

July 20, 2018

## Q2CY18 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	CY18E	CY19E	CY18E	CY19E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,415		1,554	
Sales (Rs. m)	1,06,466	1,23,825	1,00,863	1,20,115
% Chng.			5.6	3.1
EBITDA (Rs. m)	9,050	11,144	9,279	11,411
% Chng.			(2.5)	(2.3)
EPS (Rs.)	23.6	30.1	24.4	31.1
% Chng.			(3.6)	(3.1)

### Key Financials

	CY16	CY17	CY18E	CY19E
Sales (Rs. m)	86,427	90,873	1,06,466	1,23,825
EBITDA (Rs. m)	6,945	7,361	9,050	11,144
Margin (%)	8.0	8.1	8.5	9.0
PAT (Rs. m)	3,745	4,200	4,992	6,380
EPS (Rs.)	17.7	19.8	23.6	30.1
Gr. (%)	24.9	12.1	18.9	27.8
DPS (Rs.)	4.4	5.0	5.9	7.5
Yield (%)	0.4	0.4	0.5	0.7
RoE (%)	11.9	12.2	13.2	15.1
RoCE (%)	14.5	15.4	19.7	22.2
EV/Sales (x)	2.7	2.5	2.1	1.8
EV/EBITDA (x)	33.8	30.3	24.5	19.7
PE (x)	64.2	57.3	48.2	37.7
P/BV (x)	7.3	6.7	6.0	5.4

### Key Data

ABB.BO | ABB IN

52-W High / Low	Rs.1,749 / Rs.1,123
Sensex / Nifty	36,496 / 11,010
Market Cap	Rs.241bn/ \$ 3,489m
Shares Outstanding	212m
3M Avg. Daily Value	Rs.194.24m

### Shareholding Pattern (%)

Promoter's	75.00
Foreign	3.20
Domestic Institution	6.97
Public & Others	14.83
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(5.8)	(28.4)	(22.4)
Relative	(8.2)	(30.4)	(32.1)

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## Base businesses/export drive growth

- Execution picking up:** ABB reported sales of Rs27.1bn (PLe: Rs24.5bn), up 21.5% YoY. Revenue growth was supported by Raigarh-Pugalur (RP) HVDC project, growth in medium voltage offerings and a revival in the process industries. EBITDA was up 33% YoY at Rs1.9bn led by cost savings, better product mix and higher absorption (PLe: Rs1.6bn), EBITDA margins came in at 7.2%, up 60bps YoY (PLe: 6.8%). PAT was up 36% YoY to Rs1.02bn (PLe: Rs922mn).
- Base business orders continue to drive growth:** ABB posted a 7.5% YoY increase in order inflows at Rs24.7bn, driven by growth in base business orders, Exports (68% growth) and Services (Double digit growth). Order book at the end of the quarter stood at Rs107.2bn (down 11.4%). Consistent market development efforts, greater collaboration and integrated offerings helped secure orders for clean energy, process industries and power infrastructure development, especially in the South Asia region. Order mix was positive, with orders from smart cities, marine, railways, digitalization, and F&B.
- Transportation was also a growth driver in the quarter with a first of its kind integrated power and automation package order for ferries, and orders for drive propulsion systems for Indian Railways. During the quarter multiple digitalization MoUs were signed from paint to cement and natural resources companies, these new developments lay a good foundation for future growth in digitalization project spend by customers.
- Outlook and Valuation:** The stock is trading at 38x CY19E earnings. We believe ABB has consolidated its position over the last few years in terms of capacity and localization and is ready to benefit from the market upturn. ABB continues to focus on introduction of new products and tailor the technology to meet Indian requirement. ABB also continues to collaborate with customers, deploy solutions from digital portfolio and support the new era of growth through smarter, greener grids, electrification of transport and digitalizing industries for greater efficiency and productivity. We expect the stock to deliver 20% earnings CAGR over CY16-19E. We have cut our earnings for CY18E and CY19E by 4% and 1% respectively to factor in commodity and currency headwinds. We maintain 'Accumulate' with TP of Rs1,415.

