

ABB India Limited
Q3-2014
Investor Relations Conference Call

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MR. SUBIR PAL – HEAD, DISCRETE AUTOMATION & MOTION, ABB INDIA LIMITED
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MODERATOR: **MR. TK SRIDHAR – HEAD, INVESTOR RELATIONS & COUNTRY CONTROLLER, ABB INDIA LIMITED.**

Moderator Good afternoon ladies and gentlemen. I am Mohsin, moderator for this Conference. Welcome to ABB India Limited's Investor Relations call to discuss the Q3 results for 2014. For the duration of this presentation, all participant lines will be in the listen-only mode. I will stand by for the question and answer session. I now hand over the call to Mr. T K Sridhar. Thank you and over to you sir.

T K Sridhar Thank you Mohsin. Good afternoon everyone and welcome to the Q3 results conference call of ABB India. I am T K Sridhar – Head of Investor Relations and Country Controller at ABB. Present on the call along with me are Bazmi Husain – Country Manger and Managing Director and then Mr. Amlan Datta Majumdar – Country CFO, Priteesh Mahajan – Head of Product Automation, N Venu – Head of Power Systems, Raimondo Salandra – Head of Low Voltage Products and Subir Pal – Head of Discrete Automation and motion. Also along with me is Sanaj Natrajan, who is the Media Relations Manager. Without any further delay I would like to hand over the floor to Bazmi and Amlan to take you over. Thank you.

Bazmi Hussain Thank you Sridhar, good afternoon everyone and thank you very much for joining the call today. Looking at Q3, for us I would say that it was another quarter where the revenues remained stable showing some marginal growth. As we have mentioned many times in the past, our mantras of profit over volume and cash over revenue remains, and are showing results as in previous quarters, profitability growth continues and it is going in the right trajectory. Our effort to focus on cash has given us a fairly good generation of cash during the quarter. Orders, however, for the quarter have registered have registered a dip, we do not see that as any reason for us to change our tactics, this is primarily due to some large projects where we are the lowest bidder but because of procedural issues we were unable to complete all the paper work in time. So we certainly are confident of catching up on that.

As far as the market is concerned, I think the situation remains unchanged from last quarter. In the sense, there is good amount of sentiment all in the right direction, however it has not yet translated into active projects being awarded. I think we still continue to see hesitancy to invest in newer projects or in revising some of the older projects, although the sentiment, as I said is up. And you can also see that reflected in the figures that come out, the industrial production remains extremely sluggish and that has to improve for this market environment to change. We are hopeful though that this is situation that will pass, we see that the sentiment will turn into real action on the ground. But as I said before, that is yet to happen.

Now, just looking at the results in a little bit more detail, I think all the five divisions that we have, have registered growth in the profit before tax, as well as profit after tax. We have also mentioned earlier that what we measure more and more internally is operational EBITDA. These have all registered I think very healthy growth, we are satisfied with the rates we still think there is more that we will have in future. However, market revival at this stage is extremely important.

In terms of our capacities, I think our capacity to take advantage of a revised market I think is better than it's ever been and we just wait for the market to turnaround. Focus on exports and

services continue and that is helping us tide over the local market situation - focus on local market export is an element of our strategy, it is not the main strategy that we have. Services also continue to grow and the profitability in service also continues to hold steady at very good level.

So in short, we are well positioned for when the market revives. Our market reach through increasing their penetration, going in for innovation and expansion is very much there. And just to give you an example of that and on the solar sector the first two quarters solar PV market was a little bit hesitant in giving new orders because of some certain policies but we were able to ship out more products such as the solar pumps that I had mentioned earlier. So with the wide portfolio we are able to counter any blips that we have in any particular segment.

On the Power Product side, we continue to remain strong, we continue to invest as well in upgrading many of our facilities to higher voltages, to wider range of products because we see that when the market will revive that will be needed. The execution efficiency that we have improved really shows results in having profits across all our divisions showing decent levels. I mentioned that earlier that process automation is on the path to recovery and so is the discrete automation and motion as well as low voltage products and you can see that reflected in the results.

