

May 14, 2020

Q1CY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	CY20E	CY21E	CY20E	CY21E
Rating	HOLD		HOLD	
Target Price	874		948	
Sales (Rs. m)	70,818	79,316	74,912	84,808
% Chng.	(5.5)	(6.5)		
EBITDA (Rs. m)	3,045	5,941	5,388	6,100
% Chng.	(43.5)	(2.6)		
EPS (Rs.)	10.3	19.4	18.0	21.1
% Chng.	(42.9)	(7.8)		

Key Financials - Standalone

Y/e Dec	CY18	CY19	CY20E	CY21E
Sales (Rs. m)	66,901	73,151	70,818	79,316
EBITDA (Rs. m)	4,578	5,312	3,045	5,941
Margin (%)	6.8	7.3	4.3	7.5
PAT (Rs. m)	5,109	3,719	2,182	4,115
EPS (Rs.)	24.1	17.6	10.3	19.4
Gr. (%)	21.7	(27.2)	(41.3)	88.6
DPS (Rs.)	1.0	1.1	0.8	1.5
Yield (%)	0.1	0.1	0.1	0.2
RoE (%)	13.4	9.1	5.2	9.3
RoCE (%)	9.6	10.8	4.8	11.1
EV/Sales (x)	2.4	2.2	2.3	2.0
EV/EBITDA (x)	35.5	29.9	52.8	26.4
PE (x)	34.7	47.6	81.2	43.1
P/BV (x)	4.4	4.2	4.1	3.9

Key Data

ABB.BO | ABB IN

52-W High / Low	Rs.1,504 / Rs.795
Sensex / Nifty	31,123 / 9,143
Market Cap	Rs.177bn / \$ 2,345m
Shares Outstanding	212m
3M Avg. Daily Value	Rs.155.3m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	3.31
Domestic Institution	11.61
Public & Others	10.08
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	(7.8)	(36.8)	(32.4)
Relative	(9.1)	(18.2)	(19.0)

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Nation-wide lockdown impacts results

Quick Pointers:

- Decent Order Inflows up 10% YoY to ~Rs19.5bn, OB stands at Rs44.4bn providing revenue visibility for a few quarters.
- The Pandemic resulted into loss for a) orders worth ~Rs1.8bn, b) revenue to the tune of ~Rs2bn and c) cash collection worth ~Rs1.8bn during 1QCY20.

ABB India (ABB) reported a disappointing quarter because of weakness across business segments, due to the outbreak of Covid-19 causing nation-wide lockdown. Despite of weak economic environment, ABB has secured orders worth Rs19.5bn (up 10% YoY) and has an outstanding order book of Rs44.4bn as on 1QCY20. Management believes the impact of Covid-19 would continue in the short term as countries continue to face restriction with anticipated long-term economic consequences. Despite of short term disruptions we believe ABB's resilient business model, healthy global distribution network, diversified business segment and comfortable balance sheet would help faster recovery, as per economic activity starts picking up.

Despite various stimulus packages announced by governments and central banks around the world along with some initial signs of recovery in economic activity from China, we believe recovery would take time as macro-indicators point at global recession. We have cut our earnings estimates by 43%/7.8% for CY20E/21E owing to a) Slowdown in the Automotive segment heavily impacting robotics and industrial automation division, b) gradually recovery in supply chain issues c) delay in cash collections resulting into working capital pressure and d) dismissal operating performance of 1Q. We maintain Hold rating with revised TP of Rs874 (valuing at 45x CY21E).

Covid-19 impacts revenue and profitability: Sales declined by 17.7% YoY due to lower sales, non-receipt of delivery clearance and lower service revenue (14% vs avg. 18% of total revenue). Weakness in revenue has been seen across business divisions specially Robotics & Discrete Automation/Motion division which declined 41%/21% YoY due to high exposure in auto sector. Industrial automation declined by 19% YoY due to high exposure of Oil & Gas segment. EBITDA was down 90% with EBITDA margins coming in at 1% in 1QCY20 v/s 7.9% in 1QCY19 due to higher employee exp (up 4%), other expenses (up 25%) and lower than anticipated sales. PAT came in at Rs660mn (vs PLe Rs862), down 44% YoY as pandemic caused an overall disappointing performance.