## Exhibit 1: Q2CY18 Result Overview (Rs mn)

Y/e Dec	Q2CY18	Q2CY17	YoY gr. (%)	Q1CY18	H1CY18	H1CY17	YoY gr. (%)
<b>Net Sales</b>	<b>27,127</b>	<b>22,333</b>	<b>21.5</b>	<b>25,255</b>	<b>52,382</b>	<b>43,845</b>	<b>19.5</b>
<b>Expenditure</b>							
Raw Material	18,030	14,253	26.5	17,231	35,261	27,982	26.0
<i>% of Net Sales</i>	<i>66.5</i>	<i>63.8</i>		<i>68.2</i>	<i>67.3</i>	<i>63.8</i>	
Personnel Cost	2,231	2,168	2.9	2,184	4,415	4,101	7.7
<i>% of Net Sales</i>	<i>8.2</i>	<i>9.7</i>		<i>8.6</i>	<i>8.4</i>	<i>9.4</i>	
Others	4,908	4,440	10.5	3,951	8,858	8,680	2.0
<i>% of Net Sales</i>	<i>18.1</i>	<i>19.9</i>		<i>15.6</i>	<i>16.9</i>	<i>19.8</i>	
Total Expenditure	25,168	20,860	20.7	23,365	48,533	40,763	19.1
<b>EBITDA</b>	<b>1,959</b>	<b>1,473</b>	<b>33.0</b>	<b>1,890</b>	<b>3,849</b>	<b>3,082</b>	<b>24.9</b>
<i>Margin (%)</i>	<i>7.2</i>	<i>6.6</i>		<i>7.5</i>	<i>7.3</i>	<i>7.0</i>	
Other income	236	326	(27.7)	269	505	644	(21.7)
Depreciation	356	383	(7.1)	356	712	759	(6.2)
<b>EBIT</b>	<b>1,839</b>	<b>1,416</b>	<b>29.9</b>	<b>1,803</b>	<b>3,641</b>	<b>2,967</b>	<b>22.7</b>
Interest	232	231	0.6	232	463	442	4.7
<b>PBT</b>	<b>1,607</b>	<b>1,185</b>	<b>35.6</b>	<b>1,571</b>	<b>3,178</b>	<b>2,525</b>	<b>25.9</b>
Total Taxes	586	435	34.7	546	1,132	874	29.4
<i>ETR (%)</i>	<i>36.4</i>	<i>36.7</i>		<i>34.8</i>	<i>35.6</i>	<i>34.6</i>	
<b>Reported PAT</b>	<b>1,021</b>	<b>751</b>	<b>36.1</b>	<b>1,025</b>	<b>2,046</b>	<b>1,650</b>	<b>24.0</b>

