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

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

Attn: Listing Dept.

Dear Sirs

Sub: Transcript of Analyst concall

In continuation of our letters dated August 7, 2023, and August 11, 2023 we are enclosing a copy of the transcript of conference call with analysts, which took place on August 11, 2023 post announcement of Q2 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

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Company Secretary and Compliance Officer
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ABB India Limited

Q2 (April to June) CY 2023

Earnings Conference Call

August 11, 2023

MANAGEMENT: **MR. SANJEEV SHARMA – COUNTRY MANAGING DIRECTOR**
MR. T. K. SRIDHAR – CHIEF FINANCIAL OFFICER
MR. SANJEEV ARORA – PRESIDENT & LEAD BUSINESS MANAGER (MOTION)
MR. KIRAN DUTT – PRESIDENT (ELECTRIFICATION)
MR. SUBRATA KARMAKAR – PRESIDENT & HEAD (ROBOTICS & DISCRETE AUTOMATION)
MR. GANESH KOTHAWADE – SENIOR VICE PRESIDENT (ELECTRIFICATION)

Moderator: Ladies and gentlemen, good day, and welcome to ABB India Limited Q2 April to June Quarter CY 2023 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 "*" then "0" on your touchtone phone. Please note that this conference is being recorded, and any unauthorized recording of this call is strictly prohibited. The recording will be made available on the company's and SEBI's website subsequently.

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

T. K. Sridhar: Thank you. Thank you, Yashasri. A very warm welcome. Good evening to all of you for the Q2 analyst call, wherein we will take you through the performance of Q2 of ABB India Limited.

So, together with me is Mr. Sanjeev Sharma – Country Managing Director; Sanjeev Arora, who represents Motion; and Kiran Dutt and Ganesh Kothawade, who are from EL. And we don't have Balaji. Balaji is traveling from PA, but we have Subrata Karmakar from Robotics.

So, over to you, Sanjeev, so that we start off, and then we can go to the financials.

Sanjeev Sharma: Thank you, Sridhar. Good evening, everyone. Thanks for joining this call so late on a Friday. So, we can understand that we should start this call on time and end on time so that all of you can go back to your well-deserved long weekend.

You know that ABB, as a company, has been around for more than 130 years. We continue to keep our leading position with our leading technologies in electrification and automation. And in India, we have been manufacturing for last 70 years-plus. And our presence here has been over 100 years. Our 4 verticals or business areas, electrification, motion, process automation, robotics and discrete automation, they operate in India with 5 manufacturing locations. At this point in time, we have 25 plants, 21 sales office and 750-plus partners who bring us deep inside the different market segments as well as the geographical spread of our country.

Those of you who have been following ABB for a long period of time, you have seen that ABB has grown its depth in terms of the market segments we cover. So, if you see this chart on the right, which we call as SUSTAIN, these were the typical market segments ABB used to operate many years ago, which we, in other words, used to call our core segments, cement, metals, mining, buildings and infrastructure, power distribution, oil and gas, marine and ports, rubbers and plastics. These were the typical market segment which used to give us bulk of our business. And they were very dependent on the capex cycle of large companies. But over a period of time, as India has grown and also new market segments and new market opportunities have come and also with our own concerted effort to expand ourselves into new market segments, we have gone into segments which are covered under ENHANCE. So, that is making a significant contribution to our growth. And the focus segments which are the new generation market segments where, again, our growth rate and penetration is increasing, and our products are finding good favor with our customers.

And the ones which you don't see on this chart, they are on anvil. There is a new, very large energy transition taking place in the country. So, we have identified a few opportunities wherein the customers are forming their capex as well as future investments. And you will see those market segments will also get expanded. So, at the moment, we focus on 23 market segments, and this is our base for us to drive the growth in our 18 business divisions.

So, like every time, we talk about a particular market segment every quarter just to give you more granularity of a segment, how we see it. So, food and beverage is the theme for this quarter, a deep dive. What we have in this particular market segment, we see about $535 billion of the formation of the business in this year. And it has grown quite rapidly from FY '22 at $290 billion and is expected to be $535 billion in FY '25.

And you can see the market segmentation of it. And all these market segments, with the direct and indirect opportunities, play with our portfolio. Mostly indirect through machinery suppliers, OEMs, as well as our channel partners, they bring a lot of business, and also the large companies, they buy equipment and technology directly from us in this segment. So, fastest-growing segments, you can see the packaged food, dairy, meat and marine. And also we see with the changing lifestyle and food habits, there's a strong domestic demand for this particular segment. The expansion of capacities is taking place and more and more emphasis is being put by the government. 100% FDI for food processing, PLI schemes, all these are part of this market and our portfolio in drive motors, automation, instrumentation, robots, switch gears and digital powertrain goes into it.

Now coming to the business highlights. Our Quarter 2 of 2023 - where we call it as a June quarter, I think for many, reference point is quarter 1, but for us it is quarter 2. The orders were up 10%, despite a higher base, driven by emerging and traditional segments. Revenues are up 22%. And profit after tax, if you take a year-on-year basis, it's 200 basis points higher, driven by operational efficiencies as well as good execution of the backlog. We have expanded the manufacturing footprint of energy-efficient drive portfolio. That again, is playing into the sweet spot of the market, wherein more and more customers are replacing or buying products which are more energy-saving. So, energy-saving and energy-efficient is a sweet spot for ABB, and we see a lot of emerging demand in that particular area.