Order inflow up 10% YoY despite lockdown: Order inflow was up 10% YoY at Rs19.5bn mainly contributed by Motion (up 30% YoY) and Industrial Automation Business (up 10 % YoY). Key orders received include orders from Indian Railway, orders for the energy sector, FGD orders etc. We believe order inflows may be volatile over the near term, given the current economic scenario. Order backlog as on 1QCY20 stood at Rs44.4bn mainly comprising of Electrification (up 16% YoY) and Industrial Automation (up 8% YoY) provides some revenue visibility in the coming quarters. Management indicated that they shall exercise caution to ensure the conversion value chain is completed in all aspects.

Exhibit 1: Q1CY20 Result Overview (Rs mn)- Disappointing quarter, impacted due to Coivid-19

Y/e Dec	Q1CY20	Q1CY19	YoY gr. (%)	Q4CY19	QoQ gr. (%)	CY20	CY19	YoY gr. (%)
Net Revenue	15,222	18,503	(17.7)	19,533	(22.1)	70,818	73,151	(3.2)
EBITDA	145	1,455	(90.0)	1,384	(89.5)	3,045	5,312	(42.7)
EBITDA Margin (%)	1.0	7.9		7.1		4.3	7.5	
Other Income	458	191	139.4	384	19.2	1,103	943	17.0
Depreciation	271	233	16.1	224	20.7	1,013	904	12.1
Interest	34	26	28.4	47	(28.3)	218	214	2.0
Profit before Tax	866	1,387	(37.5)	800	8.3	2,917	4,440	(34.3)
PBIT Margin (%)	5.7	7.5		4.1		4.1	6.1	
Tax	206	497	(58.5)	153	34.7	735	1,418	(48.1)
Reported PAT (Excluding Power Grid)	660	890	(25.8)	647	2.1	2,182	3,022	(27.8)
Net Margin (%)	4.3	4.8		3.3		3.1	4.1	
Adjusted EPS	3.1	4.2	(25.8)	3.1		10.3	14.3	

Source: Company, PL

Exhibit 2: Segmental Performance

Y/e Dec	Q1CY20	Q1CY19	YoY gr.	Q4CY19	QoQ gr.
Revenues (Rs mn)					
Robotics and Discrete Automation	426	796	-46.5%	652	-34.7%
Motion	5,674	7,201		6,848	
Electrification products	6,229	7,307	-14.8%	8,331	-25.2%
Industrial Automation	2,935	3,614	-18.8%	4,140	-29.1%
Others	238	400	-40.6%	22	984.5%
Total	15,500	19,316	-19.8%	19,993	-22.5%
Less: Inter Segment revenues - Continued Operations	278	814		460	
Net Revenue	15,222	18,502		19,533	
PBIT (Rs mn)					
Robotics and Discrete Automation	-42	90	-146.0%	79	-152.5%
Motion	210	703		632	
Electrification products	397	641	-38.1%	998	-60.2%
Industrial Automation	28	365	-92.3%	10	176.5%
Total	594	1,800	-67.0%	1,719	-65.4%
Interest (residual business)	34	26	28.4%	47	-28.3%
Other unallocable expense	262	386	-32.2%	176	49.3%
Exceptional item - Electrification	-568	-	NA	697	NA
Total PBIT	866	1,387	NA	800	NA
PBIT Margin (%)					
Robotics and Discrete Automation	-9.8%	11.4%		12.2%	
Motion	3.7%	9.8%		9.2%	
Electrification products	6.4%	8.8%		12.0%	
Industrial Automation	1.0%	10.1%		0.2%	

Source: Company, PL

Conference Call Highlights:

