

November 5, 2020

Q3CY20 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

Change in Estimates

	Current		Previous	
	CY21E	CY22E	CY21E	CY22E
Rating	HOLD		HOLD	
Target Price	880		874	
Sales (Rs. m)	78,923	88,390	78,539	87,960
% Chng.	0.5	0.5		
EBITDA (Rs. m)	5,919	6,629	5,890	6,597
% Chng.	0.5	0.5		
EPS (Rs.)	19.5	21.5	19.4	21.4
% Chng.	0.6	0.6		

Key Financials - Standalone

Y/e Dec	CY19	CY20E	CY21E	CY22E
Sales (Rs. m)	73,151	69,366	78,923	88,390
EBITDA (Rs. m)	5,312	3,815	5,919	6,629
Margin (%)	7.3	5.5	7.5	7.5
PAT (Rs. m)	3,022	2,709	4,142	4,561
EPS (Rs.)	14.3	12.8	19.5	21.5
Gr. (%)	18.9	(10.4)	52.9	10.1
DPS (Rs.)	5.4	2.8	4.3	4.7
Yield (%)	0.6	0.3	0.5	0.5
RoE (%)	8.0	7.5	10.7	10.8
RoCE (%)	11.7	7.7	12.2	12.4
EV/Sales (x)	2.4	2.5	2.2	2.0
EV/EBITDA (x)	32.7	45.2	29.2	26.0
PE (x)	62.7	70.0	45.7	41.5
P/BV (x)	5.4	5.1	4.7	4.3

Key Data

ABB.BO | ABB IN

52-W High / Low	Rs.1,412 / Rs.722
Sensex / Nifty	41,340 / 12,120
Market Cap	Rs.189bn / \$ 2,547m
Shares Outstanding	212m
3M Avg. Daily Value	Rs.328.45m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	3.47
Domestic Institution	6.34
Public & Others	15.19
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	2.7	2.4	(31.4)
Relative	(3.2)	(22.1)	(33.2)

Viral Shah

viralshah@plindia.com | 91-22-66322250

Khushboo Parekh

khushbooparekh@plindia.com | 91-22-66322257

Cost control measures boost profitability

Quick Pointers:

- Order Inflows came in at Rs13bn, down 19% owing to uncertainty in the economic environment and extended decision-making cycles.
- Data centers, Pharma F&B, Renewables, Railways/Metro, Power T&D continue to remain focus areas going ahead.

ABB India (ABB) reported decent performance in challenging times led by strong focus on execution of OB, cost rationalization initiatives and higher other income. During the quarter Motion division grew by 4% YoY led by conversion of backlog orders in all major segments, while other segments reported de-growth. Order inflow came in at Rs13bn, down 19% YoY owing to uncertainty in the economic environment and delay in decision making cycles. Sectors like electrical distribution, transport, data centers, consumer electronics, pharmaceuticals and food & beverage continue to show healthy growth. Outstanding order remained subdued at Rs44bn providing revenue visibility for few quarters. Management believes that impact of Covid-19 would continue in the short term as pandemic situation is yet to settle-down.

Considering the adverse impact of pandemic on the economy and uncertain business conditions we believe maintaining consistent growth in order inflow will remain challenging. We expect gradual recovery as impact of pandemic remains uncertain. In the long run, we believe ABB's resilient business model, healthy global distribution network, diversified business segment and comfortable balance sheet would benefit the company from recovery, once economic activity starts picking up. The stock is currently trading at 45.7x/41.5x CY21E/CY22E. We maintain Hold rating with TP of Rs880

Cost cutting measures helped maintain profitability: Sales came in at ~Rs16bn (down, 8% YoY) vs (PLe ~Rs16.8bn) where motion business grew by 4% YoY, while Robotics & Discrete Automation/Electrification/Industrial Automation de-grew by 25%/16%/9% YoY. EBITDA was flat YoY Rs1.2bn (PLe ~Rs954mn) where margins came at 7.5% v/s 7.1% in 3QCY19 due to lower subcontracting and other expenses. PBT came in flat YoY to Rs1bn due to higher depreciation cost (up 13% YoY) partially offset by rise in other income (up, 22.5% YoY). PAT after continued operation came in at Rs855mn (PLe Rs642mn), up8.5% YoY

OI impacted due to weak environment: Order inflow was down 19% YoY at Rs13bn mainly contributed by Motion (41%), Electrification (36%) and Industrial Automation Business (20%). We believe order inflows may be volatile over the near term, given the current economic scenario. Key orders include Traction motor and convertor order for Indian Railways and metro projects, Substations and Ring Main Units for a private power distribution company, first time order for fleetwide engine etc. OB stood at Rs44bn mainly comprising of Motion, Electrification and Industrial Automation orders executable over next 2-3 quarter.

