

Estimate change



TP change



Rating change



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Bloomberg	ABB IN
Equity Shares (m)	212
M.Cap.(INRb)/(USD\$b)	193.3 / 2.7
52-Week Range (INR)	1426 / 722
1, 6, 12 Rel. Per (%)	-4/-23/-26
12M Avg Val (INR M)	143

#### Financials & Valuations (INR b)

Y/E Dec	2019	2020E	2021E
Sales	73.2	58.7	78.4
EBITDA	5.3	2.0	6.1
PAT	3.5	1.5	4.5
EBITDA (%)	7.3	3.4	7.8
EPS (INR)	16.6	7.1	21.5
EPS Gr. (%)	38.1	(56.9)	200.4
BV/Sh. (INR)	166.1	173.6	189.9

#### Ratios

Net D/E	(0.5)	(0.4)	(0.6)
RoE (%)	10.0	4.1	11.3
RoCE (%)	10.7	4.6	11.9
Payout (%)	29.1	20.0	20.0

#### Valuations

P/E (x)	55.1	127.7	42.5
P/BV (x)	5.5	5.3	4.8
EV/EBITDA (x)	33.4	88.2	27.6
Div Yield (%)	0.5	0.2	0.5
FCF Yield (%)	3.0	0.1	5.3

#### Shareholding pattern (%)

As On	Mar-20	Dec-19	Mar-19
Promoter	75.0	75.0	75.0
DII	11.6	11.7	13.0
FII	3.3	3.4	3.3
Others	10.1	10.0	8.8

FII Includes depository receipts

**CMP: INR913**
**TP: INR1030 (+13%)**
**Buy**

### Beats expectation with strong operating performance

#### Jun-Jul'20 trend of double-digit growth indicates quick normalization

- Despite strong impact of the COVID-19 disruption on short duration businesses, ABB's 2QCY20 revenue growth decline was limited to 43% (v/s est. 57% decline). The company demonstrated strong cost control measures, which led to positive EBITDA/adj. PAT (v/s est. loss). This suggests that ABB has a highly resilient business model.
- Importantly, the company has suggested that Jun-Jul'20 marked double-digit YoY growth in order inflows/revenue. ABB's results indicate trends that boost our structural industrial automation theme – not only have clients experienced the benefits from close quarters, but the company has also used automation (remote monitoring, etc.) to service clients at lower costs.
- While we are impressed with green-shoots in the automation business, we await more data points to emerge – expect confirmation of the same through Siemens' results. We have increased our CY20/CY21E earnings estimates by 12%/6% and see an upside risk to the same, if the Jun-Jul'20 trend persists. ABB is a pure play on longer-term industrial automation and the 'Make-in-India' theme. We maintain our **Buy** rating with revised TP of INR1,030 (Prior: INR990).

#### Revenue surprise suggests faster-than-expected normalization

- Revenue led earnings beat:** Revenue declined 43% to INR9.9b and was 33% ahead of expectation. EBITDA declined 81% to INR234m (v/s est. loss of INR1.0b). EBITDA margin came in at 2.4% (v/s 7.2% last year). Adj. PAT declined 78% to INR153m (v/s expected loss of INR890m).
- Order book stood at INR46.7b (flat YoY). Order inflow declined 40% YoY to INR12b. Key order wins include the SCADA management upgrade solution, secondary substations and ring main units, doubly-fed induction generators, and robotics order for end-of-line palletization.
- Segmental highlights:** Robotics and Motion revenue was down 38% to INR4.2b. EBIT margin came in at 7.9% (-40bp YoY). Electrification product revenue was down 51% to INR3.6b. EBIT margin came in at 4.8% (-490bp YoY). Industrial Automation revenue declined 37% YoY to INR2.4b and has barely reached break-even.

