

ABB India Ltd

BUY

CMP Rs912

Target Rs1041

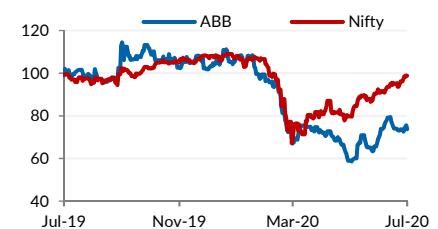
Upside 15%

HIGHLIGHTS	<ul style="list-style-type: none"> ✓ Sales were down 43% yoy to Rs9.86bn due to supply chain disruptions & lockdown. However, it came in 15%/10% ahead of our/cons. est. as ABB's execution improved sequentially in June'20. Industrial Automation (IA)/ Electrification (EL)/ Motion (MO)/ Robotics & Discrete Automation (RA) revenues declined by 37%/51%/35%/64%. ✓ EBITDA margins contracted across all segments except Motion. EBITDA margin came in at 2.4% down 480bps yoy, (much ahead with our/cons est. of -4.7%/-4.3%) as lower revenues was offset to a reasonable extent by various cost saving initiatives & favorable forex. ✓ Order inflow de-grew by 31% (ex-solar inverter) to Rs12bn by securing orders in varied sectors, including power distribution equipment, automation projects for process industries, food and beverage. ✓ Net non-cash working capital days stood at ~37 as on Q2CY20 vs ~34 as on Q4CY19. Cash position remains strong at ~Rs15bn.
Our View	<ul style="list-style-type: none"> ✓ ABB's order book stood at Rs46.7bn & is well positioned to focus on pockets of growth like F&B, Data Centers, Pharma, Rail & Metro, Gas distribution, Chemicals, Renewables, Waste water and Smart infra. ✓ We are positive on ABB, given its niche business related to products and services and a pure play on Digitalization and Automation. Postponement of major capex to subsequent quarters due to COVID-19 has led to greater focus on plant upkeep, optimization, automation & digital solutions which should augur well for ABB. ✓ We cut our CY20E EPS estimates by 27% to factor in the extended impact of COVID-19 pandemic, weak business prospects for IA & RA in H2CY20, gradual recovery in global macros & trade uncertainties. ✓ We expect margin recovery over CY21-CY22E led by i) Increasing contribution of high margin 'electrification products', ii) Exit from solar inverter business which had wafer thin margins, iii) Higher sales contribution by exports and services, iv) Increase in local content & v) Efficiency improvement through cost rationalization
Valuation	<ul style="list-style-type: none"> ✓ The Stock is trading at 56x Jun'21 earnings vs 15-yr average forward P/E of ~72x, implying ~20% discount. We retain 'BUY' rating with TP of Rs1041 at 45x as we rollover to Sept'22 earnings.
Risk to our call	<ul style="list-style-type: none"> ✓ INR depreciation might impact on margins as ABB is a net importer. Prolonged COVID-19 episode causing deeper impact on growth.

Stock data (as on July 24, 2020)

Nifty:	11,194
52 Week h/l (Rs)	1442 / 722
Market cap (Rs/USD bn)	193 / 2.6
Outstanding Shares (mn)	212
6m Avg t/o (Rs mn):	128
Div yield (%):	0.5
Bloomberg code:	ABB IN
NSE code:	ABB

Stock performance



	1M	3M	1Y
Absolute return	5.7%	2.7%	(25.2)

Shareholding pattern (As of Jun'20 end)

Promoter	75.0%
FII+DII	14.9%
Others	10.1%

Δ in earnings estimates

	CY20e	CY21e
EPS (New)	8.5	18.8
EPS (Old)	11.7	19.8
% change	(27%)	(5%)