Exhibit 1: Q3CY20 Result Overview (Rs mn)- Resilient performance in a challenging period

Y/e March (Rs mn)	Q3CY19	Q4CY19	Q1CY20	Q2CY20	Q3CY20	YoY gr. (%)	QoQ gr. (%)	9MCY20	9MCY19	YoY gr. (%)
Revenue	17,456	19,533	15,222	9,858	16,122	(7.6)	63.5	41,202	53,216	(22.6)
Total Revenues	17,456	19,533	15,222	9,858	16,122	(7.6)	63.5	41,202	53,216	(22.6)
Expenditure	16,223	18,149	15,077	9,623	14,908	(8.1)	54.9	39,609	49,289	(19.6)
as % of sales	92.9	92.9	99.0	97.6	92.5			96.1	92.6	
Consumption of RM	10,732	12,296	9,397	6,135	10,500	(2.2)	71.2	26,031	33,695	(22.7)
as % of sales	61.5	63.0	61.7	62.2	65.1			63.2	63.3	
Employee Cost	1,395	1,465	1,633	1,202	1,352	(3.1)	12.5	4,187	4,331	(3.3)
as % of sales	8.0	7.5	10.7	12.2	8.4			10.2	8.1	
Other expenditure	4,095	4,388	4,048	2,287	3,056	(25.4)	33.6	9,390	11,263	(16.6)
as % of sales	23.5	22.5	26.6	23.2	19.0			22.8	21.2	
EBITDA	1,234	1,384	145	234	1,214	(1.6)	417.9	1,593	3,928	(59.4)
Depreciation	227	224	271	249	247	9.2	(0.6)	767	680	12.8
EBIT	1,007	1,160	(126)	(15)	967	(4.0)	(6,720.5)	826	3,248	(74.6)
Other Income	164	384	458	266	201	22.5	(24.5)	925	559	65.5
Interest	44	47	34	38	28	(36.7)	(25.3)	99	166	(40.2)
Exceptional Item	-	697	(568)	(20)	-			588	-	
PBT	1,127	800	866	234	1,140	1.1	386.8	2,240	3,640	(38.5)
Total Tax	339	153	206	67	285	(16.0)	327.5	557	1,265	(55.9)
Reported PAT	788	647	660	168	855	8.5	410.4	1,682	2,376	(29.2)
PAT from continued operation	788	647	660	167	855	8.5	410.4	1,682	2,376	(29.2)
Adjusted EPS	3.7	3.1	3.1	0.8	4.0	8.5	410.4	7.9	11.2	(29.2)
Margins (%)	Q3CY19	Q4CY19	Q1CY20	Q2CY20	Q3CY20	bps	bps	9MCY20	9MCY19	bps
EBIDTA	7.1	7.1	1.0	2.4	7.5	46	515	3.9	7.4	(351)
EBIT	5.8	5.9	(0.8)	(0.1)	6.0	23	614	2.0	6.1	(410)
EBT	6.5	4.1	5.7	2.4	7.1	61	469	5.4	6.8	(140)
PAT	4.5	3.3	4.3	1.7	5.3	79	360	4.1	4.5	(38)
Effective Tax rate	30.1	19.1	23.8	28.4	25.0	(508)	(347)	24.9	34.7	(985)

Source: Company, PL

Conference Call Highlights:

