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May 11, 2023

BSE Limited
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National Stock Exchange of India Ltd
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Attn: Listing Dept.

Dear Sirs

Sub: Transcript of Analyst concall

In continuation of our letters dated April 28, 2023, and May 5, 2023 we are enclosing a copy of the transcript of conference call with analysts, which took place on May 5, 2023 post announcement of Q1 results FY 2023 of the Company.

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

Thanking you

Yours faithfully
For ABB India Limited

Trivikram Guda
Company Secretary and Compliance Officer
ACS 17685

Encl: as above



“ABB India Limited Q1 CY2023 Earnings Conference
Call”

May 5, 2023



**MANAGEMENT: MR. SANJEEV SHARMA – COUNTRY MANAGING
DIRECTOR
MR. T. K. SRIDHAR – CHIEF FINANCIAL OFFICER
MR. SANJEEV ARORA – MOTION
MR. KIRAN DUTT – ELECTRIFICATION
MR. SUBRATA KARMAKAR – ROBOTICS**



Moderator: Ladies and gentlemen, good day and welcome to ABB India Limited Q1 CY2023 Earnings Conference Call.

As a reminder, all participants' lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touch-tone phone. Please note that this conference is being recorded and any unauthorized recording of this call is strictly prohibited. The recording will be made available on the company's and SEBI's website subsequently.

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

T. K. Sridhar: A very good morning to all of you. Welcome to the Q1 CY2023 results analysts call. Along with me, I have Mr. Sanjeev Sharma – Country Managing Director, and then I have Mr. Sanjeev Arora representing Motion business and Kiran from electrification. Unfortunately, we don't have anyone from process automation because they are busy with their customers. And Subrata Karmakar who heads the robotics will join us after some time. With this, I hand over to Sanjeev to take us through the Q1 performance.

Sanjeev Sharma: Good morning to all of you. Thanks for joining in this call for our First Quarter or in the Indian terms the Last Quarter. Let's call it as January-March quarter.

Business highlights:

Just to give you certain pointers towards what we saw in the last quarter. In results, we had a strong start of the year. Our orders are up 36%, revenues are up 22%. This is something which we acknowledge as the highest ever order growth in quarter 1 in the last 5 years. Our improvement on EBITDA margin is to 11.4% which is up 290 basis points year-on-year basis. PBT before exception is up 66% year on year and PAT is up 65% on like-to-like basis. We continue to maintain and expand our cash position which stands close to Rs. 4,000 crores. We had the AGM yesterday wherein all the shareholders who were present and also who joined online, they appreciated the first integrated report for 2022 published by us. It really has brought a lot of new elements which makes it very easy to read for our shareholders. Apart from financials, there are a lot of other qualitative aspects which have been added, and we believe this is a journey which will continue and every year when you have our integrated report, you will see the elements become even better. We will highly encourage- if you have not done that already- please look at this first integrated report published by us and we will be very happy to get your feedback as well in terms of what you like and also what we can improve on it.

On sustainability course, our green power utilization is 100% and it has progressed well for us as part of our RE-100 goals. CO2 emissions were down across locations and just to give you as a datapoint, in 2022, our GHG emissions were down 82% and that's the journey we continue to do. We have a very structured program and every month and every quarter and every year, we

continue to make good progress in that direction. And we of course continue to have good discipline on waste and water management.

Now, in terms of market momentum how we see it?

We continue to see strong growth across most business areas in short-cycle business and that shows the width of business across Tier-1, Tier-2, Tier-3, and even Tier-4 cities. I think that's something which is really the game and that's where it contributes to the short-cycle business because there is an overall growth in different market segments. Our services for our installed base were up 37% on the orders and revenues were up by 33%. That shows that customers are investing in improving reliability, availability, maintainability, and serviceability of their assets. And on the continued momentum, we see this in the automotive and electronics side because these are the sectors which are expanding. Automotive on their own, plus the EV segment in automotive is contributing to even faster growth. And also the value chain; whether it's in the batteries or many others, we see a lot of absorption of ABB technology there. And electronics as one segment, I think, is going to expand in an exponential basis as we go forward and a lot of our products and technology find their way there.

On the process side, power handling, motors, and drive packages for metal, cement, oil & gas majors, I think that has been quite robust and that shows that the demand and the distribution of all these output, be it metal, cement, oil & gas, or the city gas distribution for the citizens of the different cities, that expansion contributes directly to our order as well as revenue pipeline.

On the transport side, it's I think known to all of us. Railways and metro, they are spending a lot, expanding a lot, modernizing a lot, and our technology sits right at the heart of it. That is where again we get benefit.

With this, the order backlog has grown 37% to INR 7,170 crores, which gives us good revenue visibility and also, we have a good gross margin visibility there, and if we execute it right, we see future as a positive development on the revenue side as well as profitability side.