And not only are we helping our customers to reduce their carbon footprint, we, ourselves, have a concerted effort within the ABB organization, and we have been able to reduce 85% GHG Scope 1 and Scope 2 emissions until quarter 2, 2023 compared to a baseline in 2019 in all of our manufacturing locations. So, it's a program that we run, and we are very proud of how our teams and our businesses have taken upon it and how we are able to be making an impact in each and every location. We are engaged with 3,000-plus customers across 13 Tier-1, Tier-2 and Tier-3 markets, and a substantial amount of business is coming from these markets for us. We are maintaining a good cash position in our balance sheet, and our free cash flow conversion is in line with profit after tax. The Board has approved a special dividend. I think that Sridhar will give you a bit more details there. We thought that we will bring some value to our shareholders.

So, there's a positive market momentum across all the segments that we are focused on. All our businesses are growing. All of our businesses are having profitability in the right direction. Our business now tends to be a short cycle. Our services are growing at a healthy rate. We also have good exposure to very strong emerging market segments, be it in the automotive traditional or EV segments which are emerging, electronics which is expanding, and also F&B segments. And the investment by Railways and Metro, that also is quite favorable for our portfolio and also process industries which has started making OPEX and CAPEX investments, there again, we are finding good favor. So, with that, our order backlog has grown nearly 29% to Rs. 7,700 crore.

So, we have some examples here, we have the power and automation going into an aluminum major. Then we have the motion solutions comprising of drives and synchronous reluctant motors going for a heavy electrical major. Then we have traction motors for railways, blending solution for a Japanese engineering procurement company for the energy space, robotics solutions for metals majors - It's a non-automotive project. Power distribution and management for data centers, which again is a very strong emerging market segment, along with robotics - paint in white in orders for automotive majors. More and more Indian automotive majors are investing in robotics, and we have quite a favorable positioning there. And of course, our switch gears going into ethanol production are also on display.

Our teams have this recipe of really going and connecting with customers deep in the market segments with the new customers as well as existing customers and we had a very strong engagement in the last quarter across 13 Tier-2 and Tier-3 markets. This is one of the reasons the effort and the leadership of our businesses is really contributing to our growth.

As I mentioned, our GHG Scope 1 and 2 emissions are down 85% on the baseline in 2019. We recycle almost 96% of our waste. And 2 of our 5 plants are now water-positive, cumulative till quarter 2 of 2023, and we hope to have all our plants water positive. On the CSR perspective, we continue to make impact on helping and supporting our surroundings as well as the targeted areas with the infrastructure projects, providing skills as well as education in multiple schools, having the kind of residential facility for women with special needs in Nashik. We have a mid-day meal program supported through Akshaya Patra Foundation. In Faridabad, we run a program which is an education scholarship for girls with IT skills, and health care for making special camps for communities who don't have access to those means.

So, with this, I will hand it over to T.K. Sridhar – our CFO, to take you through our financial highlights. Thank you.

T. K. Sridhar: Thank you. Thank you, Sanjeev. It gives me immense pleasure to bring you the results, which is absolutely a solid performance in the quarter. So, I think, first of all, I would like to tell you, based on the feedback what we got and also the global standards, we improved our press release, which would have reached you all with more information, which we will do on a half year and full year basis so that we have a better transparency and clarity on the data of the performance of the company.

So, going by that, I think we have now got a consistent track record. Orders are at Rs. 3,044 crores, which has seen a 10% Y-on-Y growth. Order backlog, we are at Rs. 7,729 crore, 29% up. Revenues - we now have reached Rs. 2,500 crores per quarter. So, that's now consistently tracking at that level, with 22% growth. And profit after tax and the profit before tax, I think, have grown exponentially with Rs. 393 crores and Rs. 296 crore for the quarter, which is more than 100% of what we had delivered in the previous year.

So, we bring to you, apart from this, I think, a couple more data points, how our earnings per share has been improving for the last 8 to 10 quarters and also what has been our trajectory on converting the profit into cash. So, we are now quite efficient in converting the profits into cash, we are trending at an average of 100 % of what we earn.

So, I think this is a key summary of how the Q2 looks like. Just to get some more information about how we did for the half year. So, half year, on the order level, we are trending at 22% more than the half year of last year. So, Rs. 6,169 crore as against Rs. 5,066 crores in orders. And the backlog, we said 29%. So, revenues are up 22%. And profit before tax and before exceptional items is up by 83%. And profit after tax is up by 5 %.

The gap is more because in the first quarter of last year, we had one exceptional transaction impact of the turbocharger sale divestment, so which can be made out this quarter's PBT of Rs. 328 crore. And that's the one which is included in the profit after tax of the last year. So, that has an impact. But if you remove that, the profit before tax and profit after tax for the 6 months also will trend at the same levels is what we have seen. So, cash balance, we are at Rs. 4,092 crores at this point of time.

Just to dwell a bit more on what the structure of the P&L looks like. So, as we explained the revenue portion of it, other income consists mainly of interest income from the cash deposits we have made. The material costs are holding on at 63.5%. This is probably because of 2 things. One is the mix of orders remaining consistent with a good amount of services portion and also a bit of a softening of the metal prices, which has helped us. And our ability to command a better price in the market has actually improved the material cost. These material costs are derived from the orders we have booked in the previous quarters. So, this is something what we need to keep in mind.