Exhibit 1: Financial Summary

Y/e 31 Dec (Rs mn)	CY18	CY19	CY20E	CY21E	CY22E
Revenues	66,901	73,151	59,273	69,727	78,730
yoy growth (%)	9.8	9.3	(19.0)	17.6	12.9
EBITDA	4,578	5,312	2,306	5,157	6,610
EBITDAM (%)	6.8	7.3	3.9	7.4	8.4
Adjusted PAT	2,542	3,719	1,799	3,979	5,216
yoy growth (%)	12.7	46.3	(51.6)	121.1	31.1
EPS (Rs)	12.0	17.6	8.5	18.8	24.6
P/E (x)	76.0	52.0	107.4	48.6	37.1
P/BV (x)	4.8	5.5	5.2	4.8	4.4
EV/EBITDA (x)	39.0	33.4	76.2	33.4	25.5
Net D/E (x)	(0.4)	(0.5)	(0.5)	(0.5)	(0.6)
ROE (%)	6.7	9.9	5.0	10.3	12.3
ROCE (%)	9.9	13.2	4.5	14.4	18.0

Source: Company, YES Sec - Research

UMESH RAUT

Lead Analyst

umesh.raut@ysil.in
 +91 7874052571



AMAR AMBANI, Sr. President, Head of Research

amar.ambani@ysil.in

CON-CALL HIGHLIGHTS

Demand outlook

- ✓ **Electrification:** The multi-pronged customer outreach strategy will be deepened to manage any macro headwinds in the market. From emerging high growth segments to deeper penetration of the tier 2 markets with greater focus on exports and service will aid in the delivery of consistent growth. The business will strive to build solution leadership and reinforce hardware in e-mobility, leverage e-commerce models and address the mid-range market with new products and solutions, where innovation will play a key role.
- ✓ **Motion:** Sectors like Transportation, Steel and Water & Waste Water have been performing well however, Cement, Power and Oil & Gas have shown signs of slowing but are expected to bounce back in the coming quarters. Textile, F&B, HVAC segments were impacted by the ongoing economic headwind, nevertheless their growth forecast remains positive. Government's push on railway electrification and infrastructure expansions keeps up the growth momentum.
- ✓ **Industrial Automation:** Global trade growth slowing since early 2018, signaling potential wider economic slowdown and affecting the marine business in India. With Govt Initiatives and our product portfolio expansion in digital, we will strive to grow in the shipping business. The commercialization of coal mining has opened doors for global players. The increased focus on clean energy fuel and increasing the share of renewable energy initiatives will drive growth in city gas distribution. Growth in cement and steel primarily driven by the country's infrastructure thrust. Growth in the mining sector anticipated from the commercialization of coal mining that has opened doors for global players. The process industries customers are looking at improving efficiencies and reliability by introducing advanced digital techniques into their value chains. Indian Life Sciences industry continues to be a significant contributor to meet the global demands of vaccines and generic medicines. Gaining momentum and growing awareness of digitalization in the energy domain is likely to be another growth driver.
- ✓ **Robotics and Discrete Automation:** Automotive demand will continue to be uncertain over the next few quarters. Manufacturing activity in metals and plastics segment will be dependent on the revival of economic growth. Food and Beverage, consumer goods and warehousing automation are showing strong signs of growth and the with the existing product portfolio and application expertise, the business is well in line to support customers with cost efficient flexible automaton solutions.
- ✓ The brand equity within ABB Global as well as the markets ABB serves is pretty solid. So as the markets open up, and the demand picks up, management sees a continuous progression in a positive direction on the export side

Other highlights

- ✓ Suppliers are opening up gradually and depending upon the Covid-19 affected zones their ramp up will get impacted accordingly. ABB is also in communication with its suppliers in the green zones to efficiently manage the transport. And most importantly, the company is looking for the availability products form the suppliers they need in priority so it can serve the customers efficiently
- ✓ Key orders include: 1) Enterprise-wide SCADA management upgrade for oil major as well as custom SCADA-based solution that controls and monitors gas flow in tea estates, 2) Order for 249 compact secondary substations and ring main units for cities in Gujarat, 3) To supply 2.84MW, 4P, 690V doubly-fed induction generator (DFIG), part of serial supply for wind power generator order for an energy major, 4) Robotics order for end of line palletization for an F&B major.
- ✓ Order backlog stood at Rs46.7bn (~0.75x TTM sales), flat yoy.