#### Key management commentary highlights

- Velocity of orders and revenues has been encouraging currently, with ABB witnessing double-digit YoY growth on a like-to-like basis.
- Increase in working capital (WC) pertains to the demerged Power Grid business, wherein some of the transactions are still routed through ABB India owing to on-going process change of entities at clients' end.
- Electronics manufacturing is set to increase in India and the industry largely depends on robotics. Hence, it will be strong growth opportunity.**

**Valuation and view**

- Considering the short-cycle nature of the business and expectation of gradual recovery coupled with higher-than-estimated profitability in 2QCY20, we have raised our CY20/CY21E earnings by 12%/6%. We maintain our **Buy** rating with revised TP of INR1,030 (Prior: INR990) based on unchanged Mar'22E target PE multiple of 45x (at par with our target multiple for pure automation businesses and as justified by DCF; as well as ~min 1-year forward PE multiple for ABB over past 10 years). ABB's RoEs are depressed due to high-cash balance. Improvement in the business model is better captured in RoIC calculations. We expect RoIC to improve from ~21% in CY19 to ~35% by CY22E.

**Quarterly Performance****(INR m)**

Y/E December	CY19				CY20E				CY19	CY20E	MOFSL	Var. (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE				
<b>Sales</b>	<b>18,503</b>	<b>17,258</b>	<b>17,456</b>	<b>19,533</b>	<b>15,222</b>	<b>9,858</b>	<b>15,000</b>	<b>18,639</b>	<b>73,151</b>	<b>58,719</b>	<b>7,400</b>	33.2
Change (%)	18.1	3.6	17.0	-0.7	-17.7	-42.9	-14.1	-4.6	9.3	-19.7	-57.1	
<b>EBITDA</b>	<b>1,455</b>	<b>1,239</b>	<b>1,234</b>	<b>1,384</b>	<b>145</b>	<b>234</b>	<b>625</b>	<b>1,005</b>	<b>5,312</b>	<b>2,010</b>	<b>-1,030</b>	NA
Change (%)	62.6	41.5	88.7	-35.8	-90.0	-81.1	-49.3	-27.4	16.0	-62.2	-183.2	
As % of Sales	7.9	7.2	7.1	7.1	1.0	2.4	4.2	5.4	7.3	3.4	(13.9)	
Depreciation	233	220	227	224	271	249	260	266	904	1,046	260	(4)
Interest	26	96	44	47	34	38	50	49	214	170	100	(63)
Other Income	191	204	164	384	458	266	250	256	943	1,230	200	33
Extra-ordinary Income	272	-	-	(748)	429	10	-	-	(476)	439	-	
<b>PBT</b>	<b>1,387</b>	<b>1,127</b>	<b>1,127</b>	<b>1,497</b>	<b>298</b>	<b>214</b>	<b>565</b>	<b>946</b>	<b>5,137</b>	<b>2,024</b>	<b>-1,190</b>	NA
Tax	497	429	339	362	81	62	142	224	1,627	509	-300	
Effective Tax Rate (%)	35.8	38.1	30.1	24.2	27.2	28.8	25.2	23.7	31.7	25.2	25.2	
<b>Reported PAT</b>	<b>1,162</b>	<b>697</b>	<b>788</b>	<b>387</b>	<b>646</b>	<b>163</b>	<b>423</b>	<b>722</b>	<b>3,034</b>	<b>1,954</b>	<b>-890</b>	NA
<b>Adj. PAT</b>	<b>890</b>	<b>697</b>	<b>788</b>	<b>1,135</b>	<b>217</b>	<b>153</b>	<b>423</b>	<b>722</b>	<b>3,510</b>	<b>1,514</b>	<b>-890</b>	NA
Change (%)	95.2	58.9	118.6	-11.8	-75.6	-78.1	-46.4	-36.4	38.1	-56.9	-227.6	

**Exhibit 1: Segmental break-up (INR m)**

Segmental Analysis	3QCY18	4QCY18	1QCY19	2QCY19	3QCY19	4QCY19	1QCY20	2QCY20
<b>Discrete Automation/Robotics &amp; Motion</b>								
Revenue	5,920	6,981	7,996	6,699	6,661	7,500	6,099	4,178
Growth YoY (%)	32.7	31.3	34.0	8.9	12.5	7.4	-23.7	-37.6
EBIT	518	749	793	557	595	711	169	330
EBIT Margin (%)	8.8	10.7	9.9	8.3	8.9	9.5	2.8	7.9
<b>Electrification Products</b>								
Revenue	5,711	7,480	7,307	7,344	7,094	8,331	6,229	3,578
Growth YoY (%)	20.9	18.1	12.2	13.7	24.2	11.4	-14.8	-51.3
EBIT	493	756	641	713	619	998	397	173
EBIT Margin (%)	8.6	10.1	8.8	9.7	8.7	12.0	6.4	4.8
<b>Process/Industrial Automation</b>								
Revenue	3,455	5,155	3,614	3,783	4,045	4,140	2,935	2,373
Growth YoY (%)	18.7	10.0	19.5	0.4	17.1	-19.7	-18.8	-37.3
EBIT	399	725	365	339	247	10	28	1
EBIT Margin (%)	11.5	14.1	10.1	9.0	6.1	0.2	1.0	0.0

