

ABB India Ltd.



ABB India Ltd.

Growth to be driven by digitalisation, renewables and automation

CMP INR 1602	Target INR 1823	Potential Upside 14%	Market Cap (INR mn) 338,672	Recommendation BUY	Sector Capital Goods
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Result highlights

- ABB India Ltd reported revenue growth of 10.8% YoY to INR 27.79bn as against our estimates of INR 25.59bn. The growth was primarily driven by Power Grids segment (+15% YoY).
- OPM contracted by 99bps YoY to 10.6%, which led EBITDA to grow by 1.3% YoY to INR 2.9bn as against our estimates of INR 2.2bn.
- Lower taxes (31.8% v/s 33.8% in Q4CY16) aided bottom-line growth, which was up by 5.3% YoY to INR 1.7bn as against our estimates of INR 1.3bn.

MARKET DATA

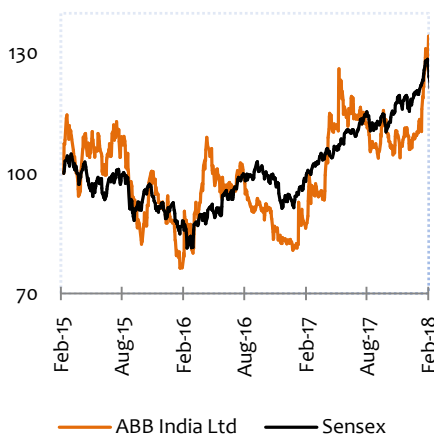
Shares outs (mn)	211
EquityCap (INR mn)	424
Mkt Cap (INR mn)	338672
52 Wk H/L (INR)	1744/1170
Volume Avg (3m K)	102.1
Face Value (INR)	2
Bloomberg Code	ABB IN

KEY FINANCIALS

Particulars (INR mn)	CY15	CY16	CY17	CY18E	CY19E
Net Revenues	81.4	86.4	90.9	109.2	133.3
EBITDA	7.1	6.9	7.4	9.7	12.3
Adjusted PAT	3.0	3.7	4.2	5.5	7.7
Adjusted EPS	14.2	17.7	19.8	25.7	36.5
OPM	8.8%	8.0%	8.1%	8.9%	9.2%
NPM	3.7%	4.3%	4.6%	5.0%	5.8%
P/E	112.7x	90.3x	80.5x	62.0x	43.8x

Source: Company data, KRChoksey Research

SHARE PRICE PERFORMANCE



Top-line fuelled by Power Grids and Electrification Products divisions:

ABB India Ltd reported revenue growth of 10.8% YoY to INR 27.7bn. The growth was primarily led by Power Grids division. The revenue from Power Grids division (~39% of revenue) increased by 14.9% YoY to INR 12.23bn, while Robotics & Motion, Electrification Products and Industrial Automation divisions stood at INR 5.3bn (-4.2% YoY), INR 6.3bn (-9.5% YoY) and INR 4.6bn (+9.3% YoY), respectively.

In terms of the yearly performance, the group's gross revenue was up by 1% YoY to INR 96.2bn. Stable growth from Power Grids (+4% YoY) and Electrification Products (+2% YoY) negated the fall in the revenues from Industrial Automation (-5% YoY). On the other hand, revenues from Robotics & Motion remained stable at INR 19.4bn.

In terms of the order book scenario, the company received orders to the tune of INR 29.1bn (-48% YoY) during the quarter. However, adjusting the large orders received during Q4CY16, order intake grew by ~43% YoY. In terms of the yearly order flows, ABB recorded order flows to the tune of INR 94.9bn (-25.8% YoY). In terms of the segmental order flow break up, higher flows from Electrification Products (+38% YoY) & Industrial Automation (+25% YoY) supported sluggish flows from Robotics & Motion (-26% YoY) and Power Grids (-50% YoY) segments.

The order backlog stands at INR 115.3bn (~2% YoY) at the end of Q4CY17, representing a book to bill of 1.2x.

MARKET INFO

SENSEX	33266
NIFTY	10364

SHARE HOLDING PATTERN (%)

Particulars	Dec 17	Sep 17	Jun 17
Promoters	75	75	75
FIIIs	3.09	3.15	3.66
DIIIs	13.71	13.8	13.28
Others	8.2	8.04	8.05
Total	100	100	100

21%

Revenue CAGR between CY17 and CY19E

36%

PAT CAGR between CY17 and CY19E

ANALYST

Dhavan Shah, dhavan.shah@krchoksey.com, +91-22-6696 5574
Rajil Shah, rajil.shah@krchoksey.com, +91-22-6696 5420

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Operational performance remains marginally subdued:

The group EBIT margins contracted by 41bps YoY to 10.5% resulting into EBIT to stand at INR 3.07bn (-0.4% YoY).

