycle order and that go over an execution period of 6 to 9 monthly, roughly. So I think that's how we see most of it.

Sanjeev Sharma: On the first question about group and ABB catching up and exceeding the performance in India. So I think both are not comparable because group is exposed to all markets of the world, and they have to see the cyclic nature of China, Europe, Asia, Americas and we take at least some total effect of whatever is happening across the order flow. And it's a credible performance relative to where ABB Group used to be and our ABB Way, which was implemented by our group CEO, Bjorn, who of course, now has moved on and new CEO is installed from 1st of August. I think he did a credible job globally, and we are all thankful to him for the discipline and the focus that he brought for us.

As far as India story is concerned is, as we say, it's an India story. It's an India story is about emerging market story, which should be seen in its own merit and its own isolated effect. And here the results that we are getting now for last 3, 4 quarters, they are not made recently. They are in making for last 4, 5 years.

If there's some total or number of things that converge, so that you get an effect out of operation, and one is that you get good quality orders from the market, you have much more broad-based market segment participation, you have much more broad-based geographical participation due to higher localization as we go, we will expand your portfolio of offerings in the market and you also make sure that all the localization being done by our OEM partners, our machine builder partners, we participate in them so that countries import will start reducing.

So it's a kind of a combination effect, and on top of it, the productivity measures that you take in your shop floors and you continue to reduce your cost and also ensure that you make only meaningful investments so that the businesses are able to expand meaningfully and participate in the market growth and the volume growth. So I think when you align all these value chain elements in a good way, and we are lucky, and we are very thankful to our leadership of the division, each one of them have been doing it very well, and they have taken the opportunity in the last few years to reach where we are. So it's –a collective effect of all the work that has been done in past.

And market is very supportive at this point of time. There is a much higher appreciation of higher quality products in the market relative to past wherein the customers used to compare high-quality products with the cheaper versions. But post COVID, the mindset of the customers have changed and they look for more reliable products rather than cheaper products. So that's where, again, it is sweet spot for us. That's why you have seen 27% CAGR growth in the last 3 years. And when you process them in the volumes and the capacity you have, and you put more productivity in the shop floor, you start seeing the rolling results into the bottom line. So that's how we read it how the situation is.

T. K. Sridhar:

Just adding to what Sanjeev mentioned, I think we've also seen a consistent growth in service revenues, which is very important for us to have the margins, right? So that's something which was a bit dull due to COVID and other topics, which are in the country, we had to deal with. Now that we have all passed that, I think that is also a very effective contributor. And just for information, we have dedicated service business units in each of these particular divisions, catering to the installed base of the country. So therefore, the focus is very sharp, very widespread across the market with more innovative solutions. So that is something which is aiding the profitability also.

Sanjeev Sharma:

A lot of customers are through opex cycle, which affects the service or upgrading their installed base, that shows up in our service business, which again is a high-quality business for us.

Moderator:

The next question is from the line of Jonas Bhutta from Birla Mutual Fund.

Jonas Bhutta:

Congratulations on a great set of numbers and not just this quarter, probably now 4 quarters running. My first question was somewhat similar to what the previous participant checked and I'll try to sort of approach it from a different angle. So if you can sort of talk about on which products particularly are seeing such a superior pricing power?

And I would appreciate if you can give a slightly more nuanced understanding to the extent possible on the sales mix. Because if I were to sort of rationalize all the reasons mentioned in the press release for higher profits, something does not seem to add up because your service and export revenues as a percentage of sales is the same as last year. So they have grown at the same pace at the consol entity has grown.

Second, your scale efficiencies or operating leverage is not visible because employee cost and other expenses growth in both these line items are higher than your sales growth this quarter. So that effectively leaves us with largely pricing power as commodity costs have largely remained

flat in this period. And the nuance that I'm sort of looking at is because, sir, on the Process Automation side, the presentation mentions that given that energy as a percentage of sales within that segment was higher, and hence, we've been able to reflect this kind of margins.

