

July 24, 2020

Q2CY20 Result Update

☑ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	CY21E	CY22E	CY21E	CY22E
Rating	HOLD		HOLD	
Target Price	874		874	
Sales (Rs. m)	78,539	87,960	79,316	88,877
% Chng.	(1.0)	(1.0)		
EBITDA (Rs. m)	5,890	6,597	5,941	6,657
% Chng.	(0.8)	(0.9)		
EPS (Rs.)	19.4	21.4	19.4	22.5
% Chng.	0.1	(4.9)		

Key Financials - Standalone

Y/e Dec	CY19	CY20E	CY21E	CY22E
Sales (Rs. m)	73,151	70,160	78,539	87,960
EBITDA (Rs. m)	5,312	3,508	5,890	6,597
Margin (%)	7.3	5.0	7.5	7.5
PAT (Rs. m)	3,022	2,354	4,118	4,533
EPS (Rs.)	14.3	11.1	19.4	21.4
Gr. (%)	18.9	(22.1)	74.9	10.1
DPS (Rs.)	5.4	2.4	4.3	4.7
Yield (%)	0.6	0.3	0.5	0.5
RoE (%)	8.0	6.5	10.7	10.8
RoCE (%)	11.7	6.9	12.2	12.4
EV/Sales (x)	2.4	2.5	2.3	2.0
EV/EBITDA (x)	33.4	50.5	30.0	26.8
PE (x)	64.0	82.2	47.0	42.7
P/BV (x)	5.5	5.2	4.8	4.4

Key Data

ABB.BO | ABB IN

52-W High / Low	Rs.1,442 / Rs.722
Sensex / Nifty	38,129 / 11,194
Market Cap	Rs.193bn/ \$ 2,586m
Shares Outstanding	212m
3M Avg. Daily Value	Rs.365.96m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	3.78
Domestic Institution	11.06
Public & Others	10.16
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	5.2	(31.3)	(25.5)
Relative	(3.8)	(25.0)	(26.1)

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Cost control measures boost profitability

Quick Pointers:

- Order Inflows came in at Rs12bn led by traction in Electrification and Motion businesses, OB stands flat at Rs46.7bn as on 2QCY20.
- Healthy cash position maintained at Rs15bn as on 2QCY20 despite the pandemic led by strong focus on cash collections.

ABB India (ABB) reported decent performance higher than our and consensus estimates led by several cost control initiatives and gradual recovery in utilization. Revenue declined 43% YoY impacted due to weakness across business verticals, due nation-wide lockdown. ABB secured orders worth Rs12bn (down 40% YoY) on account of delay in awarding activity. However, management is expecting some pick up in ordering from sectors such as F&B, data centers, pharmaceuticals, energy, chemicals, railways & metros which are expected to drive growth. Outstanding order book stands at Rs46.7bn as on 2QCY20 providing revenue visibility for few quarters. Management believes the impact of Covid-19 would continue in the short term as pandemic situation is yet to settle-down.

We believe expect slow ramp-up for 2HCY20 as some segments are still witnessing a slow recovery due to pandemic. ABB's resilient business model, healthy global distribution network, diversified business segment and comfortable balance sheet would help faster recovery basis economic activity starts picking up in the long run. The stock is currently trading at 48.4x/44x CY21E/CY22E. We maintain Hold rating with TP of Rs874 (valuing at 45x CY21E).

Cost cutting measures helped maintain profitability: Sales came in at ~Rs9.9bn (down 43% YoY) vs (PLe ~Rs12.7bn) impacted by delay in execution due to lockdown. Weakness was seen across business divisions where Robotics & Discrete Automation/Motion/Electrification/Industrial automation de-grew by 64%/35%/51%/ 37% YoY. EBITDA was down 81% at Rs234mn (PLe ~Rs38bn) where margins came at 2.4% in 2QCY20 v/s 7.2% in 2QCY19 impacted mainly due to lower sales. PBT decreased by 79% YoY to Rs234mn due to higher depreciation cost (up 13% YoY). Other income came in at Rs266mn, up 31% YoY. Adj.PAT came in at Rs167mn (PLe ~loss of Rs53mn), down 76% YoY due to weak sales.