- Areas impacted during the lockdown were supply chain issues, cash collections from customers and delay in revenue recognition.
- Operations at factories have begun gradually from 20th April'20. The constant efforts from management have helped operations to settle smoothly with a few hiccups arising from supply chain.
- Order inflows was up 10% YoY mainly driven by growth in Motion Business and Electrification segments. Robotics & Discrete automation continues to see headwinds due to exposure from auto sector.
- Electrification- OI remained flat for the quarter. Revenue was down 15% YoY due to Covid-19 as shipments were delayed due to lockdown. Going ahead focus areas would be Buildings, Data Centres, metros, water etc.
- Motion- OI was up 30% YoY mainly driven by large contract received from Indian Railways and large export orders for motors. Revenue decline 21% YoY owing to lower revenue from water projects and delay in dispatch due to Covid-19. Focus areas would be transportation, Digitalization and services.
- Industrial Automation- OI growth was 10% YoY led by wins in Energy & Turbocharging industries. Revenue was impacted due to shortfall in services revenue. Focus remains on building the services business. During the quarter cash collection improved for this division.
- Robotics & Discrete Automation- OI was down 45% YoY due to slowdown in auto industry. Focus areas includes Automotive, OEM's, F&B, electronics and logistics.
- In 1QCY20 services contributed 14% of total revenues vs 17% in CY19.
- Management believes segments like Utility Infra, Water, Powergen Infra, F&B, Pharma, Chemicals and Data Centres would bounce back once the recovery starts to kick-in.
- Margins for the quarter got impacted due to volume short fall, forex, commodity price volatility and fixed cost.
- Management has witnessed a gain in market share in its product business from its electrification and motion segment given competitors fallout.
- Cash at the beginning of 1QCY20 was Rs15bn of which Rs2bn was lost due to lower collections which has been offset by the sale of solar inverter business. Management believes this would help them sustain for next 1-2 months if the cash collections remain weak.

Financials

Income Statement (Rs m)

Y/e Dec	CY18	CY19	CY20E	CY21E
Net Revenues	66,901	73,151	70,818	79,316
YoY gr. (%)	9.8	9.3	(3.2)	12.0
Cost of Goods Sold	42,874	46,393	45,324	50,366
Gross Profit	24,028	26,758	25,495	28,950
Margin (%)	35.9	36.6	36.0	36.5
Employee Cost	5,295	5,796	6,374	6,425
Other Expenses	11,892	13,432	13,455	13,888
EBITDA	4,578	5,312	3,045	5,941
YoY gr. (%)	10.4	16.0	(42.7)	95.1
Margin (%)	6.8	7.3	4.3	7.5
Depreciation and Amortization	928	904	1,013	1,041
EBIT	3,650	4,408	2,032	4,900
Margin (%)	5.5	6.0	2.9	6.2
Net Interest	539	214	218	222
Other Income	840	943	1,103	824
Profit Before Tax	3,951	5,137	2,917	5,502
Margin (%)	5.9	7.0	4.1	6.9
Total Tax	1,410	1,418	735	1,386
Effective tax rate (%)	35.7	27.6	25.2	25.2
Profit after tax	2,542	3,719	2,182	4,115
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	5,109	3,719	2,182	4,115
YoY gr. (%)	21.7	(27.2)	(41.3)	88.6
Margin (%)	7.6	5.1	3.1	5.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	5,109	3,719	2,182	4,115
YoY gr. (%)	21.7	(27.2)	(41.3)	88.6
Margin (%)	7.6	5.1	3.1	5.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	5,109	3,719	2,182	4,115
Equity Shares O/s (m)	212	212	212	212
EPS (Rs)	24.1	17.6	10.3	19.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY18	CY19	CY20E	CY21E
Non-Current Assets				
Gross Block	11,277	12,512	13,776	14,776
Tangibles	11,058	12,294	13,557	14,557
Intangibles	218	218	218	218
Acc: Dep / Amortization	2,345	3,249	4,263	5,303
Tangibles	2,345	3,249	4,263	5,303
Intangibles	-	-	-	-
Net fixed assets	8,931	9,263	9,513	9,472
Tangibles	8,713	9,045	9,295	9,254
Intangibles	218	218	218	218
Capital Work In Progress	831	847	864	881
Goodwill	-	-	-	-
Non-Current Investments	3,009	3,292	3,187	3,569
Net Deferred tax assets	1,150	1,173	1,173	1,173
Other Non-Current Assets	1,597	1,597	1,597	1,597
Current Assets				
Investments	0	0	0	0
Inventories	9,279	10,021	8,731	9,779
Trade receivables	16,869	18,037	18,432	20,644
Cash & Bank Balance	14,751	18,412	16,508	20,250
Other Current Assets	3,353	3,607	3,529	3,966
Total Assets	90,769	97,279	94,275	1,02,418
Equity				
Equity Share Capital	424	424	424	424
Other Equity	39,649	41,304	42,499	44,752
Total Network	40,073	41,728	42,923	45,176
Non-Current Liabilities				
Long Term borrowings	20	21	21	22
Provisions	323	353	342	383
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	0	0	0	0
Trade payables	18,745	20,442	18,432	20,644
Other current liabilities	31,573	34,700	32,521	36,156
Total Equity & Liabilities	90,769	97,280	94,275	1,02,418

