

May 08, 2019

ABB Limited

Q1CY19 Result Update

ABB Ltd (ABB) posted Q1CY19 revenue at INR 1850 up 18% Y-o-Y and down 6% Q-o-Q. EBITDA stood at INR 145 crore up 63% Y-o-Y and down 33% Q-o-Q. PAT stood at INR 116 crore up 14% Y-o-Y and down 41% Q-o-Q. EBITDA Margin during the quarter stood at 8% vs 11% QoQ and 6% YoY. PAT Margin during the quarter stood at 6% vs 10% QoQ and 7% YoY.

Service revenues during this period were up by 21% led by effective conversion from process industries, oil and gas and automotive. ABB continued double-digit uptrend in base orders of 17%, total orders up 4%.

ABB India continues to have a strong order backlog as of March 31 at INR 4,726 crore, which provides revenue visibility and is well aligned for growth in the coming quarters. The company has orders worth INR 800 crore from electrification products, INR 312 crore from industrial automation and INR 729 crore from robotics and automation. Within the sectors of transportation, retail, automotive, metals, cement and oil & gas, base orders increased by 17%. The company also bagged orders for smarter power distribution technology for electrification and automation solutions for metro transportation, steel plants, and city infrastructure.

Robotics and Motion is one of the key segments

ABB's revenue was led by increase in robotics & motion segment (34% YoY growth), it includes portfolio offerings in transportation, infrastructure and urbanization space. This segment contributed 43% to the topline in Q1 CY19 as compared to 38% for Q1 CY18. The company will now shift its focus in leveraging its digital initiatives, via superior technology and enhancing customer's value proposition through collaborative product development. ABB showed significant improvement in its order book in digitalization across cement, steel, tyre and paint companies. Going ahead, management remains positive on sectors like railways, process industries, Food & Beverages etc.

Change in manufacturing strategy

ABB has over the years increased its overseas presence. The company exports to more than 100 countries. ABB has over the years increased its focus on increasing indigenization & localization. Currently it manufactures ~75% of the portfolio locally and has plans to further increase localization to improve the profitability.

ABB India's sharper focus on new areas, such as robotics and motion, digitization and automation, will steer the company towards more and more short-cycle orders. Such orders have lower risk from project delays and cost overruns.

	CY17	CY18	CY19E	CY20E
Total Revenue	9,087	6,690	7,625	8,254
EBITDA	736	458	598	647
EBITDA Margin	8.1%	6.8%	7.8%	7.8%
PAT	420	254	341	383
Adjusted PAT	420	511	600	647
PAT Margin	4.6%	7.6%	7.9%	7.8%
P/E	71	55	51	48
EV/EBITDA	38	53	48	44
EPS	20	24	28	31

Source: Company, NSPL Research

* Read last page for disclaimer & rating rationale

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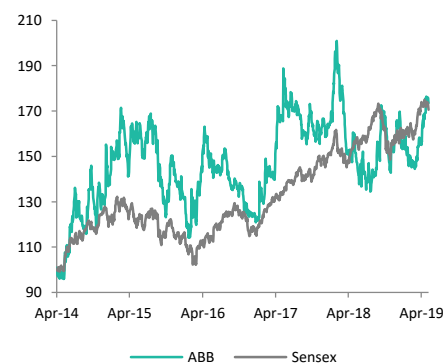
HOLD*

Downside Scenario	Current Price	Price Target	Upside Scenario
	1454	1506 4% ▲	

Market Data	
Industry	Capital Goods
Sensex	37,789
Nifty	11359
Bloomberg Code	ABB:IN
Face Value (INR)	2
52-w H/L	1519.9/ 1123
Market Cap (INR Crores)	30,800

Valuation Data	CY18	CY19E	CY20E
P/E (x)	55	51	48
EV/ EBITDA (x)	53	48	44

ABB Ltd. Vs SENSEX



Shareholding Pattern			
	Mar'19	Dec'18	Sep'18
Promoters	75	75	75
FIIs	3.3	3.17	3.17
DIIs	12.95	13.5	13.49
Others / Retail	8.75	8.33	8.34