Just to give you a few examples in terms of which are the areas we touch with our technology. For example, our system drives for the metals application, gas applications. Robotics earlier used to be only in the automotive sector but now it really has gone deep and wide in the manufacturing sector, be it electronics; it is spun dyed, specialty fiber, paint conglomerate, or even the FMCGs, they are using our technology. We have the metal majors who are buying a lot of power equipment from us, traction technology for Bhopal and Indore metros and Indian Railways, and of course, the data center which was a new segment which we nurtured a few years ago, it really is paying good dividends to us in terms of all large hyperscale datacenters. Our position there is pretty strong, and we continue to support our customers to expand the datacenter in the digital economy today. Robotic solution for EV cars, I think that's a good expanding area. I mentioned gas distribution solution for 7 northeast states and of course the other core technologies like SCADA automation which provides more reliability for jetty pipeline.

So, if you really look into our exposure to multiple market segments, we have 18 business lines and they are exposed to about 22-23 market segments which are relevant for us. We track them and the segments which are growing the fastest are in the focus category. The ones which we started a few years and now they are creating a good base of business for us is in the enhanced category and traditionally we have been very strong in these so-called sustained market segments wherein our product offering and our installed base is pretty strong. So, we continue to keep focused on them. A mix of high-growth segments and also the segments which are traditionally strong for us gives us a good mix of growth on the orders and revenue and also gives more diversity as different cycles of different market segments will play out in the future.

When it comes to the theme of the quarter which is electronics, if you look into the deep dive, Indian electronic market is expected to grow at a CAGR of 30% to reach \$300 billion by FY26. This is one area wherein we are quite positive in terms of supporting all the new capacities which are coming in, which could be very high-end cellphones to industrial electronics, consumer electronics, electronic components, auto-electronics, and government's focus to really create more independence from the global resources and have these capacities built inside the country. I think this theme seems to be having a good upturn for years to come and we are happy to participate. The other benefit we will get is when such capacities and the sub-assembly capacities get developed, we will also have a lot of supply chain base that will get created in the country, which will also help us reduce our imports because some of the electronics are not manufactured in the country, like power electronics and many other aspects of it. If that gets localized, that also helps us to increase our localization which we wish to do in certain product categories we have.

On the ESG side:

As I mentioned before, at energy level, our wind power utilization is 100% compared to 2021 baseline. Waste recyclability stands at 97% compared to '21 baseline. And also, water recyclability we have reached 50%. We continue to focus in these areas and every quarter when you hear from us, you will see these numbers ticking in the right direction.

Our CSR focus continues to be in the high-impact areas which is in education, diversity and inclusion, communities and environment. Here we do have a very impactful, very well-driven program, be it in education wherein we are covering 98 government schools around our plant or educating youth on the IT skills. We help 200 women who are pursuing stem courses. They come from a relatively underprivileged background. So, we are giving them the active kind of scholarship, but at the same time, we are giving them quite a bit of support in their internship and mentoring so that when they come out of their colleges, they are really ready for the market. Same way, in the communities and environment, we are helping a lot of public infrastructure upgrades where we think it is easier for the women to come to the industrial areas. There are proper pathways, there are proper roads, and there are proper connectivity between the public transport and the plants they have to walk to. These are properly lighted so that everybody feels confident coming to the industrial plants, because that's one thing necessary in order to increase

the diversity, more women need to come not only to offices but also to the manufacturing plants and we need to create it. And we also treat this as a sample base for other industries to follow around their plants to improve the infrastructure continuously.

With this, I now hand it over to T. K. Sridhar – our CFO- to talk about financial highlights.

T. K. Sridhar:

Let's go first to the executive summary.

I think the numbers speak for themselves. I could say that we did definitely have a fantastic quarter. So, let's look at how did we perform first versus the last Q1 and also then sequentially how did we perform. I think in the Q1, the orders grew by 36%. We had revenues growing up by 22 % backlog at an all-time high of 37% growth and profit before tax was 66 % higher and also the profit after tax on a like-to-like basis is 65. Overall, it was another positive quarter and it was growth across all business lines like what it was in the previous year as well. And now we see a solid backlog to secure our future revenues. We also definitely see an opportunity pipeline which is robust. And just to compare with how we performed sequentially with Q4 '22, I think we maintained the momentum by and large; definitely in orders and also better in revenues as well but not in the profitability. The reason is in Q4 '22, we had a favorable forex impact which really helped us. But also we did take up a provision of Rs. 23 crores in this particular quarter for traction motor issue which we had. It's definitely a more practical step to make these type of provisions to make sure that we have connections with the customers and the contract obligations properly met. And we definitely ended with a strong cash balance of Rs. 3,942 crores as what you see. As we had said in the past, we have already earmarked certain cash of this for the expansions of our existing plants we have, including the modernization of it. We are also actively looking for the M&A options what we had already mentioned in the previous calls.

Overall, I thought this was a strong start for the year. That's how we see it. All the businesses are at this point of time looking forward to engaging with the customers to have the growth momentum.