ABB India Limited

- ✓ EBITDA margin came in at 2.4% (much ahead as compare with our/cons est. of -4.7%/-4.3%), down 480bps yoy due to volume shortfall & negative operating leverage.
- ✓ The impact caused by lower revenues during the quarter was offset to a reasonable extent by various cost saving initiatives that were implemented by the company as well as favorable forex valuations.
- ✓ EBITDA declined by 81% yoy to Rs234mn (as compare with our/cons est. loss of Rs404mn/Rs382mn)
- ✓ Adjusted PAT came in at Rs147mn, down 79% yoy as compare with our/cons est. loss of Rs460mn/Rs384mn
- ✓ Net non-cash working capital days stood at ~37 as on Q2CY20 vs ~34 as on Q4CY19.
- ✓ Debtors/ Inventory/ Creditors days stood at 95/ 67/ 91 respectively as on Jun'20 vs 97/ 43/ 95 as on Dec'19.
- ✓ The company continues to focus its efforts on cash collections and cost optimization initiatives.
- ✓ Cash position remains strong at ~Rs15bn.
- ✓ Operating cash flow was negative at Rs5.2bn as on Q2CY20 due to fall in profitability vs Rs2.1bn as on Q2CY19.

Exhibit 2: Quarterly result table

Y/e 31 Dec (Rs mn)	Q2CY20	Q2CY19	% yoy	Q1CY20	% qoq
Order book	46,710	46,560	0.3	44,440	5.1
Order inflow	12,000	19,890	(39.7)	19,530	(38.6)
Total sales	9,858	17,258	(42.9)	15,222	(35.2)
EBITDA	234	1,239	(81.1)	145	61.7
EBITDAM (%)	2.4	7.2	(480.0)	1.0	142.5
Depreciation	(249)	(220)	13.1	(271)	(8.0)
Interest	(38)	(96)	(60.8)	(34)	10.6
Other income	266	204	30.7	458	(41.9)
PBT	214	1,127	(81.0)	298	(28.2)
Tax	(67)	(429)	(84.5)	(71)	(6.0)
Adj. PAT	147	697	(78.9)	227	(35.1)
Exceptionals	20	0		433	
Reported PAT	167	697	(76.0)	660	(74.6)
Adj. PATM (%)	1.5	4.0	(254.5)	1.5	0.3

Source: Company, YES Sec - Research

Exhibit 3: Cost analysis

As a % of net sales	Q2CY20	Q2CY19	bps yoy	Q1CY20	bps qoq
COGS	62.2	62.2	3.2	61.7	50.3
Employee cost	12.2	7.9	430.5	10.7	146.3
Other expenses	23.2	22.7	46.3	26.6	(339.1)
Total costs	97.6	92.8	480.0	99.0	(142.5)