Quarterly Performance (INR Crores)	Mar-19	Dec-18	QoQ	Mar-18	YoY
Sales	1850	1966	-6%	1566	18%
Expenses	1705	1751	-3%	1477	15%
EBITDA	145	215	-33%	89	63%
EBITDA Margin	7.8%	10.9%		5.7%	
Other Income	46	85	-46%	80	-43%
Depreciation	23	24	-4%	23	0%
EBIT	168	276	-39%	146	15%
Interest	3	5	-40%	20	-85%
Profit before tax	165	271	-39%	126	31%
Tax	49	73	-33%	24	104%
PAT	89	129	-45%	46	93%
Adjusted PAT	116	198	-41%	102	14%
PAT Margin	6.3%	10.1%		6.5%	

Source: Company, NSPL Research

Valuation:

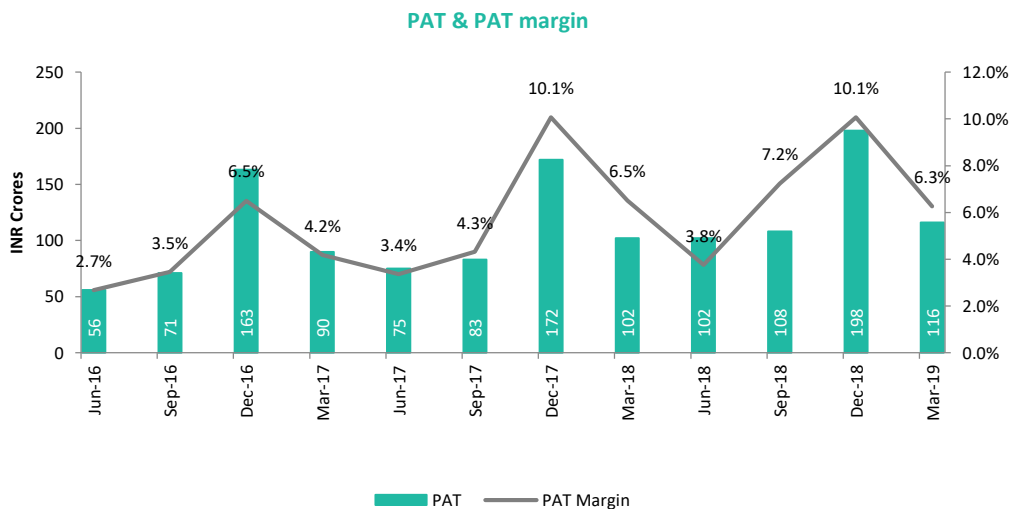
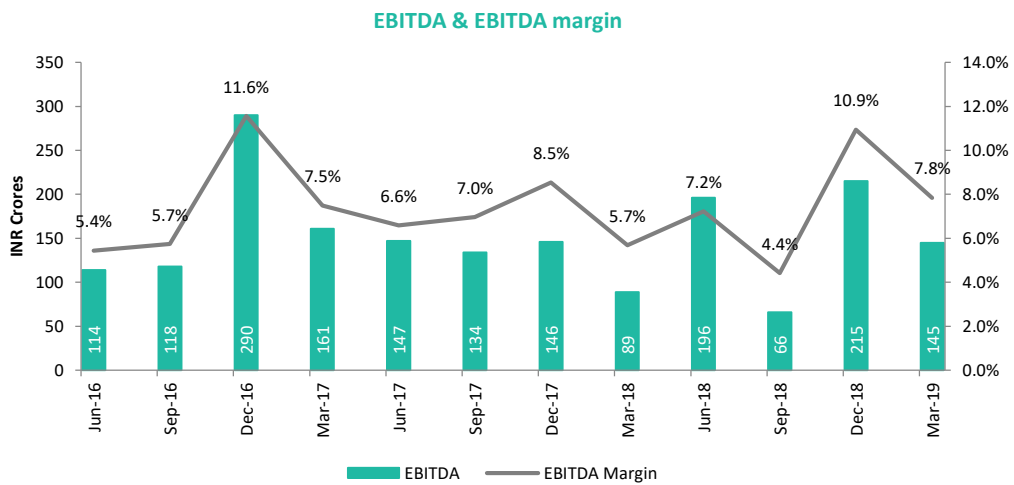
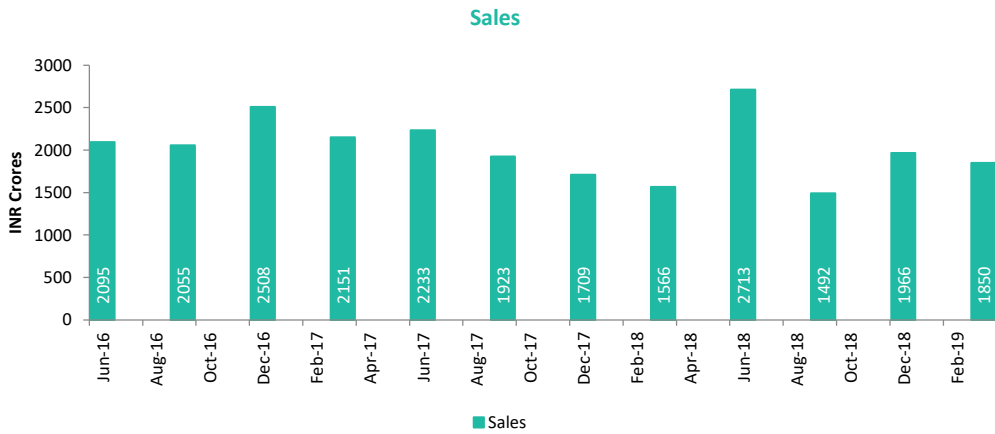
ABB provides technology solutions through robot and discrete manufacturing business. They also have a big presence in the motion business, focussing on motors, drives, mechanical power transmission, etc. So, the new ABB is poised to be the partner of choice, helping customers in different industrial segments tap the opportunities of industrial digitalisation.

