

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	ABB IN
Equity Shares (m)	212
M.Cap.(INRb)/(USD\$)	189.3 / 2.5
52-Week Range (INR)	1412 / 722
1, 6, 12 Rel. Per (%)	-3/-29/-34
12M Avg Val (INR M)	143

#### Financials & Valuations (INR b)

Y/E Dec	2019	2020E	2021E
Sales	73.2	60.2	78.4
EBITDA	5.3	2.7	6.1
PAT	3.5	2.1	4.6
EBITDA (%)	7.3	4.5	7.7
EPS (INR)	16.6	9.7	21.6
EPS Gr. (%)	38.1	(41.3)	121.7
BV/Sh. (INR)	166.1	175.4	191.7

#### Ratios

Net D/E	(0.5)	(0.4)	(0.6)
RoE (%)	10.0	5.5	11.2
RoCE (%)	10.7	6.0	11.8
Payout (%)	29.1	20.0	20.0

#### Valuations

P/E (x)	53.9	91.9	41.4
P/BV (x)	5.4	5.1	4.7
EV/EBITDA (x)	32.6	64.6	27.0
Div Yield (%)	0.5	0.2	0.5
FCF Yield (%)	3.0	0.3	5.5

#### Shareholding pattern (%)

As On	Sep-20	Jun-20	Sep-19
Promoter	75.0	75.0	75.0
DII	6.3	11.1	12.2
FII	3.5	3.8	3.4
Others	15.2	10.2	9.4

FII Includes depository receipts

**CMP: INR893**
**TP: INR1,030 (+15%)**
**Buy**

### Strong operating performance; weak order inflow

#### Margin surprise leads to earnings beat; gradual recovery underway

- ABB's 3QCY20 revenue growth decline was limited to 8% (v/s est. 14% decline). The company demonstrated strong cost-control measures, leading to flat EBITDA YoY (almost double our est.) – a commendable effort, implying higher resilience to revenue decline.
- The company has suggested that ~85% of the previous year's demand is back in the system. However, order inflow declined 19% YoY, largely attributable to the Electrification and Industrial Automation segments.
- ABB is a pure-play on longer-term industrial automation and the 'Make-in-India' theme. We have largely maintained our CY21E/CY22E estimates. While decline in order inflow remains a concern, we expect quick recovery in short-cycle businesses. We maintain our **Buy** rating, with unchanged TP of INR1,030.

#### Margins surprise on cost rationalization; order inflow remains weak

- Revenue declined 7.6% YoY to INR16b and was **8% above our expectation**. EBITDA was down 1.6% YoY to INR1.2b and **was almost double our expectation**. While the gross margin declined 110bps YoY to 32%, the EBITDA margin came in at 7.5% (+40bp YoY) v/s our expectation of 4.2%. The surprise was largely on account of lower other expenses. On account of a higher EBITDA margin, adj. PAT grew 8.5% YoY to INR855m and was **>100% above our expectation of INR423m**.
- Order inflows declined 19% YoY to INR13b. The order book stood at INR44b.
- **Segmental highlights: (a) Robotics and Motion** revenue was flat YoY at INR6.7b, with the EBIT margin at 11% (+210bp YoY). **(b) Electrification** product revenue was down 16% YoY to INR5.9b, with the EBIT margin at 14.5% (+580bp YoY). **(c) Industrial Automation** revenue declined 9% YoY to INR3.7b, with the EBIT margin at 2.8% (-330bp YoY).

#### Key highlights from management commentary

- Data Centers, Pharma, and Warehouse Logistics are some of the sectors that reported strong growth.
- In the Motion business, continuous engagement via the digital medium aided order wins and led to revenue growth. Such trends strongly indicate clients have experienced the benefits of digitalization from close quarters, with ABB using automation (such as remote monitoring) to service clients at lower costs.
- Pricing action, coupled with favorable forex gains and cost rationalization, led to margin expansion in the Electrification segment. Better volume mix and cost rationalization led to margin expansion in the Robotics and Motion segment.

#### Valuation and view

- We maintain our **Buy** rating, with TP of INR1,030 based on an 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 a min ~1-year forward PE multiple for ABB over the past 10 years).