Source: Company, PL

## Exhibit 2: Operating Metrics

Y/e Dec	Q2CY18	Q2CY17	YoY gr. (%)	Q1CY18	H1CY18	H1CY17	YoY gr. (%)
<b>Sales</b>							
Discrete Automation and Motion	6,152	4,590	34.0	5,969	12,121	9,579	26.5
<i>% to total</i>	<i>22.1</i>	<i>18.8</i>		<i>23.0</i>	<i>22.5</i>	<i>19.9</i>	
Electrification Products	6,461	6,447	0.2	6,509	12,970	13,337	(2.8)
<i>% to total</i>	<i>23.2</i>	<i>26.4</i>		<i>25.0</i>	<i>24.1</i>	<i>27.7</i>	
Process Automation	3,768	3,506	7.5	3,024	6,791	6,494	4.6
<i>% to total</i>	<i>13.5</i>	<i>14.3</i>		<i>11.6</i>	<i>12.6</i>	<i>13.5</i>	
Power Grids	11,490	9,913	15.9	10,500	21,990	18,693	17.6
<i>% to total</i>	<i>41.2</i>	<i>40.5</i>		<i>40.4</i>	<i>40.8</i>	<i>38.9</i>	
<b>Total</b>	<b>27,870</b>	<b>24,456</b>	<b>14.0</b>	<b>26,002</b>	<b>53,872</b>	<b>48,103</b>	<b>12.0</b>
<b>PBIT</b>							
Discrete Automation and Motion	507	307	65.0	431	938	688	36.3
<i>Margin %</i>	<i>8.2</i>	<i>6.7</i>		<i>7.2</i>	<i>7.7</i>	<i>7.2</i>	
Electrification Products	576	646	(10.8)	670	1,246	1,428	(12.7)
<i>Margin %</i>	<i>8.9</i>	<i>10.0</i>		<i>10.3</i>	<i>9.6</i>	<i>10.7</i>	
Process Automation	382	316	20.8	394	776	430	80.6
<i>Margin %</i>	<i>10.1</i>	<i>9.0</i>		<i>13.0</i>	<i>11.4</i>	<i>6.6</i>	
Power Grids	1,098	753	45.7	1,026	2,123	1,379	54.0
<i>Margin %</i>	<i>9.6</i>	<i>7.6</i>		<i>9.8</i>	<i>9.7</i>	<i>7.4</i>	
<b>Total</b>	<b>2,562</b>	<b>2,022</b>	<b>26.7</b>	<b>2,521</b>	<b>5,083</b>	<b>3,924</b>	<b>29.5</b>

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Dec	CY16	CY17	CY18E	CY19E
<b>Net Revenues</b>	<b>86,427</b>	<b>90,873</b>	<b>1,06,466</b>	<b>1,23,825</b>
YoY gr. (%)	6.2	5.1	17.2	16.3
Cost of Goods Sold	56,173	58,906	73,994	86,058
Gross Profit	30,255	31,968	32,472	37,767
Margin (%)	35.0	35.2	30.5	30.5
Employee Cost	7,503	7,963	8,517	9,906
Other Expenses	15,807	16,644	14,905	16,716
<b>EBITDA</b>	<b>6,945</b>	<b>7,361</b>	<b>9,050</b>	<b>11,144</b>
YoY gr. (%)	(2.5)	6.0	22.9	23.1
Margin (%)	8.0	8.1	8.5	9.0
Depreciation and Amortization	1,510	1,580	1,578	1,773
<b>EBIT</b>	<b>5,436</b>	<b>5,781</b>	<b>7,472</b>	<b>9,371</b>
Margin (%)	6.3	6.4	7.0	7.6
Net Interest	919	773	958	1,139
Other Income	1,216	1,210	1,050	1,150
<b>Profit Before Tax</b>	<b>5,733</b>	<b>6,218</b>	<b>7,563</b>	<b>9,382</b>
Margin (%)	6.6	6.8	7.1	7.6
Total Tax	1,988	2,018	2,572	3,002
Effective tax rate (%)	34.7	32.5	34.0	32.0
<b>Profit after tax</b>	<b>3,745</b>	<b>4,200</b>	<b>4,992</b>	<b>6,380</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>3,745</b>	<b>4,200</b>	<b>4,992</b>	<b>6,380</b>
YoY gr. (%)	24.9	12.1	18.9	27.8
Margin (%)	4.3	4.6	4.7	5.2
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>3,745</b>	<b>4,200</b>	<b>4,992</b>	<b>6,380</b>
YoY gr. (%)	24.9	12.1	18.9	27.8
Margin (%)	4.3	4.6	4.7	5.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,745	4,200	4,992	6,380
<b>Equity Shares O/s (m)</b>	<b>212</b>	<b>212</b>	<b>212</b>	<b>212</b>
<b>EPS (Rs)</b>	<b>17.7</b>	<b>19.8</b>	<b>23.6</b>	<b>30.1</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Dec	CY16	CY17	CY18E	CY19E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>13,594</b>	<b>14,787</b>	<b>17,787</b>	<b>20,787</b>
Tangibles	13,049	14,224	17,224	20,224
Intangibles	546	563	563	563
<b>Acc: Dep / Amortization</b>	<b>1,510</b>	<b>3,064</b>	<b>4,642</b>	<b>6,415</b>
Tangibles	1,361	2,798	4,376	6,149
Intangibles	149	267	267	267
<b>Net fixed assets</b>	<b>12,085</b>	<b>11,722</b>	<b>13,144</b>	<b>14,371</b>
Tangibles	11,688	11,426	12,848	14,075
Intangibles	397	296	296	296
Capital Work In Progress	678	1,165	1,165	1,165
Goodwill	464	464	464	464
Non-Current Investments	457	221	257	299
Net Deferred tax assets	1,304	1,173	1,173	1,173
Other Non-Current Assets	3,675	4,571	4,278	3,919
<b>Current Assets</b>				
Investments	1	2,705	2,705	2,705
Inventories	9,403	11,536	13,126	15,266
Trade receivables	29,707	27,878	30,627	33,925
Cash & Bank Balance	11,892	14,917	16,190	18,130
Other Current Assets	3,145	4,680	3,726	4,334
<b>Total Assets</b>	<b>77,312</b>	<b>88,881</b>	<b>92,499</b>	<b>1,03,552</b>
<b>Equity</b>				
Equity Share Capital	424	424	424	424
Other Equity	32,443	35,645	39,389	44,174
<b>Total Network</b>	<b>32,867</b>	<b>36,069</b>	<b>39,813</b>	<b>44,598</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	6,000	41	41	41
Provisions	521	427	532	619
Other non current liabilities	-	-	-	-
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	0	-	-	-
Trade payables	21,573	27,131	29,169	32,228
Other current liabilities	16,312	25,174	22,890	26,003
<b>Total Equity &amp; Liabilities</b>	<b>77,312</b>	<b>88,881</b>	<b>92,499</b>	<b>1,03,552</b>