Source: MOFSL, Company

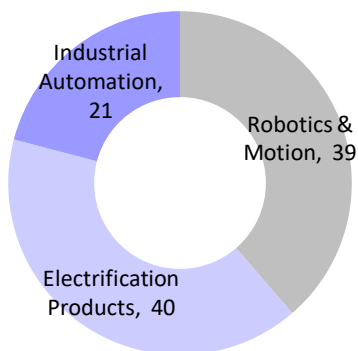
**Exhibit 2: We value ABB at INR1,030/share**

Valuation	Basis	PE Multiple	Mar'22 EPS	Value/share
Continued business	Mar'22E	45.0	22.9	1,030
<b>Total</b>		<b>45.0</b>	<b>22.9</b>	<b>1,030</b>

Source: MOFSL, Company

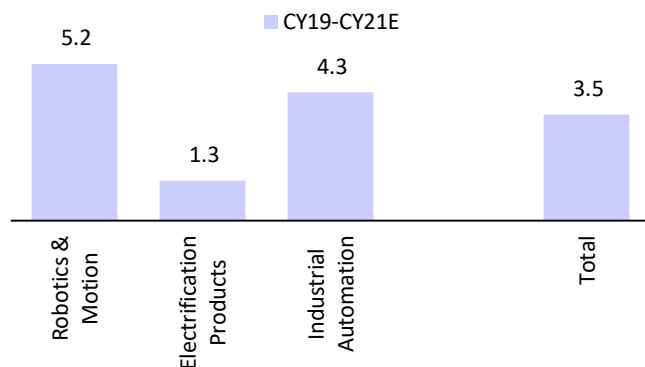
Story in charts

Exhibit 3: Revenue break-up (CY19)