So all in all, I would like to end my initial opening with the message that we are ready for the market revival, we have efficiencies that I think which we believe is extremely important for us to take advantage of the change of the revived markets. Our capacity to deliver is very good at this stage so as soon as the market revives I think that will be really good news for all of us.

With that I will hand back over to Amlan, and Amlan will take you through a little bit more of the numbers and some detail and after that we can open up for Q&A. Thank you.

Amlan Datta Majumdar

Thank you Bazmi. Good evening ladies and gentlemen and thank you for your time to attend the conference call for results September 2014 of ABB. Before we go into the results maybe it will be good to have a recap of the macro situation in the market which all of us are aware but that will set the right perspective at this point.

After many quarters and years now the GDP growth is moving northwards, most of the agencies have again reassessed India and projected a higher growth of GDP but on the other side unfortunately the component of the GDP which has been growing or are likely to grow is not really helping the capital goods sector and the industrial production much. But now that the government has declared that it is their top priority to support the manufacturing sectors we have to see what it really amounts to in terms of policies, reforms and actions but the indications are very positive.

Inflation has come to control, whether it's WPI or CPI which is also going to help in general the economy and the industry. But unfortunately the interest rates remain very high, we are expecting that with the recent expression of the government and they are expecting a rate cut

soon we have to see whether it comes during this calendar year or springs over to the first quarter of next year but we strongly hope that will trigger investments now, a rate cut would be very much soft.

The rupee is now stable 60 to 62 so the companies like we deal in both exports and imports largely so the stabilization of the rupee is making us more predictable. But having said that, the main issue that remains is of course on the investments and the manufacturing, that is not really picking up, but let's hope we give some more time and it starts picking up, it will help us.

Support from regulatory side including, the new Companies Act, rationalization at the end of September this year on SEBI's listing agreements with SEBI coming out with more practical amendments. Maybe some more clarity and reasonable thinking will help, and we are all looking forward to that like any other industry, hopefully that goes the right way.

Coming to the performance, Bazmi spoke about the orders and this is again to just reemphasize that after growing 30% in the first quarter and 15% in the second quarter that is for quarter ending March and June this year, yes, the third quarter has been in terms of just value of the orders a little disappointment but we have to also understand these also involve large projects. As far as the orders are concerned, generally on the base orders we continue to move the way we have moved in the first two quarter but it's the large order which makes the numbers change and whole lot of Rs.500 crores to Rs.600 crores of orders which could have been decided in this quarter has moved on to the subsequent quarter, so we hope that it gets finalized soon. So we are on the track in terms of orders.

On the revenues, all the divisions have grown between 3% to 8% and that is a positive movement but further growth we will be hesitant to make unless we are very sure that our cash over revenue policy is not being violated, we want to make sure that our stakeholder's interest are fully intact when we ship out material from our factories. So we are keeping close track of that but in spite of that our 3% growth in revenue is flattish but also a moderate growth in capital goods sector situation of today.

Coming to the profitability, I think I am very happy to share with you if you see the results which you would have already seen, for many consecutive quarters we are reporting mid double-digit growth in profits which is we are very happy to see because this is not the best time for the industries that we operate in. And many of the companies including ourselves have been seeing real difficult times but in the last three years we have really could handle the situation better and now it's getting better and better every quarter. As compared to the immediate preceding quarters, profits are almost flattish marginally decline from next quarter marginally up so we are reasonably happy on that.

If you see the SEBI statement, if some of you have already analyzed, you will see that our cost of materials and services are continuously declining which is very good news. You would remember that we have been sharing with you the various cost optimization initiatives in the production areas that we have been taking, whether it is done for supply chain, it is operational

excellence, it is design changes, it is product for the country, I mean all these are paying off very well now and we are currently at less than 67% of the revenues as our material cost and a good industry benchmark could be 65%. But maybe we will try to set if the market improves a better benchmark tomorrow, so we are very much focused on that and it's paying off.