Our understanding was on the energy side, there's another MNC that sort of was a market leader. So have you sort of gained market share? Have you localized? So some more nuanced would really be appreciated across at least EL, MO and Process Automation, longest question, but I would appreciate your answer on this.

T. K. Sridhar:

Jonas, I think to maintain the profitability and the performance of the company, it is important that we have the secret sauce with us, number one. So we cannot be diverging information by business, by divisions and all the stuff, it is the interest of all of us, okay? That's number one and we maintain it very consistently, okay, number one.

And number two -- but I think I gave you a bit of a colour as to why did you did a nice pickup obviously in the P&L, looking at the expenses and all the stuff, right? The major contributor, if you look at it from the structure of the P&L, you could see the largest gain has been due to reduction in the material cost, where we have moved 6% of almost 61%, 62%, 63% levels to 57%, 57.5% right? And I did touch upon this as to how did we gain this material cost improvement. I did say that it was a combination of both externally led actions and internally led initiatives as well, right?

So I said that from externally-led actions with respect to accessing different markets, different customer base and also with the variety of the mix of services and exports and the margins thereon, we've got almost 300 basis points or 350 basis points improvement right? So 3.5% over there.

And then when it comes to what are the internal-led initiatives in terms of supply chain, in terms of localization, capacity leveraging and all these stuff and also looking at how do you mitigate the risk on projects and long-term service orders, right? So there, we gained almost another balance 3% right? So I think these are the factors.

So now will these factors sort of play out the same going forward, right? I think there is a limit to which you could always expect this particular improvements to happen. What will remain definitely, the advantage of a higher capacity, the leverage we should get because of more revenues and the better cost ratios we have. So I think going forward, this would sort of stable out in an environment at what we are playing today.

Jonas Bhutta:

Got it. Sir, my second question was on the share of IE3 and IE4 motors in our CY '23 sales and in our first half. So what percent of our Motor sales largely comes from these two product lines given that we are further expanding our offerings here, even a rough cut ballpark number would help? And that's my final question.

T. K. Sridhar:

Sanjeev Arora, who's here, is eager to reply to your question. So he will give you all the stuff.

Sanjeev Arora:

Thank you. First of all, this subject is very close to my heart. And our customers have shown a great confidence in our Motor business. And if we see more than half of our production, that

means roughly 52% to 53% of our production is of IE3, IE4 motors, even though as per norms in India as per minimum efficiency norms, we are still at IE2 as a country. And this clearly shows that we are serving the customers, their causes of sustainability, we are really partnering them in their goals of energy saving as well. So giving you the prospective of production and means anything else if you want to ask, please go ahead.

Moderator: The next question is from the line of Amit Mahawar from UBS.

Amit Mahawar: Congratulations on great structural journey on margins beyond you can see on the stable cost and benefit, et cetera. First question is on capacity. We have some major segments, right, like power distribution units for data center, propulsion sports, high speed and metro, isolators and circuit breakers for a lot of new applications, including hydrogen that you highlighted. Next 3 to 5 years, when we plan our capacity creation which are the areas where we will see maximum capacity creation, if you can highlight? That's my first question.

Sanjeev Sharma: Just to give you an overview, we are in the 74th or 75th year of manufacturing in the country. So that means we have a long time to set up the manufacturing facilities. And it is always ahead of the curve, what the market is asking for and what we need to offer. So what happens is our manufacturing expansion is always incremental in nature. So whatever we expand is always either within the same space, you have more better productivity measures by automation, robotics, et cetera, so that we can produce from the same space more. That's one. And the second is we continue to sectionally expand the plant in the same location. So that's the kind of a nature of expansion that we have been doing.

But going forward, we now are reaching the point given the growth rates we have seen. And at this point in time, all the divisions, when we talk to them, they are quite okay for coming years, right? So we have the capacity that we need. We are already looking forward for next 5 to 10 years. And there, there are certain divisions who want this capacity expansion. So you may have seen some announcement that we did yesterday, wherein we are adding a plant here in Bangalore, wherein the units which were relatively small earlier in our business, they are expanding at a much rapid pace.