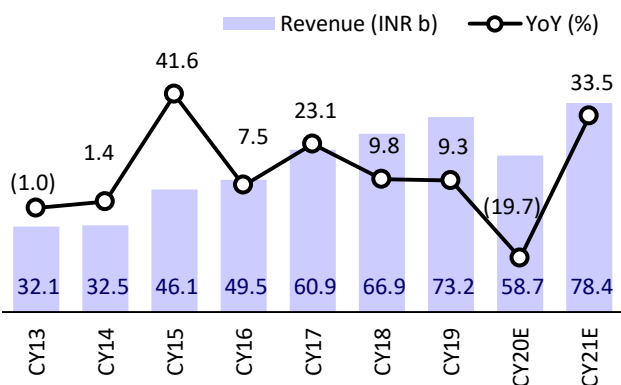
Source: MOFSL, Company

Exhibit 4: Revenue CAGR assumption over CY19-21E



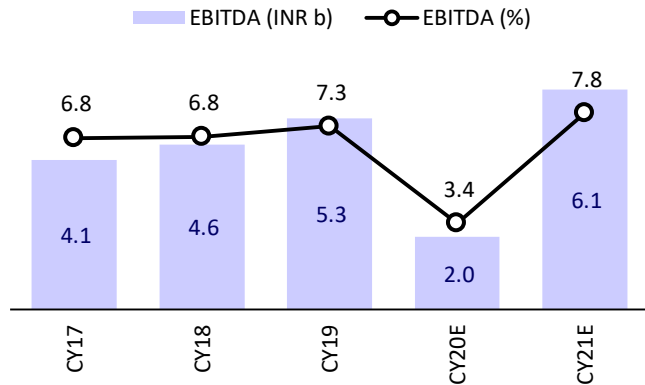
Source: MOFSL, Company

Exhibit 5: Revenue estimated at 3.5% CAGR over CY19-21E



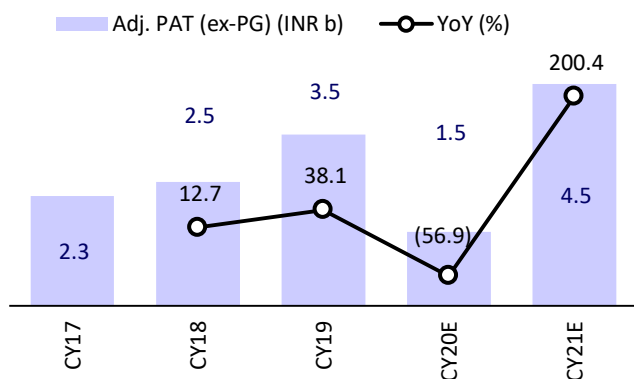
Source: MOFSL, Company

Exhibit 6: EBITDA margin to expand by 50bp over CY19-21E



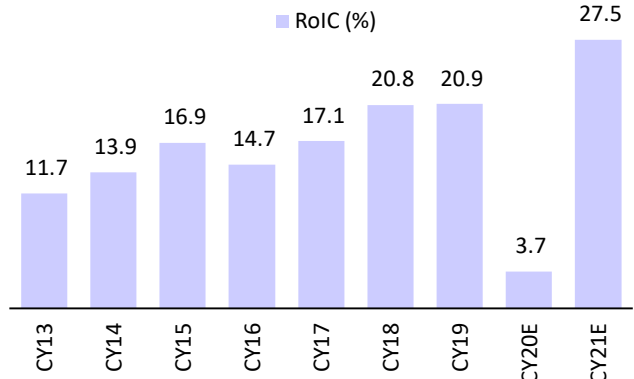
Source: MOFSL, Company

Exhibit 7: Expect adj. PAT CAGR of 13.8% over CY19-21E, helped by lower corporate tax rates



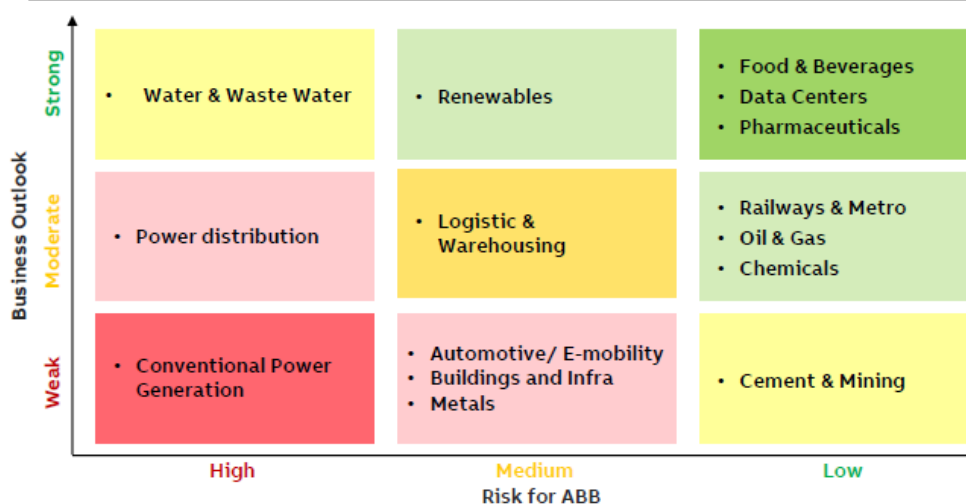
Source: MOFSL, Company

Exhibit 8: Rising RoIC trend to help sustain premium valuations



Source: MOFSL, Company

Exhibit 9: ABB India – Business outlook post COVID-19



Source: MOFSL, Company

## Management commentary highlights

### Business update

- Velocity of orders and revenues has been good. **On like-to-like basis, the company is witnessing double-digit YoY growth currently.**
- Cash balance was higher at INR15b in 2QCY20. Non-trade items like tax refunds, capex rationalization as well as focus on collections helped drive cash balance.
- Building automation is one of the focus areas for ABB India. Whole of Delhi airport is on ABB's automation system. Many hotel chains are also using ABB's automation.
- 15% EBITDA level is the target set by the Global CEO for the ABB group.
- Raw material cost target is maintained at around ~65% of sales.
- Power Grid contracts are global and across group companies. Costs billed to ABB Power are the ones, which are not incurring immediately. IT service support to ABB's Power Grid by ABB India is expected to be extended for 2 years at least.
- ~10% of orders are via the government (Railways, Utilities, etc.).