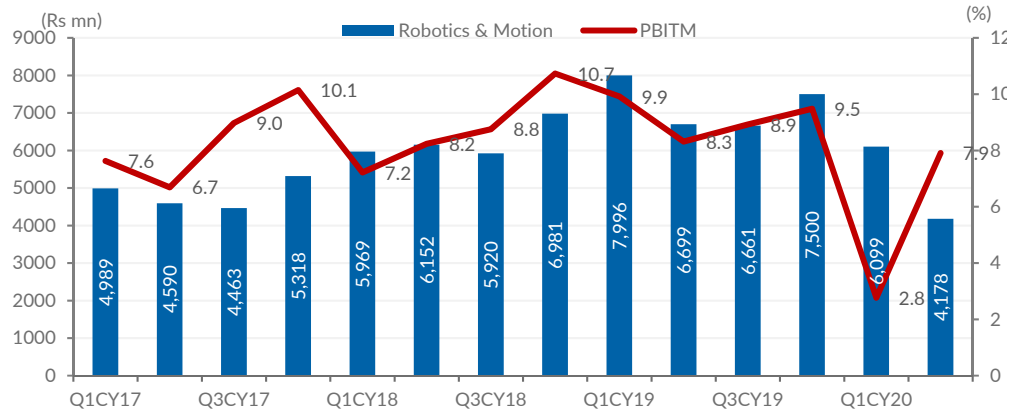
Source: Company, YES Sec - Research

Exhibit 4: Segmental details

Y/e 31 Dec	Q2CY20	Q2CY19	% yoy	Q1CY20	% qoq
Revenues (Rs mn)					
Robotics and Discrete Automation	246	675	(63.6)	426	(42.2)
Motion	3,932	6,024	(34.7)	5,674	(30.7)
Electrification	3,578	7,344	(51.3)	6,229	(42.6)
Industrial Automation	2,373	3,783	(37.3)	2,935	(19.1)
PBIT (Rs mn)					
Robotics and Discrete Automation	9	62	(84.9)	(42)	(122.4)
Motion	321	495	(35.2)	210	52.6
Electrification	173	713	(75.8)	397	(56.5)
Industrial Automation	1	339	(99.7)	28	(96.1)
PBIT margins (%)					
Robotics and Discrete Automation	3.8	9.1	(534.4)	(9.8)	1,355.7
Motion	8.2	8.2	(5.9)	3.7	445.5
Electrification	4.8	9.7	(488.5)	6.4	(154.6)
Industrial Automation	0.0	9.0	(892.1)	1.0	(91.5)