Order inflow down 40% YoY due to lockdown: Order inflow was down 40% YoY at Rs12bn mainly contributed by electrification (41.5%), Motion (31% YoY) and Industrial Automation Business (26%). Key highlights for the quarter include orders from SCADA orders from energy major, 33KV GIS panel for Kolkata metro etc. We believe order inflows may be volatile over the near term, given the current economic scenario. Order backlog stood at Rs46.7bn as on 2QCY20 mainly comprising of Motion (37% YoY), Electrification and Industrial Automation (30% each) which are executable over next 2-3 quarter. Management indicated sectors like F&B, pharmaceutical, chemicals, railways and metros would help drive growth once the recovery starts.

Exhibit 1: Exhibit 1: Q2CY20 Result Overview (Rs mn)- Cost cutting measures and cash optimization led to profitability

Y/e March (Rs mn)	Q2CY19	Q3CY19	Q4CY19	Q1CY20	Q2CY20	YoY gr. (%)	QoQ gr. (%)	CY20E	CY19	YoY gr. (%)
Revenue	17,258	17,456	19,533	15,222	9,858	(42.9)	(35.2)	70,160	73,151	(4.1)
Total Revenues	17,258	17,456	19,533	15,222	9,858	(42.9)	(35.2)	70,160	73,151	(4.1)
Expenditure	16,019	16,223	18,149	15,077	9,623	(39.9)	(36.2)	66,652	67,839	(1.7)
as % of sales	92.8	92.9	92.9	99.0	97.6			95.0	92.7	
Consumption of RM	10,734	10,732	12,296	9,397	6,135	(42.8)	(34.7)	44,903	46,393	(3.2)
as % of sales	62.2	61.5	63.0	61.7	62.2			64.0	63.4	
Employee Cost	1,361	1,395	1,465	1,633	1,202	(11.7)	(26.4)	6,314	5,796	8.9
as % of sales	7.9	8.0	7.5	10.7	12.2			9.0	7.9	
Other expenditure	3,924	4,095	4,388	4,048	2,287	(41.7)	(43.5)	15,435	15,650	(1.4)
as % of sales	22.7	23.5	22.5	26.6	23.2			22.0	21.4	
EBITDA	1,239	1,234	1,384	145	234	(81.1)	61.7	3,508	5,312	(34.0)
Depreciation	220	227	224	271	249	13.1	(8.0)	1,030	904	14.0
EBIT	1,019	1,007	1,160	(126)	(15)	(101.4)	(88.4)	2,478	4,408	(43.8)
Other Income	204	164	384	458	266	30.7	(41.9)	912	943	(3.3)
Interest	96	44	47	34	38	(60.8)	10.6	246	214	15.0
Exceptional Item	-	-	697	568	20			-	697	
PBT	1,127	1,127	800	(270)	194	(82.8)	(172.0)	3,144	4,440	(29.2)
Total Tax	429	339	153	206	67	(84.5)	(67.7)	790	1,418	(44.3)
Reported PAT	697	788	647	(476)	128	(81.7)	(126.8)	2,354	3,022	(22.1)
PAT from continued operation	697	788	647	660	167	(76.0)	(74.6)	2,354	3,022	(22.1)
Adjusted EPS	3.3	3.7	3.1	3.1	0.8	(76.0)	(74.6)	11.1	14.3	(22.1)
Margins (%)	Q2CY19	Q3CY19	Q4CY19	Q1CY20	Q2CY20	bps	bps	CY20E	CY19	bps
EBIDTA	7.2	7.1	7.1	1.0	2.4	(480)	143	5.0	7.3	(226)
EBIT	5.9	5.8	5.9	(0.8)	(0.1)	(605)	68	3.5	6.0	(249)
EBT	6.5	6.5	4.1	(1.8)	2.0	(456)	374	4.5	6.1	(159)
PAT	4.0	4.5	3.3	4.3	1.7	(234)	(264)	3.4	4.1	(78)
Effective Tax rate	38.1	30.1	19.1	(76.4)	34.3	(378)	11,073	25.1	31.9	(681)