In terms of expenses, the expenses there have been somewhere between 5% to 7% of the increase, they are in personal and other expenses for the quarter ending September 2014 include Rs.11 crores of FOREX loss as compared to September quarter of last year which had Rs.3 crores of FOREX gain, these items are included in the other expenses in the SEBI statement. So if you factor that out, the results compared to September last year is even better, the operational results look even better. So we are happy about that but not complacent, we want to go farther. The one point which is really bothering all the companies in the sector including ourselves is the financing cost, because the market liquidity being tight and the interest rates being still very prohibitive, the flow of funds in the market is very tight and specially in the infrastructure sector large projects power, everybody is trying to hold on to their money till the interest rates ease out. So the movement of money is very difficult and we have to really shell out a whole lot of money Rs.27 crores for the quarter has been the financing cost. And few years back this as to be very negligible for ABB India and we hope that as the market eases up and the investments triggering and the fund flow increased with lower interest rate this will ease out for us, so our profits at that stage should improve further, this is our expectation. So this is one of the dampeners which continue to be, it is not worse than what we used to have but it's still continuing. So this has been one of the angles.

When it comes to the division wise performance, I mean it's pretty clear that some of the divisions are now really starting to do well and I mean this divisions if you see our process automation as Bazmi already mentioned, I mean we had some concerns with these results sometime back but now I think Process Automation is very much back to the business and we expect them to do better. A lot of initiatives in terms of project management, in finding cheaper technology solutions, mitigation of rates and whole lot of actions that our people have been taking is really paying off at that end. The Low Voltage Products have also improved in terms of profitability while revenues remain flattish like process automation on quarter-to-quarter basis, I mean quarter of last year and third quarter of this year. The profitability has improved significantly in Low Voltage Products, we have been investing in Low Voltage Products factories in the country and bringing in the cutting edge technology and we see more and more customers are willing to pay for the higher technology that we are offering. So that is paying off but of course we need to grow a little bit there which we expect to see in the coming quarters.

Discrete Automation and Motion was as we shared in the last call was very badly impacted by the market conditions - not only low CAPEX in the industrial market, even OpEx investments by the customers were held back. With strong government and reform measures coming back and a lot of good activities that the government wants to initiate, we expect that after sometime the industrial market will revive but while saying that the Discrete Automation and Motion division have been doing a whole lot of homework to keep themselves competitive in this environment. So the results of Discrete Automation and Motion have improved in a little bit in

terms of revenue, also their margins are protected and improving. So this also makes us more confident.

Power Systems, where we have various large projects and complicated ones, we have been sharing with you over the last few years, that is now stabilizing over every quarter. Yes, the revenue sometimes go down and sometimes go up a little bit like this quarter has been a little bit higher as with Q3 of last year and the profitability remains almost at the same level, some marginal declines sometimes they do marginally better. But the major risk that we had been seeing in the Power Systems with a large projects and contractual complication are getting mitigated and minimized. It does not mean that the environmental challenges don't remain, yet we still have some problems with projects where we still have fuel linkages problems of our customers, we do have problems where the projects are going extremely slow because of environmental clearance not coming in time and somewhat financial closure is also getting delayed. But in spite of that power systems have stabilized that are good point which has been a dampener two years back.

In terms of Power Products which is currently the flagship division of the company, we have been consistently growing and a strong market leader. The profitability for the quarter is down but this is mainly because many of the factories we have put in and some of the technologies we have just brought in various areas, there have been some one-time cost expenditure which is sort of investment which we have made so it is slightly lower, we are very confident of this division, this division is going to remain our flagship division for some more time. So we will soon see it bouncing back, this is more of a onetime cost impact. So the overall division performance makes us happy but go to the next level of growth we also are eagerly waiting for the market to revive. That has been the condition.

On the cash side I must also share that our cash performance for this quarter, surprisingly in spite of the tight liquidity in the market, has actually improved quite a bit and the operating cash flows have been pretty high. And when compared to the same period last year I am saying and we have been sharing with you that our borrowings have been pretty much up, currently our net borrowings for the company is at Rs.540 crores as compared to Rs.760 crores exactly one year back. So this is also probably giving us more confidence that things are moving in the right direction.