In terms of segmental EBIT margins, Industrial Automation division grew by 359bps YoY at 18.8% while Electrification Products, Robotics & Motion and Power Grids divisions stood at 14.6% (+259bps YoY), 10.1% (-691bps YoY) and 5.4% (-3bps YoY), respectively. The subdued performance in Robotics & Motion and Power Grids divisions was offset by improvement in Industrial Automation and Electrification Products divisions.

Lower taxes (31.8% v/s 33.8% in Q4CY16) aided bottom-line growth, which was up by 5.3% YoY to INR 1.7bn as against our estimates of INR 1.3bn.

Valuation & Outlook:

The revenue growth for the company remained strong during CY17 mainly of account of better execution of orders for the Power Grids and Electrification Products divisions. Furthermore, this growth was negated by the sluggish revenue growth in Industrial Automation and Robotics & Motion divisions. and also impacted the top-line performance for 9MFY18. The management is optimistic about the opportunities offered by railways electrification, shift in automotive industry from ICE (internal combustion engines) based to EVs, and a slow but steady pick up in capex cycle in core sectors such as cement and steel. Apart from this, we believe ABB will be able to exploit opportunities within India and its surrounding regions such as Middle East & Africa (MEA) and South East Asia (SEA) could further support growth in the coming quarters.

We expect revenues to grow at a CAGR of 21% over CY17-19E and PAT to grow at a CAGR of 36% over the same period. We valued the company by assigning a multiple of 50x on the earnings of INR 36.5 of CY19E. We arrived a target price of INR 1823, potential upside of 14%. We maintain BUY rating on the stock.

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Q4CY17 Result Snapshot

Particulars	Q4CY17	Q3CY17	Q4CY16	QoQ change %	YoY change %
Net Sales & Other Operating Income	27,794.0	19,234.0	25,077.8	44.5%	10.8%
Total Expenditure	24,856.9	17,892.5	22,179.7	38.9%	12.1%
Cost of Raw Materials	17,040.6	11,006.8	14,719.2	54.8%	15.8%
Employee Cost	1,838.9	2,033.9	1,802.3	-9.6%	2.0%
Sub contracting exp	1,697.2	1,178.8	1,345.1	44.0%	26.2%
Other Expenses	4,280.2	3,673.0	4,313.1	16.5%	-0.8%
EBIDTA	2,937.1	1,341.5	2,898.1	118.9%	1.3%
EBITDA Margins (%)	10.6%	7.0%	11.6%	359bps	-99bps
Depreciation	431.9	388.5	388.5	11.2%	11.2%
EBIT	2,505.2	953.0	2,509.6	162.9%	-0.2%
Other Income	188.0	377.5	253.9	-50.2%	-26.0%
Interest	178.3	152.4	302.9	17.0%	-41.1%
PBT	2,514.9	1,178.1	2,460.6	113.5%	2.2%
Tax	799.7	344.2	832.5	132.3%	-3.9%
Adjusted PAT	1,715.2	833.9	1,628.1	105.7%	5.3%
PAT Margin (%)	6.2%	4.3%	6.5%	184bps	-32bps
Adjusted EPS	8.09	3.94	7.68	105.7%	5.3%

Source: Company, KRChoksey Research

Segmental Revenues (INR mn)

Particulars	Q4CY17	Q3CY17	Q4CY16	Q-o-Q	Y-o-Y
Robotics and Motion	5,317.6	4,462.5	5,548.2	19.2%	-4.2%
Electrification Products	6,332.2	4,721.6	7,000.4	34.1%	-9.5%
Industrial Automation	4,687.0	2,911.2	4,288.6	61.0%	9.3%
Power Grids	12,238.7	7,763.0	10,652.8	57.7%	14.9%
Unallocated	180.1	60.1	135.9	199.7%	32.5%
Total	28,755.6	19,918.4	27,625.9	44.4%	4.1%
Less: Inter segment Revenue	96.2	68.4	1,078.1	40.50%	-91.08%
TOTAL	28,659.4	19,850.0	26,547.8	44.4%	8.0%

Source: Company, KRChoksey Research

Segmental EBIT (INR mn)

Particulars	Q4CY17	Q3CY17	Q4CY16	Q-o-Q	Y-o-Y
Robotics and Motion	539.5	400.5	946.4	34.7%	-43.0%
Electrification Products	924.3	459.5	840.8	101.2%	9.9%
Industrial Automation	880.6	390.0	652.0	125.8%	35.1%
Power Grids	663.2	520.2	580.5	27.5%	14.2%
Total EBIT	3,007.6	1,770.2	3,019.7	69.9%	-0.4%