So we are providing the much larger space and more sophisticated facilities, not only for Indian market because they also have got mandate to do the export. So that's the one part, which is very clearly which we have gone forward.

Otherwise, other areas in EL, we have a continuous upgradation and expansion in Nashik with ELDS. Also in ELSP, ELSE, all these are based on the market requirement and gap that we see now and next 3 years, I think those expansion plans are already in place. And same thing goes for MO. MOTR has expanded substantially in the railway and metro segment, motors, low-voltage motors, medium-voltage motors, all of them are expanding.

Process Automation, as I already mentioned, that they are expanding in the new location. And Robotics, we already invested quite well in 2020. So we already have a state-of-the-art plant there, but then we always keep investing, getting closer to the customers as well as making sure that we are able to serve them more effectively. So in all, we have plan in place mostly

incremental, but wherever the capacity expansion is required by scale, there we go for the newer facilities and all that.

T. K. Sridhar:

Just adding to what Sanjeev said, I think you're all aware that we still have land banks in Baroda as well as in Faridabad, right, so which is definitely a stage where we could add capacity. And the capacity expansion would have been announced for PA will help in unlocking space for the expansion of the MOTR as well. So I think the traction in this thing also.

So that could probably answer your question with the large impetus on railways and the same order inflows from them, how do we cater to that, and this would help us doing this. So there's sort of churn of the volumes between the locations will help us figure out how we could address the growing market.

Amit Mahawar:

Very helpful, Sanjeev and Sridhar. And second question is coming from the group now Bjorn had a very fabulous tenure, which also impacted ABB India materially beyond what the India story management has driven beautifully. New management seemingly is continuing the strategies of the last CEO. But anything that you want to highlight in terms -- so the way ABB operates is very different from players like Siemens globally when they think of global factories, division-wise versus segment wise? Anything that, Sanjeev, you want to highlight on the management -- message from the new management, which is worth sharing here?

Sanjeev Sharma:

So as far as the credit for performance, we give it all for India as well as group to Bjorn. We were just the holder of that strategy and executor of it as disciplined soldiers here in India. And I think each one of us embrace that change. And I think India is seen when Bjorn used to visit India, he saw, and he commented that India is expecting example of the philosophy he wants to promote within ABB. And that's the reason he, last year, even had the Board -- ABB Group Board came in to see how ABB India operates and empower as well as focused manner.

So Bjorn was all about performance. And he had three tier thinking towards the businesses. That is all of our divisions, that you should be stable first. You should be profitable, second; and when you are stable and profitable, then you can grow. And I think that discipline he kept for the last 4.5 years, and that's where you can see all the global divisions, their allocations and their focus was getting the stability not only overall, but also in each location and each business location, you have to have stability, profitability and that you do either by portfolio, by management or new expansions or also by taking out certain portfolio within the company which are not core to us. So all those things were done.

Now given that we have our colleague, Morten Wierod who has taken over a CEO from 1st of August, and he was, by the way, also Chairman of ABB in India. He frequents India very well. He knows India very well. So we do feel that going forward, we will have a natural support available from the Group CEO.

But the Group CEO, as per the Chairman's statement, Peter Voser, he has a mandate for growth. So he has been given a mandate that the growth is the focus for him while maintaining the profitability that group has achieved and growth, in last Capital Markets Day, as you have noted,

they have already given the margin corridor ABB Group wants to maintain. And on top of it, the mandate for the new CEO is growth.

Moderator: The next question is from the line of Shrinidhi Karlekar from HSBC.

Shrinidhi Karlekar: Congratulations on good set of numbers. Two questions actually -- What I want to know sir is what percentage of your backlog is really a fixed price contract? And how much is the price variation?

And the second related question is, sir, would you say the part of positive surprise you saw in the material margin is due to commodity stability or commodity deflation from the point of order booking to the point of execution of sales, as well as probably due to stability of Indian currency from the point of booking of the order to the execution of the order? Otherwise, you would have built some deflation? Those are related questions.