Just to dive a bit more deeper as to what actually made up for the changes we are seeing at this point of time in the businesses, I think the first thing is that our material costs are holding pretty strongly at this point of time between a band of 63.5 % to 64 % or 64.5 % as what we see. This is good. We see commodity prices softening at this point of time, and we are able to hold on to the prices in the market. This is definitely an item to watch out for going forward. We will make sure that we are there continuously monitoring this particular item.

Next is around other income. I think other income definitely has an impact because we have cash of Rs. 3,900 crores that earns interest. That's something which is really interesting for us to have there to fuel our future growth opportunities as well. That income is to an extent supporting the bottom line as well. Personal expenses compared to Q-on-Q which is the previous year same quarter and this quarter, we did have a slight increase and that's majorly because we had divided the salaries of the people and also the incentives got announced in Q1 based on the performance what they had done for Q2. There is no other special event for that. That's something which is

standard. Exchange commodity and variation impact was high. We had a favorable impact in Q4 2022 but on a like-to-like basis, we did not have much of an impact other than the Rs. 9 crores positive impact which we lost. Otherwise, the other topics are pretty much similar. We don't have any other issues. With respect to the other expenses, you really see that Rs. 402 crores versus Rs. 313 crores is something which would be interesting for you to know more as to why it is. I think I could tell you majority of it has been on account of volumes which we have grown. That's basically leading to that; be it freight, be it other expenses. Of course, we did have a bit more travel expenses to do. That's showing up as a positive impact in orders and the revenue execution, so that's good. Also, with the service revenues increasing, naturally some of these volume-related expenses will definitely is expected to slightly go up. But on a sequential quarter, we are more or less in the same line as what we were in December quarter.

Now, we give a bit of color of the business segment by segment. Starting with electrification, definitely it's very strong at this point of time; order growth of 44 %, revenue growth of 16 %, and order backlog of 37 %. This is something which is very nice to have. They have backlogs. And this is happening in all the divisions; be it smart buildings, distribution solutions, as well as smart power. It is across, well spread out, that means we could definitely see that it is increasing.

Now, coming to profitability, I think it is the higher contribution from volume growth which definitely helped the businesses absorb the cost and deliver better profitability. Price realization was definitely better in this quarter as well, and the capacity utilization in terms of automating the plants and making sure that they are more productive is actually one of the principles which has started to pay out. I think we have heard several times in the past when Sanjeev was mentioning how modernization does not just mean better factories, it also means better production processes which could do precise manufacturing and higher quality which goes out of the factory. That's in the terms of giving the benefits back to the organization and that's had an impact as you see.

I think a related question could be - is the margin in electrification sustainable? That could be one of the interesting questions to answer. I would like to say that we have a backlog which has consistent margin earning capacity but definitely it depends on the mix and which industries we cater during the next few quarters depending upon the backlog which we have and the book-to-bill situation. Because, if you look at electrification, they have definitely a high book-to-bill content. They definitely depend upon channel partners and distributors to give them the majority of the businesses. At this point of time, I think on a blended basis -on a 4 quarterly basis- is what we would try to maintain. That's what we would like to say.

On the Motion side of it, this is, again, another business segment which is holding up pretty well and it's a very matured business where we see that the order growth was 37%, revenue orders is 36% -in line with the order growth which is happening- and order backlog quite extensively with 19%. There are no slow-moving orders. There are solid orders which are earmarked for execution in the coming quarters.

Next, coming to the PBIT story, they are definitely tracking well, and Q4 2022 was definitely a very strong quarter for them with a mix which helped them to get that particular good margin and the capacity which drove the volumes at that point of time. So, if you look at it, it's clear. I think Q2 and Q3 were something which were less in terms of the volumes but they did a strong recovery in Q4 2022 and that has probably compensated for the low recoveries in Q2 and Q3. Again Q1 '23, I think that's basically where they could have performed definitely better but we took charge of Rs. 23 crores which we have published in the SEBI as well, as a one-time warranty cost in traction motors which we supplied and that's more because of the supplier quality which we detected when we do it. I think as in the past, whenever we detect an issue which is going to have an implication with the customer – there is a root cause analysis which is done and measured in terms of what it would need to set right that particular position and we make that position upfront. We then make sure that we monitor and address that solution in a right manner and at some point of time with the mitigation plans which will be there on those particular provisions what we have done, it's not necessary that the entire amount may be spent. But we need to allow time for this issue to be resolved because they are all on moving applications and trains. So, I think it will take some time. We would measure that over the next 3 to 4 quarters to come.

Process automation:

I think process automation had very good Q2, Q3, and Q4 quarters as you would see. These are all project orders. Project orders normally have a cycle in which they start to decide. Therefore, I think we do have a strong pipeline which we expect to mature into orders in the next quarters to come. Therefore, I think we are pretty much stable on the orders what we see at this point of time. And also a bit of time ploy-out happens in project orders. The last quarter is definitely a weak quarter of the financial year of some of the companies. They would have exhausted their budgets and they definitely seek new budgets coming in the next year, which starts from April month onwards. Let's see how the decision plays out in the coming quarters.