## Quarterly Performance

(INR m)

Y/E December	CY19				CY20E				CY19	CY20E	MOSL	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4QE			3QE	(%)
<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>16,122</b>	<b>18,948</b>	<b>73,151</b>	<b>60,150</b>	<b>15,000</b>	7.5
Change (%)	18.1	3.6	17.0	-0.7	-17.7	-42.9	-7.6	-3.0	9.3	-17.8	-14.1	
<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>1,214</b>	<b>1,085</b>	<b>5,312</b>	<b>2,678</b>	<b>625</b>	94.2
Change (%)	62.6	41.5	88.7	-35.8	-90.0	-81.1	-1.6	-21.6	16.0	-49.6	-49.3	
As % of Sales	7.9	7.2	7.1	7.1	1.0	2.4	7.5	5.7	7.3	4.5	4.2	
Depreciation	233	220	227	224	271	249	247	258	904	1,025	260	
Interest	26	96	44	47	34	38	28	31	214	130	50	
Other Income	191	204	164	384	458	266	201	305	943	1,230	250	
Extra-ordinary Income	272	-	-	(748)	429	10	(48)	-	(476)	392	-	
<b>PBT (Before Exceptional)</b>	<b>1,387</b>	<b>1,127</b>	<b>1,127</b>	<b>1,497</b>	<b>298</b>	<b>214</b>	<b>1,140</b>	<b>1,101</b>	<b>5,137</b>	<b>2,753</b>	<b>565</b>	101.7
Tax	497	429	339	362	81	62	285	266	1,627	693	142	
Effective Tax Rate (%)	35.8	38.1	30.1	24.2	27.2	28.8	25.0	24.1	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>807</b>	<b>836</b>	<b>3,034</b>	<b>2,452</b>	<b>423</b>	91.0
<b>Adj. PAT</b>	<b>890</b>	<b>697</b>	<b>788</b>	<b>1,135</b>	<b>217</b>	<b>153</b>	<b>855</b>	<b>836</b>	<b>3,510</b>	<b>2,060</b>	<b>423</b>	102.3
Change (%)	95.2	58.9	118.6	-11.8	-75.6	-78.1	8.5	-26.3	38.1	-41.3	-46.4	

## Exhibit 1: Segmental breakup (INR m)

Segmental Analysis	4QCY18	1QCY19	2QCY19	3QCY19	4QCY19	1QCY20	2QCY20	3QCY20
<b>Discrete Automation/Robotics &amp; Motion</b>								
Revenue	6,981	7,996	6,699	6,661	7,500	6,099	4,178	6,741
Growth YoY (%)	31.3	34.0	8.9	12.5	7.4	-23.7	-37.6	1.2
EBIT	749	793	557	595	711	169	330	738
EBIT Margin (%)	10.7	9.9	8.3	8.9	9.5	2.8	7.9	11.0
<b>Electrification Products</b>								
Revenue	7,480	7,307	7,344	7,094	8,331	6,229	3,578	5,945
Growth YoY (%)	18.1	12.2	13.7	24.2	11.4	-14.8	-51.3	-16.2
EBIT	756	641	713	619	998	397	173	864
EBIT Margin (%)	10.1	8.8	9.7	8.7	12.0	6.4	4.8	14.5
<b>Process/Industrial Automation</b>								
Revenue	5,155	3,614	3,783	4,045	4,140	2,935	2,373	3,675
Growth YoY (%)	10.0	19.5	0.4	17.1	-19.7	-18.8	-37.3	-9.2
EBIT	725	365	339	247	10	28	1	102
EBIT Margin (%)	14.1	10.1	9.0	6.1	0.2	1.0	0.0	2.8

Source: MOFSL, Company

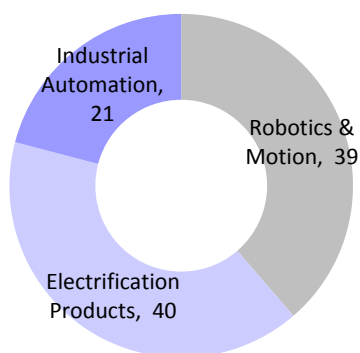
## Exhibit 2: We value ABB at INR1,030/share