Source: Company, KRChoksey Research

Segmental EBIT Margins (INR mn)

Particulars	Q4CY17	Q3CY17	Q4CY16	Q-o-Q	Y-o-Y
Robotics and Motion	10.1%	9.0%	17.1%	117bps	-691bps
Electrification Products	14.6%	9.7%	12.0%	486bps	259bps
Industrial Automation	18.8%	13.4%	15.2%	539bps	359bps
Power Grids	5.4%	6.7%	5.4%	-128bps	-3bps

Source: Company, KRChoksey Research

ANALYST

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Order inflow & Order book details (INR mn)

Particulars	Q4CY17	Q3CY17	Q4CY16	Q-o-Q	Y-o-Y
Order inflow	29,110	19,360	56,280	50.4%	-48.3%
Order book	115,340	121,300	118,210	-4.9%	-2.4%

Source: Company data, KRChoksey Research

Key takeaways from Conference call:

- Revenues grew by 10.8% YoY to INR 27.79bn led by better execution in Power Grids and Industrial Automation divisions.
- During this quarter, the export orders grew to an all-time high of 20% of total orders owing to orders from Middle East and South East Asia. Similarly, service orders stood at 14% of total orders. During the quarter, export revenues stood at 15% of total revenues while service revenues stood at 13% of total revenues.
- The management highlighted that digitalisation is one the biggest opportunities for ABB India to deliver world class solutions to their customers. This includes the 3 pillars of digitalisation – Internet of Things, Machine Learning and Artificial Intelligence.
- The company commands a leadership position in serving the Indian cement industry mainly through automation & digitalisation. The company has major engagements with leading manufacturers focusing on productivity and efficiency improvement solutions.
- The company noted that although core sector growth remains subdued, cement sector is experiencing higher traction owing to improvement in opex cycles. Automotive sector is also doing reasonably well by automating manufacturing facilities in a big way. The management believes that India is catching up fast with the industrial revolution.
- The management believes that the market for fast-charging EV infrastructure is still at a nascent stage but it expects growth to pick up in the next 2-5 years owing to certain policy improvements.
- The company has been able to improve its cash conversion cycle, and continues to maintain a solid cash position at INR 14.9 bn as against INR 11.8 bn as of during CY16.
- The company continues to experience improved outlook for solar inverters in India as well as regions surrounding India which are serviced by ABB India. The management expects continued growth in exports in the years ahead.
- Going forward, the company expects continued traction in orders from railways, automobiles and so on.

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KEY FINANCIALS

Income Statement (INR Mn)	CY15	CY16	CY17	CY18E	CY19E
Net Revenues	81403	86422	90873	109184	133345
Cost Of Revenues (incl Stock Adj)	48336	51055	53523	62781	76674
Gross Profit	33067	35367	37350	46403	56672
Employee Cost	7499	7503	7963	8735	9067
Other Operating Expenses	4664	5077	5383	6442	7867
EBITDA	7125	6945	7361	9702	12251
Other Income	130	1216	1210	636	734
EBITDA, including OI	7255	8161	8570	10338	12985
Depreciation	1598	1510	1580	1676	1734
Net Interest Exp.	912	919	773	524	0
Forex (gain)/ loss	0	0	0	0	0
Other exceptional items	0	0	0	0	0
EBT	4746	5733	6218	8138	11251
Taxes	1747	1988	2018	2686	3527
Tax Rate	36.8%	34.7%	32.5%	33.0%	31.4%
Net Income	2999	3745	4200	5452	7724
Adj. NI after Minority interest	2999	3745	4200	5452	7724
Adj. EPS (INR)	14.2	17.7	19.8	25.7	36.5
Shares Outstanding	211.9	211.9	211.9	211.9	211.9