Source: Company, PL

Conference Call Highlights:

- During the quarter, company focused on cash collection, payables, resolving supply side issues and retaining customers by implementing various innovative solutions such as resolving issues virtually or remotely. For eg: a refinery in North East was shutdown remotely by ABB for a client.
- Pandemic impacted the overall business performance with gradual pickup observed (from Mid-May onwards) month on month basis.
- During 2Q with some pick up in industrial activity and pent up demand, the company received orders worth Rs12bn in 2Q primarily from Industrial automation, electrification and motion business. The company is witnessing strong traction in order inflows from Data Centres, Pharma, Railways, F&B and Metros segments.
- Despite sale of solar business, order book remains flat at Rs46.7bn providing visibility over 2-3 quarters. Of total OB, Motion constitute 36.5%, Electrification and Industrial Automation constitute 30% each while balance is contributed by Robotics segment. Some deferred orders are not included in the order book.
- During the quarter, several cost control measures such as no bonus/hikes in salaries, rationalization of discretionary expenses, lower travel expense and gain in forex (Rs440mn vs loss of Rs500mn in 2QCY19) resulted in lower employee and admin cost.
- ABB maintains its cash balance at Rs15bn as on 2QCY20.
- **Electrification-** Revenue declined by 51% YoY due to delay in execution impacted due to lockdown and lower order inflows (down 40% YoY). Going ahead focus areas would be buildings (incl. airports), data centers, metros, water, automotive etc
- **Motion-** OI was down 39% YoY and Revenue declined 35% YoY owing to current economic situation and pandemic. Focus areas going ahead would be transportation, digitalization and service. As large proportion of motion business comes from low to moderately impacted end markets; impact of pandemic on operations for this segment has been relatively low.
- **Industrial Automation-** Revenue declined 37% YoY due to challenges in the large upstream projects on account of the fluctuations in the global crude oil prices. As per management, the segment continues witness some challenges and expects revival in the long run led by govt projects like PMUJ, energy efficiencies, investment in digitization and enhancing productivity would be key growth drivers.
- **Robotics & Discrete Automation-** OI was down 73% YoY and revenue was down 64% YoY primarily due to slowdown in Auto sector. However, management expects the trend to continue and is expecting some pickup in demand from Genset Industry, F&B, Electronics & Logistics.

Financials

Income Statement (Rs m)

Y/e Dec	CY19	CY20E	CY21E	CY22E
Net Revenues	73,151	70,160	78,539	87,960
YoY gr. (%)	9.3	(4.1)	11.9	12.0
Cost of Goods Sold	46,393	44,903	49,872	55,854
Gross Profit	26,758	25,258	28,667	32,105
Margin (%)	36.6	36.0	36.5	36.5
Employee Cost	5,796	6,314	6,676	7,037
Other Expenses	6,974	7,016	7,069	7,916
EBITDA	5,312	3,508	5,890	6,597
YoY gr. (%)	16.0	(34.0)	67.9	12.0
Margin (%)	7.3	5.0	7.5	7.5
Depreciation and Amortization	904	1,030	1,161	1,378
EBIT	4,408	2,478	4,729	5,219
Margin (%)	6.0	3.5	6.0	5.9
Net Interest	214	246	291	352
Other Income	943	912	1,060	1,187
Profit Before Tax	4,440	3,144	5,499	6,054
Margin (%)	6.1	4.5	7.0	6.9
Total Tax	1,418	790	1,381	1,521
Effective tax rate (%)	31.9	25.1	25.1	25.1
Profit after tax	3,022	2,354	4,118	4,533
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,022	2,354	4,118	4,533
YoY gr. (%)	18.9	(22.1)	74.9	10.1
Margin (%)	4.1	3.4	5.2	5.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,022	2,354	4,118	4,533
YoY gr. (%)	18.9	(22.1)	74.9	10.1
Margin (%)	4.1	3.4	5.2	5.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,022	2,354	4,118	4,533
Equity Shares O/s (m)	212	212	212	212
EPS (Rs)	14.3	11.1	19.4	21.4