So overall we cannot say that we are very happy with what is happening but we are pretty much confident and satisfied with the progress that we have been making.

Before I hand over back for taking the questions, Bazmi and I would also like to share that we have been investing heavily in a focused manner and a very systematic way on our talent management because we are expecting the market to revive soon. And it's people who are going to make all the differences so last one year we had been working on this and right now we are fully prepared to take the next growth level as soon as it revives in our economy. And we are very bullish that things should happen sooner than later. So thank you very much as this stage and I give back to you Sridhar then we can take the Q&A.

- T K Sridhar** Thank you Amlan. I think we can now open the call for the question-and-answer.
- Moderator** Thank you very much sir. We will now begin the question-and-answer session for the investors. We have the first question from the line of Renu Baid from B&K Securities. Please go ahead.
- Renu Baid** Good evening sir. Sir, first question is on the order intake side, are we understanding that after two quarters of strong intake in first half 3Q has been moderate, but if you can throw some more light in terms of the mix, what has been the key segments which have driven orders industries and markets this quarter and which particular segments which have lagged, those segments which you expect to pick up again in the next couple of quarters in terms of business?
- Bazmi Hussain** Okay. Well, as Amlan had mentioned that on the base order side our situation has continued in a good way, it was on specific project that Amlan indicated by the number close to \$100 million of orders that we were not able to complete the paper work on time so these were project orders and to a large extent mainly on the power side which it is only a timing issue, I would like to emphasize that that is not really something that concerns us very much, sure it would be good to have the orders this quarter itself but it's a timing issue and what is important is that the base order growth is good, we see no revenues pressures coming up in next few quarters and a few weeks of delay and the order placement does not make any difference to any of that. So that's what I would say that not an issue of concern, however yes, for the quarter we are down on orders.
- Renu Baid** Sir but overall for the YTD we are still plus 7% for the nine month.
- Bazmi Hussain** That's correct.
- Renu Baid** So which means that this growth will further keep up the momentum?
- Bazmi Hussain** Yes, absolutely, we are not seeing that as a sign of worsening situation, we are not looking at a worsening situation what we are looking are the situation which is not improving, we are learning how to survive in a not a good situation but we are waiting for good days.
- Renu Baid** Sure. And sir within this if you can throw some more insight with respect to exports, how are they in terms of orders and revenues, have they grown in this quarter as well as for the nine month period?
- Bazmi Hussain** Yes, exports continue to register a good performance and I think last time I had mentioned that we continue to export a lot of products but what we are also doing and I had mentioned that I think in the last quarter and the quarter before that is to look at project exports as well and what we are doing there is that we are looking at newer ways there, we actually do the engineering for the project but actually work with a partner so we de-risk our installation and commissioning in destined countries. So we do what's our competence, the customers have an advantage of getting an ABB engineered solution with ABB product which is what supply along with the project as well and they also have good local installation and commissioning by people who are

more local to that area. So we have basically worked and developed this business model and that is working extremely well for us.

Renu Baid Sir but for the nine months have you still maintained double-digit growth or probably is that growth moderating now?

Bazmi Hussain As of now it is not moderating.

Renu Baid Sure. And sir a little on the Power Product side, as Amlan had initially in his remarks mentioned that we are investing in new technologies, facilities which has had a one-time kind of impact on the operating performance of Power Products so will it be possible to quantify in terms of what has been the CAPEX or kind of investments we are doing for Power Products per say or what would be the quantum which is impacted to the extent of this one-time effect?

Bazmi Hussain Well, the thing is like that we are one company, we look at the overall profitability, we look at growth, we look at opportunity to grow for the future and then we balance all that and this is the right time to actually invest in going to higher voltages in some of the factories that we have because as you are aware in India now that we a common grid all across the country, the growth and higher voltage level is increasing, stage constraints also mean that we are looking at technologies which actually are more space efficient that and does require investment and so that is why we have taken that investment in the quarter. So it is a very good profitable unit and we are just trying to secure our future profitability there.

Renu Baid Sure. But these are apart from the GIS and the write-up distribution transformer investments which you...

