

ABB Limited
Fourth Quarter and Full-Year 2010 Results Conference Call
February 23, 2011

Moderator: Good afternoon ladies and gentlemen. I am Vishwanath, the moderator for this conference. Welcome to ABB Limited Analyst Investors Conference Call. For the duration of the presentation, all participants' lines will be in the listen-only mode. I will be standing by for the question and answer session. I would like to handover to Ms. Juliane Lenzner. Thank you and over to ma'am.

Ms. Juliane Lenzner: Hi, good afternoon everyone. This is Juliane Lenzner, Head of Communications and Investor Relations at ABB in India. I would like to welcome you all to our conference call to discuss the Fourth Quarter and Year-End Result for 2010. With me today, I have Mr. N. Venu who is the Head of Sales and Marketing for ABB India, Mr. Amlan Dutta Majumdar who is our CFO and Bazmi Husain who is our recently appointed Country Manager and Managing Director of ABB India, who started January 1st. So, with that, I would like to turn over to Amlan. Amlan is going to be discussing the result and then after that, Bazmi will come on and talk about the future outlook for the company.

Mr. Amlan Dutta
Majumdar:

Thank you Juliane and ladies and gentlemen, welcome to the conference call for ABB India's Fourth Quarter and Full Year 2010 Results. We sincerely thank you for your time and for a short notice I would say. As you know, we have been talking to all of you during the last 1 year and it has been quite a bit unusual year for ABB Limited in India and it has been our year of consolidation on many fronts. As you would have noticed, in our results published just a few hours back, we have our sales revenues increased by 9% for the fourth quarter which is our year-ending quarter, quarter ending December and the good news is that it has led by the power systems division, the revenue growth in the fourth quarter, which grew 48% over the same quarter last year. So, as you know, we had large orders booked in the division, but these are long gestation period projects, so we had some delays in the revenues coming in, but the good news is now the revenues have started coming in and then power systems division helped us to gain 9% on our last quarter revenues. We have also witnessed growth in our automation products divisions which are discrete automation and motion and low voltage products in this quarter. Process automation division remained more or less flat in their revenues in the quarter, while power products division fell short by 9% as compared to the last year's last quarter. On the order side, you would have seen in our press release that orders for the fourth quarter ending December 2010 have come down by 41%. This is partly on account of delogging of some orders, which were indefinitely postponed by the customers due to various external

reasons not within the control of ABB or within the control of customers in most of the cases. Of course, it is indeed true that we had serious challenges in the power sector on account of price erosion that we have witnessed in the market and of course a very steep increase in competition and entry barriers have been down by the grid, so we had some challenges there. We had a decline in the profit before tax for the quarter quite significantly which is on account of booking of costs relating to exit from noncore business of rural electrification. As you know, we have told you in the earlier quarters that it was extremely difficult for us to assess and it took a lot of effort on our side to assess what could be the exit costs that we need to book because it was dependent on the customers. It was dependent on the contracts and we cannot really push or insist with our customers, so it took time but we did a real hard work here. We are happy to inform you that we could get into details with the customers. Most of them cooperated with us and we could ascertain the incremental cost that we should have booked, which we will have to book going forward. So, we took some upfront provision for those costs and if you recollect we had told you that we expect this cost to be fully booked either by end of 2010 or first quarter of 2011. We cannot give a blanket confirmation that there will be no cost ever coming on this rural electrification ever, that is not possible because there are some customers to work with but we are pretty confident it cannot be very severe as we have seen in the last year, so that makes us a bit more confident. Our profitability was also impacted due to loss on account of fair valuation of foreign exchange contracts for firm trade commitments and embedded derivatives contracts. As you know, the policy of ABB in India and world-wide is to hedge all transactions, I repeat all transactions booked on the purchase and the sales side at the point of commitment. We do not speculate in this area and we follow our group and our company's policy very strictly. As you know, this loss is a timing difference, notional in nature and do not affect the final contract margin.

On the expenses side, our personal expenses for the year grew significantly which actually reflects our renewed commitment to invest, retain and train the skilled resources specifically in the areas of sales, project management and engineering. Of course, we also strengthened other functions but these have been our key focus areas. We expect that our investment in our people which we have been doing for the past one year and would be ongoing will result in higher productivity and produce better results for the company in the times to come. During the year, actually we took multiple cost saving measures, both in the areas of material cost through stronger and more innovative supply chain management and also sheer expense reduction initiatives. We have been strongly supported by our group who at the group level also had some cost saving targets, we did extremely well on that and they supported us with their ideas, their experiences in various countries, which came to our help. As we have always told you

that ABB has a longterm view of the Indian market and we will not shy away from doing more and more in this country in the coming quarters. Our continued focus on working capital management and efficient operations helped the company to retain its debt-free status once again, which in my opinion is something that we take strong pride in. You have seen in our press release that ABB's board has recommended a dividend of 100% of share capital for the further approval of shareholders in the next AGM in a very tough and challenging year which shows the company's confidence in its future business in India and the favorable results that we are trying to get out of various measures that the company has taken and will be taking in the time going forward. I just wanted to give you a small brief on this and you have also seen the full year results and full year results you will see one very important thing, I mean, you know the earlier three quarters, so I am not getting into details right now. You will see in the first half of the year, the automation sector was doing better in terms of revenues and power was not doing as good, but the situation completely reversed in the second half and in the last quarter, we are seeing the power sector revenues have come up, orders are getting executed and customers hopefully should be more happy than they were earlier, so this is a good news we can see and so this should be the general brief and we will see if we take some questions at the end, I would be very happy to answer the questions. Thank you very much Juliane.

