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November 14, 2023

BSE Limited
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Dalal Street
Mumbai 400 001
(Attn : DCS CRD)

National Stock Exchange of India Ltd
Exchange Plaza, 5th Floor
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Mumbai 400 051

Attn: Listing Dept.

Dear Sirs

Sub: Transcript of Analyst concall

In continuation of our letters dated November 3, 2023, and November 9, 2023 we are enclosing a copy of the transcript of conference call with analysts, which took place on November 9, 2023 post announcement of Q3 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
Q3 CY 2023 July to September Quarter Conference
Call”

November 09, 2023



**MANAGEMENT: MR. SANJEEV SHARMA – MANAGING DIRECTOR –
ABB INDIA LIMITED
MR. T.K. SRIDHAR – CHIEF FINANCIAL OFFICER –
ABB INDIA LIMITED
MR. KIRAN DUTT – ELECTRIFICATION – ABB INDIA
LIMITED
MR. SANJEEV ARORA – MOTION – ABB INDIA
LIMITED
MR. BALAJI – PROCESS AUTOMATION – ABB INDIA
LIMITED**

Moderator: Ladies and gentlemen, good day, and welcome to ABB India Limited Q3 CY 2023 July to September Quarter Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode, and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your 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: Thank you. Thank you very much. Very good afternoon to all of you, ladies and gentlemen. Thank you for attending this particular call, which is in a very short time. I mean the reason for that is, I know we're all entering into Diwali vacation. So we said that Friday could be a good day for all of you to start enjoying the vacations. That's why we said even it's in short time, we complete it today.

So we just completed our third quarter Board meeting. So we have released the results plus the presentation on the Web. I hope you had a chance to look at it.

So now in the call, I have Mr. Sanjeev Sharma, Managing Director of ABB India Limited; and Mr. Sanjeev Arora, who represents Motion; and Kiran Dutt, who leads Electrification; Balaji, who represents Process Automation; and Subrata Karmakar is not available. He is on a customer visit. Therefore, we have these people on the line.

So without wasting any time, over to you, Sanjeev.

Sanjeev Sharma: Thank you very much, Sridhar, and good afternoon to all of you. Thanks for joining in. I'll give you a very quick overview about how we saw the performance for the last quarter. And we will take the questions later on after the financials are presented by Sridhar.

So ABB as a company, as you know, in India, we have four verticals. And within these four verticals, we have 18 divisions organized, which are active in the country. We operate with five manufacturing locations. All of them are IGBC green certified, either platinum or gold. And we also have significant ESG programs running and you know, over the last two years, we have made significant milestones there. We operate 28 sales offices with 750+ partners and growing. And our penetration in Tier 1, Tier 2 cities is direct as well as through our partners who are taking us to a much larger customer base. This slide is how we look at the market and the different maturity of these segments.

So what we have on the top of the S curve, the Sustain segment, wherein you have this classic market segment we are present for a very long period of time. And this is where bulk of our volumes come, but at the same time, in the current markets, not all of these market segments are growing at a very high rate, but they are growing between 8% to 10%.

The ENHANCE are the market segments we discovered a few years back and this is where we made significant efforts in the last few years to gain traction. And these segments grow between

10% to 15% for us. The segment itself grows at that rate and the business also reflects in the 18 divisions who are relevant for this segment.

The focus segments are the new segments, which we may have started recently or over the last couple of years, and we have seen significant traction. So the rate of growth of our business in this segment is very high. These are the segments' information.

So, combination of focus and how it sustain makes our growth story, and also our ability to operate 18 businesses in 23 market segment, that gives us the underlying resilience to our business model when we present results to you. And cyclicity of one segment or the other gets compensated by the segments, which are on the up curve and vice versa. So that's how we see all the business that has been coming to us and how it's sustaining for us.

Theme of this quarter, every quarter, we take a theme and we take a deeper dive. And we have taken railways and metro, a deep dive from our perspective and also what's happening in the country. As you know, we operate fourth largest railway system in the world, in India. And investment in railway is expected to grow at CAGR of 15% for the next two years and more.

Railway infrastructure itself is attracting \$715 billion by 2030. And largely, it is based on the electrification of the railway network, adding the freight corridors and also bringing in new trains, which requires higher speed. So everything is into the upgrade mode when it comes to the rail infrastructure, both on the freight movement, as well as the passenger movement with more modern, more comfortable and much more high-tech technologies that going into that system.

So we are also equally exposed in the metro network, which is existing at the moment in 15 cities. And already, seven cities have 640 kilometers of it under implementation. So, we do see that this particular segment will continue to grow in a country like India. And I think we have a long runway and long highway to enjoy in this particular market segment. And our technology, both for the passenger trains as well as Metro, they're well proven globally.

Being a Swiss company, I think these technologies have been fine-tuned and optimized over a period of time. They work for the best of the systems. And Indian systems are also enjoying it and preferring ABB systems going into these trains and metro systems.