Bazmi Hussain Oh yes, absolutely. Those are there and there honestly we are looking at expansion.

Renu Baid Sure. And sir just one last question before I close, what is the kind of CAPEX investments we are targeting for CY15 with respect to further ramp up of our capabilities?

Bazmi Hussain How we look at CAPEX is in my perspective anything that we do invest in this country to improve the capability here and serve our customers better I consider that as CAPEX and on a let's say continuous basis we have been looking at investing close to about \$100 million every year in various forms in people development, in new capacities, upgrading facilities, and all that put together and so the number I would use is close to \$100 million and that is what we are continuing there.

Moderator Thank you. We have the next question from the line of Nainesh Rajani from Tata Mutual Fund. Please go ahead.

Nainesh Rajani I have three questions basically. First of all of your current order book, can you please give us a breakup in terms of product and projects?

Amlan Datta Majumdar See, our products and projects generally we are ideally a 50-50 company, sometimes it is a little towards the product sometimes towards the project and in this quarter you can take it about 60-40, 60 in favor of products I am saying.

Nainesh Rajani Sir my second question is in terms of the margins as far as the new orders are concerned, you said that you are L1 in one of the orders, how is the competitive intensity in terms of in the market across your segments been sir?

Bazmi Hussain As this point in time with the number of orders that are there in the market, clearly it is at this point in time more biased market, right and therefore in several quarters we have indicated that we actually are making sure that we are not tying our capacities in orders if the margins are not good. So we want to keep those capacities so we are very careful about taking orders, we are not there to fill our books and then having to deliver them in good times. So yes, there are competitive pressures but we are finding the issues so if I look at our order intake on an overall basis we actually see improved order intake gross margins and that is one reason that translates into better results. So yes, it is a more competitive situation out there but that is mainly due to the fact that everybody has got more capacity, the market is down, there is not enough new projects coming in, so there is a mismatch between what the capacities are and what the demand are. So in the long run however the existing capacities are nowhere near sufficient to meet the demand, in the short-run that is the case so this is the time that we are extremely aware of the situation and we tread back very-very carefully.

Nainesh Rajani So is it then safe to assume that at least over the next couple of years when you know the order intake probably will not be as much as one would like to fill up all the capacities, is it safe to assume that it is at least couple of years away for ABB as company to reach the margins that we had in let's say not '10 but at least CY'07, '08, '09?

Bazmi Hussain I am not going to give you a timeframe but I don't know what makes you conclude that it might take us longer to get back to that. Look at it this way, we are profitable with keeping spare capacity. Our ability to execute has improved. As soon as the market turns around, we want to be the first ones to benefit having the capacity to deliver. Every time the market turns around this is always a situation people with capacity to deliver are the ones that gain the more, we want to be the ones.

Amlan Datta Majumdar Yes, if I can add on to your question because this is also in the interest of everybody that those are on the line. Without spreading things what is going to happen when, just look at one thing, what is the biggest item of cost on our income statement, it is the cost of material and services. If you look back to our results two-three years back our cost of material and services have been in the range of 75% to 77%, I just informed you in the beginning when I was giving summary that it is lower than 67% and not for one quarter even earlier quarters are in the same line. So you can assume about our cost optimization and preparedness which is available today and with this spare capacity, see when the market will revive this is your guess and my guess are at the same level. So when the market revives what is going to happen anybody on this call can make out.