Despite global headwinds of geopolitical trade tensions, fiscal consolidation and volatility in commodity prices and forex, ABB is well-positioned to tap into these opportunities for medium to long-term profitable growth.

At CMP of INR 1453.5, the company is trading at 44x CY20E EV/ EBITDA and 48x CY20E EPS. We value the company using average of EV/ EBITDA and P.E. multiple methodology. We have given an exit multiple of 45x for EV/EBITDA and 50x for PE to arrive at an average target price of INR 1506 which is an upside of 4%.

**Conference call highlights:**

- The management mentioned that the proposed demerger is expected to assist the current power grids division to independently pursue the business excellence built over a long period in the power infrastructure with its robust and time tested business model.
- Power grid business had a turnover of INR 4,172 crore for FY18. This accounts for 38.4% of total turnover of the company for FY18 and includes revenues from a one-time large order of high-voltage direct current (HVDC) from Power Grid Corporation of India.
- After the demerger, the minority shareholders will be issued one share of APPSIL for every five shares held in ABB India.
- Electrification Products and Robotic & Motion have a high imported content. Amongst these, Industrial automation margins are higher due to increased value-added and services content.
- The management mentioned that their continuous customer engagements in the last several quarters have resulted in significant base order traction for their core portfolio in multiple market segments enabling higher productivity and energy efficiency.
- Growth to be led by consumer-oriented sectors, wherein ABB will continue to focus in the near term.
- The management expects pickup in opex cycle in steel and cement factories, largely with the objective of driving improvement in operational efficiency.
- ABB India has significant global business services operations that serves half of the requirements of the parent company.
- The management mentioned that India being a powerhouse in engineering and digitalisation, they have strongly invested in the same. Also, they are driving robot and AI capabilities in India.



Source: Company, NSPL Research



Profit & Loss Statement (INR Crores)	CY17	CY18	CY19E	CY20E
Total Revenue	9087.3	6690.1	7625.0	8253.5
Total Operating Cost	8351.3	6232.3	7027.3	7606.6
EBITDA	736.1	457.8	597.6	646.9
Other Income	121.0	84.1	102.5	93.3
Depreciation & Amortisation	158.0	92.8	125.4	109.1
EBIT	699.1	449.1	574.8	631.2
Finance cost	77.3	53.9	65.6	59.8
Profit after Interest but before Exceptional Items	621.8	651.9	768.5	835.9
Tax	201.8	141.0	168.0	188.6
Profit	420	254	341	383
Adjusted Profit	420.0	511.0	600.4	647.3