Now key drivers are, of course, passenger and freight traffic. And we do see that quadrilateral network of high speed train is going to augment it, modernizing of 1,275 stations, dedicated freight corridors, Gati Shakti cargo terminals, Vande Bharat trains, all are playing into our portfolio.

One has to also mind that these trains run for a long time, and the expectation of the owners of the metro and the train system is to also service them for a long period of time, and that also passes to our service business volume for the future. And that is very consistent, and that's going to be quite stable for us as we go into next year.

So, our orders grew 14% from both emerging and traditional segments compared to last year. Our revenues are up 31%, achieved through all our 18 businesses really executing well, and you

can see the rhythm in the company and the businesses, through the entire value chain, be it bringing the orders, converting them into revenue and converting that into cash. I think that machine is working reasonably well for us. And also given how we are executing and how our books have been and the efficiency of conversion, that is showing in our profitability after tax, which grew by 79%.

We continue to focus every month and every day on next level of ESG achievement. And we do it not to show a PowerPoint slide, we do it because this is the right thing to do and that's how our management team sees it. We have already achieved 'Zero Waste to Landfill' certification for the Nelamangala factory. You may have noted the other certification we got in last many quarters over the last two years.

And we also achieved a waste recyclability of 95% and water recyclability of 50%. And we have an ambition to continue to improve these parameters, and we have very specific plans for each of our locations and each of our factories. And of course, we are engaged with 1,700 customers across 12 Tier 2 and Tier 3 markets. And that is something which is discovering new markets for us, new customers for us, and that's where some of the growth components, which flow through our orders, is coming, because we are reaching out much, much deeper into the country.

We are quite surprised to see the resilience of acceptance of ABB technology as the quality and the price that we are offering is quite good in most of the market segments as well as the geographical markets that we are opening up.

We continue to maintain reasonable cash position at INR 4,356 crores at this point in time. So, orders, yes, we have a significant jump, and it's also a mix of large orders that underscore some capex revival. I think that has been a question everybody has been asking us. So we had a good story with our base orders in last many quarters, led by MO and EL divisions. And now we find that the large capex orders also have started flowing into our books.

Services orders grew by 25%, and continued momentum in automotive, electronics and sectors, they continue to give us a good uptake into robotics and similar automation projects that go into it. And then, of course, there will be high demand for integrated solutions in metals, mining, oil, paint companies, and there's an uptick there. And we see quite a good conversion rate and the preference for our ABB solutions by these market segments.

In the transport demand for propulsion technology solutions, ABB has a very strong portfolio, both globally and now locally. And with that result, we have an order backlog, which has grown by 23% to INR 8,008 crores, which shows a very sound visibility of the revenue that we will execute in the coming quarters. So that gives us a lot of confidence and a lot of comfort as we go into this quarter, which is the last quarter of our calendar & financial year So this is the overall picture and this is how we see it.

Next, please. So, some of very quick examples. A compact substation of leading private power company. And also, somebody was visiting Vaishno Devi last week, one of our external partners. And they said that all along the climb that they did in Vaishno Devi, they could see a lot of ABB logo equipment, and we were the most prominent one.

Of course, those are the compact substations and also the ring main units, which are supplied by our Nashik unit, it is an integrated solution to provide robust and integrated power supply for such locations or any kind of infrastructure location.

Then the propulsion technology solution for a railway transportation, multinational company, I think this is something secured, and we are going to go into execution mode; Rectifiers for a very large natural resource company; Robotics automation for painting and cleaning of EVs from an Indian auto major. And then, of course, we have electrical core products, our energy efficiency solution, gas insulated switch gears and robotics - I think they are finding their ways into these 23 markets segment that we talk about. Next, please.

We continue to have a very strong customer engagement. This is our backbone, and this is one of our secret recipe of expanding into market segments, letting them know ABB's portfolio, also establishing our point of contact, which really serves them, and also the geographical penetration into very, very deep markets, which we were never present in. We believe we have done a reasonable job in the last few years, and that's where our confidence comes that we have a lot to explore and lot to penetrate as we go forward.

And that gives us the confidence that India has not only been a good customer base for us in the Tier 1 and Tier 2 cities, but markets have become much deeper and stronger for us, and that encourages us to go to the different geographical and market segments.

So our approach to ESG strategy is clear, and we talked about it. We have 5R approach, waste intensity reduction, waste to energy recovery, value champion, training awareness not only for our teams, our suppliers, even our customers. I think that's always the dialogue. Whenever our leaders visit the customers, this is the prime starting dialogue, what they are doing and what we are doing in this particular area. And I can say that our connectivity with our customers is very high on this common value system, especially with the large and the medium-sized customers. So some of the examples I say, in the middle picture, you see, we have totally banned the use of the single-use plastic over the last quarter.

We have also reduced usage of packaging labels, which has changed. Use of reusable kanban bins in the production area. We recycled the waste through approved recyclers. And you can see in the last chart, how this kind of a focus reduces the waste intensity and what we are sending to landfill drops very heavily. And that's the reason our first plant, Nelamangala, got zero waste to landfill sustenance plan under program, and we have been certified for that.