Ms. Juliane Lenzner: Okay, before we open for questions, I would like to turnover to our Country Manager and Managing Director, Mr. Bazmi Husain, who will give some words on the future outlook of the company.

Mr. Bazmi Husain: Good afternoon everyone. It is a pleasure to be able to speak to you today. ABB, as you all know, is a company that our core business is around electrical energy. We have 2 core focus areas. We focus on power and we focus on automation and roughly speaking in the power side of the business, we look at the generation and the transportation part of the electricity and the automation part of the business, we really focus on the consumption of electricity. Now, given the needs of India for more energy, more electrical energy, which is a global trend but much more so in India than in most other places, we feel that we are really with the right time of product spread that we have, okay. In India, on the automation side, we have continued to perform in the sense that we have got our market shares and as you have seen, in the last few years, we have also been able to maintain, had also been able to contribute substantially to the profits. On the power side, there is that is the largest growing opportunity here in India. In the last few years, especially with the trend moving towards higher voltages, going up to 765 KV, etc., new competition has come up both from India and outside and we have lost some orders in there. ABB has taken, as Amlan had said, a longterm view of that. Just few months ago, we have invested 965 million

Dollars in the company and we are now also addressing it further by indigenizing more and more of our product lines where we see that we will be much more competitive going forward. Within the first half of the year, we would have indigenized both our 765 KV transformers and 765 KV breakers which we were today supplying as imported items, which will increase our competitiveness in that sector. In addition to that, we also see new streams coming up in India, new opportunities especially around renewable energy and ABB is world leader in that. On an overall basis, ABB has connected about 280 GW of renewable energy into the grid, so that is the background that we come from on a global basis and we are very happy to bring all that knowledge into the operations in India. We are also increasing our competence in the design and development capability and that is one of the reasons why we are bringing in more experience from ABB globally in India to develop that competence to be able to optimize the design going forward of our existing product as well as to come up a new product.

So, with that, I would say that we have a very positive outlook and lot of confidence both in the Indian market as well as in our ability to grow rapidly and increase our market shares. Okay, thank you.

Ms. Juliane Lenzner: Okay, thank you Bazmi, thank you Amlan. So, with that, we can turn over to the moderator for the question and answer session. Now, the question and answer session will only go until 4 o'clock. If there are additional questions after 4 o'clock, you can send them to me or give me a call on my mobile, which I think most of you have already. So, with that, I will turn over to the moderator.

Moderator: Thank you very much ma'am. We will now begin the Q&A interactive session. Participants who wish to ask questions, please press *1 on your telephone keypad. On pressing *1, participants will get a chance to present their questions on a first in line basis. Participants are requested to use only handsets while asking a question. To ask a question, please press *1 now. First in line, we have Mr. Atul Tiwari from Citigroup.

Mr. Atul Tiwari: Hello Sir. You mentioned that in this quarter, you have booked some provisions for likely future expenses in exiting from rural electrification business. What is the quantum of these provisions that you have booked and in which line item they have been booked?

Mr. Amlan Dutta Majumdar: You know, we would not like to share the exact quantum because you know when we talk about rural electrification, it is our core customers with whom we work in other areas and almost everybody in the market knows with whom we are working in that area, so I would not really want to or really insist that we go into

that, but I would say we have booked a provision in that area not less than 100 crores.

Mr. Atul Tiwari: Not less than 100 crores?

Mr. Amlan Dutta Majumdar: Yes, it is 100 crores plus but I don't want to be very specific as it involves our close customers.

Mr. Atul Tiwari: And sir, in case that there are these provisions, your raw material cost in this quarter are very high, around 81% of your sales.

Mr. Amlan Dutta Majumdar: That is right.

Mr. Atul Tiwari: So, why should that be the case because generally if there are provisions, they will be booked in some other line item like other expenses, so why should raw material cost should be so high in the quarter?

Mr. Amlan Dutta Majumdar: No, no, it is not exactly like that. See, you have to realize the situation of this project. There are multiple projects with multiple customers for mainly the state utilities and also others. Now, these projects are in various stages. When we are closing these projects, there are various kinds of situation which is happening. Somewhere, we have 90% of the project, our money is outstanding, then we are not in a position or we are not so keen to complete the balance 10% and we request the customer, can you get it done and then we adjust the payments. So, there are also cases where we have done only 40% of the projects and it depends on the customer whether he allows us to go away from that project, then we have to complete that project and that is pure material cost in the project when we have make supply to them complete, so it has been a mixed bag, where somewhere we have done part of the project where we have to complete the project, somewhere we have done everything may be 10% pending, may be some contractual issues and there are some guarantee issues where we decided to walk out. So, I would also like to give you proactively one information because I am sure somebody will be asking this that we have told in the earlier call how much rural electrification business we still have in our backlog, I want to give you proactively this, we have 700 million in our backlog which we have to execute because that is our agreement with those customers. So, it is not true that it will come in other expenses. It will also come in the material cost.