- Moderator:** Thank you. We have the next question from the line of Charanjit Singh from Axis Capital. Please go ahead.
- Bhavin Vithlani** I have a specific question on the Discreet Automation, this quarter we have seen a trend of turnaround, what I understand is we also have the renewable market which is positively benefiting the Discreet Automation. So if you could share how the renewable benefit is coming for the Discreet Automation where it supplies to the wind and the solar?
- Subir Pal** I would like to put it like this that the improvement that you see in the operations is primarily driven by internal efficiencies, by which we are taking out cost, localizing more so those initiatives would pay off over a period of time. But as far as renewables is concerned, I think it is partial story that renewable has really revived, the wind sector is growing pretty well as it was doing last year but this year the first three quarters has seen a decline in orders in solar but the pursuit list has been pretty strong and the last quarter holds a lot of promise of our revival in solar. So the renewable sector to contribute to the bottom line, I think it will take a couple of more quarters to be reflected.
- Bhavin Vithlani** Okay. Sir we have seen the positive growth of about 8% odd on the revenues front, so what is driving this because in the opening commentary we said that we have seen not just the CAPEX but even OPEX getting a hit, so what is it that is driving the growth?
- Subir Pal** See, revenue from quarter-to-quarter, it is dependent also on the specific jobs that we execute and this quarter we had a good growth in the traction converters that is the railway sector business and that has helped us maintain our revenue.
- Bhavin Vithlani** Okay. So if possible what is the level of contribution from maybe solar, wind and the railways in the discreet automation segment?
- Subir Pal** We do not share to that granularity but overall I think we are doing well in most of the futuristic growth areas and our margins should improve.
- Bhavin Vithlani** Okay. My second and the last question is a follow-up to the earlier question, you said you are investing in capacities in products which are actually saving on the land so if I am not mistaken that should be GIS, so is it the inference right that we are looking at expansion of the GIS facility or we are looking at range expansion?
- Amlan Datta Majumdar** We are looking at range expansion.
- Moderator** Thank you. We have the next question from the line of Deepika Mundra from JP Morgan. Please go ahead.
- Sumit** My first question is on your capacity utilization levels, how would you describe the average capacity utilization across your factories?

- Bazmi Hussain** We don't give specific numbers but you can say we have at least a quarter of our capacity that we can use more, and that does not take into account multiple shifts that we could operate to deliver even further.
- Sumit** Okay so practically you are saying that 25% of the capacity could be operated in multiple shifts which you are not doing right now, so 75% is fully utilized?
- Bazmi Hussain** It is about 70%-75% that has been utilized and then we know we have 20-25% buffer there then we can go multiple shifts. So we are not capacity limited is the message out here.
- Sumit** Okay. Sir post the March quarter results on the conference call I remember you had said that order pipeline was almost double of what you had seen at similar point last year so has that position moderated and if not what kind of acceleration are we expecting with three quarters already gone with 7% order inflow growth, so was that comment a bit premature that order pipeline was almost double?
- Bazmi Hussain** Well, at that point in time that was the case, however, since then the rate at the interest is higher than it was a year ago but there was a sudden bullish atmosphere and that has not continued. So in Q1 results you could see that there was a 30% increase in order intake, Q2 it moderated to 15%. This time around if timing had been right we would have been a little better off, but yes, the bullishness that was there after Q1 has clearly become less.
- Amlan Datta Majumdar** And it is in line with the IIP, if you see I mean the manufacturing sector performance, I mean it is exactly, actually we have been slightly better than that but generally the situation is not good in the sector yet.
- Sumit** Sure. So qualitatively as compared to say the order pipeline being double as of March quarter I mean how would you position it now, 40% higher, 50% higher, I mean what is your gut feeling?
- Bazmi Hussain** I think it is slightly better than it was a year ago. And the last, you are right about March quarter but in the last quarter I had also indicated that we are beginning to see that it is not as we actually thought it would be a quarter ago because I had clearly mentioned at last meeting. However, that rate of coming down has continued so we do see some kind of stabilization happening but it is not as bullish as it was, yes. And our orders reflect that.
- Moderator** Thank you. We have the next question from the line of Girish Nair from BNP Paribas. Please go ahead.
- Girish Nair** When I look at your other expenses as a percentage of sales, it is up to about 17.3% this quarter and even if I ex-out the 11 crores of FOREX it is still quite high at 16.7, what is the reason for this, it has increased in the last two quarters.
- Amlan Datta Majumdar** Look, if you take out the FOREX impact, on a cumulative basis up to nine months the other expenses have increased by 6% and for this particular quarter it has increased by just over 7%.