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY19	CY20E	CY21E	CY22E
Non-Current Assets				
Gross Block	9,844	10,844	13,344	15,844
Tangibles	9,844	10,844	13,344	15,844
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,646	3,677	4,838	6,216
Tangibles	2,646	3,677	4,838	6,216
Intangibles	-	-	-	-
Net fixed assets	7,198	7,168	8,507	9,628
Tangibles	7,198	7,168	8,507	9,628
Intangibles	-	-	-	-
Capital Work In Progress	814	814	814	814
Goodwill	-	-	-	-
Non-Current Investments	203	246	276	309
Net Deferred tax assets	1,103	1,103	1,103	1,103
Other Non-Current Assets	7,934	9,822	10,995	12,314
Current Assets				
Investments	1	1	1	1
Inventories	8,617	8,650	9,683	10,844
Trade receivables	19,475	19,222	21,518	24,099
Cash & Bank Balance	15,976	16,355	16,594	16,733
Other Current Assets	5,883	6,665	7,069	7,916
Total Assets	75,905	79,467	87,237	95,852
Equity				
Equity Share Capital	424	424	424	424
Other Equity	34,777	36,508	39,720	43,256
Total Network	35,201	36,932	40,144	43,680
Non-Current Liabilities				
Long Term borrowings	-	-	-	-
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	71	71	71	71
Trade payables	19,016	19,222	21,518	24,099
Other current liabilities	22,721	24,346	26,608	29,107
Total Equity & Liabilities	75,905	79,467	87,237	95,852

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY19	CY20E	CY21E	CY22E
PBT	4,457	3,144	5,499	6,054
Add. Depreciation	1,040	1,030	1,161	1,378
Add. Interest	291	246	291	352
Less Financial Other Income	943	912	1,060	1,187
Add. Other	(227)	-	-	-
Op. profit before WC changes	5,561	4,420	6,951	7,784
Net Changes-WC	2,846	(1,381)	(1,633)	(2,276)
Direct tax	(1,738)	(790)	(1,381)	(1,521)
Net cash from Op. activities	6,669	2,249	3,936	3,988
Capital expenditures	(1,215)	(1,000)	(2,500)	(2,500)
Interest / Dividend Income	783	-	-	-
Others	(3,475)	(1)	0	0
Net Cash from Inv. activities	(3,907)	(1,001)	(2,500)	(2,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	-	-	-	-
Dividend paid	(1,226)	(624)	(906)	(997)
Interest paid	(291)	(246)	(291)	(352)
Others	50	0	-	-
Net cash from Fin. activities	(1,467)	(869)	(1,197)	(1,349)
Net change in cash	1,295	379	240	138
Free Cash Flow	5,295	1,249	1,436	1,488