Mr. Atul Tiwari: This is 700 million Rupees.

Ms. Juliane Lenzner: Sorry, I have to interrupt you so that we can let other people ask their questions as well.

Mr. Atul Tiwari: I just want to confirm, it is 700 million Rupees right?

Mr. Amlan Dutta Majumdar: In backlog.

Mr. Atul Tiwari: Okay, thanks.

Mr. Amlan Dutta Majumdar: Which we need to execute, thank you.

Moderator: Next, on line, we have Renu from B&K Securities.

Ms. Renu: Good afternoon sir.

Ms. Renu: Sir, nice to hear that at least next year onwards or the current year onwards, RE related losses should be minimal. I have two queries. First would be I just wanted to understand that yes since the order inflows have not been very strong and we have seen delays and deferments from clients to make the project award, so what is your view in terms of the growth of the next year. Do you think order inflow environment or the scenario improving or it still continues to remain challenging in the year ahead?

Mr. Amlan Dutta Majumdar: Well, first of all, I want to make one comment that normally we are not very inclined to make any forward looking statements. We don't really try to predict the market how it will behave or how we will do in the market.

Ms. Renu: Sure.

Mr. Amlan Dutta Majumdar: I would say that, you know, okay, Venu, do you like to...?

Mr. N. Venu: We have won good 2 awards, but please don't consider these as positive....because we are only giving an impression, our impression about the market and how we are likely to fare.

Ms. Renu: Sure sir, we are not looking for any specific numbers but what is your outlook on the market as a whole and the order-in scenario in the sector, both power transmission as well as automation.

Mr. N. Venu: Okay, as far as the general overview of the market is concerned, we feel that the market is going to grow and especially on the power almost close to 100,000 MW of power is being planned in the 12th plan, out of that at least we see 40,000 MW of ordering will take place from 2011 to 2012, so that is a big opportunity for us and added to that to supplement power generation, the central utilities especially PGCIL and other utilities also need to compliment in the transmission sector, so they also have a target

of you know, year-mark, close to 110 billion Rupees in additional MVA capacity in the transmission as well as 7,500 circuit kilometers of transmission lines, so those are going to be a good opportunities and near-term opportunities and tendering for those are in under process. I think, you know, we are also now aggressively bidding those projects with our country manager Bazmi said that you know with localized equipment of 765 KV, so we will be in a better position to compete and get some of the things. On the automation side, we have mixed signal as far as the economy is concerned. While we know that some of the projects, especially in the cement and steel are getting added, but you know, most of the projects are not utilizing their full capacity. While we know some of the cement like Aditya Birla and other companies have announced some of the new cement plants where will position ourselves to bag those orders, and other side, as our Managing Director said, we are well positioning in the renewable especially in the solar, where we are world leaders in the solar segment in that.

Ms. Renu: Sure.

Mr. N. Venu: All in all, we see a good what you call project pipeline in all the segments.

Ms. Renu: Sure. Sir, in the automation space what we get to understand is many customers have started unbundling the projects and have been awarding it post unbundling, so how detrimental is that for a company like ABB where we have been having the strength of bundling the equipments with the entire project and banking on the orders. Does that impact competitive scenario on the margins?

Mr. Bazmi Husain: Yeah, this is Bazmi Husain and I would like to address that question. We have both product as well as project businesses, both in automation and power, so we address the market through multiple channels through our own when we have complete project scope, but also through product sales through partners, so this is quite normal for us that we see actually changing patterns of bundling and unbundling customer preferences, sometimes their trends and that is one of the reasons why we structure our businesses to both have products as well as project businesses.

Ms. Renu: Sure. Just last on this side, on the power transmission side, you mentioned yes you are also bidding very aggressively in the 765 KV segment and in the recent press release by the parent company, they have specifically mentioned that from the China market, the transmission demand has shrunk significantly and has declined because of delay in orders and probably we have seen impact of that in the domestic market many Chinese companies who were not earlier there, they were very, very aggressive in the last 2 to 3 months and ABB equally aggressive. So, what is your

view in terms of pricing environment in power transmission market vis-à-vis foreign competition and your outlook on sustainable margins for ABB after all the provisioning that we have done?

Mr. N. Venu: As far as the competition is concerned, I would like to take that question.

Ms. Renu: Sure.

Mr. N. Venu: Especially these Chinese and Koreans, they are very strong in couple of sectors on the 765 KV transformers and then high voltage gas insulated switch gear.

Ms. Renu: Right.

Mr. N. Venu: So, they have been aggressively bidding and then, you know, they are taking couple of orders, but as you know, you would have heard from our MD that you know we have now localized this 765 KV transformers. We also have plans to set up our own manufacturing facility in that and with that, you know, we are in a position to offer our local manufactured equipment. With that, we are in a position to you know come to the market expected level. While I know the prices are a problem, prices are really under pressure, but we strongly believe that you know prices have almost reached a bottom level. I am not saying that it is going to dramatically improve now, but at least it may not further go down, that is our view.