### Electrification

- Orders will decline 7-8% if solar business orders are removed.

### Industrial Automation

- Lower margins are on account of lower exports and services revenue in the quarter.
- ABB allowed certain digital services to be offered free to customers, in order to make the customer get used to its advantages.

### Other key takeaways

- ABB is witnessing increasing spends in the Food and Beverages electronics industry.
- Service revenue stood at INR2.53b in 2QCY20 v/s INR3.32b YoY.
- Exports stood at INR1.28b in 2QCY20 v/s INR1.59b YoY.
- Employee cost is lower as bonuses and other related expenses have been fine tuned.

- Other expenses include forex gain of INR340m. Some part of other expenses cut will come back as volumes grow, but few items like travel, promotions, etc. may remain subdued in the near term until strong growth resumes.
- Net working capital increase pertains to the Power Grid business as few contracts are still routed through ABB's books. It is yet to de-leverage as it should have been done post demerger.
- **Electronics manufacturing is set to increase in India and the industry largely depends on robotics. Hence it will be strong growth opportunity for ABB India.**
- Believe the portfolio is well placed to see structural string growth from energy efficiency and automation.

## Valuation and view

- **A pure-play on products and services rather than direct play on capex:** Post demerger of the Power Grid business, ABB India's business is largely products and services-oriented with projects forming ~8% of revenue in 1HCY20. This makes it a pure-play on the digitalization and automation theme. Today, ABB is a beneficiary of consumption revival, especially in the end markets of auto, food and beverages.
- **Order inflows may be volatile due to short-cycle nature of business:** Given the high component of products and services, the residual business should be short-cycle in nature. Thus, order inflows may be volatile over the near term, especially given the ups-and-downs of the economic cycle and the recent disruption due to COVID-19. As expected, order inflows declined 40% YoY in 2QCY20 (v/s 10% increase in 1QCY20).
- **Expect strong earnings momentum to continue:** Over FY13-19, ABB delivered an adj. PAT CAGR of ~12.1%. We forecast earnings CAGR of 13.8% over CY19-21E. Tax rate should aid growth as effective tax rate would reduce to 25.2% CY20E onwards.
- **Return ratios to improve:** We expect RoEs to improve to 13% by CY22E, after an aberration in CY20E. ABB's RoEs are depressed due to high-cash balance. Improvement in the business model is better captured in RoIC calculations. We expect RoIC to improve from ~21% in CY19 to ~35% by CY22E.
- **Maintain Buy:** Considering the short-cycle nature of business and expectation of gradual recovery coupled with higher-than-estimated profitability in 2QCY20, we have raised our CY20/CY21E earnings by 12%/6%. We maintain our **Buy** rating with revised TP of INR1,030 (Prior: INR990) based on unchanged Mar'22E target PE multiple of 45x (at par with our target multiple for pure automation businesses and as justified by DCF; as well as ~min 1-year forward PE multiple for ABB over past 10 years). CY19 marked strong growth in services as well as export revenue for ABB, which is our key investment thesis for the longer term.

**Exhibit 10: We have raised our CY20/CY21E EPS by 12%/6% to factor in profitability surprise in 2QCY20**

Earnings Change INRm	Old		New		Change	
	CY20E	CY21E	CY20E	CY21E	CY20E	CY21E
Revenue	57,563	75,981	58,719	78,400	2%	3%
EBITDA	1,859	5,747	2,010	6,103	8%	6%
EBITDA margin	3.2%	7.6%	3.4%	7.8%	0.2%	0.2%
Adj. PAT	1,357	4,294	1,514	4,550	12%	6%