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

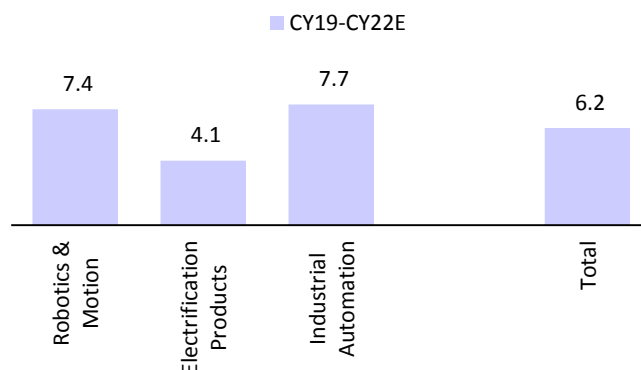
## Story in charts

**Exhibit 3: Revenue breakup (CY19)**



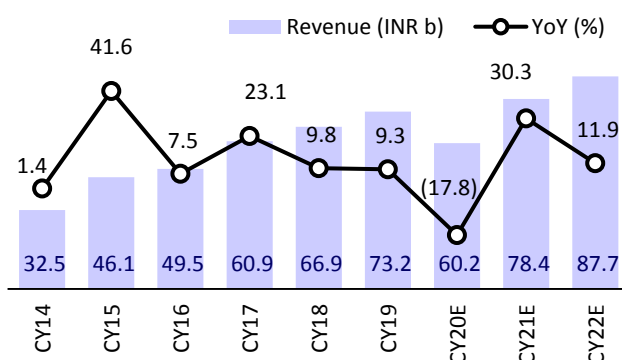
Source: MOFSL, Company

**Exhibit 4: Revenue CAGR assumption over CY19–22E**



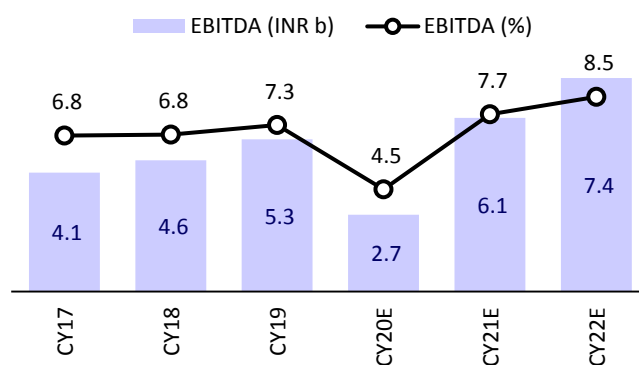
Source: MOFSL, Company

**Exhibit 5: Revenue estimated at 6.2% CAGR over CY19–22E**



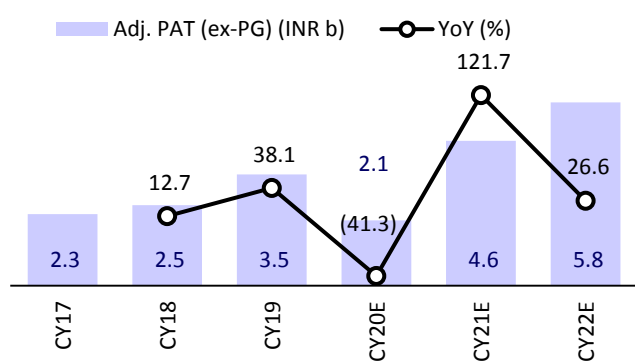
Source: MOFSL, Company

**Exhibit 6: EBITDA margin to expand by 120bp over CY19–22E**



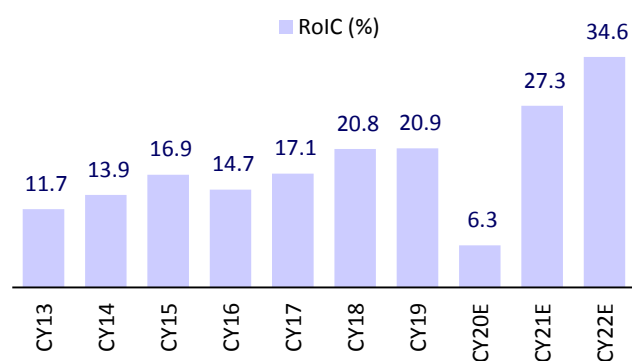
Source: MOFSL, Company

**Exhibit 7: Expect adj. PAT CAGR of 18.1% over CY19–22E, aided by lower corporate tax rates**



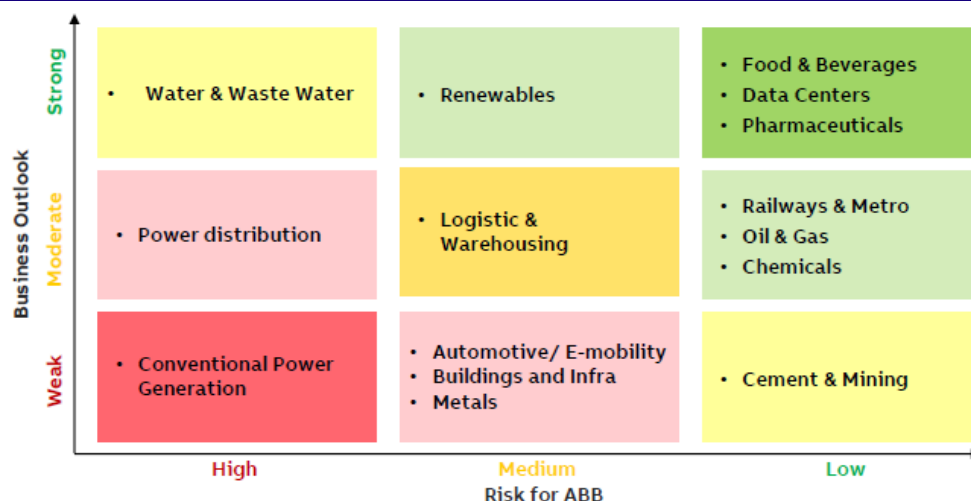
Source: MOFSL, Company

**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

- ABB is focused on costs and cash conversion.
- Demand is ~85% v/s last year. The company has aligned its cost and operations accordingly.
- The company inaugurated 'eMart' for electrification products, while doubling its capacity for the robotics facility.
- A favorable forex impact led to an increase in margins.
- Cash balance stood at INR16b in 9MCY20 (v/s INR13.4b 9MCY19).

### Electrification

- Order inflow stood at INR4.9b, with order backlog at INR13.2b.
- Orders were seen from the Data Center, Metro Rail, Food & Beverage, and MV Distribution (repeat orders) segments.
- Revenue was led by a strong performance in exports, while the Services business-related constraints persist.
- Margins: Capacity uptick and cost rationalization aided margin accretion.

### Motion

- Orders won stood at INR5.5b, with order backlog at INR16.5b.
- ABB focused on transportation, digitalization, and services. Continuous engagement with customers through digital means helped drive growth.