Ms. Renu: Okay.

Mr. N. Venu: On the margins, I think Amlan may answer.

Mr. Bazmi Husain: Well, I just want to make comment on competition, first of all, our clear position on that is competition is good, it drives innovation. We also believe that it is an innovation where ABB has an edge, okay.

Ms. Renu: Okay.

Mr. Bazmi Husain: So, in this space, in the short space of the time when we saw increased competition to having our indigenized product rolled out, you can see the potential that we have to move rapidly when we can because when we need to, we have global resources and that is what we have ready leverage to be able to quickly come back to more competitive offerings.

Ms. Renu: Sure.

Mr. Bazmi Husain: We see that as an extremely positive sign because it does drive innovation.

Ms. Renu: Sure, sir, will that mean....

Ms. Juliane Lenzner: Sorry, we are going to have to stop you there and we will move on to the next question.

Moderator: Now, we have Mr. Abhishek Bhandari from Macquarie Securities.

Mr. Indrajit: Hi, this is Indrajit from Macquarie. Thanks for taking my question. Just two questions from my side. First is, can you give us some sense as when you expect this whole power sector orders to kind of pick up, that is one and the second is what has been the total extent of losses that you had to book on these rural electrification orders till date, thanks.

Mr. Amlan Dutta Majumdar: I would take the second question first. I told just answer to the earlier question, that you know, we would not really like to quantify this. We normally don't share this information so much, but we just say that in rural electrification during 2010, we have booked losses in excess of 100 crores of Indian Rupees, so beyond that we don't want to really share too much of information on this because you know this is something that we also don't want to remember so well, I mean, there are better things to remember and the first question was.

Mr. N. Venu: First question about the orders in the power sector. As you know, these are the big orders. The gestation period from tender to order anywhere between 3 to 6 months, in some of the projects, we are in a very advanced stage in bidding, so we expect the orders to come anywhere between end of second quarter and beginning of third quarter.

Mr. Indrajit: Okay. If I may squeeze in one more. Can you update the status on this big HVDC order that you were bidding for power grid?

Mr. N. Venu: That order is under valuation. Right now, you know, PGCIL is evaluating that order, so I don't think we would like to share anything beyond this.

Mr. Indrajit: Okay, thank you.

Moderator: Thank you very much sir. Next, we have Mr. Madanagopal from Sundaram Mutual Fund.

Mr. Madanagopal: Good afternoon sir.

Mr. Bazmi Husain: Good afternoon.

Mr. Madanagopal: Sir, my first question is on what is the execution period for the order that we have in our hand. Are there any slow moving orders in this?

Mr. Bazmi Husain: Well, as you know ABB's business portfolio is more of a mixed bag. We have very short cycle orders in backlog, not too many but many of them. When we do say low-voltage products, it can be close to off the shelf, but we can also have contracts which can extend beyond 3 years, like if we are executing a Tata contract all over the place or we are executing a large metro contract where it happens phase by phase. It can go even beyond that. I would say for the product orders, you can take an execution time anything between 8 weeks to 1 year would be a very average and in a project order, it would be ideally 1 year to 2-1/2 years. That would be our ideal execution time, so it is a mixed bag.

Mr. Madanagopal: Okay, sir, if you can split your total order book between projects and products?

Mr. Bazmi Husain: See, I would say it is always, we have seen, it is a 50:50 situation. Sometimes, it is 55, sometimes it is 45, whether you take projects or products. So, at the present also, it is half the way and yeah, we always take it 50:50, products and projects.

Mr. Madanagopal: Okay and this is the last question from my side. Sir, can you split the total order book between power and auto, order inflow as well as order book outstanding for the 2010.

Mr. Bazmi Husain: Yeah, we have to just...see, ideally, again, it also depends. It will depend on a particular year. This year, it is about...you see, normally it is again 55:45 or 60:40, that is in the range in which we operate normally. It is 55:45, maximum 60:40, suppose we get large, you know, some power orders. So, large power orders like when we got Bangalore Metro, then it is 60% in power.

Mr. Madanagopal: Okay.

Mr. Bazmi Husain: It is in that range. It is always, we are around 50:50, sometimes goes up to 60, sometimes comes down to 40, any of these elements.

Mr. Madanagopal: Okay, theek hai sir. Thanks for taking my question.

Mr. Bazmi Husain: Thank you very much.

Moderator: Thank you very much sir.

Ms. Juliane Lenzner: Moderator, are there any more questions.

Moderator: Next, we have Mr. Abhishek Puri from JM Financial.

Mr. Abhishek Puri: Yeah, good afternoon sir.

Mr. Bazmi Husain: Good afternoon.

Mr. Abhishek Puri: First of all, if you can explain us regarding the RE backlog is about 70 crores, whereas the provisioning that we have done is more than 100 crores. So, would it be fair to assume that you have overprovided in this quarter and there could be reversals going forward?