Personnel expenses is at Rs.168 crore compared to Rs. 145.7 crores from same quarter of the last year. And that's representative of the increments that have been given to the employees on a year-to-year basis. We don't have any other events apart from that. Other expenses remain consistent. So, the only outlier is the exchange and commodity price variation. So, in last quarter it was Rs. 56.8 crore, and this quarter was Rs. 29.8 crore, resulting in a Rs. 30 crore swing. That's the only additional impact. But otherwise, the other elements remain pretty consistent with what we had in the previous quarters.

So, overall, we are very satisfied to deliver this particular result as there is profit after tax of 11.8% and on a 6-month basis at 11 %.

So other income includes 49 crores, and majority of it is interest income. Operational EBITDA, quite interesting, I think this is something which all you have been tracking as to how ABB is performing. We maintain stability on the performance. So, we always have been saying that we want to have the 10% PBT first and then move into the next corridor of delivering better profitability and PAT level, and that is reflective in this particular slide of EBITDA and PBT. And that's more because of the volume price and the capacity utilization.

Just to give a bit more color on how each of the segments have performed. So, electrification and motion, everyone continues to be on the growth trajectory. All the divisions in electrification posted a growth. So, I think that's something which is quite visible in across all the divisions. Revenues - this is basically possible because we had a seamless supply chain supporting the fast growth of the EL division, which also helped in delivering the revenues on time. Profit before tax and interest, I think it is more of a price realization, capacity utilization and a mix, which gave a positive lift to the numbers.

Motion. I think, again, a strong demand from energy-efficient products. This is a theme which is a hallmark of Motion offerings. So, that has actually driven the growth. And it's good to see that for the last 2 quarters, we are consistently at Rs. 1,100 crore in order bookings and reaching up to Rs. 1,000 crores in revenue execution as well and a good development in profitability as is evident. Q1 had a onetime impact of a quality warranty what we have provided, and that's exactly what is there, and this was already informed to you in the last quarter's earnings call.

Process Automation. So, we got a large order from a metals major as was told. I think that's helping us to get to Rs. 784 crore this particular quarter. Revenue is consistent with the order booking, what we had on hand of Rs. 510 crores, so profitability coming back to Rs. 11.1 crore. And I think in the Q4 '22, it was more contributed because of the highest ever revenue, which was there, an exceptionally higher service revenues, which pulled up the profitability to Rs. 17.6 crore.

Robotics. Again, another quarter of solid performance. So, the orders were slightly less than in this particular quarter compared to the run rate, and that's more about the timing of orders. This being the first quarter for quite a few companies, so the decisions come up in the next quarter onwards upto the financial year starting from April onwards. But I think Robotics as a business is actually performing and quite consistently with the numbers we have.

The last slide is about how we see our channels, offering and geography. So, products dominating the total offerings with 77%, services with 13%, and X1 projects with 10%. There has been a broad bifurcation.

Next is geography. I mean, while it is good to see that we have 11 % of exports that has come out in this particular quarter, more important is that the domestic demand is growing faster than the export. While we see the absolute value of exports also increasing, the domestic demand is far exceeding the export demand, and that's exactly why the percentage seems low.

So, what is the focus for H2 '23? So, definitely, we continue on the market penetration. We also make sure that we have an order booking momentum going on. And sustaining margin momentum is also key for us to be there in the corridor of our goals. And we'll make sure that capital that is available is allotted for the right projects and the right processes. And last but not least is making sure that the sustainability target is also achieved.

So, while on this, I have something else which I thought I should offer to you because I know a lot of people reach out to the organization to set up meetings. So, in order to make sure that we have a more seamless experience on how we deal with analysts and investors, we thought that it is time for us to gear up to make it more digital and make it more user friendly.

So, we will reach out to you with a link wherein you could register yourself and ask for meetings, and then the organization will make sure that it is set up at the right point of time. And this also helps us to share with any of the regulators at some subsequent point of time if it is asked for. So, this way, I think we make it a bit more structured and more documented also well for you, and it also helps you to record yourself for the meetings or to have that with ABB.

So, with this, this is the end of our discussion. So, we could open now for Q&A.

Moderator: Thank you very much. We will now begin the question-and-answer session. We have our first question from the line of Renu Baid Pugalia from IIFL Securities. Please go ahead.

Renu Baid: My first question, obviously, when we look at the numbers, margins, you have seen consistent improvement. While your comments have been very clear, can you show some more inputs in terms of the gross margin's consistency of 36% for almost 3 quarters now… How sustainable is this? And what comfort do you derive from the order pipeline in terms of competitive intensity in the mix, which should help you sustain this profitability?

Sanjeev Sharma: Thank you, Renu. Thanks for this question. So, we have shown you our backlog numbers, which have grown by 29%. So, that gives us forward revenue surety, and that's where the margins come from. So, we have a fairly robust pipeline of revenue. So, we feel that with the consistent execution each and every division that is carrying out, I think trajectory is in the positive direction for us.

Renu Baid: And any input specifically on the mix of large orders that you have booked in the current quarter, probably in the process segment? And how has been the outlook from core sector awarding like steel, especially on the greenfield projects? Also, do you perceive any slowdown in orders towards the end of this calendar year or beginning next calendar due to the elections?

Sanjeev Sharma: So, the second part, I'll answer. First part, you can go ahead about the orders being booked, the large orders, Sridhar?