Source: Company data, KRChoksey Research

Consolidated Balance Sheet (INR mn)	CY15	CY16	CY17	CY18E	CY19E
Share Capital	424	424	424	424	424
Reserves	29662	32443	35645	39567	45123
Minority Interest	0	0	0	0	0
Total Shareholders Funds	30086	32867	36069	39991	45547
Long Term Borrowings	6000	6000	6041	0	0
Net Deferred Tax liability	0	0	0	0	0
Other long term liabilities	43	39	39	46	57
Long term provisions	479	521	427	514	629
Current Liabilities and Provisions					
Short term borrowings	0	0	0	0	0
Trade Payables	21020	21573	27131	29551	34355
Other Current Liabilities	12677	13287	16029	16253	18805
Short Term Provisions	3784	3025	3145	4433	5425
Total Current Liabilities	37481	37885	46305	50237	58585
Total Liabilities	74088	77312	88881	90789	104818
Net Block	12984	12549	12187	12175	11441
Capital Work in Progress	443	678	1165	500	500
Non-current investments	163	162	2	2	2
Deferred tax assets	490	3251	3854	3854	3854
Long term loans and advances	4222	222	216	260	318
Other Non Current Assets	67	1801	1893	2279	2789
Current Assets, Loans & Advances					
Current Investments	1	1	2705	2705	2705
Inventories	9396	9403	11536	12412	14465
Sundry Debtors	33909	29707	27878	35462	42673
Cash and Bank	5736	11892	14917	9025	11606
Loans and Advances	2781	4503	7850	7388	9041
Other Current assets	3897	3145	4680	4728	5425
Total Current Assets	55720	58650	69564	71719	85914
Total Assets	74088	77312	88881	90789	104818

Source: Company data, KRChoksey Research

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Consolidated Cash Flow (INR mn)	CY15	CY16	FY17P	CY18E	CY19E
PBT & Extraordinary	4746	5733	6218	8138	11251
Depreciation	1598	1510	1580	1676	1734
After other adjustments					
(Inc) / Dec in Working Capital	(2170)	2821	3053	(4448)	(3710)
Taxes	(1968)	(2172)	(2018)	(2686)	(3527)
Others	1611	777	773	524	0
Cash from Ops.	3817	8668	9606	3204	5748
Purchase of Fixed Assets	(1096)	(1387)	(1704)	(1000)	(1000)
Others	324	711	0	0	0
Cash from Investing	(772)	(676)	(1704)	(1000)	(1000)
Proceeds from issue of shares	0	0	0	0	0
Borrowings (Net)	6000	0	41	(6041)	0
Others	(1868)	(1789)	(1793)	(2054)	(2168)
Cash from Financing	4132	(1789)	(1752)	(8095)	(2168)
Net Change in Cash	7177	6203	6149	(5891)	2580
Effects of foreign currency translation	0	0	0	0	0
BF Cash & Bank	2260	5736	11892	14917	9025
END Cash & Bank	5736	11892	14917	9025	11606

Source: Company data, KRChoksey Research

Ratio Analysis	CY15	CY16	CY17	CY18E	CY19E
Profitability	-	-	-	-	-
Return on Assets (%)	4.0	4.8	4.7	6.0	7.4
Return on Capital (%)	15.5	16.9	16.4	21.4	24.3
Return on Equity (%)	10.0	11.4	11.6	13.6	17.0
Margin Trend	-	-	-	-	-
Gross Margin (%)	40.6	40.9	41.1	42.5	42.5
EBITDA Margin (%)	8.8	8.0	8.1	8.9	9.2
Net Margin (%)	3.7	4.3	4.6	5.0	5.8
Liquidity					
Current Ratio	1.5	1.5	1.5	1.4	1.5
Quick Ratio	1.2	1.3	1.3	1.2	1.2
Debtor Days	154	127	114	120	118
Inventory Days	43	40	47	42	40
Creditor Days	96	93	111	100	95
Cash Conversion Cycle	101	75	50	62	63
Solvency	-	-	-	-	-
Total Debt / Equity	0.2	0.2	0.2	-	-
Interest Coverage	6.2	7.2	9.0	16.5	NM
Valuation Ratios	-	-	-	-	-
EV/EBITDA	47.7	48.0	44.9	34.1	26.8
P/E	113.2	90.7	80.8	62.3	44.0
P/B	11.3	10.3	9.4	8.5	7.5

Source: Company data, KRChoksey Research

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Date	CMP (INR)		TP (INR)	Recommendation	Our Rating	Upside
9-Feb-18	1602		1823	BUY	Buy	More than 15%
16-Jan-18	1512		1823	BUY	Accumulate	5% – 15%
					Hold	0 – 5%
					Reduce	-5% – 0
					Sell	Less than – 5%

ANALYST CERTIFICATION:

We, Dhavan Shah [B.Com, MS(Finance)], research analyst and Rajil Shah (B.Com, MS Finance (US)), research associate, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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Visit us at www.krchoksey.com
Kisan Ratilal Choksey Shares and Securities Pvt. Ltd
Registered Office:
1102, Stock Exchange Tower, Dalal Street, Fort, Mumbai – 400 001.
Phone: +91-22-6633 5000; Fax: +91-22-6633 8060.
Corporate Office:
ABHISHEK, 5th Floor, Link Road, Andheri (W), Mumbai – 400 053.
Phone: +91-22-6696 5555; Fax: +91-22-6691 9576..