Revenues:

I think built on the backlogs they have in their pipeline, there is 23% growth on revenues. That is a good part of it but I think most of it came from system revenues. That's something which is dependent on the project execution lifecycle. That's how we see the mix a bit changed in this particular period and that is probably also the reason why we had a dip in the margins as what you see. But I think on a blended basis, 11-12% or 10-11% is something what we expect.

Robotics:

Again, this is also another business which we saw quite a strong uptick in orders and that's more market driven in terms of adapting robotics technologies in the production processes of various market segments – 23 market segments – as what we track. The revenue growth was slightly lesser because it's more dependent on the offtake and assembly of the robots and supply. We want to make sure that this will also be executed in the coming quarters to look at it. And the

margins we had were definitely superior, supported by service and revenues from electronic segment as what we see.

Coming to the fact sheet of our revenue mix. I would say that we still remain with 13% of services, 6% in terms of projects, and 80% coming from products. So, predominantly, our revenues are more predictable now with the backlog what we have. And yes, I think the export markets are slightly muted, not as a percentage but as a value. We have definitely grown in terms of quarter to quarter as a growth percentage but the local demand is definitely stronger than the export demand and that's probably playing out in percentages.

So, what's going to be the focus area for '23? Of course, I think it's penetration into the market aligning with the industry trend that's going to be the continued focus area as what we see.

Order backlog conversion:

We do have a strong order backlog at this point of time. So, a planned execution is the key and as per the expectation is to maintain the margin momentum as what we said. We want to make sure that we hold on to the PAT % of 10+ as what we see at this point of time for the next few quarters to come so that we have a credible performance on the go. Our expansion plans for factories will definitely be aligned with the purpose with which we are making those investments and sustainability is a part of our DNA as what we see.

With that, we could probably open up for Q&A.

Moderator: We will now begin the question & answer session. Ladies and gentlemen, we will wait for a moment while the question queue assembles.

We have our first question from the line of Renu Baid from IIFL Securities. Please go ahead.

Renu Baid: The first question is, broadly if we look at order flow trajectory, all segments ex of PA has seen a very strong growth. Is it due to something apart from the broad optimism in the end market, some slippages of orders coming in from the previous quarter to this quarter which has helped to accelerate the momentum? Given the fact you mentioned that pipeline for the rest of the year is healthy, should we expect that high double digit - 20% to 30% - growth in order inflows could be seen for the year as a whole based on the pipeline that you have suggested?

T. K. Sridhar: First of all, I would focus on 2 things. One, which market segments we are in? We are in those 3 sectors – if you look back to the slides where Sanjeev was mentioning about fast growth, moderate growth, and of course the other one where we are. Our major play happens in the moderate-growth sectors with cement, steel, and everything else, right? And we are definitely making it up with a lot of fast-growth segments we are focusing on. At the end of the day, we expect the growth and the orders on a 4-quarter basis -which is a yearly running basis- of 12-15 % should be definitely a place to go. These 20% or 30% what we see is something which depends on how the customer wants to make his order or decision pattern. That's something which is a

mix of projects, which is a mix of also certain decisions what will happen with respect to funding. That's what we see, but definitely I think we are looking at a positive trajectory on that.

Sanjeev Sharma:

From the overall construct of the market, I think just to add some granularity as to how we see the market and the development, all the businesses that we have, out of 18 businesses who are exposed to service and who are exposed to the product business, I think there the growth is quite robust and that really represents what's happening in the country across because it is a secular growth, not coming from very large industries but it is coming across the cities, geographical distribution across the market segment, and also the category of the customers you have. Not necessarily all the end users, you also have machine builders who may be supplying domestically as well as exporting and also a lot of participation in the infrastructure project; our channel partners, our integrators who are involved there. So, I would say on the products category side, it is quite strong. Then comes the next level wherein our product gets used into the subsystem. We call it as an ETO business, engineered to order. There again, it is the power distribution in the cities, renewables, and also in the new segment and the industries which are expanding or increasing the capacities on an incremental basis on the ground side. There again, we see it's pretty strong.

Now, the third category, the systems business which is our projects business, that's where what we do is we are careful in terms of which kind of projects we take, which kind of segments we are focused on. One is on the basis of where our value proposition is strong for the customer and wherein we add a lot of value for the customer, because once you add a lot of value for the customer, then it is possible to price that value. And when you price that value, it also shows into your gross margin as well as in your books. That has been our focus and projects business typically tends to be more cyclic than the ETO and the products business. On the products business, I think most of the categories we have, it is pretty strong. One or two categories are seeing the headwind. They were growing quite strongly for the last many quarters but one or two categories have some headwinds. But other than that, I think it is pretty robust market construct at this point of time in each area including robotics, electrification, and several categories of motion business.