Same thing we do with the CARE part of our value system. We have good CSR program. And here, we are very happy that as our profitability is expanding, it's very fulfilling because our commitment to contribute on the CSR also expands the same way. So as a management team, we feel very happy when our, say, profits have doubled up in the last few years. So that way our kitty to do the CSR program also has doubled up and they go in different areas. They're going to help. They go into the government schools. They go into education. We take them into children who have the heart diseases.

We've helped them out with the treatment so that children can grow healthy. Schools are adopted by us. So there's a proper education, and the food as well as nutrition is given to the children. And our programs are addressing 11 out of 17 United Nations SDGs directly and 6 are addressed indirectly by us. Next, please.

So with this, I will hand it over to Sridhar to take you through financials of last quarter.

T. K. Sridhar:

So thank you, Sanjeev. I think, yes, we go to the financials. So total orders received, so we are at INR3,000 crores for the quarter. And as you have seen the trend chart, we have been maintaining INR3,000 crores for the last three quarters sequentially. I hope with the markets which are there and the opportunities which are there, I think the trend should continue as per what we see.

14% growth also has certain large orders, which has been received from the railway sector, and that actually has improved that way. So I think while I say this, are we finding a slack in the base orders? I would say a number of opportunities are still there. That is only basically the conversion which has to happen, which will definitely happen going forward as well. And order backlog, INR8,000 crores on the orders.

So, I think, as you know, because PA (Process Automation) has also increased order intake, this has got a good mix of projects, products and services as well. As Sanjeev was mentioning, this provides us a good visibility of revenues for the next few quarters to come, upon the basis the execution schedule what will happen.

So, none of these order backlogs are either slow moving or non-moving. They're all executable, so the reviews show that there is no risk, per se, on this particular order backlog what we are carrying. So revenues, I think good part of revenues, we are growing 31% . So this is good information what I thought I should share with you. This revenue comprises of different models. Coming to how MO and the product business are performing – If I look at it for the quarter, MO and EL, which are product dominated, it forms part of almost 72-73% our revenues, which was 81% in the last quarter. So does it mean something else? The answer to that is no, because they are doing more revenues on the absolute values. But the good part is, PA project revenues have started to gain more traction, so which is a 16% last quarter, and they are now 25% for the quarter.

So, I think this is good to note that the basket is shifted between the process automation and the other divisions as such, and robotics has increased to 4%. So overall, it's a healthy trend, as what we see, even though% could vary between the divisions. So products continue to dominate the product offerings today at this point of time.

Another interesting piece, which we would like to rather emphasize and we have been emphasizing on to grow is how do we focus on services. So services for the quarter in terms of revenue was 16% compared to 12%- 13% what it used to be. So that's a very encouraging trend with the -- all the service teams, which are there on the ground, and the opex spend, which is already happening. So, this has pushed the revenues further to 16%.

And that's also probably a factor which will drive the profitability as well. So, projects still are at 11%, the balance 73% is products. So we have a good mix or a healthy mix is what I would say.

So, another good part is to see as to how the channels have played out in this particular quarter. We see the end users, which are the ultimate customers, their businesses have increased. I think we were 33% earlier, and this quarter it's 40%. So that's a good direct connect and we are connecting it to the same topic of the results of the customer connect program, what we have been doing consistently is also helping us to garner this particular end-user customer segment, and partners definitely are continuing to remain at 40%.

So now coming to the geographical dimension, how did we do on exports and the domestic market. So all of us know the domestic is actually outgrowing the speed of the growth in the export market. So therefore, our domestic market remained at 90% for the quarter and 10% of exports, compared to export, which was 12% the previous year same time.

So overall, I think we have a good mix of revenues by the various businesses. We have, in terms of offerings, it's a good mix of balancing mix of projects also playing in now and also in terms of channels and geographies - So as we close this particular quarter, this trend seems to be the right direction.

We have a cash balance of INR- 4,300 crores. So it is overall, we have earned a profit that has been accrued to cash. We did, of course, use it for a dividend, which we declared in the Q2, so then that has been paid to the extent of INR 233 crores.

So now coming to a more granular picture of how does the P&L of the company look like. So as you all know that INR 2,769 crores revenue. So this is equally distributed between the different segments as what I told. So now other income is INR 77 crores, a majority of it is based on the interest income on the deposits, what we carry. So that's round about INR65 crores, which we earn every quarter, and the balance is of the other items.

Material cost is hanging with 63%, is a good rate. I think we have consistently been around this percentage. So if someone is asking what's the recipe, it is very simple, it's actually a good mix what we have on the revenues, which is contributing to a better percentage. As I said, service has improved, and that's one of the reasons. Another thing is the orders which are getting executed today are those orders which were booked at the better margins when the material prices were higher. But going forward, we could see that basically there will be equilibrium, which will start to fall in place. So that being the case, assuming there's the backlog and margins are also strong and consistent. So that's about it.