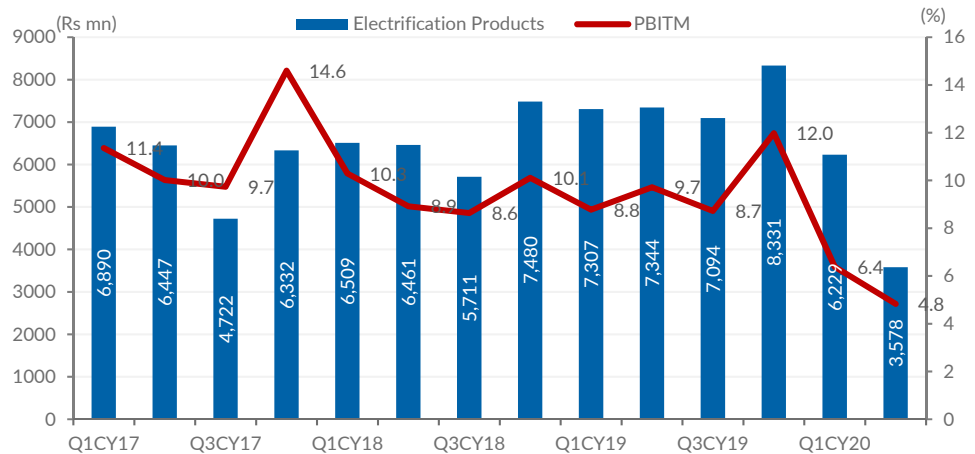
Source: Company, YES Sec - Research

Exhibit 5: Volume shortfall impact, mix led to 38% revenue decline in RA+MO



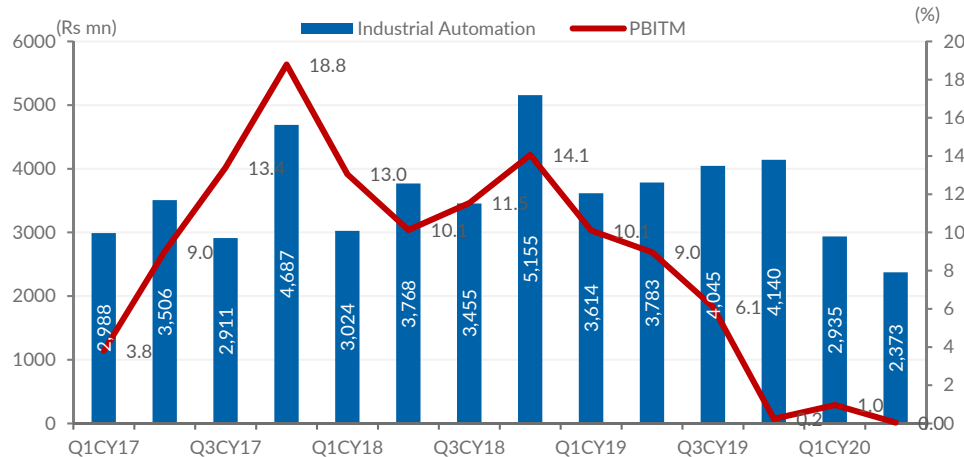
Source: Company, YES Sec - Research

Exhibit 6: EA sales were down 51% yoy due to delay in clearances & lower offtake



Source: Company, YES Sec - Research

Exhibit 7: IA revenue de-grew by 37% yoy as margin weakness continued



Source: Company, YES Sec - Research

FINANCIALS

Exhibit 8: Balance sheet

Year ending December	CY18	CY19	CY20E	CY21E	CY22E
SOURCE OF FUNDS					
Share capital	424	424	424	424	424
Reserve & Surplus	39,649	34,777	36,721	39,837	43,923
Total shareholder's funds	40,073	35,201	37,145	40,261	44,347
Minority Interest	0	0	0	0	0
Debt	20	71	0	0	0
Other LT liabilities	358	485	556	556	556
TOTAL	40,451	35,757	37,700	40,817	44,903
APPLICATION OF FUNDS					
Gross block	11,419	10,809	11,529	12,329	13,329
Less: Depn. and amort.	2,488	3,392	4,412	5,481	6,597
Net block	8,931	7,417	7,116	6,848	6,731
Capital WIP	831	595	200	100	100
Long term investments	1	0	0	0	0
Other long term assets	5,755	5,015	5,410	5,510	5,510
Inventories	9,279	8,617	8,120	9,552	10,785
Debtors	16,869	19,475	15,427	18,148	20,491
Cash & cash equivalents	14,752	15,976	17,521	20,959	24,988
Loans & advances	34,352	19,913	29,647	33,507	37,052
Creditors	18,745	19,016	25,983	30,565	34,512
Other current liabilities	31,573	22,235	19,758	23,242	26,243
Net current assets	24,934	22,730	24,974	28,359	32,562
TOTAL	40,451	35,757	37,700	40,817	44,903

Exhibit 9: Income statement

Year ending December	CY18	CY19	CY20E	CY21E	CY22E
Total revenues	66,901	73,151	59,273	69,727	78,730
Growth (%)	9.8	9.3	(19.0)	17.6	12.9
EBITDA	4,578	5,312	2,306	5,157	6,610
EBITDA margin (%)	6.8	7.3	3.9	7.4	8.4
Growth (%)	9.2	16.0	(56.6)	123.6	28.2
Depreciation	928	904	1,021	1,069	1,117
EBIT	3,650	4,408	1,286	4,089	5,493
EBIT margin (%)	5.5	6.0	2.2	5.9	7.0
Interest	539	214	141	120	120
Other income	840	943	1,264	1,350	1,600
PBT	3,951	5,137	2,408	5,319	6,973
Tax	1,410	1,418	609	1,340	1,757
Adjusted PAT	2,542	3,719	1,799	3,979	5,216
Extraordinary items	0	(697)	453	0	0
Reported PAT	2,542	3,022	2,252	3,979	5,216
Adjusted PAT margin (%)	3.8	5.1	3.0	5.7	6.6
Diluted EPS (INR)	12.0	17.6	8.5	18.8	24.6
Growth (%)	12.7	46.3	(51.6)	121.1	31.1