Source: Company Data, PL Research

Key Financial Metrics

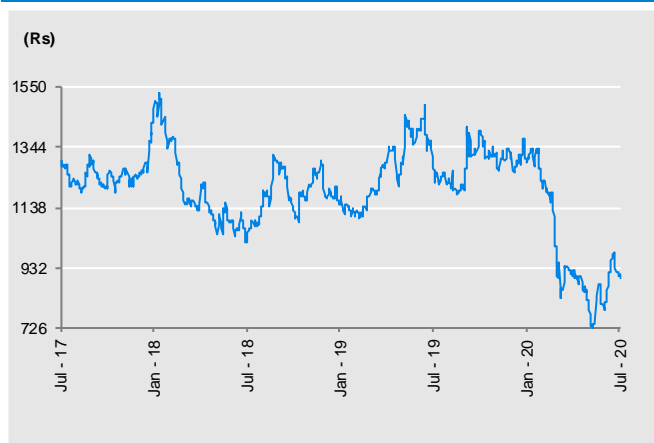
Y/e Dec	CY19	CY20E	CY21E	CY22E
Per Share(Rs)				
EPS	14.3	11.1	19.4	21.4
CEPS	18.5	16.0	24.9	27.9
BVPS	166.1	174.3	189.4	206.1
FCF	25.0	5.9	6.8	7.0
DPS	5.4	2.4	4.3	4.7
Return Ratio(%)				
RoCE	11.7	6.9	12.2	12.4
ROIC	13.8	9.4	16.1	15.5
RoE	8.0	6.5	10.7	10.8
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.4)	(0.4)	(0.4)
Net Working Capital (Days)	45	45	45	45
Valuation(x)				
PER	64.0	82.2	47.0	42.7
P/B	5.5	5.2	4.8	4.4
P/CEPS	49.3	57.2	36.6	32.7
EV/EBITDA	33.4	50.5	30.0	26.8
EV/Sales	2.4	2.5	2.3	2.0
Dividend Yield (%)	0.6	0.3	0.5	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q3CY19	Q4CY19	Q1CY20	Q2CY20
Net Revenue	17,456	19,533	15,222	9,858
YoY gr. (%)	17.0	(0.7)	(17.7)	(42.9)
Raw Material Expenses	10,732	12,296	9,397	6,135
Gross Profit	6,724	7,237	5,826	3,723
Margin (%)	38.5	37.0	38.3	37.8
EBITDA	1,234	1,384	145	234
YoY gr. (%)	90.6	(35.8)	(90.0)	(81.1)
Margin (%)	7.1	7.1	1.0	2.4
Depreciation / Depletion	227	224	271	249
EBIT	1,007	1,160	(126)	(15)
Margin (%)	5.8	5.9	(0.8)	(0.1)
Net Interest	44	47	34	38
Other Income	164	384	458	266
Profit before Tax	1,127	800	866	234
Margin (%)	6.5	4.1	5.7	2.4
Total Tax	339	153	206	67
Effective tax rate (%)	30.1	19.1	23.8	28.4
Profit after Tax	788	647	660	168
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	788	647	660	168
YoY gr. (%)	120.6	(49.7)	(25.9)	(76.0)
Margin (%)	4.5	3.3	4.3	1.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	788	647	660	168
YoY gr. (%)	120.6	(49.7)	(25.9)	(76.0)
Margin (%)	4.5	3.3	4.3	1.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	788	647	660	168
Avg. Shares O/s (m)	212	212	212	212
EPS (Rs)	3.7	3.1	3.1	0.8

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Jul-20	Hold	874	943
2	14-May-20	Hold	874	836
3	16-Apr-20	Hold	948	916
4	12-Feb-20	Reduce	1,122	1,267
5	03-Jan-20	Reduce	1,514	1,322
6	13-Nov-19	Reduce	1,514	1,498
7	03-Oct-19	Reduce	1,442	1,461
8	29-Jul-19	Reduce	1,296	1,394

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	943
2	Ahluwalia Contracts (India)	BUY	264	215
3	Ashoka Buildcon	BUY	147	64
4	Bharat Electronics	Hold	90	104
5	BHEL	Hold	34	41
6	Capacite's Infraprojects	BUY	162	111
7	Container Corporation of India	Accumulate	468	434
8	Cummins India	BUY	472	411
9	Engineers India	BUY	104	73
10	GE T&D India	Hold	71	82
11	H.G. Infra Engineering	BUY	259	200
12	IRB Infrastructure Developers	BUY	139	114
13	ITD Cementation India	BUY	67	52
14	J.Kumar Infraprojects	BUY	176	102
15	Kalpataru Power Transmission	BUY	261	258
16	KEC International	BUY	296	275
17	KNR Constructions	BUY	305	215
18	Larsen & Toubro	BUY	1,192	917
19	NCC	BUY	83	33
20	PNC Infratech	BUY	205	151
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	49
23	Siemens	BUY	1,402	1,157
24	Thermax	Accumulate	798	760
25	Triveni Turbine	BUY	83	75
26	Voltamp Transformers	BUY	1,244	1,132

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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