And when it comes to then personnel expenses, INR 178 crores versus INR 156 crores to INR 168 crores - So INR 156 crores to INR178 crores is more because of people increase. We are growing. So we are recruiting people. So that number of people have increased definitely from what we were and also the impact of retention of people by giving them increments is also definitely an important ingredient to keep in mind, as well as an actual evaluation impact. So this is basically the reason and it's a normal stuff as far as expense is concerned.

Other expenses, which are -- which is INR 404 crores versus INR 340 crores to INR 370 crores. And I think it's more driven by the revenues. No one-off items, which are there. So that's something which is good to say about it. And we had certain increase in bad and/doubtful debt provisions, not because it has become bad, it's more because we follow a very consistent term in the policy of how we treat the accounting of the receivables, which are based on the age of those receivables.

We are confident that there is no risk on the balance sheet at this point of time. So exchange commodity variation, INR 3 crores positive to INR 29 crores and INR 30 crores is, of course, anyone can see it is out of our control because it's more led by the derivative accounting and the mark-to-market impact with the prices which are softening out on the metal side, so we have a lesser impact, I would say. Otherwise, the depreciation, the interest remain quite nominal in line with the other quarters what we have seen.

Now let's dive a bit on the business segment, Electrification. So we had a very good run in the first quarter. We have Kiran here. So Kiran will also give some light as to what it is. The good part is we are still maintaining the INR1,000 crores trend every quarter. And fourth quarter always happens to be a strong quarter. So we'll wait to see what happens over there.

So, revenues following the trajectory of the order intake, we are at INR 1,042 revenues: INR 1,000 crores on orders, INR1,000 crores on revenue, so it has become a run rate, I would say, going forward for EL. Backlog of INR 2,086 crores, strong order backlog, executable, no issues, and PBIT is strong - 19% PBIT margin. And that's more because of good mix, price realization, as well as capacity utilization impact. So I think we often say that volumes stay magic, and so this is what you could see both in the product division as well as the electrification and more.

The next slide. Motion. Yes, orders, I mean, it's a bumper quarter for motion in terms of orders, in term of large order what they receive from the railway segment. So that's actually profiled up the orders, but the base orders remain consistent with the run rates what it used to be. And the revenue is growing consistently at 11%. But when the large orders start to execute themselves, we could see a better revenue traction also happening.

Our order backlog is up 32% and PBIT again at 19%. Our revenue mix is largely contributed by two divisions, which make up around 75%, and both of them have healthy backlog and healthy margins at this point of time, yes.

Process Automation, I think this is a turnaround sort of a story. Process automation has also gained traction in orders. So we missed a couple of orders in this particular quarter, not because of loss of orders, it's more about delaying decisions. So that should play out in the coming period. So that's something which we say that should be available in subsequent quarters as well.

Revenues are up 93% on a yearly basis. The backlog, what we have of INR 2,800 crores, which is 10% higher - should technically have been higher because we have got the orders which we missed - but still, I think we just wait for a couple of more quarters over there.

And PBIT I think has increased to 14.5%, and this is majorly because process automation depends quite a lot on service. So a huge stream on the revenue service. So the service picks up, naturally the margins also pick up accordingly. So there is a good story to take it forward.

Robotics. So robotics, of course, we had some good orders in this quarter as well. So they were lesser in the last quarter, and that was more because it was from the slippage of decision, which happened in this quarter, so we are there. And the revenues and profitability fine, so we don't have much of an issue under the smaller segments.

So overall, I think we have a good channel to market, good offerings to the customer and also in terms of geography, we are pretty much well spread. So what we are more gung-ho about is whether the domestic market is outgrowing the export market growth. So being well entrenched in India and serving the domestic market gives us better visibility and options to adjust to our volumes and widgets. So in a way, we are insulated from the global business if at all it is there.

Thank you very much. So we could open up for the questions.

Moderator:

Thank you very much. The first question is from the line of Renu Baid from IIFL Securities.

Renu Baid:

Congratulations, team, for super performance this quarter. My first question is to understand - if you look most of the short cycle or the base orders, as you mentioned, there have been some softness. Do you think it is primarily linked to inventory destocking or slowdown ahead of elections in terms of base consumption?

And at the same time, you also highlighted quite an interesting pickup in large order flow, some delays in decision making but orders are on plate. So how should we look at the mix of movement of orders, both on short cycle and long cycle both with respect to investment and the capex momentum? That's the first question.

T. K. Sridhar:

Okay. So Renu, so let me start with that question. Let me put a context and afterwards, we have the leaders who will throw more light on it, okay? So what we see today, I think in the last five quarters to six quarters as we have seen, base orders have predominantly been the driver. So that's what we have seen.

And now off late for the last two quarters, three quarters, we saw large orders also picking up, and that's also predominantly coming from process automation and in this quarter, from motion, right? So when I say motion large order, it's not a system order per se, it's a large product order for an higher quantity, which is actually qualifying to be called as a large order. But having said that, how is it playing out in the market?