Mr. Amlan Dutta Majumdar: No, actually we don't overprovide or underprovide, I mean, neither we are allowed to do that. See, you have to see that it is not only the backlog that we are going to execute on which we make provisions, it is also the executed backlog on which we may have to do provisions. Suppose we have done 98% in a project, then also you know, we can still have to take a provision depending on if we don't complete the balance 2%, and the customer which they normally not, is unreasonable in that case. You know, we have been telling these are the same customers with whom we do other businesses, so we cannot take a stand that we will...just because it does not suit us, then we don't that, so there is no overprovision. Yes, the provisions that we have made does not mean that we write off that amount. Provisions are conservative estimate and then what we do is going forward, we still work with the customer, we try to convince them about our side of the logic and many of them do understand and we get back some money, but it is very hard to predict if we will get anything out of this provision in the future. We would be very happy to do that. Good question.

Mr. Abhishek Puri: But as investors, we have seen last 5 quarters of you know EBIT losses in the power systems amounting 250 crores, what would be the extent of the RE provisioning and you know how should an investor take it that going forward it won't be there or will be there or will be reversed, so for making our estimates also, we need to understand as to you know, what would be quantum?

Mr. Amlan Dutta Majumdar: See, as I told earlier that in rural electrification, the earlier person also had the same question and it is an obvious question, I am not saying it is not a right question, we have said that we don't want to give so much of information in public on this. This is not good for us and not good for our customers, but what I have said is we have made a provision in excess of 100 crores in rural electrification in the year 2010 and the dip in the power sector that you have seen in power systems is on account of you know, if you recollect, we talked about 3 things during this year in our earlier calls and meet. One, we said we had a problem with our noncore business of rural electrification where we have been continuously booking costs and losses. No. 2, we said that we executed one large project and for obvious reasons we said that we cannot disclose name of that customer, large infrastructure projects, where our understanding of that contract and the customer's understanding were different and that is the customer with whom

you would love to work in future, we have worked for a long time, but on a conservative basis, we have made large provisions if you can recollect in quarter one and quarter two, I think quarter one, where we have made large provision on that. That has also dipped the power systems' profitability to a large extent. So, these are the reasons and of course this timing difference of foreign exchange, that also impacts their results. So, these have been the reasons. We can only tell you that it is in excess of 100 crores that we have booked in this year in rural electrification, that is 2010, and we hope that things do improve because we have now worked with the customers, tried to find out what could be the estimated losses and costs when we finally work out of the contract because you have to understand and this is everybody else who is on the call that when we book a cost, it does not mean we have walked out of that contract, we still have some obligations to make for which we anticipate the cost to come, we make a provision, but we still complete the contract. So, these are the reasons why it has hit the power systems bottom line, but we do believe that it cannot be that bad going forward because we have done whatever we could do now.

Mr. Abhishek Puri: Okay, fair enough, my second question is on the growth profile as you mentioned, you know, first half is automation where had outshined and second half power has outshined, this is completely contradictory to the industry trend because the other peers of yours have been booking good revenues in the industrial side, whereas the power side, the growth has been very muted, so in the coming quarters, given that you know the base in the first half is quite high, you believe that the growth will continue in the automation side?

Mr. Amlan Dutta Majumdar: See, we talked about revenues and when we do say revenues, power revenues are executed all out of backlog. These revenues are contractually due to be executed at certain point of time, which we have done, and if you recollect in quarter one and quarter two, when we were talking to the analysts, they were asking you why your revenue is not picking up in the power sector and we say that these are projects which are due for deliveries later on. So, they came up in the first quarter and we are happy that we could deliver as far as our commitments. On the automation side, I am not saying automation side has done worse in sales, I am only saying power has outshone automation in the fourth quarter, which is a good trend because we have a large backlog in power. That is the point I want to clarify. I hope I am clear on that.

Mr. Abhishek Puri: Yeah, that is clear, but would this trend continue, would you...since the projects would have hit a critical mass of revenue booking, would you believe that this revenue booking in large projects and power systems would continue over the next 1 year or so.

Mr. Amlan Dutta
Majumdar:

Yes, it will continue. We have strong backlog which are now due for execution since the last fourth quarter and I don't say that automation will do any worse. We also expect our automation to do reasonably well, but of course automation if sometimes orders you booked during the year and executed during the year, so it will also depend on the industry trend at that point in time but to some extent not very largely.

Moderator:

Thank you very much sir. Next in line, we have Mr. Akshen Thakkar from Enam Securities.

Mr. Akshen Thakkar:

Sir, I had a couple of questions. First was, you know, you highlighted two factors which impacted margins. By when do you think you could start seeing the peak profitability that one had seen in the power technology division totally of about 10% to 11%. Do you see that happening in the next couple of years or you think probably margins will take slightly longer to play out and my second question was on the automation side, if you could just highlight, you know, sectorally, where you are seeing the clients' traction being good and if at all there are any specific clients asking you to go slow, sector wise, not client specific.

Mr. Amlan Dutta
Majumdar:

See, on the power, we don't want to really predict things, but I mean, as I said right now, the power, most of the revenues for the current year, a large of portion of it will come out of the backlog. So, those will happen and margins, I don't want to say it will improve, but it is likely to improve because if you see the power sector margins were largely affected by our cost from this non-exit of these noncore business, so we don't expect this to be so severe anymore because we have done whatever we could have done during this year, so margins are likely to be better than last year in power sector. Automation has been stable. Automation margins are likely to be stable unless something goes dramatically different in the market, it booms or it dips, that which we have no control upon. It is going to be stable, even now it is quite stable.