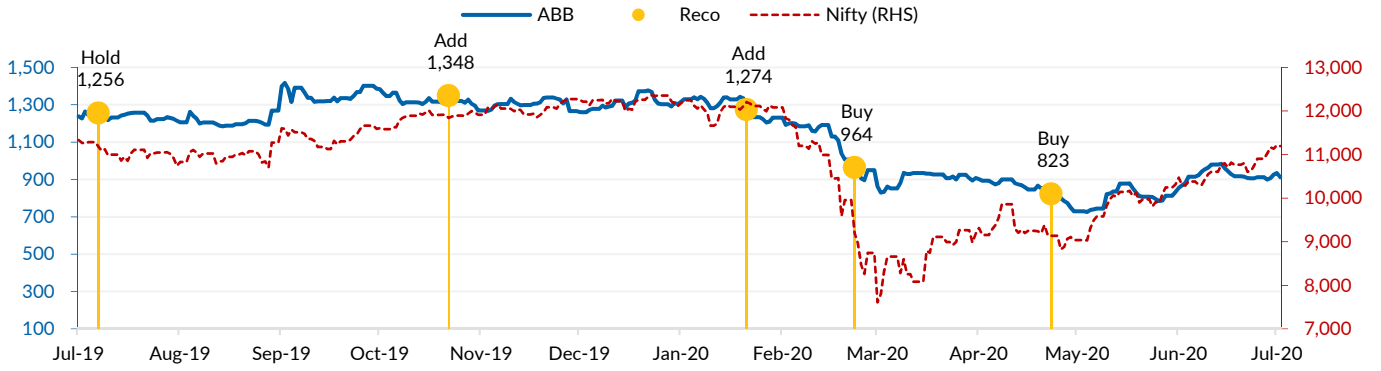
Exhibit 10: Cash flow statement

Year ending December	CY18	CY19	CY20E	CY21E	CY22E
PBT	7,942	4,457	2,408	5,319	6,973
Depreciation	1,458	1,040	1,021	1,069	1,117
Others	743	64	453	0	0
Tax Paid	(2,248)	(1,738)	(609)	(1,340)	(1,757)
Changes in Working Capital	(1,641)	2,846	(699)	54	(174)
Net Cash from Operations	6,255	6,669	2,574	5,101	6,159
Capex	(2,360)	(1,215)	(720)	(800)	(1,000)
Change in Investment	2,826	1	0	0	0
Others	971	(2,693)	(0)	0	0
Net Cash from Investing	1,437	(3,907)	(720)	(800)	(1,000)
Change in debt	(6,014)	50	(71)	0	0
Change in Equity	0	0	0	0	(0)
Others	(1,923)	(1,518)	(238)	(862)	(1,130)
Net Cash from Financing	(7,937)	(1,467)	(309)	(862)	(1,130)
Net Change in Cash	(245)	1,295	1,545	3,439	4,029
Free cash flow (FCF)	8,038	2,917	1,959	4,391	5,249

Exhibit 11: Ratio analysis

Year ending December	CY18	CY19	CY20E	CY21E	CY22E
PROFITABILITY RATIOS					
EBITDA Margin (%)	6.8	7.3	3.9	7.4	8.4
Adjusted net margin (%)	3.8	4.1	3.0	5.7	6.6
Return on invested capital (%)	9.9	13.2	4.5	14.4	18.0
Return on equity (%)	6.7	9.9	5.0	10.3	12.3
EFFICIENCY RATIOS					
Asset Turnover	6.9	9.1	8.1	10.0	10.0
Debt to equity	0.0	0.0	0.0	0.0	0.0
Net debt to equity	(0.4)	(0.5)	(0.5)	(0.5)	(0.6)
Interest coverage	6.8	20.6	9.1	34.1	45.8
Debtor days	92.0	97.2	95.0	95.0	95.0
Inventory days	50.6	43.0	50.0	50.0	50.0
Payable days	102.3	94.9	160.0	160.0	160.0
PER SHARE DATA					
Diluted EPS (Rs)	12.0	17.6	8.5	18.8	24.6
Book value per share (Rs)	189.1	166.1	175.3	190.0	209.3
DPS (Rs)	4.8	4.8	1.2	3.5	4.5
VALUATION RATIOS					
P/E	76.0	52.0	107.4	48.6	37.1
P/BV	4.8	5.5	5.2	4.8	4.4
EV/EBITDA	39.0	33.4	76.2	33.4	25.5
Dividend Yield (%)	0.5	0.5	0.1	0.4	0.5

Recommendation Tracker



DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focussing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DISCLOSURE OF INTEREST

Name of the Research Analyst : Umesh Raut

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

YES Securities (India) Limited

Registered Office: Unit No. 602 A, 6th Floor, Tower 1 & 2, Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Road, Mumbai - 400013, Maharashtra, India.

Tel: +91-22-71123123 | Email: research@ysil.in | Website: www.yesinvest.in

Registration Nos.: CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE, MCX & NCDEX : INZ000185632 | Member Code: BSE - 6538, NSE - 14914, MCX - 56355 & NCDEX - 1289 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | AMFI ARN Code - 94338

Details of Compliance Officer: Name: Vaibhav Purohit, Email id: compliance@ysil.in, Contact No-+91-22-33479208

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Potential return >15% over 12 months

ADD: Potential return +5% to +15% over 12 months

REDUCE: Potential return -10% to +5% over 12 months

SELL: Potential return <-10% over 12 months

NOT RATED / UNDER REVIEW

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited ("YSL") is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE, MCX & NCDEX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.