While we see large orders, our focus is to make sure that we grow with base orders as our priority. So that's where we see. And that's across all the divisions as what we are at this point of time witnessing. Now coming to the different markets, what we see, of course, when you go back to those markets of enhance, grow and focus. But I think it's a very interesting sort of story, right?

And we have been repeatedly saying this, that data center, electronics and everything have been in new segments, which are growing and giving orders to all of the businesses at this point of time. And food and beverages, which used to be very less, today as a part of our revenue, almost 7%. And automotive as well as building sectors have grown.

So I mean this is basically the big picture view, what we see with respect to different segments. While our core segment, which is steel, cement, oil and gas, they also now have started to pick up on their capex spend, and that's from where we are coming. So what we are seeing at this point of time is, while the number of opportunities in the market would be increasing, there could also be a price stabilization, which will happen as it goes forward. Because the metal prices are stabilizing and also reasoning. So I think to compensate for that is where we look for new customers, new avenues, so that we could maintain the bottom line as well.

Sanjeev, would you like to add something to this? Any color, Kiran, you would like to give from EL and MO, Sanjeev?

Kiran Dutt:

Yes, I can give some inputs. This is Kiran here. I think Sridhar covered most of it. Only a few thoughts there that the base order continues to grow. It's not that there is challenge in the base orders before, there could be some challenges in terms of the projects which gets concluded, maybe some of them have pushed into Q4 as well. That is something what we see.

What we also see additional is specifically for the base orders from Tier 3, and Tier 4 cities. I think a lot of orders are coming in. So that is something which actually gives us lot of energy to work upon. And as Sanjeev explained, we are getting into the customers in the Tier 3 and Tier 4 cities as well. So that is also giving us a boost in terms of orders for base orders.

Renu Baid:

Secondly, if you look at the export numbers in absolute terms the last couple of quarters have been flattish, while the global markets have turned pretty weak in terms of actual investment in sentiment. So is it applicable to increase in the product mix and more production on the export side? And what will be our growth outlook and strategy for exports, not in percentage of revenues, but in absolute base?

T. K. Sridhar:

So exports, we said it is 10% of revenues and 11% of orders, right?

But if you see the growth in revenues, we are doing 31% of the revenue, which is coming up, right? But the growth per se in terms of export and absolute value, we see definitely around 13% to 15% as an absolute growth.

But that what is basically taking that percentage down is more of an absolute value of domestic market, which is outweighing the growers market. So having said that, I think a focus on exports from EL, from MO, as well as slightly to extent of PA remains unabated.

But the good part is that when there was a situation when we have to go scouting for exports, today, I think exports come to us on their own with GIS facility and everything there. And also now that the local markets and the domestic market is so interesting, we would like to focus our efforts on local markets and be relevant over here.

Yes. Would you like to say something, Sanjeev?

Sanjeev Arora: So, Sanjeev Arora this time. So I think Sridhar, thank you for that. And see exports, yes, you're right that we see that the global markets are not as buoyant as we see the local. But then that's also an opportunity, because you do see that the countries are more relying on having a good quality product at a reasonably affordable price. And that gives India and us an advantage to put in our technology at the right price there. So I think that can also work as an opportunity for us going forward. So that's my take. Thank you very much.

Moderator: Next question is from the line of Amit Mahawar from UBS. Please go ahead.

Amit Mahawar: Sanjeev and Sridhar, congratulations on consistent new benchmarks on profitability. So my first question is in this quarter, we've seen some slippage in energy, auto and PA. On an adjusted basis, what would have been the growth had we seen that? And also, you have provisions on receivables. So what is the adjusted profitability? That's the first question.

T. K. Sridhar: So let me take this question while if Balaji wants to comment and put in some numbers, it's okay. That's fine. So I think the PA did INR 529 crores of orders in this particular quarter.

They used to do roughly INR 700 crores of orders for the last two, three quarters. The gap is something what we missed and that's missing out because of delay in decision of orders. And that should sort of come out. So, when we forecast large project orders normally, it always has a bit of an 19-20 model.

So that's how it happens. But I think are the opportunities there in the market? Answer to that is yes. So, we don't see that as a factor to be concerned about. So Balaji, would you like to comment?

Balaji: Thanks, Sridhar. Just to add, I don't want to give a number, but then definitely, it's more on delay in approvals that certain orders could not be booked and the teams are on it to get that in place. In comparison, I would say that had we taken in those orders on a comparable basis, we should have been slightly ahead of Q3 2022 on a comparable basis. Just, to give an idea about the ones that slipped in terms of timeline.

In terms of visibility, both on the base orders and in terms of large order, there are quite good opportunities in the short term and year midterm as well.

T. K. Sridhar: Thank you. So your second question was regarding the profitability, right, Amit, if you could repeat the question again, please?

Amit Mahawar: Yes, Sridhar. What is the recurring adjusted margins if you would, just accounting for the provisions you've made in this quarter?