So I would say that it is a very scary increase, we have to see while we are making spare capacities available, we are investing in other things, certain adjustment costs will also come and also we are really exploring the market very heavily right now because like anyone else we are also expecting the market to revive soon and we have to be with the customer and all the associated stakeholders at that time. So actually this is more of a calculated increase in cost about 6-7% and we are okay with that and this will moderate and if the revenue growth picks up I mean this is not even an issue. So there has been across some rise in the items but there is unusual item coming in. But also you see that now that the inflation is moderating some of these expenses should look better going forward, anyway it is 6%-7%.

Girish Nair So you would attribute it more to capacity expansion, some of the cost related to capacity expansion?

Amlan Datta Majumdar It is not so directly, accounting wise I will not be able to relate it to capacity expansion but yes capacity expansion not only in terms of building factories. See, we are also spreading very widely in the market, we are making our preparedness absolutely strong in all our verticals, I think we are with our customers around now more than we have ever been, all this have a cost, right. This is what we are doing, it is a calculated cost. Though this is a cost as per our reporting standards but this is more of investment that we are doing right now in the last two quarters because we expect the market to revive soon.

Moderator Thank you. We have the next question from the line of Gaurav Sanghvi from Bajaj Allianz. Please go ahead.

Gaurav Sanghvi My question is on order inflow. Sir as you mentioned order inflow to the tune of Rs.500 crores to Rs.600 crores has been delayed due to procedural issue, so have we booked those order in this current quarter or still it's in pipeline?

Amlan Datta Majumdar No, we have not booked in this current quarter otherwise we would be flat or better.

Gaurav Sanghvi Okay. And sir my second question is on Power Product segment, as you mentioned that the margin is coming down mainly on account of one-off investment, so that investment phase is over or we still expect some one-off investment in next few quarters?

Bazmi Hussain The thing is as I have mentioned earlier, we look at it from an overall company basis and where the need for investment is. So have we stopped investing? No, we will continue to invest. Will we continue to improve our performance? We will continue to do that too. We will balance growth with investment.

Moderator Thank you. We have the next question from the line of Vinay Rohit from ICICI Prudential. Please go ahead.

Vinay Rohit Sir just wanted to know what was the impact of FOREX in this quarter?

- Amlan Datta Majumdar** 11 crores loss on account of FOREX in third quarter of 2014 that is the current quarter we are talking about and it is the Rs.3 crores profit which we had in the third quarter of last year.
- Vinay Rohit** And what do we expect in terms of full year order inflow?
- Amlan Datta Majumdar** I mean we don't want to really predict, as we have been talking about orders quite a bit in this, as we know we are 7% up right now and it also depends on this we just mentioned that a lot of orders in the Rs.500 crores to Rs.600 crores range which we could have actually logged in this time but procedurally we have to go through that. So we expect this to come in and also new orders to come in, so we expect a decent growth, I mean now lower than what we have now so it should improve over the next quarter. Let's see, I mean it depends on how the projects get closed, because our base orders are growing anyway.
- Moderator** Thank you. We have the next question followed by Gopal Nawandhar from SBI Life. Please go ahead.
- Gopal Nawandhar** Sir, this improvement in the raw material ratio as you said is largely coming because of internal efficiencies and all, so will you be in a position to break it down in terms of what is the benefit because of the benign raw material prices and how much could this be from internal efficiencies and do we expect this to further improve?
- Bazmi Hussain** See, improving efficiencies is a wide term, it is not just about the process part or what we do but it is also efficiency of design, it is about the supply chain parts, so it is efficiency of operations at the factory itself, more investment for equipment in there. And so all that put together, so one thing which we didn't talked about in several quarters but didn't really talked about it too much, this time was on the "in country, for country" effort that we are doing for basically improving the designs, I mean making the designs more cost effective. And that has given us significant impact on bringing down our cost. We put that in one umbrella and call it efficiency improvement but efficiency is not more than just a process of how we do things.
- Gopal Nawandhar** Okay. Will it be possible to quantify the impact because of benign raw material prices?
- Bazmi Hussain** No, we will not do that. Do we have the analysis? Of course, but we do not share those in details.
- Moderator** Thank you. We have the next question from the line of Renu Baid from B&K Securities. Please go ahead.
- Renu Baid** Sir just a small clarification, last year third quarter we had Rs.3 crores or Rs.7 crores FOREX gain? From my previous notes I have the Rs.7 crores FOREX gain in 3Q '13 but you mentioned Rs.3 crores, so Rs.3 crores is from other operating income?
- Amlan Datta Majumdar** Actually you remember we had acquired a company called Baldor earlier year, so including Baldor it was Rs.7 crores, you are right, you have noted down correctly. But this time if I exclude Baldor and then this is Rs.3 crores.