Renu Baid:

My last question here would be on profitability. Until 2 quarters back, we were confident of sustaining PBT margins of 10% plus. And now having seen margins improved sustainably across segments, we are indicating to maintain net margins of 10% plus. The margin improvement trajectory outlook over the last 6 months, is it primarily driven by the mix and the gross margin on account of softening of commodity prices or more to do with the overall improvement in the price realizations across end products and solutions and mix here? How should we look at it from a 2- to 3-year perspective in terms of margin outlook?

Sanjeev Sharma:

Margin gets affected by many variables and one of the variables is price realized from the market and whether you have the capacity and capability, in the inflationary environment, to pass the cost increase to the customer. I think we succeeded in both. And since our portfolio is positioned onto the high value-add as well as high quality, highly reliable products, I think there is a lot of

recognition in the market post COVID to buy the products which have the high reliability quotient. And also, not only reliability in the product quality but also our ability to deliver them. Those 2 factors have allowed us to pass on inflationary cost to the market to a greater extent and also realization of the fair price, given the demand-supply situation we had in the marketplace to maintain the reliability of the product deliveries. That's one aspect. The second aspect is that if you talk about the future, the future can be described out of the backlog because backlog is what you convert. And that backlog the gross margin position as it is visible today, if it is run over good capacity utilization, naturally you realize a better profitability out of it unless some kind of an event which is not foreseeable by us today comes in. Other than that, the trajectory remains smooth. If there is a robust order pipeline, robust visibility of the revenues, and the gross margins are to our satisfaction and we run the capacities to the levels we want to do, I think the trajectory is quite smooth, Renu, at this point of time when we look at it from a near-future perspective.

Moderator: We have our next question from the line of Puneet Gulati from HSBC. Please go ahead.

Puneet Gulati: Just continuing on the same thread you talked about improved price realization, how should one think of it? Are you able to price your products better than what you used to in the pre-COVID environment or is this the mix which has changed?

Sanjeev Sharma: Two things have happened. One is the markets have matured, wherein the buyers have a much higher trust created among certain companies or certain brands who could support them during COVID period. I think that is something which is visible which makes us easy to realize the orders in the marketplace. That's number one, if you talk about post-COVID period. Second part is the customer base which used to compare high-quality products with the cheap-quality products to compare prices, I think that behavior has come down in the marketplace. They really try to compare apple with apple. So, we don't see those kind of negotiation tactics in the marketplace because the customers don't want you to wait outside their room and negotiate. They actually are very professional. They connect with you online, they negotiate, and they have a reasonable expectation of price and if we meet those criteria, I think we get that benefit. At the same time, we have been reducing our cost because of our localization and expanded volumes and our connect with our suppliers. That also contributes to our ability to kind of serve the market at a reasonable price and at the same time we are able to build our backlog. These are the few factors that count. And then, of course, as I said, the customers are matured and they understand what's happening on the inflation side and also there was a stress on the supply and demand side. That also helps us realize the right price point in the marketplace. These are the few factors we observed, Puneet.

Puneet Gulati: How is the supply pipeline panning out? Is there an ease in your supply chain or is there still a stress? And will this advantage stay?

Sanjeev Sharma: On a comparative basis, it has eased out, but at the same time, we are very cautious. We are still maintaining high inventory levels so that we can deliver to the market what we promise. It hasn't come down to a level wherein we can normalize our inventories to very low levels and just in

time a play can be made, because there are a certain category of components which require a little bit of more handling still because those pressures haven't gone away yet.

Puneet Gulati: Secondly, in these orders which you announced, what should we consider as the base orders and what could be large orders in this?

T. K. Sridhar: All are base orders. Nothing is a large order.

Sanjeev Sharma: If you look into, as Sridhar explained, 80% of our business we can call it as fast-moving industrial goods. And then we have about 13% is coming for services which is basically you can say as a service as delivered and as demanded by the customer and then of course we have 7% to 8% which goes in the category of projects; and projects has a long gestation period. So, I would say much of the market now for us is very fast conversion of our raw materials into cash category. I think that's how what we are seeing in our books.

Puneet Gulati: My last question is on the services part. While I think over the last 2 years you have been talking about services becoming a significant part, but from numbers' perspective, it is still somewhere between 6% to 8%. How should one read that?

T. K. Sridhar: No, I think it's not 6% to 8%. It is definitely higher.

Sanjeev Sharma: Our expectation is that the services are much higher in percentage than what you just mentioned but we will have to verify and come back to you based on what you are reading, Puneet.

Puneet Gulati: My bad. It is 12% to 13%. That number sustains, right?