- Margin: A better volume with mix and cost reduction measures led to higher profitability.

### Industrial Automation:

- Order inflow stood at INR2.7b, with order backlog at INR13.4b.
- Projects were deferred due to market uncertainties and delayed decision making.
- Opportunity exists in water projects, chemicals, and small and mid-sized plants.

- Revenue: Lower revenues due to prolonged slowdown in the Metal and Cement sectors led to orders from customers being deferred. Exports and capex-related project revenues were also subdued.
- Margin: Project mix and execution challenges (EPC & Conventional Power Generation segments), decline in services and export components, and an unfavorable forex impact led to margin decline in the quarter.
- Turbochargers: ABB India is a hub unit for Turbocharger. Exports were mainly across SAARC regions, with Bangladesh and Sri Lanka doing well. In India, Indian Railways is moving away from diesel to electric locomotive, thus reducing the usability of Turbocharger.
- This is the only segment that has exposure to projects. Two business units work only on projects, primarily from the O&G and Power sectors. With both the sectors facing headwinds, margins have been impacted.

#### **Robotics and Discrete Automation**

- Order inflow stood at INR330m, with order backlog at INR1.2b.
- Ordering was lower from auto OEMs and ancillaries, while opportunities are expected in the Consumer and Electronics segments going ahead.
- Revenue: Project revenues stood lower, while Services revenues were higher. Some customer sites are still not operational, which is restricting the movement of outsiders.
- Margins: Higher Services revenues led to margin improvement.
- Capex for the robotics facility is complete, and the facility is up and running.