T. K. Sridhar: I, again, go back to the colour which I gave you on the split of the order backlog between long-term orders and short-cycle orders. So long cycle orders are definitely, I said 40% to 45% of backlog comes from projects and long cycle orders, which as in mechanism have the price variation process built in because it goes over a long period. So this is basically normal commercial terms and conditions.

But when it comes to the balance, it's 45% to 50% is orders, which comes from short-cycle orders and which gets executed over a period of 6 to 9 months. I think there in very few cases, we have it, but majority of them are fixed-price contracts.

Shrinidhi Karlekar: Okay. So would you say it is base orders that you do, it's still a very large portion? Some of the margin benefit that we have seen on the material margin is partly because of time of booking, the commodity what were there at the time of booking and how they have been stable or deflating to the point of execution?

T. K. Sridhar: Yes. I think we had said that in the past as well. I think the current margin expansion also due to advantage of higher price at which we book the orders because of the raw material prices are higher, and basically on the fixed price contracts, what we're having. And as they stabilize, you get to have an advantage coming into the P&L account. But I think now that the prices are stabilizing at this point of time as what we see, that particular difference between the order booking to the execution time advantages will start to thin down going forward.

Moderator: We'll take the next question. Ladies and gentlemen, this will be the last question from the line of Aditya Mongia from Kotak Securities.

Aditya Mongia: My question was more kind of comparing the amount of value creation that you can do in the Motion segment versus the Electrification segment. I wanted to get through a sense that eventually when things kind of even out on margins. Would Motion segment, because of its value addition, higher services component, energy efficiency be having higher margins versus the switchgear-driven electrification segment? Or would you have a different view?

Sanjeev Sharma:

We have a different view. Both Motion and Electrification are nearly same size. Electrification, now being the largest division and closely followed by Motion. Now you may have heard us saying that they follow this pattern of a fast moving industrial goods background.

Just like you are used to FMCG, I think we –a following a FMIG model, wherein we do certain products, which are -- we call it as ETO, engineered-to-order, wherein we use our own products to create a subsystem and supply. But larger portion of it is moved as a product into the market. And then you have the value adders with our partners, OEMs, machine builders, who create value in the market.

And in a market which is growing rapidly and as India is growing and you have an expansion taking place geographically and in multiple market segments at the same time, these businesses tend to do quite well. And these are high-quality products. And most of our customers are not only supplying to high-end, very high-quality, high-end supply end users, but also they're exporting a lot. So what happens is that the price point that is realized by us, there's a willingness to pay for what we supply in the marketplace, right, which is very different from the retail type of participation you do in certain market segments. But we are talking about mostly our industrial customers, their appreciation of our quality and reliability, availability locally as well as our ability to service them and maintain their product, I think that has a kind of a perceived preference for our portfolio.

So as the EL, MO is concerned, we do see they will continue to perform this journey going forward. But we are not alone in the market. We see the similar trends with the others as well who are participating in this market segment. And I would say this is an early cycle of India. Not many people have a comparative, but I have a comparative in my career wherein I saw China grow right from mid-90s, 95 onwards.

And I see India is almost lagging 20 to 25 years where China was 20, 25 years ago and we still have another 5 to 10 years ahead of us wherein the growth rate and the demand for our products and solutions will expand and also industry is willing to pay for the quality of the product, which is world-class.

Moderator:

Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. T.K. Sridhar for closing comments. Over to you, sir.

T. K. Sridhar:

Thank you very much, Michelle, and thank you very much, ladies and gentlemen, for participating in this particular call. Very interesting questions, I could say. I think hopefully, we again meet the next quarter with a similar set of results is what we could see. And also, I wish you a very happy quarter closing as well as in good and healthy life. And I also thank the management who are there with me on this particular call with who's -- without whose support this could not have happen. Thank you very much.

Moderator:

Thank you, members of the management. On behalf of ABB India Limited, that concludes this conference. We thank you for joining us, and you may now disconnect your lines. Thank you.

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