T. K. Sridhar: Yes. The 8% what we are mentioning is for projects.

Sanjeev Sharma: Services are 12% to 13% but you can see, since the uptick of the products business and our ETO business is very strong, services in net value are expanding by 33%. That's quite a good expansion. But on percentage basis, they will stay muted relative to the main business lines because they are expanding faster.

Moderator: We have our next question from the line of Parikshit Kandpal from HDFC Securities. Please go ahead.

Parikshit Kandpal: My first question is on this incremental demand or the large demand order inflows growth, can you help us understand this in more granularity on brownfield versus greenfield orders? Also, if you can help us understand how is the traction in Tier-2 and Tier-3 cities adding up to this growth?

Sanjeev Sharma: Let me bring even more granularity beyond me. So, let me involve the president of divisions for motion and electrification which are the largest businesses in us. Sanjeev Arora is seated here as

well as Kiran Dutt. Sanjeev, what do you think? What's your view on what you are seeing in the market? Which are the segments which are supporting us in our growth?

Sanjeev Arora:

When you talk of the heavy industry, we see a greenfield as well as brownfield expansion. And large players are anyway playing into it but when you talk of the second line of players and the third line of players in those respective segments, they are also expanding. So, the crux is that in heavy industry, we see both the large projects from the greenfields as well as from the brownfields. Even when we talk of say the discrete part or the light industry, there also we see good amount of expansions. And when we talk of that, there is a well-supported mechanism from the government PLIs as well. So, you will see the new investment and also you will see the brownfield investments. Overall, I would say this is the situation, and we are confident that we will see much more of that in the coming times.

Sanjeev Sharma:

Kiran, how do you see on the electrification side?

Kiran Dutt:

Added to what Sanjeev Arora has spoken about, since we are coming to Tier-2 and Tier-3, there is huge growth in terms of the buildings in Tier-2 and Tier-3 cities. That is something which is really supporting us in terms of growth. In terms of electrification, what I see is -specifically in terms of infrastructure- I think whether it is power infrastructure, renewable, transports, I think there is a huge growth that we are looking at and that's what is actually supporting us in terms of growth whether it is metro, whether it is Tier-2 or Tier-3. All said and done, it's also very important to understand where exactly ABB is focused. ABB is also trying to focus in terms of Tier-2 and Tier-3 cities, more penetration there, and that's also giving us lot of results in terms of growth.

Parikshit Kandpal:

Sir, the last question is on this entire new energy theme. How do we intend to plug the products gap, if any there, which we need to address because this is a high-growth segment and we also said that we are looking for an acquisition given the strong cash balances which we have? How do you strategize and think about this high-growth segment and how to address the product gaps there?

Sanjeev Sharma:

Parikshit, can you mention again what segment you are talking about?

Parikshit Kandpal:

The entire energy theme which is changing. With the EV side, entire green energy theme which is going to be a big change. I am talking about decarbonization basically; the product gaps there and how do you intend to plug those?

Sanjeev Sharma:

If you really look into ABB portfolio and you look into our theme, energy efficiency is core of our theme in terms of what we deliver to our customers. In fact, part of our 2030 GHG reduction target is that we will sell more products. If the customers use more of our products, they will contribute to less GHG emissions. That play is directly right at the heart of our core portfolio in the motion and electrification and robotics as well as process automation proposition. That's something in our core. But when we see the EV play and the other areas, in India the opportunity is very ripe for the simple reason anything that we produce in this country, we use 30% more

energy. That means now the sensitivity of the large customers and medium size customers have come in that area. That's why a lot of replacement market has come in wherein they are using IE3 motors. There is a demand for even higher efficiency motors because traditionally Indian market has been IE2 motors. New buildings which are coming up, new hotels which are coming up, they are demanding our building management system so that they can reduce the energy footprint of their building. About 70% of the buildings which will exist in 2030, they are yet to be constructed, and building management system is one of the core elements which allows you to reduce 25% to 35% of your energy footprint. That again is another area wherein we see there is a good uptick.

Electric vehicles, all the new plants, whether in the scooters or if you look into the car manufacturing, very deep use of robotics and automation is in play. And also, there is a good demand for them to be able to use the highest productivity level and the lowest energy cost level and minimum usage of the paint. Those are the areas wherein the customers are discussing with us. So, our whole portfolio is into play there, and as the industry demands more – and they are demanding more – I think it is playing out in our order books and revenue books.

Moderator: We have our next question from the line of Deepak Krishnan from Macquarie. Please go ahead.

Deepak Krishnan: I just wanted to understand given that our cash balance is now Rs. 4,000 crores and we have indicated acquisitions. Where are we at that stage and how quickly or how soon can we see any action on the ground?

Sanjeev Sharma: We already have made our intention known to the market that we are going for organic and inorganic expansions. We have a pipeline for the inorganic targets globally which has local footprints and also we have a list for the potential local parts. But these things take time and we have to allow the current owners to come to a point that they are willing to deal with us and as and when we are ready with that, we will talk to you.