- During 3QCY20, priority areas for the company were Health & safety, restoring business growth, customer centricity and cost management.
- **Order inflow came in at Rs13bn, down 19% YoY** impacted due to uncertainty in the economic environment and extended decision making cycles. Export orders were static contributing 12% of order book. Service and maintenance orders were also impacted due to delay in decision making. Majorly orders during 3Q came in from the transportation, pharma, energy and water segments.
- Company opened eMart - ABB is India's e-marketplace with more than 6500 products and solutions from Electrification and Motion business areas. **It also doubled capacity of robotics division and has received few orders for the same.**
- Management indicated that sectors like Data centre, pharma and warehouse logistics continue to be strong along with F&B, Renewables, Railways/Metro, Power T&D and would continue to focus on these areas going ahead.
- Conventional Power generation, Rubber & Plastics and Pulp and paper remain weak.
- Cash stands at Rs15.98bn as on 3QCY20.
- Other expenses were down due to volume changes and favorable forex position.
- **Electrification-** Order inflow came in at Rs5bn, up 43% YoY. OI comprised of orders from Data centres, Metro, F&B, and some repeat order from clients.
- **Motion-** During 3Q, continuous engagement with customers through digital means helped drive growth. OI came in at Rs5.5bn and going ahead focus is on transportation, digitalization and service. Revenue grew by 4% YoY due to conversion of backlog orders in all major segments.
- **Industrial Automation- OI declined by 65% YoY due to** deferment of projects due to market uncertainties and delayed decision making. Opportunity continues in Water Projects, Chemicals and small & mid-size plants
- **Robotics and Discrete Automation-** OI de-grew by 28% YoY due to lower orders from Auto OEM's and Tier 1 cities. Opportunities expected in consumer and electronic.

Financials

Income Statement (Rs m)

Y/e Dec	CY19	CY20E	CY21E	CY22E
Net Revenues	73,151	69,366	78,923	88,390
YoY gr. (%)	9.3	(5.2)	13.8	12.0
Cost of Goods Sold	46,393	44,394	50,116	56,127
Gross Profit	26,758	24,972	28,807	32,262
Margin (%)	36.6	36.0	36.5	36.5
Employee Cost	5,796	5,896	6,708	7,071
Other Expenses	6,974	6,937	7,103	7,955
EBITDA	5,312	3,815	5,919	6,629
YoY gr. (%)	16.0	(28.2)	55.2	12.0
Margin (%)	7.3	5.5	7.5	7.5
Depreciation and Amortization	904	1,030	1,161	1,378
EBIT	4,408	2,785	4,758	5,251
Margin (%)	6.0	4.0	6.0	5.9
Net Interest	214	208	292	354
Other Income	943	1,040	1,065	1,193
Profit Before Tax	4,440	3,617	5,532	6,090
Margin (%)	6.1	5.2	7.0	6.9
Total Tax	1,418	909	1,390	1,530
Effective tax rate (%)	31.9	25.1	25.1	25.1
Profit after tax	3,022	2,709	4,142	4,561
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	3,022	2,709	4,142	4,561
YoY gr. (%)	18.9	(10.4)	52.9	10.1
Margin (%)	4.1	3.9	5.2	5.2
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	3,022	2,709	4,142	4,561
YoY gr. (%)	18.9	(10.4)	52.9	10.1
Margin (%)	4.1	3.9	5.2	5.2
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,022	2,709	4,142	4,561
Equity Shares O/s (m)	212	212	212	212
EPS (Rs)	14.3	12.8	19.5	21.5

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	243	277	310
Net Deferred tax assets	1,103	1,103	1,103	1,103
Other Non-Current Assets	7,934	9,711	11,049	12,375
Current Assets				
Investments	1	1	1	1
Inventories	8,617	8,552	9,730	10,897
Trade receivables	19,475	19,004	21,623	24,216
Cash & Bank Balance	15,976	17,146	16,862	17,013
Other Current Assets	5,883	6,590	7,103	7,955
Total Assets	75,905	79,634	87,804	96,468
Equity				
Equity Share Capital	424	424	424	424
Other Equity	34,777	36,768	39,999	43,557
Total Network	35,201	37,192	40,423	43,980
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	19,004	21,623	24,216
Other current liabilities	22,721	24,470	26,791	29,304
Total Equity & Liabilities	75,905	79,634	87,804	96,468

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY19	CY20E	CY21E	CY22E
PBT	4,457	3,617	5,532	6,090
Add. Depreciation	1,040	1,030	1,161	1,378
Add. Interest	291	208	292	354
Less Financial Other Income	943	1,040	1,065	1,193
Add. Other	(227)	-	-	-
Op. profit before WC changes	5,561	4,856	6,985	7,822
Net Changes-WC	2,846	(850)	(2,176)	(2,284)
Direct tax	(1,738)	(909)	(1,390)	(1,530)
Net cash from Op. activities	6,669	3,097	3,419	4,008
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)	(717)	(911)	(1,003)
Interest paid	(291)	(208)	(292)	(354)
Others	50	0	-	-
Net cash from Fin. activities	(1,467)	(925)	(1,203)	(1,357)
Net change in cash	1,295	1,171	(284)	151
Free Cash Flow	5,295	2,097	919	1,508

