

October 31, 2018

ABB Limited

Q3CY18 Result Update

Robust quarter due to improved efficiencies:

ABB Ltd (ABB) posted Q3CY18 revenue at INR 2515.4 up 33% Y-o-Y and down 7% Q-o-Q. EBITDA stood at INR 194 crore up 45% Y-o-Y and down 1% Q-o-Q. PAT stood at INR 108 crore up 30% Y-o-Y and 6% Q-o-Q led by differentiated portfolio mix and digital value additions. The company orders were up by 22% to INR 2355 crore Y-o-Y led by consistent growth in base orders and exports, while operational EBITA increased by 68% Y-o-Y.

From a revenue perspective, the power grids segment and robotics outperformed with year-on-year growth of 71% and 30%, respectively. The continued focus on cost saving measures and the market success of ABB AbilityTM digital offerings contributed to a strong growth in profits.

Exports division drives order intake; inflow likely to be buoyant:

ABB reported order intake growth of 7% YoY led by a 52% and 68% spurt in services and exports orders respectively. Order book stood robust at INR 10700 crore (post internal consolidation). Management reiterated its focus on changing trends across utilities – power, oil & gas, railways, etc – wherein ABB has been ahead of peers and near-term growth is likely to be driven by consumption-oriented sectors and large projects in infra.

Total orders increased to Rs 2,355 crore during the third quarter of 2018, driven by a base order growth of 16%. The base order growth was supported by offerings for smart factory applications and ABB AbilityTM digital solutions in sectors like food and beverage and building automation. Power infrastructure for solar segment also contributed to moderately large orders.

Water management solutions:

The company's water management solutions is one of the key elements in building smarter and inclusive Indian cities. During the quarter, the company received an order for distributed control systems (DCS), including the electrification of a control room for the waste water management sewage treatment plant (STP) of a new smart city in Gujarat.

Cement, oil and gas:

Improved opportunities for cement, oil and gas and mining opportunities were other highlights of the quarter. The double-digit growth in services was led by the orders in process optimization, technical information systems, and digitalization applications across select process industries.

Propelled by the global growth in renewable energy and industrial energy management, export orders continued its solid growth trajectory. The order backlog as of September 30, 2018 is INR 11,368 crore and is expected to provide revenue visibility for the coming quarters.

Financial Snapshot (INR Crores)	CY16	CY17	CY18E	CY19E
Net sales	8,642	9,087	10,404	10,988
Growth		5%	14%	6%
EBITDA	695	736	1,054	1,425
Growth		6%	43%	35%
EBIT	665	699	1,053	1,421
Growth		5%	51%	35%
PAT	374	420	659	891
Growth	0	12%	57%	35%
PE	86	71	39	29
EPS	18	20	31	42
EV/ EBITDA	45	38	24	18

Source: Company, NSPL Research

* Read last page for disclaimer & rating rationale

STRONG BUY*

Downside Scenario	Current Price	Price Target	Upside Scenario
	1209	1417	
		17% ▲	

Market Data	
Industry	Capital Goods
Sensex	34,067.4
Nifty	10,283.95
Bloomberg Code	ABB:IN
Face Value (INR)	2
52-w H/L	1744.4/ 1123
Market Cap (INR Crores)	25,624

Valuation Data	CY17	CY18E	CY19E
P/E (x)	71	39	29
EV/ EBITDA (x)	38	24	18

ABB Ltd. Vs SENSEX



Shareholding Pattern

	Sep'18	Jun'18	Mar'18
Promoters	75	75	75
FIs	3.17	3.2	3.21
DIs	13.49	13.39	13.55
Others / Retail	8.41	8.41	8.24



(INR Crores)	Q3CY18	Q2CY18	QoQ	Q3CY17	YoY
Net Sales	2489.61	2680.64	-7%	1892.11	32%
Other Operating Income	25.75	32.09	-20%	31.29	-18%
Total Income	2515.36	2712.73	-7%	1923.4	31%
Total Expenditure	2321.4	2516.79	-8%	1789.25	30%
EBITDA	193.96	195.94	-1%	134.15	45%
Margin	8%	7%	7%	7%	11%
Other Income	28.49	23.55	21%	37.75	-25%
Depreciation	37.07	35.6	4%	38.85	-5%
EBIT	185.38	183.89	1%	133.05	39%
Margin	7%	7%	9%	7%	7%
Interest	20.11	23.19	-13%	15.24	32%
PBT	165.27	160.7	3%	117.81	40%
Total Tax	56.93	58.55	-3%	34.42	65%
Profit After Tax	108.34	102.15	6%	83.39	30%
Margin	4%	4%	14%	4%	-1%