Deepak Krishnan: Maybe just a follow-up, essentially on the margin front. While we understand the benefits of a higher order backlog as well as the capacity utilization, how do we overall see the competitiveness in terms of maintaining pricing? Do you see competitive intensity increasing or do you see supply chain still being sort of an issue in that case?

Sanjeev Sharma: As I said, what we have seen is, apart from demand supply situation, we have seen the migration of a large swathe of customers from buying relatively cheap quality products moving into the high-quality product zone which is a sweet spot for us. I think that's one good movement we have away from the demand and supply situation. That's something which we are very encouraged because the customer is willing to pay a premium for a better quality, more energy efficient product, and something which they would like to make sure that their machines or their end-user plants are effectively working. That's the one movement we see.

Going forward, competitive intensity is different in different product lines. We have 18 product lines and we are exposed to 23 market segments. Competitive intensity keeps changing and

varying in different segments based on how the competitors play in and also how they expand their footprint and their capabilities on the ground. So, I would say that always it is never a 1-year issue or 1-quarter issue, that's a lifelong issue one has to keep playing out. All we can do is whatever benefits we are getting today, this is something we have been preparing for the last 3-4 years and that's what gives us the competitiveness as well as the capability to serve this market in the current construct. And whatever we have done 2 years ago and now what we are doing, it will continue to pay us as we go forward.

Deepak Krishnan:

Maybe just from an overall mix like you've indicated Tier-3 and Tier-4 cities are gaining share, how much contribution is essentially coming from there and how easy is it for say an individual or say an SME to kind of choose an ABB product versus something that is already locally available there for a long time?

Sanjeev Sharma:

Tier-2, Tier-3, Tier-4 cities, this is where aspirational India sits at the moment, and the good thing about aspirational India is they really are having access to any product that they want, given the logistic and the distribution system which has been provided by the e-commerce players, and we also get the benefit of that bandwidth. So, we don't see any let up by the Tier-2 or Tier-3 OEM manufacturers to choosing sub-quality products because these products and these machines which may be being produced in the Tier-2 or Tier-3 cities because the cost of labor and the availability of labor is better, but these machines are going to the end users which are the best in class. Or these are the end users which are operating and demanding very high for them. So, there is a consumption in Tier-2 and Tier-3 because the machinery builders and OEMs, they are supplying into the large cities. They could be supplying to Tier-2 or Tier-1 cities as well. But when it comes to the consumption in the real estate wherein our electrification products and our motion products also go, there again we find there is a much higher aspiration to have the high quality and better brand product use in the homes and the offices because the offices which are being built, they are also being built to the good standard and the architects and designers, they always make sure that the mix of the products that they use, they are more reliable and better-quality mix as they design the offices. I think this is a multi-faceted change. It's not only the choice of the person sitting in Tier-2 and Tier-3. There are multiple forces play into it.

Moderator:

We have our next question from the line of Jonas Bhutta from Birla Mutual Funds. Please go ahead.

Jonas Bhutta:

One bookkeeping question that I had was from our annual report. When we see this disclosure on foreign exchange used, that seems to have gone up materially in calendar year '22 basis the annual report that was just published a couple of days back. And it has gone back to levels where PowerGrid was part of our business. We would understand that there were a lot of imports coming in from the HVDC side. What would have triggered this kind of import? Because, I don't see this commensurate increase in purchases from parent entity which is part of your related-party disclosure. If you can just explain what led to this high level of imports which were not from the parent?

T. K. Sridhar:

I think there was a similar query on the same topic but I think the expenditure in foreign currency for 2022 was Rs. 4,460 crores vis-a-vis Rs. 3,060 crores which happened in 2021. It basically has two broad categories of items. One is the value of imports what we do. It was Rs. 3,420 crores in 2022, and in 2021, it was Rs. 2,200 crores. So, we had Rs. 1,200 crores of imports which happened. That's basically triggered by the revenues which we have in the backlog for which we import material and that also came from alternate supply vendors which we have created, not much from the ABB Group. It is more from the third-party imports what we had so that I think this fiscal established that whenever we have an order backlog to execute and we know where the inventory is to be procured from, keeping the interests of delivery to the customers, we take the right decisions, and they are pretty much very well validated. The other thing is, basically on the other expenses like the group fee, the traveling for service revenues, as well as market pursuits and the export allocations what will happen as well as IES cost an increase of approximately 10-11% over the base of 2021 of roughly Rs. 900 crores. Overall, this was basically the explanation, I think, Jonas, should help you understand why there is a change in the expenditure in foreign currency.

Jonas Bhutta:

Just wanted to squeeze in one more. On the process automation bit, while we've seen a sequential decline in order flows and you highlighted the pipeline is still strong, if you can elaborate on the key sectors that are showing strength in PA particularly. And what is the direct/indirect exposure to government projects in this segment? That's my final question.