Source: Company Data, PL Research

Key Financial Metrics

Y/e Dec	CY19	CY20E	CY21E	CY22E
Per Share(Rs)				
EPS	14.3	12.8	19.5	21.5
CEPS	18.5	17.6	25.0	28.0
BVPS	166.1	175.5	190.8	207.6
FCF	25.0	9.9	4.3	7.1
DPS	5.4	2.8	4.3	4.7
Return Ratio(%)				
RoCE	11.7	7.7	12.2	12.4
ROIC	13.8	10.9	16.2	15.6
RoE	8.0	7.5	10.7	10.8
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.5)	(0.4)	(0.4)
Net Working Capital (Days)	45	45	45	45
Valuation(x)				
PER	62.7	70.0	45.7	41.5
P/B	5.4	5.1	4.7	4.3
P/CEPS	48.3	50.7	35.7	31.9
EV/EBITDA	32.7	45.2	29.2	26.0
EV/Sales	2.4	2.5	2.2	2.0
Dividend Yield (%)	0.6	0.3	0.5	0.5

Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Dec	Q4CY19	Q1CY20	Q2CY20	Q3CY20
Net Revenue	19,533	15,222	9,858	16,122
YoY gr. (%)	(0.7)	(17.7)	(42.9)	(7.6)
Raw Material Expenses	12,296	9,397	6,135	10,500
Gross Profit	7,237	5,826	3,723	5,622
Margin (%)	37.0	38.3	37.8	34.9
EBITDA	1,384	145	234	1,214
YoY gr. (%)	(35.8)	(90.0)	(81.1)	(1.6)
Margin (%)	7.1	1.0	2.4	7.5
Depreciation / Depletion	224	271	249	247
EBIT	1,160	(126)	(15)	967
Margin (%)	5.9	(0.8)	(0.1)	6.0
Net Interest	47	34	38	28
Other Income	384	458	266	201
Profit before Tax	800	866	234	1,140
Margin (%)	4.1	5.7	2.4	7.1
Total Tax	153	206	67	285
Effective tax rate (%)	19.1	23.8	28.4	25.0
Profit after Tax	647	660	168	855
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	647	660	168	855
YoY gr. (%)	(49.7)	(25.9)	(76.0)	8.5
Margin (%)	3.3	4.3	1.7	5.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	647	660	168	855
YoY gr. (%)	(49.7)	(25.9)	(76.0)	8.5
Margin (%)	3.3	4.3	1.7	5.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	647	660	168	855
Avg. Shares O/s (m)	212	212	212	212
EPS (Rs)	3.1	3.1	0.8	4.0

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	08-Oct-20	Hold	874	877
2	24-Jul-20	Hold	874	913
3	08-Jul-20	Hold	874	943
4	14-May-20	Hold	874	836
5	16-Apr-20	Hold	948	916
6	12-Feb-20	Reduce	1,122	1,267
7	03-Jan-20	Reduce	1,514	1,322
8	13-Nov-19	Reduce	1,514	1,498

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	877
2	Ahluwalia Contracts (India)	BUY	288	231
3	Ashoka Buildcon	BUY	147	64
4	Bharat Electronics	Hold	99	94
5	BHEL	Hold	34	28
6	Capacite's Infraprojects	BUY	162	120
7	Container Corporation of India	BUY	468	386
8	Cummins India	Accumulate	472	434
9	Engineers India	BUY	104	64
10	GE T&D India	Hold	86	89
11	H.G. Infra Engineering	BUY	259	185
12	IRB Infrastructure Developers	BUY	152	112
13	ITD Cementation India	BUY	67	50
14	J.Kumar Infraprojects	BUY	176	109
15	Kalpataru Power Transmission	BUY	276	238
16	KEC International	BUY	333	345
17	KNR Constructions	BUY	305	257
18	Larsen & Toubro	BUY	1,284	935
19	NCC	BUY	83	34
20	PNC Infratech	BUY	219	167
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	52
23	Siemens	BUY	1,402	1,275
24	Thermax	Accumulate	798	719
25	Triveni Turbine	BUY	85	69
26	Voltamp Transformers	BUY	1,244	988

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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3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India | Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

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