Source: MOFSL, Company

## Financials and valuations

### Income Statement

Y/E December	2017	2018	2019	2020E	2021E	2022E
<b>Net Sales</b>	<b>60,937</b>	<b>66,901</b>	<b>73,151</b>	<b>58,719</b>	<b>78,400</b>	<b>87,700</b>
Change (%)	-29.5	9.8	9.3	-19.7	33.5	11.9
<b>EBITDA</b>	<b>4,146</b>	<b>4,578</b>	<b>5,312</b>	<b>2,010</b>	<b>6,103</b>	<b>7,493</b>
% of Net Sales	6.8	6.8	7.3	3.4	7.8	8.5
Depreciation	1,012	928	904	1,046	1,096	1,146
Interest	572	539	214	170	170	170
Other Income	777	840	943	1,230	1,243	1,509
Extra-ordinary Items (net)	1,945	2,567	-476	439	0	0
<b>PBT</b>	<b>5,284</b>	<b>6,518</b>	<b>4,661</b>	<b>2,463</b>	<b>6,080</b>	<b>7,687</b>
Tax	1,084	1,410	1,627	509	1,530	1,935
Rate (%)	32.5	35.7	31.7	25.2	25.2	25.2
<b>PAT</b>	<b>4,200</b>	<b>5,109</b>	<b>3,034</b>	<b>1,954</b>	<b>4,550</b>	<b>5,752</b>
<b>Adjusted PAT</b>	<b>2,255</b>	<b>2,542</b>	<b>3,510</b>	<b>1,514</b>	<b>4,550</b>	<b>5,752</b>
Change (%)	-41.9	12.7	38.1	-56.9	200.4	26.4

### Balance Sheet

Y/E December	2017	2018	2019	2020E	2021E	2022E
Share Capital	424	424	424	424	424	424
Reserves	35,645	39,649	34,777	36,367	39,825	44,197
<b>Net Worth</b>	<b>36,069</b>	<b>40,073</b>	<b>35,201</b>	<b>36,791</b>	<b>40,249</b>	<b>44,620</b>
Loans	6,041	20	71	71	71	71
Net Deferred Tax Liability	-1,173	-1,150	-1,103	-1,103	-1,103	-1,103
<b>Capital Employed</b>	<b>40,937</b>	<b>38,944</b>	<b>34,168</b>	<b>35,758</b>	<b>39,216</b>	<b>43,588</b>
Gross Fixed Assets	15,251	11,419	10,211	10,711	11,211	11,711
Less: Depreciation	3,064	2,488	2,794	3,840	4,936	6,083
<b>Net Fixed Assets</b>	<b>12,187</b>	<b>8,931</b>	<b>7,417</b>	<b>6,871</b>	<b>6,275</b>	<b>5,629</b>
Capital WIP	1,165	831	595	595	595	595
Investments	2,706	2	1	1	1	1
<b>Curr. Assets</b>	<b>71,650</b>	<b>58,628</b>	<b>65,176</b>	<b>58,024</b>	<b>74,166</b>	<b>84,145</b>
Inventory	11,536	9,279	8,617	8,044	9,236	10,331
Debtors	27,641	16,869	19,475	19,305	20,873	23,349
Cash & Bank Balance	14,917	14,751	15,976	16,139	25,155	29,498
Loans & Advances	462	263	3,770	322	430	481
Other current Assets	17,095	17,468	17,337	14,215	18,473	20,485
<b>Current Liab. &amp; Prov.</b>	<b>46,770</b>	<b>29,448</b>	<b>39,020</b>	<b>29,732</b>	<b>41,820</b>	<b>46,781</b>
Creditors	27,131	18,745	19,016	13,674	20,381	22,798
Other Liabilities	16,067	8,046	17,140	13,758	18,369	20,549
Provisions	3,572	2,657	2,865	2,300	3,070	3,434
<b>Net Current Assets</b>	<b>24,880</b>	<b>29,180</b>	<b>26,156</b>	<b>28,292</b>	<b>32,346</b>	<b>37,363</b>
<b>Application of Funds</b>	<b>40,938</b>	<b>38,944</b>	<b>34,168</b>	<b>35,758</b>	<b>39,216</b>	<b>43,588</b>

(INR M)