T. K. Sridhar: Yes. I think the large order, what we have booked from a metals major, I think that happens normally in Process Automation. And also, Renu, to answer your question on the first question, which is consistency about how good will that 63.6% or 64% in the material cost, right? So, if you look at the backlog, the majority of it is projects because it comes. But all the product businesses, which is motion and EL, a lot of them are book-to-bill or short-cycle orders. So, that's also governed by the current prices which happens in the market. And so, it's a matter of how we execute the existing backlog mix with the capacity utilization and the service composition.

That remains the key. So, our endeavor has been to remain in that material cost level. So, what could basically upset that? That would basically be the volatility in the FOREX, anything which could happen on the economy with respect to the demand situation with respect to metals, right? So, this is what we see. As far as technology is concerned, we have more prudent offerings in that particular space, right? So, this steel order will get executed over the next 18 to 20 months, that's what I was saying. Over to you, Sanjeev.

Sanjeev Sharma: So, with respect to forward outlook, we respond to how we see the market developing close to our nose. So, we engage, and if the market responds positively, we continue to engage and continue to create capacity to deliver on time for the customers. So, even if the market is very robust, we always make sure that we make commitments in the market which we can deliver and honor on time, be it supply chain disturbances or any other disturbance which could be there in the marketplace. So, I think that has been our trademark. Now looking forward, when I look into our distinct themes because ABB, of course, is one company, but then we have 18 companies within one company. As when I interact with each of the division leaders, they're really engaging very well with the market. Their targets are to expand from the base where we are, and they are quite positive. They see the market responding in a positive way at this point of time and also with the forward pipeline.

There are certain pockets which are in a multiple market segment and multiple product lines or product division portfolio, you will either have one line or the other wherein some hotspots develop, which are very natural. Only on the minority side, there is a certain sluggishness here and there in the market segment or a product line, but not on the majority side of it, Renu. So, that's what we see. Now with respect to the election year, probably, I think we'll listen to your report, if you have done a better analysis so that we can learn from it. So, there is something, I think, we will learn from the market rather than have our own point of view on it.

Renu Baid: Also, just want to comment and appreciate your efforts for being the first to automate the investor side of queries and requests. Thank you and appreciate your efforts.

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 position is substantially improving, you've indicated we could look at potential transactions. Where are we on that path? How close or how far is that event? And if not, then what do we do with such a healthy cash balance that we're sitting on?

Sanjeev Sharma: So, we have both organic and inorganic plans. So, the organic plan is very well laid out, in line with the demand that we are seeing in the market and the capacity utilizations we have reached. So, those are very firm and very predictable as we go forward. And also, we have many of our global divisions coming to us, using India as a base to serve global markets. So, incrementally, different businesses have started showing interest in that area. So, we should expand in that direction as well. So, that's one way of utilizing it.

Then what we have at this point of time is for every business area and every division, we have very clear targets what we are looking for, what kind of technologies, bolt-on technologies we are looking for in each division. And this is something which is a search at a global level as well as at a local level. And both will happen. So, some kind of acquisitions can take place at a global level with that targeted approach, and some will happen at a local level. So, that's where it will get utilized.

And in this particular space, both should be ready, buyers and sellers. So, buyers should be ready to buy. We are ready. But then the sellers should be ready to also transact. So, we do have a pipeline there, but it will happen over a period of time. And I think that's how we will see utilization of cash going forward.

Deepak Krishnan: Maybe just a follow-up. Just indicating that you indicated the pipeline continues to remain strong. And last quarter, you sort of indicated a 12% to 15% is the order inflow growth that we were expecting for this year. But given that 1H we are already at 20% plus. Do you see that we would be more at the upper end? Or do you see potential to back to even the price higher than what we were recently indicating?

Sanjeev Sharma: What Sridhar said is that this is the first quarter generally for the industry, they are typically sluggish in this quarter. And then it picks up in the second quarter, third quarter and fourth quarter for the industry. So, we don't see. I think when we meet large corporates and medium-sized corporate and kind of upcoming companies, actually, we don't see any sense of passivism as yet. So, we will play by the market. It's difficult to predict how it is. But I think we will keep on making a deeper penetration in the market segment and the geographies. And none of those efforts are disappointing us at the moment.

Moderator: We have our next question from the line of Sumit Kishore from Axis Capital. Please go ahead.

Sumit Kishore: We read your press release, it says that base order inflow growth was 4% year-on-year. Is there a risk of the base orderings sort of plateauing out after for a while? That's my first question.

T. K. Sridhar: Sumit, we have said that it would be on a high base of last quarter same year so, that's basically what we meant, that when we see the 4%. Last year, the same quarter was in a fast track, which was a rebound after the COVID period and people started to place orders. And that's exactly what we said that it was on high base orders. And so, in spite of that, we are able to grow.

Sumit Kishore: So, I was saying that you mentioned in a certain business segment in the base quarter, which might have also slowed down the base order inflow growth in Q1?

T. K. Sridhar: Actually, Q1 in robotics, last year, we had an electronics segment, which gave us an order, which was a one-off order. So, therefore, there were 2 large orders, which were booked in Q4 '22 and Q1 '23. So, that's exactly what we meant over there.

Sumit Kishore: My second question is that your gross margins have been stable, there are operating leverage benefits playing out, which are showing up in EBITDA margins. Now as the cycle matures, would you lower the threshold on gross margin? Because essentially, with the operating leverage benefit, you would still make the same EBITDA margin and the same profit margin. So, in booking more orders, would market forces make you lower the gross margin that you're making right now?