#### **Margin**

- Other expenses on a normal basis stand at ~INR3.5b every quarter. They now stand at ~INR2.5b (owing to 80–85% of normal sales).
- Discretionary expenses would be incurred cautiously, while operational and business spends would continue.
- Discretionary spends form 20–25% of total other expenses.

#### **Exports**

- Order inflows were static in 3QCY20.
- Currently, exports account for just 12% of total orders despite ABB's expectation that the segment would compensate for the sluggishness in the domestic market.
- Within Electrification, the strong domestic business of the MV Switchgear division is being leveraged for exports.
- Management is of the view that for any business to scale its exports, it should first get firmly established in the domestic market.

#### **Others**

- ABB has adequate land available in India and could double current capacity at the company level based on each business' requirement.

## Valuation and view

- **A pure-play on products and services rather than direct play on capex:** Post the demerger of the Power Grid business, ABB India's business is largely products and services-oriented, with projects forming ~8% of revenue in 3QCY20. 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 Pharma and F&B.
- **Order inflows may be volatile due to short-cycle nature of business:** Given the major components 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 19% YoY in 3QCY20 (v/s 40% decline in 2QCY20).
- **Expect strong earnings momentum to continue:** Over FY13–19, ABB delivered an adj. PAT CAGR of ~12.1%. We forecast an earnings CAGR of 18.1% over CY19–22E. 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 following the 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 to ~35% by CY22E from ~21% in CY19.
- **Maintain Buy:** We maintain our **Buy** rating, with TP of INR1,030, based on an 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 the past 10 years).

## 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>60,150</b>	<b>78,400</b>	<b>87,700</b>
Change (%)	-29.5	9.8	9.3	-17.8	30.3	11.9
<b>EBITDA</b>	<b>4,146</b>	<b>4,578</b>	<b>5,312</b>	<b>2,678</b>	<b>6,058</b>	<b>7,447</b>
% of Net Sales	6.8	6.8	7.3	4.5	7.7	8.5
Depreciation	1,012	928	904	1,025	1,074	1,123
Interest	572	539	214	130	130	130
Other Income	777	840	943	1,230	1,249	1,530
Extra-ordinary Items (net)	1,945	2,567	-476	392	0	0
<b>PBT</b>	<b>5,283</b>	<b>6,518</b>	<b>4,661</b>	<b>3,145</b>	<b>6,103</b>	<b>7,724</b>
Tax	1,084	1,410	1,627	693	1,536	1,944
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>2,452</b>	<b>4,567</b>	<b>5,780</b>
<b>Adjusted PAT</b>	<b>2,255</b>	<b>2,542</b>	<b>3,510</b>	<b>2,060</b>	<b>4,567</b>	<b>5,780</b>
Change (%)	-42.0	12.7	38.1	-41.3	121.7	26.6

### 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	36,735	40,206	44,598
<b>Net Worth</b>	<b>36,069</b>	<b>40,073</b>	<b>35,201</b>	<b>37,159</b>	<b>40,629</b>	<b>45,022</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>36,126</b>	<b>39,597</b>	<b>43,989</b>
Gross Fixed Assets	15,251	11,419	10,211	10,711	11,211	11,711
Less: Depreciation	3,064	2,488	2,794	3,819	4,894	6,017
<b>Net Fixed Assets</b>	<b>12,187</b>	<b>8,931</b>	<b>7,417</b>	<b>6,892</b>	<b>6,318</b>	<b>5,694</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>59,095</b>	<b>74,504</b>	<b>84,481</b>
Inventory	11,536	9,279	8,617	8,240	9,236	10,331
Debtors	27,641	16,869	19,475	19,775	20,873	23,349
Cash & Bank Balance	14,917	14,751	15,976	16,227	25,493	29,835
Loans & Advances	462	263	3,770	330	430	481
Other current Assets	17,095	17,468	17,337	14,524	18,473	20,485
<b>Current Liab. &amp; Prov.</b>	<b>46,770</b>	<b>29,448</b>	<b>39,020</b>	<b>30,457</b>	<b>41,820</b>	<b>46,781</b>
Creditors	27,131	18,745	19,016	14,008	20,381	22,798
Other Liabilities	16,067	8,046	17,140	14,093	18,369	20,549
Provisions	3,572	2,657	2,865	2,356	3,070	3,434
<b>Net Current Assets</b>	<b>24,880</b>	<b>29,180</b>	<b>26,156</b>	<b>28,639</b>	<b>32,684</b>	<b>37,700</b>
<b>Application of Funds</b>	<b>40,938</b>	<b>38,944</b>	<b>34,168</b>	<b>36,126</b>	<b>39,597</b>	<b>43,990</b>