Source: Company Data, PL Research

### Cash Flow (Rs m)

Y/e Dec	CY16	CY17	CY18E	CY19E
PBT	5,733	6,218	7,563	9,382
Add. Depreciation	1,510	1,580	1,578	1,773
Add. Interest	919	773	958	1,139
Less Financial Other Income	1,216	1,210	1,050	1,150
Add. Other	132	(185)	(1,050)	(1,150)
Op. profit before WC changes	8,293	8,385	9,050	11,144
Net Changes-WC	2,496	2,166	(1,048)	(1,618)
Direct tax	(2,172)	(2,562)	(2,572)	(3,002)
<b>Net cash from Op. activities</b>	<b>8,616</b>	<b>7,989</b>	<b>5,430</b>	<b>6,524</b>
Capital expenditures	(1,040)	(1,847)	(3,000)	(3,000)
Interest / Dividend Income	373	1,112	1,050	1,150
Others	(5)	(2,543)	-	-
<b>Net Cash from Invst. activities</b>	<b>(672)</b>	<b>(3,278)</b>	<b>(1,950)</b>	<b>(1,850)</b>
Issue of share cap. / premium	-	-	-	-
Debt changes	0	0	-	-
Dividend paid	(944)	(1,020)	(1,248)	(1,595)
Interest paid	(845)	(773)	(958)	(1,139)
Others	-	84	-	-
<b>Net cash from Fin. activities</b>	<b>(1,788)</b>	<b>(1,710)</b>	<b>(2,206)</b>	<b>(2,734)</b>
<b>Net change in cash</b>	<b>6,156</b>	<b>3,001</b>	<b>1,274</b>	<b>1,940</b>
Free Cash Flow	7,229	6,130	2,430	3,524