Sanjeev Sharma: Well, I think it's a very, very good question and insightful. But typically, as a company, you respond to the market forces as they present themselves. So, what we have right now is we are playing as the market demand is there and seeing the elasticity of the market to absorb the price points that are available in the market at large. So, I think this is something you don't predict, but you adjust as you face the market.

Sumit Kishore: Because when we look at the peak of the last CAPEX cycle, we sort of see that your gross margins were a lot lower actually at that point versus what you are making right now.

Sanjeev Sharma: Which year are you referring to?

Sumit Kishore: I mean, towards 2007 and 2008.

Sanjeev Sharma: I think all of us were very young at that time, but you have a point. If you may have seen the ABB portfolio now, it is very different relative to what was in 2007. We were very project heavy, very concentrated. But now the portfolio is very, very different. The character of the company as well as the penetration and our exposure to market segments, geographies is very, very different. So, I think on a like-to-like basis, it's not comparable.

T. K. Sridhar: But Sumit, thank you for this question. Also, until now, we were always asked questions, when will you reach or surpass that particular 2007 level? Today, we are talking that we have already surpassed that, so how are you going to maintain, right? So, that's a good conversion as what we see.

Sumit Kishore: Yes. Now, near that point, your ROE levels were significantly higher. And you're closing that gap very fast now, but your ROEs were in excess of 30%. So, that was at the peak of the last cycle, yes. Thank you.

Moderator: We have our next question from the line of Amit Mahawar from UBS. Please go ahead.

Amit Mahawar: Sir, congratulations on great profitability. I have 2 specific questions. First is on motion, the kind of demand we are seeing in propulsion systems, do you think capacity-wise we are ready? And do you think next 2 years, the run rate of motion, especially from propulsion, etc., that we can have is going to be significantly higher? That's my first question.

Sanjeev Sharma: We could give this question to our Motion head, Sanjeev Arora. Sanjeev, did you get the question?

Sanjeev Arora: So, if I got it right, it is upon the expansion and the investments relation, right?

Amit Mahawar: Yes.

Sanjeev Arora: Do we see good investments and how are we prepared for that? So, if that's the question, thank you very much, I think very well pointed out, and that is exactly how we are playing in this field. We are expanding our portfolios, our production facilities. And you have seen in the past that we have also put up a traction motors plant in Vadodara last year. And also, we are expanding our converters production facilities as well. So, we are getting up, and we'll be coming as close as the market demands.

Amit Mahawar: Fair point. And the second question is more on the electrification portfolio, and maybe Sanjeev, you can help us here. We have a significant gap when we talk about the low voltage products range. If you look at the MNC peers that we have in India and the kind of growth and run rate they are also seeing now, can I assume that most of the capital allocation of ABB will go in the EP segment because of CAPEX? And can you help us compare the gaps in EP portfolio that you want to address?

Sanjeev Sharma: So, we have Kiran Dutt who heads our leading portfolio on the product side, the smart products and smart building product portfolio. So, we will invite comments from him. And he's seeing quite good growth. And we also have Ganesh Kothawade who looks into the electrical distribution portfolio, which deals with the medium voltage. So, first, I invite Kiran with respect to how you see growth in the EL side of your portfolio, and how relative to competition, that work, I think, is just the question.

Kiran Dutt: Thank you, Amit. I think overall, if I look at it as a perspective, I could understand your question in terms of what are we trying to do, are we able to catch up with the competition? I think, yes, in terms of the portfolio, we have been trying to expand and not only the portfolio which are going to be utilized in India, but also trying to have some portfolios and getting it from Europe as well.

So, overall, in terms of the portfolio gap, whatever is there or is going to be there, it's being addressed looking at the market requirements which is going to also come up in the future as well. So, not only in terms of what needs to be done now with the existing portfolio and also what would be the requirements because the market segments are changing, and we need to adapt ourselves to that particular segment. We are also trying to bring in more and more portfolios in electrification, specifically on the low-voltage side.

On the medium voltage side, maybe Ganesh can take over.

Sanjeev Sharma: So, electrification is the largest business for us. And within electrification, we have the products and the ELDS, which is the distribution system. So, actually, the real competition is between these 2 guys, wherein right now the ELDS is the largest business. So, now if the question is either that Kiran will be able to surpass that or not. So, I think that's where they are focused on in terms of how to engage in the market. Inviting comments from Ganesh. How do you see ELDS portfolio as well as your position in the market?

Ganesh Kothawade: Thanks, Sanjeev. When it comes to the Distribution Solutions business, we all know that we are really leading in this business, and we have quite a matured portfolio because we are here in India since last 40 years, and we have almost all the products which are manufactured locally.

And as Kiran has rightly said, because there are some segments which are now changing. We are coming out with the solutions which are segment-specific because evolving segments like the data centers or food and beverage, these are some of the segments that require a very specific solution, and we are coming out of those type of solutions.

And also, there is some shift in technology where the market is demanding for greener products. And we already launched an ecofriendly GIS (gas insulated switchgear) last year and the next expansion of those range also will come to the market. So, I don't see a major gap in terms of distribution solutions, what is required by the market and in our customers in India.

Sanjeev Sharma: Thank you, Ganesh. And a very quick comment. The rate of growth of the portfolio, which Kiran is running between ELSP and SB, we are seeing a very healthy growth rate there. And also, I think the plans going forward are very, very encouraging, and the momentum is encouraging.