T. K. Sridhar: Okay. So I think we just did not make provisions for the sake of making provisions. It's because we had a reversal last time, which has, which is not present, because reversals or recovery from the customers don't occur every time. So I think if you remember, we were dealing with certain electrical balance of plants, orders or the business which was left by PG, and which was with us.

So we had actually provided for those particular receivables basically the model of accounting and conservative model. But as we continuously say, even though we provide, we continue to work on it and make sure that wherever there is a possibility and we have a fair chance, we get back those money. So the last quarter, we had an income or a reversal because of this particular efforts to what I certified.

And this quarter is a normal quarter without the need of reversal for anything. It's a normal provision which happens only based on the receivable aging as per the accounting policy.

Amit Mahawar:

Fair point. Second and last question is more on mobility since this quarter, you have railway as a focus. Let me focus on that. On the propulsion capabilities and capacity of ABB in Indian plants, where are we in terms of the capacity market share? We have Megha, we have Bombardier, we have like two, three guys who have global scale including ABB in India. And you actually mentioned about a significant number in the next seven years that India is going to spend in railways. And propulsion is one of the largest subsets.

So can you just maybe Sridhar or somebody else can throw some light on qualitative aspect of where ABB stands on capacity because the step-up in demand every year is going to be significant vis-a-vis what we've seen in railways and propulsion and new type of technologies. So, any color there is useful. Thank you.

T. K. Sridhar:

Sanjeev, would like to go?

Sanjeev Arora:

So thank you. Thank you for the question. And I think we are all excited about this journey. So this is Sanjeev Arora. So I think you're right. And let's understand how we operate. So the names that you have taken are the OEMs, whom we serve. And definitely, the expansions, the orders, what we are taking, have a definite expansion plan in place. And you will soon hear from us in coming quarters on how and when we are actually opening up new facilities and also enhancing our current facilities to cater to this. So you're right, and the investments are lined up and planned well. I hope I was able to answer you at this point of time.

Amit Mahawar:

Yes. Sanjeev, my only point is assuming the last two years of activity, we've seen a very heavy awarding in one of the largest global numbers that India has seen maybe is on propulsion in terms of large contracts and supplies will soon start. So how is ABB placed capacity-wise? And is there a risk to the industry where capacity might not be ready to meet the next three-year demand to start with? That was my contention, actually.

Sanjeev Arora:

See, that's what I was trying to explain that if ABB is taking that order- First of all, the bottom line is, we only bid if we are confident that whether we'll be able to meet the customers' delivery. So that's clear. And these are long-term projects. And it is not that it's going to be a very short cycle. It's a long project, and we have a definite plan.

As far as ABB capacity goes, whatever project we bid, we will make sure that it will be delivered in time. But regarding the general industry and the orders taken by other people, I wouldn't be the right person to comment. But as far as ABB goes, be rest assured that whatever we take, we commit to the customer we deliver. And we are expanding as I told in my previous comment.

- Moderator:** Next question is from the line of Mohit Kumar from ICICI Securities.
- Mohit Kumar:** Congratulations on a very, very good set of numbers. So my first question is on the mobility margins, which has improved materially in this quarter. Is any large order which got delivered? How should one expect it to revert to the mean in the next couple of quarters?
- T. K. Sridhar:** You're talking of Motion, right?
- Mohit Kumar:** Yes, motion.
- T. K. Sridhar:** For Motion, PBIT% last quarter was 14.5%, Q3 '22 was 10.6% and this quarter was 19.4%. So that's basically the question.
- So Q3 2022, I think one was the mix, definitely the mix and the price realization advantage, which has played out and also the positive impact of forex, which has actually factored into the PBIT itself.
- From a forex impact on those particular results, it's more driven by the capacity, the margin on the orders and the mix. So this is broadly the thing. So I mean, they have a very clear focus on service. So service as a business division is rendering better revenue scale.
- Mohit Kumar:** And anything on the expectation this will revert to a mean kind of number?
- T. K. Sridhar:** I didn't get you.
- Mohit Kumar:** Is it fair to assume that this is stabilized at 15%, 16% rather 19%, which is simply very high?
- T. K. Sridhar:** We don't know. We do not predict those particular numbers at this point of time because we have a lot of backlog, and we need to see what sequence of that particular backlog is executed.
- Mohit Kumar:** On the Motion, Sridhar, my second question is, I think this quarter, we have won a large order. This seems to be particularly from Vande Bharat. Is it fair to assume this order is executable over the next four years to five years and not over one years to two years. Is that a fair assumption?
- T. K. Sridhar:** I leave the judgment to you because it's an information which is more internal to the organization, we don't share those details in integrity. I'm sorry for that.
- Moderator:** Next question is from the line of Ankur Sharma from HDFC Life.
- Ankur Sharma:** Just on this rail order again, it's for the Vande Bharat. So I assume the value would be around INR 300 crores, INR 400 crores, but more importantly, is it for the Russian customer. Is that right?
- T. K. Sridhar:** So Ankur, I did mention the sector from which we got it, but our rules don't allow us to give more information because it is confidential information of the customer, right? So we don't do that. But I gave you an information about which sector it came from.