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY18	CY19	CY20E	CY21E
PBT	7,942	4,440	2,917	5,502
Add. Depreciation	1,458	904	1,013	1,041
Add. Interest	767	214	218	222
Less Financial Other Income	840	943	1,103	824
Add. Other	(24)	(943)	(1,103)	(1,103)
Op. profit before WC changes	10,143	4,615	3,045	5,662
Net Changes-WC	(1,641)	2,548	(2,926)	2,095
Direct tax	(2,248)	(1,441)	(735)	(1,386)
Net cash from Op. activities	6,255	5,722	(616)	6,371
Capital expenditures	77	-	-	-
Interest / Dividend Income	632	943	1,103	824
Others	729	(1,453)	(1,175)	(1,203)
Net Cash from Invst. activities	1,437	(510)	(72)	(379)
Issue of share cap. / premium	-	-	-	-
Debt changes	(6,000)	0	0	0
Dividend paid	(1,124)	(1,367)	(987)	(1,862)
Interest paid	(799)	(214)	(218)	(222)
Others	(14)	31	(11)	28
Net cash from Fin. activities	(7,937)	(1,550)	(1,215)	(2,055)
Net change in cash	(245)	3,662	(1,904)	3,936
Free Cash Flow	6,255	5,722	(616)	6,371

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q2CY19	Q3CY19	Q4CY19	Q1CY20
Net Revenue	17,258	17,456	19,533	15,222
YoY gr. (%)	3.6	17.0	(0.7)	(17.7)
Raw Material Expenses	10,734	10,732	12,296	9,397
Gross Profit	6,524	6,724	7,237	5,826
Margin (%)	37.8	38.5	37.0	38.3
EBITDA	1,239	1,234	1,384	145
YoY gr. (%)	38.6	88.7	(35.8)	(90.0)
Margin (%)	7.2	7.1	7.1	1.0
Depreciation / Depletion	220	227	224	271
EBIT	1,019	1,007	1,160	(126)
Margin (%)	5.9	5.8	5.9	(0.8)
Net Interest	96	44	47	34
Other Income	204	164	384	458
Profit before Tax	1,127	1,127	800	866
Margin (%)	6.5	6.5	4.1	5.7
Total Tax	429	339	153	206
Effective tax rate (%)	38.1	30.1	19.1	23.8
Profit after Tax	697	788	647	660
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	697	788	647	660
YoY gr. (%)	(31.7)	118.9	(49.7)	(25.8)
Margin (%)	4.0	4.5	3.3	4.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	697	788	647	660
YoY gr. (%)	57.0	118.9	(49.7)	(25.8)
Margin (%)	4.0	4.5	3.3	4.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	697	788	647	660
Avg. Shares O/s (m)	212	212	212	212
EPS (Rs)	3.3	3.7	3.1	3.1