And also, our factories, which are delivering this product portfolio, I think the productivity gains that we are getting there with increased automation and also new techniques that we have developed, I think that is also adding to our bottom line in a very significant way. Very, very strong businesses, ELDS and ELSP and ELSB. So, we are very encouraged. And all the allocations that are demanded by these businesses are being given to them.

Moderator: We'll take our next question from the line of Ankur from HDFC Life. Please go ahead.

Ankur Sharma: Great numbers once again. So, I have 3 questions. One, going back to the base order growth, which was just about 4% this quarter, and I take your point that we are sitting off a large base last year. But just trying to understand, especially on the motor side, which is typically short cycle, small orders, 8% growth. Even on the PA side, including this metal order, that's a 10% growth. So, is there some lack of momentum which you are seeing? Any slowdown we are seeing in terms of order? Or is it that we should kind of reset our expectations to a high single digit kind of order growth, given the base we are on?

Sanjeev Sharma: So, Sanjeev Arora is very well connected with the market on the motor side of the business. Sanjeev, how would you answer that query?

Sanjeev Arora: I think a very good observation. So, see, let's understand. We have also seen the softening in metal prices. So, that piece is also catching up when you talk of the absolute numbers. So, that is one thing which you have to consider. And the second part is, I would say that the short-cycle business, I cannot say that it is 100% right, but then we can see some kind of headwinds. At this point of time, when we talk to our customers, be it the large international OEMs, end users, they all have a heavy investment plan. But yes, it could be possible that we see some headwinds. But as of now, they are not very visible, as I can say very confidently.

Ankur Sharma: So, that's my question. So, basically, while growth may continue, we probably see a high single, low double-digit kind of growth. That's the kind of growth because our overall orders are growing at high 20s, right? So, maybe now we need to reset our expectations to more like a high single, low double-digit kind of growth. Is that a fair assumption?

Sanjeev Sharma: So, Ankur, nothing increases in a straight line. And if you go back many quarters, the motors division has been growing at a very, very healthy rate. So, I think we have not only gamed the market, but also, we have gained a lot of market share. Now a time comes when you will always have a certain adjustment of the market demand and also adjustment of the competition, response also to the position you take in the marketplace. So, in a portfolio wherein we have 18 divisions, and we have 23 market segments, we will always see this cyclicality, which is built into our kind of portfolio. So, we will not be able to confirm or deny your hypothesis. We will play it out as the market presents itself.

Ankur Sharma: Fair point. And just a follow-up on the motor business again. Maybe Sanjeev, either of you can answer. Just on the upcoming competition, we are hearing players like WEG, NIDEC, some of these large MNCs looking to set up capacities in India. So, anything you can help us on the incoming competition there?

Sanjeev Sharma: Yes. That is true that Indian market is attractive, and it is attracting the players who are not present here in this country. And they will find their space, and they will rightfully also find their niches as well as the market space. But at the same time, we should know that the market is expanding at a good healthy rate, and that's where it is. And our ability to deliver, even during the stress situation like COVID, I think, keeps us at a very high speed in the eyes of our customers, and there's quite a bit of loyalty built with the customers who want to stay with us. So, that's something we continue to enjoy. But of course, when our competitors set up capacity, I think like anywhere in the world, they will also create their own space, yes.

Ankur Sharma: And just one last one on the rail side, especially on the propulsion. Clearly, what we're seeing is a lot of project orders that the rail is ordering out, large LOCO, Vande Bharat, etc., tenders on the Vande Metro as well, two private players to participate. So, how are we approaching that? Because clearly, then you have to tie up with some of these guys who make the entire loco or a coach, right, and then we supply the propulsion into that. So, some help there, do we have a tie-up in place?

Sanjeev Sharma: So, we are participating in that market, and we'll get back to you soon if we have a success in that engagement.

T. K. Sridhar: But these orders will all take time to decide, right? So, because these are all mega orders, Ankur, so I think it has to go through the process of verification and the placing of orders by agency.

Sanjeev Sharma: But you're right, I think this particular market segment is positive for our portfolio. And our engagement is in the right place. And whenever such orders come, that will be quite an event, and we will announce it to you.

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

Puneet Gulati: Congrats on great numbers. Can you also talk a bit about what is the situation in terms of supply chain for you and for the competition in general?

Sanjeev Sharma: I can reply about ourselves, I have no clue about competition. Our supply chain has eased out in most of the areas. And as I said, even during the peak of supply chain trouble, our global supply chain managers really helped us out, that network helped. And we could cater to the demand which we thought we can cater to at that time. And we didn't disappoint any of our customers during that period. We were very forthright and clear. Right now, all those strains that we had in the supply chain, they are not visible. I think it's fairly evened out for us at this point of time.

Puneet Gulati: And secondly, can you also comment a bit on what are the further levers that you still have for your margin expansion? And how high can you go from these levels?

Sanjeev Sharma: Sridhar, do you have a formula for that?

T. K. Sridhar: Puneet, I don't have a formula for that. I think it's a play of what we offer to the customers, right, and how we intelligently manage our capacities and the cost, right? So, this is basically what it is. And that's exactly what we have been trying to do. Our first initiative was to make it more credible over the last 8 to 10 quarters, which we have done. And we have now slowly gotten into the double-digit PAT margin, that's what we see, right? So, I think we would like to remain consistent and credible over there rather than just promising from here.