- Ankur Sharma:** So, on the motor division, especially on the LV motors, some of your peers, including CG, are talking of a slowdown there, some channel destocking, etcetera, and that maybe continuing over the next few quarters. I'm not sure if you spoke about this, but how are you seeing demand, especially on the LV motor side?
- Sanjeev Sharma:** So we have Dr. Sanjeev Arora here. So he will be able to do this.
- Sanjeev Arora:** So thanks for the question, and I think good that you raised it up. See, let's understand that the pent-up demand is over. And the other part is that a lot of orders are also re-export from our OEMs, and if the global scenario is softening up, even though our local demands will remain, the overall picture will reduce. And there is a lot of exports from India, when you come to general machinery market, pump, compressors, you can name another seven applications more.
- So overall impact of global economy will be there. India is a global player. We will have to have that brand. But domestic part, I would still say that it would not be that pensive mode, but global demand can drive the overall demand a bit down.
- Ankur Sharma:** Okay. I understand. Just one last one quickly on the process automation, where we saw this big jump in top line, I think 90% plus. But clearly, the order backlog growth is just about 10% on a Y-o-Y basis. So is it just a base impact? And therefore going forward, it kind of gets normalized? Is that how we should look at it? I'm just trying to understand this big jump in revenues when backlogs are up just about 10% on process automation?
- T. K. Sridhar:** Just to give you a logic on that Ankur, I think process automation started with a low order backlog base a couple of years before, right? And they try to build on this particular order. But the revenue execution was faster than the order intake. So the consumption of the revenues from the order received and the backlog is faster. And therefore, you see only a 10% growth, in the order backlog.
- Whereas when you look at MO and EN, you see a larger percentage growth because they have a consistent order backlog based on which they are adding orders and executing revenues.
- Moderator:** The next question is from the line of Aditya Mongia from Kotak Securities.
- Aditya Mongia:** I just had a single question, and this was more on the operational EBITDA margin that you talk about. If I see the Q-on-Q or the Y-o-Y trends in that number, they are very different from your reported numbers. For instance, from 2Q to 3Q, there is a decline in operational EBITDA margin versus what the reported numbers are. Could you give us a sense of what adjustments you are making in that number?
- T. K. Sridhar:** I didn't get your question. So if I look at the operational EBITDA margins, right? So, for Q3 '23, as per the press release, we did 13%. Q3 '22 as well. And Q2 '23 was 13.6%, right?
- Aditya Mongia:** That's true.
- T. K. Sridhar:** Right. So you are comparing it with what, I didn't understand.

- Aditya Mongia:** If I look at the PBIT margins for instance, 10.8% last year same quarter has become 17.5%, even though the operational EBITDA margin is only up from 12.1% to 13%. In that sense, I wanted to get what adjustments do you make which makes the difference at an EBITDA level, operational EBITDA level from a margin perspective very different from your PBIT movement?
- T. K. Sridhar:** Very good. If you have the press release in front you, we have defined what is the operational EBITDA at the end of the press release - you remove out what is before interest, taxes and acquisition, operation with the income and operation, excluding acquisition-related amortization, restructuring related and implementation costs, changes in amounts recorded for our obligations related to divested businesses, the estimates and mark-to-market.
- So there's a whole set of definitions, what we have to do to normalize to come to operational EBITDA, which reflects the operating margins of the business on a like-to-like basis without having an impact of forex fluctuations, restructuring fluctuations and only onetime impact what happens.
- Aditya Mongia:** Understood. So essentially, this is a better number to focus on. That's as much as I wanted to clarify.
- Moderator:** Next question is from the line of Jonas Bhutta from Aditya Birla Mutual Fund.
- Jonas Bhutta:** Congratulations, Sanjeev and Sridhar on a greater set of numbers. Just one question on this mobility order. Is this one of the many portions of the same order - in the sense, is this going to be a recurring order as the client starts manufacturing the trains? Or this is the entire scope of the order through the life cycle of that project?
- T. K. Sridhar:** So as far as the current detail goes, it's the complete order for complete life cycle at this point of time, and we supply the product portion of it, yes.
- Moderator:** Next question is from the line of Amit from Prabhudas Lilladher.
- Amit:** In your initial remarks, you talked about deeper penetration in Tier 2, Tier 3 cities, and you're getting very robust response from that. Just wanted to understand Tier 2, Tier 3 cities, if you could share us what is the contribution in EL and MO from Tier 2, 3 cities this quarter or 9 months?
- Sanjeev Sharma:** We do have a number, to be honest. But that's a very sensitive number to share. So, I hope you would like to have the same margins and supplements for the coming quarters also, right, or maybe. So therefore, we would prefer that it's more internal.
- Amit:** Sure. My second question on the superior realizations which you have mentioned in electrification business. Just wanted to understand if you can throw more color where we got this from? And is there any trend which we are witnessing, which is leading to the superior realization here? Is it a product mix or something?
- T. K. Sridhar:** Kiran?