Segment Revenues (INR Crores)	Q3CY18	Q2CY18	QoQ	Q3CY17	YoY
Robotics & Motion	592.01	615.21	-4%	446.25	33%
Electrification Products	571.06	646.06	-12%	472.16	21%
Industrial Automation	345.45	376.75	-8%	291.12	19%
Power Grids	1032.08	1060.59	-3%	602.46	71%
Others	74.46	88.43	-16%	179.85	-59%
Profit before Tax and interest					
Robotics & Motion	51.83	50.66	2%	40.05	29%
Electrification Products	49.33	57.62	-14%	45.95	7%
Industrial Automation	39.86	38.17	4%	39	2%
Power Grids	127.64	109.75	16%	57.98	120%
PBIT Margin					
Robotics & Motion	9%	8%	6%	9%	-2%
Electrification Products	9%	9%	-3%	10%	-11%
Industrial Automation	12%	10%	14%	13%	-14%
Power Grids	12%	10%	20%	10%	29%

Source: Company, NSPL Research

Valuation:

As the domestic market readies itself for elections across various states, the multiple government initiatives in renewable energy, transportation, digitalization and smart cities are likely to provide the levers for sustainable growth in the medium to long term.

Despite global headwinds of geopolitical trade tensions, fiscal consolidation and volatility in commodity prices and forex, ABB is well-positioned to tap into these opportunities for medium to long-term profitable growth.

At CMP of INR 1209.25, the company is trading at 18x CY19E EV/ EBITDA and 29x CY19E EPS. We value the company using average of EV/ EBITDA and P.E. multiple methodology. We have given an exit multiple of 20x for EV/EBITDA and 35x for PE to arrive at an average target price of INR 1417 which is an upside of 17%.

**Conference call highlights:**

- The management commented that relentless execution is reflected in the consistent productivity enhancement, focus on managing costs and improving net cash position.
- The management expects capex cycle to remain muted as most of the capital is used to consolidate the sector. Changes in capex is expected to come only post 2019 elections.
- ABB's market leading ABB Ability™ digital offerings are driving the next level of growth in markets for process industries, food and beverage, smart cities, mobility solutions and data centers.
- Transportation sector is likely to grow on account of focus on rail electrification, upcoming metro rail projects and likely developments in high-speed rail projects.
- The "Sagarmala" scheme and smart-city projects will also boost demand for ABB's marine sector and digitalization offerings respectively.
- ABB India's has shown improvement in robotics & motion and industrial automation segments.
- The base order growth was supported by offerings for smart factory applications and ABB Ability™ digital solutions in sectors like food and beverage and building automation. Power infrastructure for solar segment also contributed to moderately large orders.

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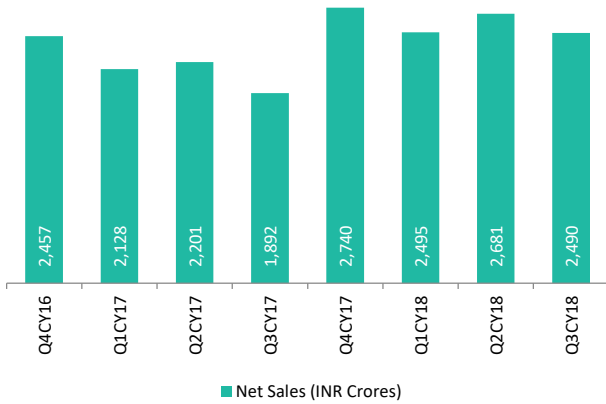
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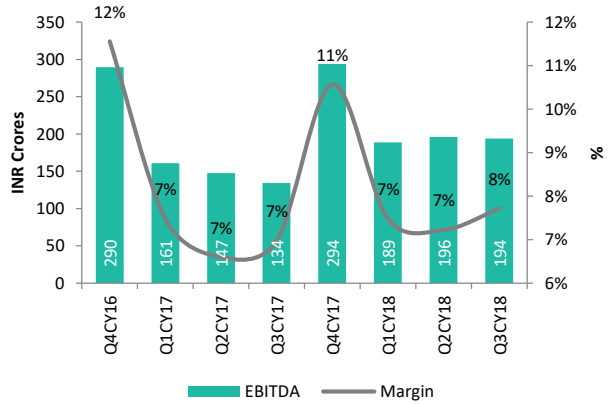
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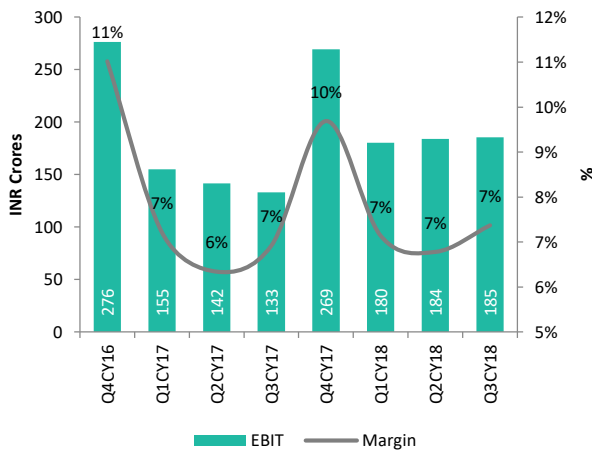
Net Sales (INR Crores)