Puneet Gulati: And just last one. Your share of direct sales this quarter has gone up. How should one read that? Is it more quarter sensitive? Or is there a change in strategy from that?

T. K. Sridhar: Direct sales in the sense?

Sanjeev Sharma: End users.

Puneet Gulati: In your channel mix, sir.

Sanjeev Sharma: Large orders.

T. K. Sridhar: It's basically about large orders and system orders, what we have got both. So, that's, in fact, actually what has changed the share for this quarter.

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

Parikshit Kandpal: Congratulations on a great quarter. Sir, my first question is on the expansion plans in India. So, I think earlier in the call, you said that the global divisions are interested in sourcing more from India. So, just wanted to understand the large part of expansion which is happening in India. So, how will be the mix there in terms of your own global companies and in terms of Indian market? And how will it impact our exports, which is right now at 10%?

Sanjeev Sharma: So, my mandate as a Managing Director for ABB India Limited is to serve these domestic markets. That's the reason why we have a multinational arm present in India. Other places, our company is present and is catering to those markets outside India. Now as we cater to Indian market and our production capacities have increased to a good scale, and also our sophistication and our productivity measures; it's not only the labor arbitrage India has, but also the productivity arbitrage we are able to create now with technology, robotics, automation. So, our plants have become global standards.

Now we have certain global market demand, and we have that capacity available across the globe to cater to that demand. Now it is for the global divisions to adjust those capacities somewhere else before we can serve the given demand from India. So, I think this will be a logical process over a period of time. And in many of the divisions, that's already taking place, and we have seen quite an upsurge of volume being supplied out of India into export markets.

But in short term, I don't think the percentages needle will move too fast because the domestic market is growing much, much faster than the international market. And if we have a capacity adjustment at a global level and that gets moved lock, stock and barrel in India, then that's the only time we will see this needle move on the percentage side.

Parikshit Kandpal: And sir, my second question is on the pricing bid. So, post COVID, suppose that the highest level of pricing was at 100, so what could be the trend now, given there has been correction in commodity prices? I think earlier also, you said that motor, there has been some kind of slowdown because of the correction in commodity prices. So, what levels of pricing would be from the peak levels right now?

Sanjeev Sharma: So, one thing we should know is when the inflation comes in, that inflation stays, right? That escalation of the price that takes place as inflation, it stays into the system, and it stays as an input cost. It doesn't go away. Now when the fluctuation of certain commodities by the actual price goes up and down, that gets adjusted as you play the market. And typically, the price in the market is based on demand and supply situation. It is not adjusted by the input cost basis.

When the input cost is there, especially during inflationary periods, the customers are more sensitive because they understand that they have to pay the higher price. But when it comes to the normalization, then the prices get normalized in the marketplace. But that is something you don't force yourself to do it. It's a market adjustment picture. And Kiran and Sanjeev, they're very sensitive and very elastic to how the market plays out. So, this is something you don't strategize. This is something you play how the market shows up.

Parikshit Kandpal: At the current level, are you seeing some pushback from the pricing? I mean, do you think there's still some scope for improvement? Or do you think that now maybe we have peaked out and could see some correction?

Sanjeev Sharma: Any insight to add, Sanjeev, on that?

Sanjeev Arora: No, I think, again, I can only repeat what Sanjeev is saying, that the market price levels are dominated by demand and supply, one; and the second part is the material prices. So, there could be a possibility that we can see some reduction in the material price bookings if the price goes down globally. So, at this point of time, we can say that it has stabilized. But going forward, if global demand decreases and then it has an effect on the material prices, then again, the reset of the button can take place. So, that's my take on it. But if you are looking for an absolute number, I will not be able to give that right now.

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

Jonas Bhutta: So, I just wanted to understand, has there been any positive impact of this government scheme called RDSS on our EP segment in terms of order flows? Is ABB going to have a role to play there? That's the first question

Sanjeev Sharma: Can you repeat what government scheme you're referring to?

Jonas Bhutta: The RDSS.

Sanjeev Sharma: RDSS. Okay. So, maybe you know something more than we do? What exactly is RDSS?

Jonas Bhutta: The upgrade of the power distribution network.

Sanjeev Sharma: This is upgrade of power distribution network.

Jonas Bhutta: Yes, so it leads to a host of smart metering, etc.

Sanjeev Sharma: Smart metering, okay. All right. Kiran, do you have a view on that?

Kiran Dutt: On the smart metering side, we are not exactly on the tariff meters, we are on the low-voltage side. So, we are not into that product segment at all.

Jonas Bhutta: So, there's no positive pull-through because there's an upgrade of the entire metering network? So, does that have any positive pull-through for our distribution product in the power distribution product lines?

Sanjeev Sharma: Ganesh, do you have any impact of this changing of the metering and the RDSS part? Do you know of any impact on your business?

Ganesh Kothawade: There is quite a good opportunity in the distribution segment because when there is an upgradation in the distribution line, there is quite a good requirement which is coming for the medium voltage breaker side. And generally, these jobs are done by the EPC contractors, and we do get the business from EPC contractors and from these utilities. So, there is definitely a scope, but not as much potential as smart metering. But definitely, there is quite a good potential, which is available in the modernization of the distribution network, particularly on the 11 kV side and 33 kV side.

Jonas Bhutta: And my second question on the EP segment was, sir, you alluded to this business has seen a massive improvement in its operating margin. And a part of that is the lag and lead time between raw material prices increasing and decreasing, and our ability to hold on to pricing in those periods. Do you believe that with this quarter, a large part of that benefit of holding some bit of high-cost pricing, but low-cost inventory is largely now into the margins of the segment?