## Financials and valuations

### Ratios

Y/E December	2017	2018	2019	2020E	2021E	2022E
<b>Basic (INR)</b>						
EPS	10.6	12.0	16.6	7.1	21.5	27.1
Growth	-41.9	12.7	38.1	-56.9	200.4	26.4
Cash EPS	15.4	16.4	20.8	12.1	26.6	32.6
Book Value	170.2	189.1	166.1	173.6	189.9	210.6
DPS	4.4	4.8	4.8	1.4	4.3	5.4
Payout (incl. Div.Tax)	41.3	40.0	29.1	20.0	20.0	20.0
<b>Valuation (x)</b>						
P/E	85.7	76.1	55.1	127.7	42.5	33.6
Cash P/E	59.2	55.7	43.8	75.5	34.3	28.0
EV/EBITDA	44.5	39.0	33.4	88.2	27.6	21.9
EV/Sales	3.0	2.7	2.4	3.0	2.1	1.9
Price/Book Value	5.4	4.8	5.5	5.3	4.8	4.3
Dividend Yield (%)	0.5	0.5	0.5	0.2	0.5	0.6
<b>Profitability Ratios (%)</b>						
RoE	11.6	12.7	10.0	4.1	11.3	12.9
RoCE	11.5	14.4	10.7	4.6	11.9	13.5
RoIC	17.1	20.8	20.9	3.7	27.5	34.9
<b>Turnover Ratios</b>						
Debtors (Days)	166	92	97	120	97	97
Inventory (Days)	69	51	43	50	43	43
Creditors (Days)	163	102	95	85	95	95
Asset Turnover (x)	1.5	1.7	2.1	1.6	2.0	2.0
<b>Leverage Ratio</b>						
Net Debt/Equity (x)	-0.2	-0.4	-0.5	-0.4	-0.6	-0.7

### Cash Flow Statement

Y/E December	2017	2018	2019	2020E	2021E	2022E
<b>(INR M)</b>						
<b>PBT before EO Items</b>	<b>3,339</b>	<b>3,951</b>	<b>4,661</b>	<b>2,024</b>	<b>6,080</b>	<b>7,687</b>
Add : Depreciation	1,859	2,003	1,040	1,046	1,096	1,146
Interest	100	80	291	170	170	170
Less : Direct taxes paid	1,084	1,410	1,738	509	1,530	1,935
(Inc)/Dec in WC	8,319	-3,671	2,846	-1,973	4,962	-674
<b>CF from operations</b>	<b>11,586</b>	<b>-202</b>	<b>7,100</b>	<b>758</b>	<b>10,778</b>	<b>6,394</b>
EO Income	0	0	-431	439	0	0
<b>CF from Oper. incl. EO Items</b>	<b>9,507</b>	<b>10,246</b>	<b>6,669</b>	<b>1,197</b>	<b>10,778</b>	<b>6,394</b>
(Inc)/Dec in FA	-1,137	2,662	-1,374	-500	-500	-500
<b>Free Cash Flow</b>	<b>10,450</b>	<b>2,460</b>	<b>5,726</b>	<b>258</b>	<b>10,278</b>	<b>5,894</b>
(Pur)/Sale of Investments	-2,543	2,705	-2,533	0	0	
<b>CF from investments</b>	<b>-1,939</b>	<b>-1,891</b>	<b>-3,907</b>	<b>-500</b>	<b>-500</b>	<b>-500</b>
(Inc)/Dec in Net Worth	85	116	0	0	0	0
(Inc)/Dec in Debt	-297	-237	-19	0	0	0
Less : Interest Paid	-572	-799	-291	-170	-170	-170
Dividend Paid	-1,020	-1,124	-1,226	-363	-1,092	-1,380
<b>CF from Fin. Activity</b>	<b>-1,804</b>	<b>-2,044</b>	<b>-1,537</b>	<b>-533</b>	<b>-1,262</b>	<b>-1,550</b>
<b>Inc/Dec of Cash</b>	<b>4,894</b>	<b>9,454</b>	<b>1,225</b>	<b>163</b>	<b>9,016</b>	<b>4,344</b>
Add: Beginning Balance	11,892	14,917	14,751	15,976	16,139	25,155
<b>Closing Balance</b>	<b>14,917</b>	<b>14,751</b>	<b>15,976</b>	<b>16,139</b>	<b>25,155</b>	<b>29,498</b>

**NOTES**



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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