Source: Company Data, PL Research

### Key Financial Metrics

Y/e Dec	CY16	CY17	CY18E	CY19E
<b>Per Share(Rs)</b>				
EPS	17.7	19.8	23.6	30.1
CEPS	24.8	27.3	31.0	38.5
BVPS	155.1	170.2	187.9	210.5
FCF	34.1	28.9	11.5	16.6
DPS	4.4	5.0	5.9	7.5
<b>Return Ratio(%)</b>				
RoCE	14.5	15.4	19.7	22.2
ROIC	13.9	19.7	25.8	29.8
RoE	11.9	12.2	13.2	15.1
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.2)	(0.5)	(0.5)	(0.5)
Net Working Capital (Days)	74	49	50	50
<b>Valuation(x)</b>				
PER	64.2	57.3	48.2	37.7
P/B	7.3	6.7	6.0	5.4
P/CEPS	24.3	26.7	30.4	37.7
EV/EBITDA	33.8	30.3	24.5	19.7
EV/Sales	2.7	2.5	2.1	1.8
Dividend Yield (%)	0.4	0.4	0.5	0.7

Source: Company Data, PL Research

### Quarterly Financials (Rs m)

Y/e Dec	Q3CY17	Q4CY17	Q1CY18	Q2CY18
<b>Net Revenue</b>	<b>19,154</b>	<b>27,794</b>	<b>25,255</b>	<b>27,127</b>
YoY gr. (%)	(6.8)	10.8	17.4	21.5
Raw Material Expenses	12,154	18,738	17,231	18,030
Gross Profit	7,000	9,056	8,024	9,098
Margin (%)	36.5	32.6	31.8	33.5
<b>EBITDA</b>	<b>1,342</b>	<b>2,937</b>	<b>1,890</b>	<b>1,959</b>
YoY gr. (%)	(8.9)	118.9	(35.7)	3.7
Margin (%)	7.0	10.6	7.5	7.2
Depreciation / Depletion	389	432	356	356
<b>EBIT</b>	<b>953</b>	<b>2,505</b>	<b>1,533</b>	<b>1,603</b>
Margin (%)	5.0	9.0	6.1	5.9
Net Interest	152	178	232	232
Other Income	378	188	269	236
<b>Profit before Tax</b>	<b>1,178</b>	<b>2,515</b>	<b>1,571</b>	<b>1,607</b>
Margin (%)	6.2	9.0	6.2	5.9
Total Tax	344	800	546	586
Effective tax rate (%)	29.2	31.8	34.8	36.4
<b>Profit after Tax</b>	<b>834</b>	<b>1,715</b>	<b>1,025</b>	<b>1,021</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>834</b>	<b>1,715</b>	<b>1,025</b>	<b>1,021</b>
YoY gr. (%)	18.2	5.4	13.9	36.1
Margin (%)	4.4	6.2	4.1	3.8
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>834</b>	<b>1,715</b>	<b>1,025</b>	<b>1,021</b>
YoY gr. (%)	18.2	5.4	13.9	36.1
Margin (%)	4.4	6.2	4.1	3.8
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>834</b>	<b>1,715</b>	<b>1,025</b>	<b>1,021</b>
Avg. Shares O/s (m)	212	212	212	212
<b>EPS (Rs)</b>	<b>3.9</b>	<b>8.1</b>	<b>4.8</b>	<b>4.8</b>

Source: Company Data, PL Research

## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-17	Accumulate	1591	1369
2	26-Oct-17	Accumulate	1571	1400
3	10-Jan-18	Accumulate	1571	1423
4	09-Feb-18	Accumulate	1747	1592
5	13-Apr-18	Accumulate	1747	1274
6	09-May-18	Accumulate	1533	1270
7	11-Jun-18	Accumulate	1533	1513
8	10-Jul-18	Accumulate	1554	1174

PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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