Sanjeev Sharma: Kiran, do you have a point of view? Our performance on the bottom line on the product side, is that correlating with inventories that you bought at a lower cost and then you had a better price realization? Is that contributing? Or you think that's not correct?

Kiran Dutt: I would rather answer in a different way, Sanjeev, on this. It's not a question of what we have purchased at a particular price or something. It's more in terms of the demand for the market in terms of product mix, what's required. It's also related to the earlier question where you were talking about how exactly this distribution can actually support us in terms of volumes. It's an indirect one, what we could say. So, it's a question of how exactly indirectly, whether there's a building coming up, whether there's a segment of an industry which is coming up in the market, which is actually supporting our growth. And when it comes to margin, what we are talking about is the volume, for sure, it is playing a very big role in terms of getting us the margin as well. We also spoke about commodity prices going down or softening up, that's actually supporting us in terms of our margins.

Sanjeev Sharma: Fair enough. I think the same way plays out for Ganesh's portfolio as well.

Moderator: We have our next question from the line of Bhavin Vithlani from SBM Mutual Fund. Please go ahead.

Bhavin Vithlani: A couple of questions. Could you talk about competitive intensity, because some of the capital group's company in compressors and abrasives have spoken about influx of Chinese companies and restarting of the unorganized players. And if you could also give some comment in the motors business. We understand CG Power, EMEIC and WEG going for mega expansion.

Sanjeev Sharma: So, we did answer about the players in the market, and they will find their own space. And with respect to customer behavior of buying branded products or the nonbranded product, that's a customer behavior topic. But what we see in India is a marked shift in last few years, especially after COVID, wherein the reliability of a supplier and the reliability of the product has become a bigger criterion for decision making. And the market shift has taken place. Apart from demand growth, the market shift has taken place for the people who are the marginal buyers. They have shifted to more reliable and more established players in the market. And that's also part of our growth story in the marketplace. And in India market as diverse as we are, you will always have customer segments which will be transactional at the bottom of it, and then there are people who are really appreciate reliability, availability, maintainability and serviceability of a company which serves them. So, that's how the market gets formed. And we find that the top of the market is becoming larger rather than shrinking, from our perspective.

Bhavin Vithlani: A follow up. Are we also looking at margins over growth, and consequently, we're seeing some slowdown in revenue growth? Or are we reading too much into it?

Sanjeev Sharma: We should cross the bridge when we face it, but that's not the situation we are in at this point of time.

Bhavin Vithlani: Great. Just last question. If you could talk about the exports growth because we spoke about slowdown in the global market. How should one think about the growth rates for the exports?

Sanjeev Sharma: So, we do 11% to 12% exports. And as I said that story is in the early stages of development as far as India is concerned because as the global team chooses, whichever business chooses to adjust their global footprint, it has an exponential impact on what we will export out of India. And that story has to play out as we go ahead.

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

Aditya Mongia: I'll limit to a single question. The question relates to energy-efficient drive and your optimism on that front. It would be useful to get a sense from you what is the current penetration of this segment inside the country? And how has that been moving over time? I'm just trying to get a sense of how the customer is thinking through kind of coupling up a motor and drive more and more in the country?

Sanjeev Sharma: I'll let Sanjeev Arora answer it. So, just to let you know about drive. We have a very low-voltage motor drive as well as medium-voltage drive. And all of them go into critical applications. And Sanjeev, over to you.

Sanjeev Arora: Thanks, Sanjeev, and thanks for the question. I think this is a very good question, which is close to my heart. And this is picking up in the right direction. Let me first start with this statement. So, earlier, we used to see that a very small segment of the end users, which are technically knowledgeable, were picking this as a case study or a proof of concept. But today, I can tell you, this is growing exponentially. Now in India, yes, there is a scope to grow further. But the concept of motors plus drive is good, because straight away you save 30% of energy. And with the corporate roles being very, very prominent when it comes to the carbon neutrality, sustainability and the initiatives on that, this energy efficiency movement with motors and drives is a key enabler and a low-hanging fruit for all segments and industries in which we operate. So, this is picking up, and we see exponential growth in this piece going forward. And I can also add that when it comes to the energy-efficient motors, we enjoy a very large share of i3, i4 range in the market. So, overall, it will be a game changer for the industries, and we are well prepared in this portfolio.

Sanjeev Sharma: And Aditya, you can also help us along with your colleagues. So, you must be attending a lot of such calls with other companies. So, all the companies who use these motors and drives, you can ask them if they're using it because that can reduce them 30% energy, and that will go in their bottom line. So, you can, of course, mention this ABB drives and motors they should use because then they have a sure benefit. So, you can also help us the other way.

Aditya Mongia: So, absolutely. You are the early movers; you should tend to benefit from that. And I look forward to hopefully a deep dive into energy efficiency as part of your presentation at some point of time.

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

T. K. Sridhar: Thank you very much. Thank you, once again, everyone, for attending this call, both from the analyst side as well as the management side. It is a Friday evening, so we do not want you to hold you back more in the office, and it's also a long weekend. So, I think with all the discussions what we did, I think we will continue to do our best. And we will come back again to you in the next quarter to have another good call. And before we sort of hang up, I wish you all a very happy Independence Day from our side. So, that's it. Jai Hind.

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

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