- Kiran Dutt:** Okay, I can answer that. Kiran here. Price realization happens in 2 parts. One, in terms of technology, and one in terms of, let's also give some credit to our sales colleagues who are doing a great job. The technology, what we supply is current technology, which is quite, quite superior than many of our competitors. And that's giving us an edge in terms of what we supply to the market compared to any other competitor. So that's one of the reasons. And for sure, our sales colleagues are doing a great job to get this done.
- Amit:** Sure. Sir, last, if I can squeeze in on the gross margin. Would this level be sustainable? Anything, any color you would like to share on the gross margin going forward in coming quarters?
- T. K. Sridhar:** So let me take this question, Kiran. So it is gross margin and it's a bit of sensitive topic. So I think the gross margins, which we have today, which has some products of quite a few actions what happens in the graph, right? It's a capacity utilization. It's a price realization as what Kiran was alluding to. And also it's an average of the mix, right. So these are the three topics.
- And as I was mentioning earlier, today we have an advantageous situation of execution of those orders, which were secured at the time when the prices were high, but we were able to negotiate with the vendors better and create a better NPV for the organization.
- But now, going forward, the gap will start to close and because they are all becoming now stable, right? So that being the case, I think we cannot give you a sort of a directional view on where we would like to go to on the margin per se. But I think we want to definitely believe at the company level in the PAT% of more than 10% as what we said is what we would like to be.
- Moderator:** Next question is from the line of Harshit Patel from Equirus Securities.
- Harshit Patel:** Sir, if I look at our margin profile of last few quarters, I think much of the expansion has come from the operating leverage rather than the gross margins. I mean gross margins have definitely helped, no doubt about that.
- So is it the case that we are now getting decent level of economies of scale in many product lines, which was not the case earlier now with the increasing revenues and therefore, a very good cost absorption is happening, which was not the case, let's say, 2, 2.5 years ago. So would you agree that this factor would have helped margins more, vis-a-vis, localization that we are doing at the moment?
- T. K. Sridhar:** Okay. So far, Sanjeev Sharma has not gone on air. So this will be the concluding remark for Sanjeev Sharma.
- Sanjeev Sharma:** Yes, I think you're right. It's the mix of factors which contribute to the profitability. So, you have to optimize the whole value chain to squeeze the superior profits. If it is based on only one factor, then it is not sustainable. And I think our journey in the last 2, 2.5 years has been to look across the value chain that is what kind of a gross margin we are booking the orders. Then what kind of execution cycle we do in terms of no slippages in execution, only positive slippages. Then productivity measures that we take in our factories in terms of ability to execute the orders without distorting the market price with more efficiency at a lower cost.

And then introducing a lot of automation in our factories so that we are able to do far more from the same assets. We are able to produce more from the same assets by means of automation inside the plant, also developing our suppliers for localization and also outsourcing so that we are able to produce more from the same plant. So all these taken into the profitability equation.

And also our ability to deliver services very effectively post-delivery, during the commissioning, installation and also after work - That engine is also working for us and attracting some better margin orders from the overseas market. So there are a number of elements when you put them together, they start playing.

And of course, capacity utilization is one effect, but then I mentioned to you about other facts. And last but not the least, the supply chain, how tightly they manage the increasing volumes and they take the effect from the suppliers with the increased volume that we are giving to our suppliers. Sometimes we have a pre-agreement with them, higher volume means lower cost. And sometimes, we have a capacity to negotiate them around it.

So if you put that across the value chain and sum them together, that starts showing up in the margin that we are declaring to you and to the market.

Harshit Patel:

Understood. Sir, just a small follow-up to that. On the kind of factors that you have elaborated. So everything seems to be growing right for us. So would you agree that whatever can go right is going right for us and that is causing the kind of margins that we are seeing at the moment?

Sanjeev Sharma:

So I can say the same words I used for the Board presentation today this morning that ABB as an organization, all our 18 businesses are in a very good rhythm. We have very good and very high-quality leadership on each one of the divisions that we have and also the management structure on it.

They're empowered to run their businesses in the relevant market segments. And also, they have excellent support coming from the global teams for expansion of the portfolio, localization. So we are in a good rhythm at this point of time, and we are also operating in a very supportive market. So if you combine all those things, these effects are quite normal in my experience.

Moderator:

As there are no further questions, I will now hand the conference over to Mr. T.K. Sridhar, Chief Financial Officer, for closing comments. .

T. K. Sridhar:

Thank you. Thank you very much. Probably this is the first time since I've started this particular journey where we've answered all questions, right, and completed on time, right? Thank you for a very patient listening and interesting questions. And wish you all a very, very happy Diwali to you and your families, and stay safe and stay healthy. Thank you very much. Looking forward to talk to you in the next quarter. And thanks to all this management team, which was here, which have put in a lot of efforts to come here. Thank you.

Moderator:

On behalf of ABB India Limited, that concludes this conference. Thank you for joining us. You may now disconnect your lines.