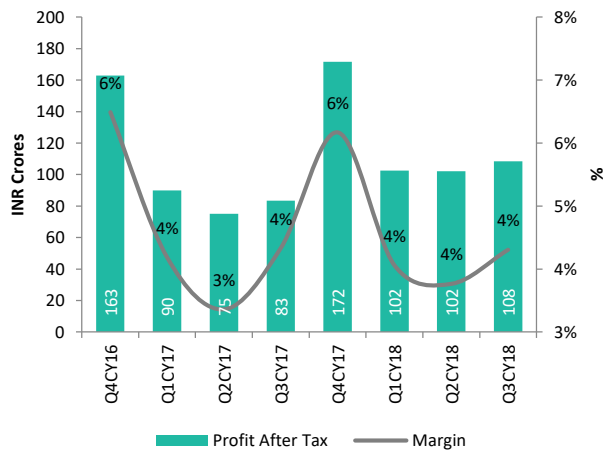
EBITDA & EBITDA margin



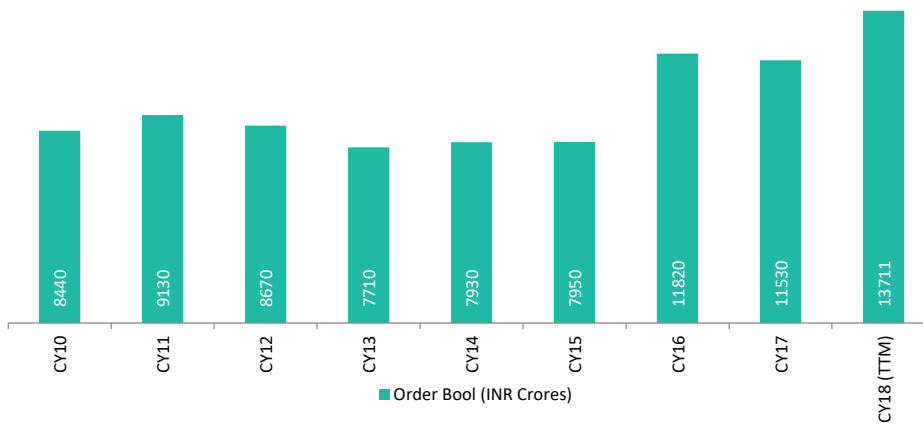
EBIT & EBIT margin



PAT & PAT margin



Order Book (INR Crores)



Source: Company, NSPL Research

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Profit & Loss (INR Crores)	CY16	CY17	CY18E	CY19E
Net sales	8,642	9,087	10,404	10,988
COGS	5,106	5,352	5,999	6,155
Employee Expenses	750	796	832	747
Other Expenses	2,092	2,203	2,519	2,661
EBITDA	695	736	1,054	1,425
D&A	151	158	162	174
Other income	122	121	162	169
EBIT	665	699	1,053	1,421
Interest Expense	92	77	84	89
PBT	573	622	969	1,332
Tax	199	202	311	441
PAT	374	420	659	891
EPS in INR	18	20	31	42

Balance Sheet (INR Crores)	CY16	CY17	CY18E	CY19E
Shareholder's funds	3,287	3,607	4,113	4,787
Long-term borrowings	600	4	645	685
Deferred tax liabilities (Net)	0	0	0	0
Other long term liabilities	4	4	4	5
Long-term provisions	52	43	57	60
Non-current liabilities	656	51	706	749
Current liabilities				
Trade payables	2,157	2,713	2,708	2,770
Other current liabilities	1,329	2,203	1,568	1,200
Short-term provisions	303	315	428	452
Current liabilities	3,789	5,231	4,703	4,421
Total Equity and liabilities	7,731	8,888	9,522	9,957
Assets				
Non-current assets				
Net Block	1,169	1,143	1,443	1,743
Capital work in progress	68	116	100	100
Intangible asset under development	86	76	76	76
Non-current investments	16	0	0	0
Deferred tax assets	130	117	117	117
Long-term loans and advances	22	22	25	27
Other non-current assets	375	457	425	448
Non-current assets	1,866	1,932	2,186	2,511
Current Assets				
Current Investments	0	270	342	342
Inventories	940	1,154	1,197	1,204
Trade receivables	2,971	2,788	3,135	3,613
Cash and bank balances	1,189	1,492	1,509	1,037
Short-term loans and advances	19	25	27	30
Other current assets	746	1,228	1,126	1,221
Current assets	5,865	6,956	7,336	7,446
Total Assets	7,731	8,888	9,522	9,957