- Renu Baid** Okay. So on a comparable numbers which were reported it was over Rs.7 crores then?
- Amlan Datta Majumdar** Yes, you can take Rs.7 crores for that.
- Renu Baid** Rs.7 crores, otherwise operationally it was just Rs.3 crores?
- Amlan Datta Majumdar** That's right.
- Renu Baid** And generally gains are in other income, operating income side?
- Amlan Datta Majumdar** Yes.
- Renu Baid** And just one more things, sir in the initial remarks I think Bazmi had also mentioned of some slow moving orders which were impacted because of environment clearances, is that number any meaningful significant or it would be single-digit of the order book?
- Amlan Datta Majumdar** No, I had mentioned that but I mean that was more to generally explain the trend in the industry mainly on the power generation side still our customers are impacted, but I don't think you have to factoring that.
- Renu Baid** Nothing concerning with respect to the quality of order book in hands?
- Amlan Datta Majumdar** No.
- Moderator** Thank you. We have the next question from the line of Ankush Sharma from PhillipCapital. Please go ahead.
- Ankush Sharma** I had a question specifically on the Process Automation segment, when I look at the last couple of quarters we have not really seen too much of growth on the top line but clearly you have done a fantastic job on the margins, so what is really going on there, is it only we have been able to get efficiencies in terms of cost that we have been able to improve our margins or are you also seeing some improvement in the external environment. If you could just throw some more color there what's going on?
- Priteesh Mahajan** I think most of these points were already answered by Amlan and Bazmi at different points, we have over the last few years been working on our project management, operational efficiencies, we have taken certain what we call as OPEX projects, tried to improve our project management and last but not least we have also taken out a fair amount of costs from our operations per se, consolidation by the different actions. So that is what is really reflecting in the bottom line. One of the other things also which Bazmi had mentioned a short while in one of the earlier comments was related to, we do not want to use our capacity wrongly at this point in time. We have been very prudent about the quality of orders that we have been taking into the company in process automation as well. And there is a primary reason for that is, yes, there is a lot of competition, there is are few projects now but the market is going to pickup and we want to be ready for that rather than take anything which is going to be painful at that point in time. Market has not really

picked up, I mean I would say industrial projects are still a little bit few, we haven't seen the pickup, but I am sure that is going to come in a few quarters down the line.

Ankush Sharma Sure, that is very helpful. And in terms of the competition, are you primarily competing against most of these likes of Siemens or is it also from local companies in India as well on the competition side?

Priteesh Mahajan I won't take specific competitive names here but I think we have both local and global competitor, so it is a mix that we have, so it is not just global.

Bazmi Hussain Just want to add on to that, you know this thing about fixing margins first and then go after the top line, it think that is clearly stated. We said that two to three years ago, we will fix operations and margins first and then grow, not the other way around. So we want to scale up and in many cases we are ready now to start scaling up as soon as the market revives we see that opportunity opening up for us. So our sequence is clear, fixed margins then scale.

Moderator Thank you. Ladies and Gentlemen due to time constraints no further questions can be taken. I now hand the floor back to Mr. TK Sridhar for final remarks. Over to you sir.

T K Sridhar Ladies and Gentlemen, thank you everyone for attending this conference call. If you still have some questions, please feel free to write to us back we will respond to that very fast. Thank you so much.

Moderator Thank you. Ladies and gentlemen thank you for choosing Chorus Call's Conference Service. This concludes the conference for analysts. For further updates on ABB in India you can follow ABBINDIA on Twitter. The account name is #ABBIndia. Thank you for your participation. You may now disconnect your lines. Thank you and have a nice day.