Mr. Akshen Thakkar:

Sure, my second question was in the automation side, industrial capex, you know, what sectors are doing well for you and are there any sectors where the clients have really sort of slowed down in their project execution phase?

Mr. Amlan Dutta
Majumdar:

See, generally, we are very strong in automation space, we are strong, in the industries of metals, minerals, pulp and paper. Mr. Bazmi Husain can....

Mr. Bazmi Husain:

Maybe, I would like to address that question. You know, we play across a wide range of industries, metals, pulp and paper,

minerals, cement, oil and gas, and machinery. So, we play across a lot of these segments. Some of them, if you look at the cement industry for example, the capacity utilization is now down to less than 80%, so we feel that the capacity has to hit 85% before we see new capital investment coming in. Now, that is little bit of a situation because of anything India needs more and more cement with the amount of activity that need to go on, so we don't think that this is a situation that will sustain. We have in metals, utilization is better. So, we see that, that is an industry that we will continue to effect more investment faster than cement. Cement capacities have to pick up first, okay.

Mr. Akshen Thakkar: Okay, thank you sir. Those are the questions from my end. I will come back again in case I have more questions. Thank you.

Mr. Bazmi Husain: Thank you.

Moderator: Thank you very much sir.

Mr. Bazmi Husain: Yeah, we will move on.

Ms. Juliane Lenzner: Yeah, next question.

Moderator: Next on line, we have _____ 40:48 from Enam Securities.

Male Speaker: Hello. Good afternoon sir. Couple of questions.

Mr. Bazmi Husain: Good afternoon.

Male Speaker: First is on the distribution side, when we speak to your peers, capex has been slow. Given that current year is the last year of the plan period, do you believe that there would be a significant surge in the distribution capex. Second question is on the margins front, we have seen raw materials to sale going up over 75% for the year as a whole, while it used to be normally 71% to 72%. Could we believe that next year with this most of the write off being behind us, the raw materials to sales would be back to the normalized level of 71% to 72%?

Mr. N. Venu: Okay, just to answer your first question on the distribution segment, whether it has come down, the growth, just to answer you, you know, once we are investing on the generation and transmission and also supplement that the distribution has to go forward. If you see the government plan in the 12th plan, almost 500 billion Rupees has been earmarked for this segment over the period of 5 years, that means on average every year they are spending close to 100 billion Rupees. After that you know since 12th plan will be starting next year, we would see at least you know portion of that will be coming up for that, but as you are also aware this R-APDRP project which is you know launched by the central government, primarily most of the investments are going

into, in a software side that means SCADA and then you know GIS mapping of those kinds of things and that is the first phase, which I think you know most of the state utilities have already taken up and lot of our products which we manufacture like you know autoreclosers and RMUs and then this distribution automation relays and those things have gone into that and will go into that further and the later part, that is you know, revamping of the networks, organizing the network will come into picture in a big way actually.

Mr. Amlan Dutta
Majumdar:

Would you like to ask the second question once more I mean?

Male Speaker:

Except for the current year, normalized level of raw materials to sales was in the bracket of 71% to 72%.

Mr. Amlan Dutta
Majumdar:

Right.

Male Speaker:

Given that current year there were lot of extraordinary or exception items, could it be a fair assumption that if things come back to normalcy, raw materials to sales ratio would be back to 71% to 72% from CY' 11 onwards?

Mr. Amlan Dutta
Majumdar:

See, it is difficult to predict sometimes because you know there are two things which are happening, one is the unusual items. Another is you have to see the competition and the price levels in the market. It is a combination of both and you would know because you are tracking the industry that the price levels have gone down dramatically and has affected all the competitors as well. So, what we expect that the material cost percentage will improve. It will improve significantly. It will not be around the way we have now, but there will be still some margins pressure because of the price levels in the market, but it will move towards normalcy very much.

Male Speaker:

Thank you so much and wish you all the best for the next year.

Mr. Amlan Dutta
Majumdar:

Thank you very much. We all need that.

Moderator:

Thank you very much sir.

Ms. Juliane Lenzner: Next question.

Moderator:

Next, we have Mr. Vishal Singh from Religare Capital Market.

Mr. Vishal Singh:

My questions have been answered, thanks.

Mr. Amlan Dutta

Majumdar: Okay, thank you.

Ms. Juliane Lenzner: Moderator, is there somebody else in the queue?

Moderator: Oh, yes, give me a moment.

Ms. Juliane Lenzner: Okay.

Moderator: We have Harish from India Bulls Securities.

Mr. Harish: Yeah, thank you for taking my question. My question once again pertains to the EBIT margin, if I look at the segmental EBIT margin for all the divisions, even the automation division EBIT margins are down over 500 bps Y-on-Y in this particular year. Also assuming that there was no RE losses or one time on that one particular customer, can we assume that it will revert to over 10% EBIT margins in CY' 11, or it looks pretty difficult given the composition of the current order backlog?