Balance Sheet	CY17	CY18	CY19E	CY20E
Equity and liabilities				
Shareholder's funds				
Share capital	42.4	42.4	42.4	42.4
Reserves and surplus	3564.5	3964.9	4565.4	5212.7
Shareholder's funds	3606.9	4007.3	4607.8	5255.0
Other long term liabilities	3.9	3.5	3.7	3.6
Long-term provisions	42.7	32.3	37.5	34.9
Non-current liabilities	50.7	37.8	44.2	41.0
Current liabilities				
Trade payables	2713.1	1750.7	2231.9	1991.3
Other current liabilities	2202.9	403.4	1303.1	853.2
Short-term provisions	314.5	2877.7	1596.1	2236.9
Current liabilities	5230.5	5031.8	5131.1	5082.4
Total Equity and liabilities	8888.1	9076.9	9783.1	10378.5
Assets				
Net Block	1142.6	871.3	1171.3	1471.3
Capital work in progress	116.5	83.1	100.0	100.0
Intangible asset under development	76.1	23.4	23.4	23.4
Deferred tax assets	117.3	115.0	116.1	115.5
Long-term loans and advances	21.6	10.4	16.0	13.2
Other non-current assets	457.4	448.6	453.0	450.8
Non-current assets	1931.6	1551.8	1879.9	2174.3
Current Assets				
Inventories	1153.6	927.9	1040.7	984.3
Trade receivables	2787.8	1686.9	2237.3	1962.1
Cash and bank balances	1491.7	1472.4	2290.2	2370.8
Short-term loans and advances	24.6	2.7	2.9	3.2
Other current assets	1228.4	3435.2	2331.8	2883.5
Current assets	6956.4	7525.1	7903.0	8204.0
Total Assets	8888.1	9076.9	9783.1	10378.5

Source: Company, NSPL Research



CASH FLOW STATEMENT	CY17	CY18	CY19E	CY20E
Cashflow from operating activities				
Operating profit before working capital changes	583.2	402.3	532.1	551.7
Net cashflow from operating activities	799.8	391.9	1,282.1	556.7
Cash (used) / realised in investing activities	(328.7)	(199.5)	(183.1)	(200.0)
Cash (used) /realised in financing activities	(171.0)	(209.1)	(281.3)	(276.1)
Net Increase/(Decrease) in cash	300.1	(16.8)	817.7	80.6
Net cash at begn of year	1,186.9	1,489.2	1,472.4	2,290.2
Net cash at end of year	1,489.2	1,472.4	2,290.2	2,370.8

Segmental EBIT (INR Crores)	Q1CY19	Q4CY18	Q1CY18
Robotics and Motion	79	75	43
		5%	84%
Electrification Products	64	76	67
		-16%	-4%
Industrial Automation	37	73	39
		-49%	-5%

Segmental Revenue (INR Crores)	Q1 CY19	Q4 CY18	Q1 CY18
Robotics and Motion	800	698	597
		15%	34%
Electrification Products	731	748	651
		-2%	12%
Industrial Automation	361	516	302
		-30%	20%
Others	40	128	80
		-69%	-50%

Source: Company, NSPL Research

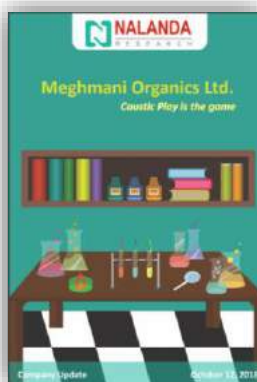
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Dalmia Bharat



Coromandel International



Meghmani Organics



IndoStar Capital



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Sharda Cropchem



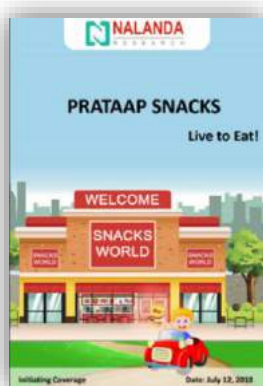
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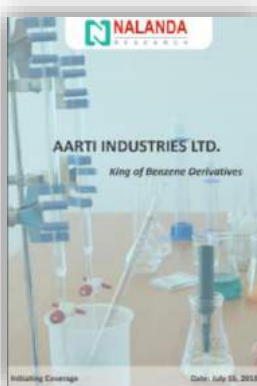
Manappuram Finance



IG Petrochemicals



Prataap Snacks



Aarti Industries



Shriram Transport



ABB Ltd.				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
May 08, 2019	1454	1506	Hold	Buy	5% - 15%
October 31, 2018	1209	1417	Strong Buy	Hold	0 – 5%
				Reduce	-5% - 0
				Sell	Less than -5%

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Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
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