(INR m)

## Financials and valuations

### Ratios

Y/E December	2017	2018	2019	2020E	2021E	2022E
<b>Basic (INR)</b>						
<b>EPS</b>	<b>10.6</b>	<b>12.0</b>	<b>16.6</b>	<b>9.7</b>	<b>21.6</b>	<b>27.3</b>
Growth	-41.9	12.7	38.1	-41.3	121.7	26.6
Cash EPS	15.4	16.4	20.8	14.6	26.6	32.6
Book Value	170.2	189.1	166.1	175.4	191.7	212.5
DPS	4.4	4.8	4.8	1.9	4.3	5.5
Payout (incl. Div.Tax)	41.3	40.0	29.1	20.0	20.0	20.0
<b>Valuation (x)</b>						
P/E	83.9	74.5	53.9	91.9	41.4	32.7
Cash P/E	57.9	54.6	42.9	61.3	33.6	27.4
EV/EBITDA	43.5	38.1	32.6	64.6	27.0	21.4
EV/Sales	3.0	2.6	2.4	2.9	2.1	1.8
Price/Book Value	5.2	4.7	5.4	5.1	4.7	4.2
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	5.5	11.2	12.8
RoCE	11.5	14.4	10.7	6.0	11.8	13.4
RoIC	17.1	20.8	20.9	6.3	27.3	34.6
<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	1.7	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

(INR m)

Y/E December	2017	2018	2019	2020E	2021E	2022E
<b>PBT before EO Items</b>	<b>3,338</b>	<b>3,951</b>	<b>4,661</b>	<b>2,753</b>	<b>6,103</b>	<b>7,724</b>
Add : Depreciation	1,580	1,458	1,040	1,025	1,074	1,123
Interest	773	767	291	130	130	130
Less : Direct taxes paid	2,799	2,248	1,738	693	1,536	1,944
(Inc)/Dec in WC	2,403	-1,641	2,846	-2,232	5,221	-674
<b>CF from operations</b>	<b>5,295</b>	<b>2,287</b>	<b>7,100</b>	<b>983</b>	<b>10,992</b>	<b>6,359</b>
EO Income	2,622	3,967	-431	392	0	0
<b>CF from Oper. incl. EO Items</b>	<b>7,917</b>	<b>6,255</b>	<b>6,669</b>	<b>1,375</b>	<b>10,992</b>	<b>6,359</b>
(Inc)/Dec in FA	-1,858	-2,437	-1,374	-500	-500	-500
<b>Free Cash Flow</b>	<b>3,437</b>	<b>-149</b>	<b>5,726</b>	<b>483</b>	<b>10,492</b>	<b>5,859</b>
(Pur)/Sale of Investments	-1,347	3,874	-2,533	0	0	
<b>CF from investments</b>	<b>-3,205</b>	<b>1,437</b>	<b>-3,907</b>	<b>-500</b>	<b>-500</b>	<b>-500</b>
(Inc)/Dec in Net Worth	0	0	0	0	0	0
(Inc)/Dec in Debt	107	-5,935	-19	0	0	0
Less : Interest Paid	-773	-799	-291	-130	-130	-130
Dividend Paid	-1,020	-1,124	-1,226	-494	-1,096	-1,387
<b>CF from Fin. Activity</b>	<b>-1,686</b>	<b>-7,858</b>	<b>-1,537</b>	<b>-624</b>	<b>-1,226</b>	<b>-1,517</b>
<b>Inc/Dec of Cash</b>	<b>3,025</b>	<b>-166</b>	<b>1,225</b>	<b>251</b>	<b>9,266</b>	<b>4,342</b>
Add: Beginning Balance	11,892	14,917	14,751	15,976	16,227	25,493
<b>Closing Balance</b>	<b>14,917</b>	<b>14,751</b>	<b>15,976</b>	<b>16,227</b>	<b>25,493</b>	<b>29,835</b>



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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