Mr. Amlan Dutta
Majumdar:

See, again, I am saying that it would be very hard to predict a specific margin, I mean, it is not fair also Harish, but what we would say, see, there are two kinds of things, when we look at automation, we have process automation which you might be referring to right now and which are systems business with some longterm execution period, long gestation, and we also have products business like discrete automation and motion, which is generally not longterm but some of the portions of that business could be longterm and we have low voltage in automation which is definitely not longterm. Now, with this mixed bag, what is happening is whatever is longterm is coming out of backlog and many of these orders, you know, the price levels have been very bad in the market, so it is us, it is others, who have picked up these orders and we are execute, so it will improve, but whether it will go to the past levels or you are saying 10% is very difficult to predict. We can only say our discrete automation and motion and low voltage which are our product businesses, they are likely to do well, given even today's market price levels, but if the market price levels strains further, then of course not only we, all our competitors will be equally affected. We remain optimistic but we cannot confirm 100% if we do 10% or so.

Mr. Bazmi Husain: I just want to add as in many of these businesses, we are the market leaders. Therefore, our ability to withstand variations in the market about market prices is actually quite strong.

Mr. Harish: Actually, I have two more questions. The issue is that we have competition both on the power side as well as the automation side from both domestic and overseas players. We recently heard that again ABB was L1 in a recent 765 KV tender, but the pricing again was very aggressive on that particular side. Also in automation

there will be more competition which will come in, so the kind of cost reduction initiative that we have taken in the last 1 year, when it is going to have a real impact on our numbers is what I would like to understand and my second question and last question would be that RE provisioning which you have done in this quarter, is that 100 crores or is it for the full year and what is it for the quarter and if you can also give for the previous year and previous quarter, comparable quarter, CY' 09?

Mr. Amlan Dutta
Majumdar:

I will first take the RE question, I mean, see I have told in my earlier responses to three of the questions that you know we really would not like to share too much of information on this because this is not good for anyone. I have said 100 crores, it is for the year.

Mr. Harish:

It is for the year.

Mr. Amlan Dutta
Majumdar:

And major part of it coming in the fourth quarter, that is true, but we don't want to really split and don't want to say what was previous year figures because we have been talking to all of you including you in specific, we remember, and we have been giving. If you recollect I think it would be better to look at it from a different perspective. If you could recollect we had told we had order backlog on RE for 200 crores. We had told at the beginning of this year, which we just confirmed that it has come to 70 crores and this 70 crores is something that we would like to execute. While we have come out of that 130 crores, which we did not want to execute, it has come with some associated costs, which we have booked. We had also booked costs on rural electrification for the orders which were largely executed in the earlier years. So, it is a mixed bag of everything. We are now left with 70 crores of rural electrification backlog and what we expect is that we have as of now taken care of all the possible costs in this regard. So, this is the kind of information I think we can give. Beyond that, it is not good for us, not good for the customer and not good for the industry also, we don't think so.

Mr. Harish:

Fair enough.

Mr. Amlan Dutta
Majumdar:

Okay, next question please.

Moderator:

Thank you very much sir. Next, we have Mr. Sumit Agarwal from Max Life.

Ms. Juliane Lenzner: The line is very bad.

Mr. Sumit Agarwal: Hello?

Moderator: Mr. Sumit, could you please use the handset.

Mr. Sumit Agarwal: I am using the handset, am I audible now?

Mr. Amlan Dutta Majumdar: You are audible but some other sounds as well. It is better, it is better now, yes.

Mr. Sumit Agarwal: Thanks for taking my question sir. Just wanted to understand, though you have touched upon the parent's strategy in terms of investments in India, just wanted to understand how is the parent's strategy in terms of outsourcing from India and how the ABB India competes with ABB China in terms of outsourcing and if I take a longer term view of say 3 to 5 years, do you see ABB India becoming a bigger outsourcing for the ABB global parent?

Mr. Bazmi Husain: First of all, I would like to say that we don't use the word outsourcing, right. We see ourselves as a global company and we leverage our strengths where they are, okay. When it comes to how much of it that we are doing in India for our global use, let me share with you that there are three aspects to that. One is what we do on the R&D side, okay. We have since the last several years one of the largest R&D units that we have in ABB. India is one of our largest R&D locations, where we work on global product lines. We also have a large group where we are doing engineering from India for global projects. Now, whether it is on the automation side, whether it is on the power side, we actually have engineering capability that we deliver out of India. Third aspect is on the certain product lines we manufacture. We have a concept of a global feeder factory where we manufacture for global use in certain factories and we don't like we use economies of scale and there, we manufacture some product lines in India that we deliver globally. With regards to the question how do we see that growing, clearly this is huge growth opportunity for ABB and ABB India where we are actually sourcing more and more of our products, engineering and R&D out of India but also looking at moving design and development capability in India.

Mr. Sumit Agarwal: Sir, that means are we talking of new product line also to be exported from ABB India or we are talking of expanding of the existing...?

Mr. Bazmi Husain: I am not going to give you split of details, but we are actually doing both, okay, where there are certain product lines that were actually developed in India, but we now are actually supplying them globally.