Source: Company Data, PL Research

Key Financial Metrics

Y/e Dec	CY18	CY19	CY20E	CY21E
Per Share(Rs)				
EPS	24.1	17.6	10.3	19.4
CEPS	28.5	21.8	15.1	24.3
BVPS	189.1	196.9	202.6	213.2
FCF	29.5	27.0	(2.9)	30.1
DPS	1.0	1.1	0.8	1.5
Return Ratio(%)				
RoCE	9.6	10.8	4.8	11.1
ROIC	10.1	14.2	5.9	15.4
RoE	13.4	9.1	5.2	9.3
Balance Sheet				
Net Debt : Equity (x)	(0.4)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	40	38	45	45
Valuation(x)				
PER	34.7	47.6	81.2	43.1
P/B	4.4	4.2	4.1	3.9
P/CEPS	29.3	38.3	55.4	34.4
EV/EBITDA	35.5	29.9	52.8	26.4
EV/Sales	2.4	2.2	2.3	2.0
Dividend Yield (%)	0.1	0.1	0.1	0.2

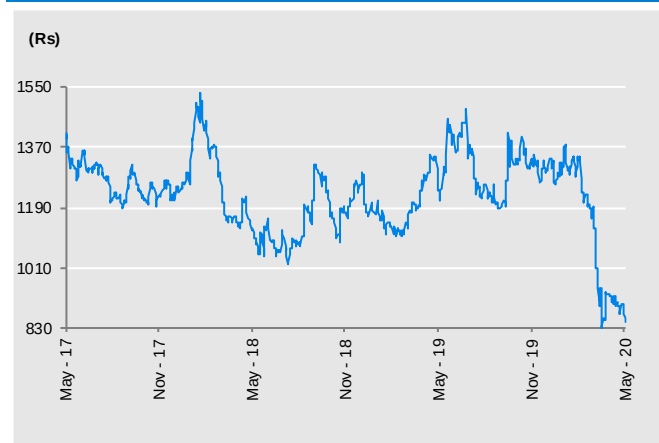
Source: Company Data, PL Research

Key Operating Metrics

Y/e Dec	CY18	CY19	CY20E	CY21E
Segmental Performance				
Revenue (Rs mn)				
Electrification Products	26,161	30,194	27,174	29,892
Industrial Automation	15,400	15,632	15,319	16,851
Robotics and Motion	25,022	28,903	28,325	32,573
Total	66,583	74,728	70,818	79,316
EBIT (Rs mn)				
Electrification Products	2,496	2,971	2,174	2,989
Industrial Automation	1,899	962	766	1,095
Robotics and Motion	2,205	2,656	1,416	2,932
Total	6,600	6,589	4,356	7,016
EBIT Margin (%)				
Electrification Products	10	10	8	10
Industrial Automation	12	6	5	7
Robotics and Motion	9	9	5	9

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	16-Apr-20	Hold	948	916
2	12-Feb-20	Reduce	1,122	1,267
3	03-Jan-20	Reduce	1,514	1,322
4	13-Nov-19	Reduce	1,514	1,498
5	03-Oct-19	Reduce	1,442	1,461
6	29-Jul-19	Reduce	1,296	1,394
7	04-Jul-19	Reduce	1,320	1,652

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	948	916
2	Ahluwalia Contracts (India)	Accumulate	264	142
3	Apar Industries	BUY	587	368
4	Ashoka Buildcon	BUY	147	39
5	Bharat Electronics	Hold	89	70
6	BHEL	Hold	50	21
7	Capacite's Infraprojects	BUY	168	75
8	Container Corporation of India	Accumulate	595	572
9	Cummins India	BUY	493	385
10	Engineers India	BUY	83	67
11	GE T&D India	Hold	91	86
12	H.G. Infra Engineering	BUY	259	164
13	IRB Infrastructure Developers	BUY	127	53
14	ITD Cementation India	BUY	67	33
15	J.Kumar Infraprojects	BUY	218	76
16	Kalpataru Power Transmission	BUY	275	175
17	KEC International	BUY	295	164
18	KNR Constructions	BUY	305	183
19	Larsen & Toubro	BUY	1,361	880
20	NCC	BUY	83	17
21	PNC Infratech	BUY	205	94
22	Power Grid Corporation of India	BUY	205	160
23	Sadbhav Engineering	BUY	128	25
24	Siemens	BUY	1,406	1,193
25	Thermax	Accumulate	855	705
26	Triveni Turbine	BUY	109	66
27	Voltamp Transformers	BUY	1,591	1,379
28	Voltas	BUY	1,244	888

PL's Recommendation Nomenclature (Absolute Performance)

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

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