Sanjeev Sharma:

In fact, we have 3 types of businesses in PA. One is PA Energy and then PA Process industry, and PA Measurement & Analytics. In the PA Energy, we have the exposure to the petrochemicals, pharmaceuticals, and they are mostly the private industries, but at the same time, areas that used to be in the government hand like city gas distribution; that's another area which is expanding quite widely, so that's another segment. And of course, the SCADA system for ONGC and public sector units, business with Indian Oil, business with Oil India, those are kind of the categories that we have and also we have business with NTPC. That's something what we see in the PAEN book. In PAPI, the process industry is purely a play in the mining, cement, aluminum, metals, and large process industries. And that largely is a play in private sector most of the time, but there can be one PSU or the other which also buys our products and services. As far as the Measurement & Analytics are concerned, it's a pure products or the engineered to order play.

Moderator:

We have our next question from the line of Mahesh Bendre from LIC Mutual Funds. Please go ahead.

Mahesh Bendre:

Sir, in the presentation, we have mentioned that the theme for the quarter is electronics and the market is expected to grow 30% CAGR over the next 3 years. In that, our offering is basically switchgears and automation switches and all that. Is it fair to assume that the electrical part of our business will grow along with market? If the growth in user industry is expected to grow 30%, our business segments will also grow at least in that rate?

Sanjeev Sharma: You have a good question and it's a good correlation because typically, the businesses like motion and electrification, they are directly correlated to how the growth in the economy and the right segments which are growing, but I have Kiran here. Kiran, what would be your qualified view on it?

Kiran Dutt: I think this is a very very good question; in fact, very exciting question for me as well. Looking at the way electronics has been growing in India and manufacturing of cellphones specifically, I think it's a very important segment for us on the way forward. It could be called as an emerging segment for us in terms of our approach. So, what do we see? As you said, yes, there could be a very good growth, but at the same time, a lot of things are on paper but it has to materialize over a period of time. So, we are looking forward very much in terms of the investments coming from various manufacturers who are ready to, of course, put in money, but there is a subsequent period which is required for gestation of the project and that's the way forward. We are waiting for it as eagerly as you are. Let's hope for the best going forward. We are ready with all the products which are required for this particular segment and the offering is perfect for it and we hope to do the best in the quarters to come.

Moderator: We have our next question from the line of Aditya Mongia from Kotak Securities. Please go ahead.

Aditya Mongia: My question is pretty straightforward one. What is the capacity utilization across your 4 segments at this point of time? And if you kind of split it across your existing plants and the new capacities that you've added, even better.

Sanjeev Sharma: Capacity utilization; we have 25 manufacturing plants. Of course, we are using capacities in different ways. Some plants we are still using single shift but on that rate, the utilization could be as high as 85% to 90%, but we still have room to increase more shifts. Certain plants are working with 2 shifts and we have a possibility to expand by using the 3rd shift. That's how the scenario is. It's quite distributed. And also you should know that over a period of time, we have increased a lot of automation and robotics in our manufacturing and some of our plants and there again increasing the shifts and throughput of those plants is much much more flexible and easy for us.

Moderator: We have our next question from the line of Priyankar Biswas from Nomura. Please go ahead.

Priyankar Biswas: In your chart, you have highlighted as the high-growth area is the focus area. Can you give me some color like what percentage or something like that of your order backlog these focus areas are and if you can throw some further light like what is the market shares you have in these areas?

T. K. Sridhar: Priyankar, I would have loved to give you this particular answer, but actually it endangers my existence in the competitive scenario. Therefore, we don't share this sensitive information. If you have any other questions, more than happy to answer that.



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Priyankar Biswas: We have recently seen commodity prices softening quite a bit. Is there something that in the newer orders, you may have to pass-through some of it? Does it happen that way or should we be able to retain the complete pricing hike that we have taken, let's say over the past couple of quarters?

Sanjeev Sharma: Inflation and the supply demand situation, these are the things which take care of the pricing in the market. We are not the ones who would decide what price to be kept and that's because there is a fair competition in the market and that's something which describes what the price point customers are willing to pay.

Moderator: Ladies and gentlemen, due to time constraints, that would be our last question for today. I now hand the conference back to Mr. T. K. Sridhar for closing remarks. Thank you and over to you, sir.

T. K. Sridhar: Thank you very much and thank you for joining this particular call and interesting questions which were posed to the management who are all here and also it was a pleasure answering to those particular questions. Also, we should understand and also appreciate that we also learn in this perspective as to how the businesses are being reviewed by the various stakeholders of the organization. The reason why I say this - Day before yesterday, we had the board meeting for Q1 '23; then yesterday, we had the AGM where we had questions from shareholders and the other investors; and today, we have the analysts looking into the organization. Thank you for this active participation. Look forward for the next call after the next quarter. Thank you very much to the management team which could make it happen.

Moderator: Ladies and gentlemen, on behalf of ABB India Limited, that concludes today's call. Thank you all for joining us and you may now disconnect your lines.