Mr. Sumit Agarwal: Okay, and also.....

Mr. Bazmi Husain: Hello?

Moderator: Next, we have Ms. Fatima from ICICI Prudential.

Ms. Fatima: Hello?

Mr. Bazmi Husain: Yeah.

Ms. Fatima: This is Fatima here from ICICI Prudential. Sir, just wanted to ask you one question. We have had like CY' 06 to CY' 08 or may be even before that, ABB was on this 30% growth spree and everything was just picture perfect in terms of margins, growth, everything. What would you think you know would make ABB again go to that 30% growth path or maybe even a 20% growth path considering the base effect is there?

Mr. Bazmi Husain: We are right now, as you know, we have made some choices. We had growth engines in rural electrification, etc., which did give us a growth. Our current strategy today is really we are going to focus on the core business and as Venu had mentioned earlier, if you look at the amount of growth and the investment that is coming is in our core businesses, which is on the power and the automation side, more looking at transformation, but also on distribution, city distribution, etc., R-APDRP projects and all, we see that together with automation as the growth engine that we have in future, also looking at as previously announced that we are building up on the low voltage product side, where we do see a huge opportunity coming up, where we have been investing and that business as you could see has grown, okay, it is growing...you know, it is still in the growth path, but this is a huge potential business, so we do believe without giving a number of whether that is going to be a 20% or 30% or whatever it is because that depends on so many factors including the market, but we do believe we have significant growth opportunities in our core businesses and that is what we are focusing on now.

Ms. Fatima: Are we lever...considering we have one of the lowest exports as a percentage of sales in all the MNCs, are we trying to lever on that now or would you say that you would have exports as a percentage of sales of some 30% here from now?

Mr. Bazmi Husain: No, we don't give a target to that, but absolutely yes, export is growth opportunity for us; however, we are focusing on the domestic market. This is the place we would like to be the strongest and exports is icing on the cake, but is not our main cake. There, we have as I mentioned earlier a separate group that we are looking at exporting engineering or R&D and working on the global basis.

Moderator: Thank you very much ma'am and the last question comes from Mr. Rupesh Kumar from K. R. Choksi.

Mr. Rupesh Kumar: Good afternoon sir. Sir, could you throw some more light on your working capital management?

Mr. Amlan Dutta Majumdar: This has been one of our bigger challenges in the....you know, you will see the similar situation with our competition as well because at some point of time we have grown very fast and some of our growth engines like rural electrification, we are exiting today, so when you exit a large business going one, you will have an impact on the working capital management.

Mr. Rupesh Kumar: Okay.

Mr. Amlan Dutta Majumdar: We have been generally improving on that. We are maintaining inventories at levels which are comparable to our peer companies outside of India, sometimes we are lesser than them. We are also benchmarking in some cases and on the receivables, we have a bit of problem on account of some of the businesses we are exiting and some of the businesses where we have large contractual retentions which are falling due only later but in spite of that, I think we have done very serious and good job that our cash flow has been consistently good and as you would have seen in the last 5 to 6 quarters you can say that we have never borrowed a single rupee from anyone. We are still financing operations, so we are doing well. This is our continuous area of improvement, also our quality initiatives which are helping us to manage our working capital better. We are getting into details at the highest level and we review the individual business and how individual businesses are handling it, which has been our area of high focus.

Mr. Rupesh Kumar: Okay. Sir, I can see from your balance sheet that your debtors turnover ratio which comes to around 2.2, which means that debtor days stood around 160 days plus, so as you are seeing that now you are gradually exiting from the rural electrification, you think that 160 days would come down to somewhere around 120 or 130 days going forward.

Mr. Amlan Dutta Majumdar: You see, it will improve, but it is difficult to say when it will happen, if so quickly, because you know one is we are exiting means, actually we are trying to exit not now, it is more than a year now or may be even more. See, this takes time because one is making provision for the estimated cost. Another is actually exiting a business satisfying the customer because you cannot put out the customer. He is the same customer who gives us transmission systems, distribution systems, power products business. We are working with them for decades now, but what we have done in rural electrification you have to understand. We have actually in whatever we have done, maybe it is good for ABB, it is good for

the investors in ABB, but customers did have a bit of discomfort because we were doing something and we decided not to do, so in that case it is a huge amount of reconciliation and some small points which had to be closed. So, we are on that. It will improve, and yet, the number you said is our target as well, but we will have to see a bit of timing on that, it will improve.

Ms. Juliane Lenzner: Thank you.

Moderator: At this moment, I would like to handover the floor back to Ms. Juliane Lenzner for final remarks.

Ms. Juliane Lenzner: Okay, I would like to thank everybody for joining us this afternoon. There may be so many people on the queue who still have questions. If you did still have questions, you can send them either by the investor help desk or else you can send them to be directly and we will make sure that this will get answered for you. So, once again, I would like to thank everybody for joining and if you have additional questions once again it is investor.helpdesk@in.abb.com or else you can contact my cell directly. Thank you, bye, bye.

Moderator: Ladies and gentlemen, thank you for choosing WebEx's Conferencing Service. That concludes this conference call. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.