Source: Company, NSPL Research

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Cash Flow Statement (INR Crores)	CY16	CY17	CY18E	CY19E
Operating profit before working capital changes	613	583	890	1,154
Change in working capital / other adjustments	250	217	-1,000	-1,096
Net cashflow from operating activities	863	800	-110	57
Other Expenses	-68	-329	-300	-300
Cash (used) / realised in investing activities	-179	-171	429	-229
Cash (used) /realised in financing activities	616	300	19	-472
Net Increase/(Decrease) in cash	572	1,187	1,489	1,509
Net cash at begn of year	572	1,187	1,489	1,509
Net cash at end of year	1,187	1,489	1,509	1,037

Ratios	CY16	CY17	CY18E	CY19E
PE	85.6	70.7	38.9	28.8
EPS (INR)	17.7	19.8	31.1	42.0
EV/ EBITDA	45.3	38.3	23.5	17.7
RoA	5%	5%	7%	9%
RoE	11%	12%	16%	19%
RoCE	17%	19%	22%	26%
PAT margin	4%	5%	6%	8%
EBITDA margin	8%	8%	10%	13%

Source: Company, NSPL Research

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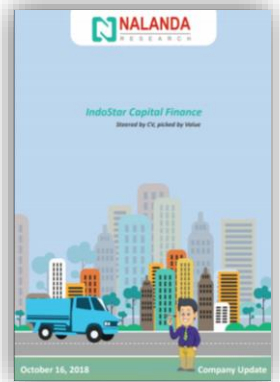
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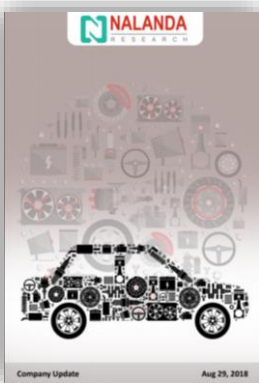
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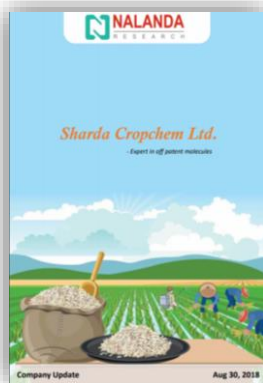
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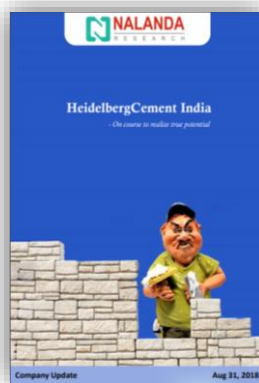
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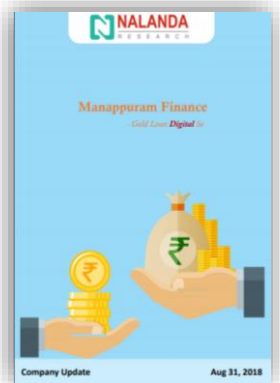
Minda Industries



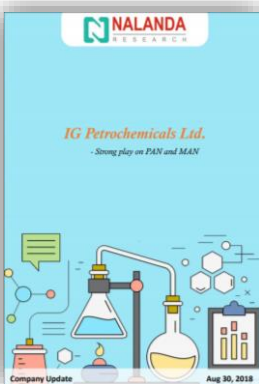
Sharda Cropchem



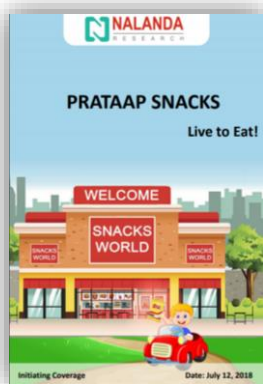
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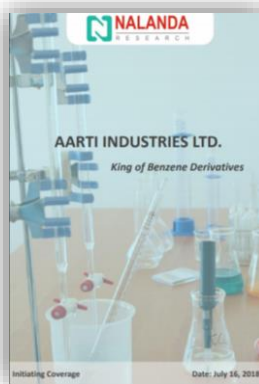
Manappuram Finance



IG Petrochemicals



Prataap Snacks



Aarti Industries



Shriram Transport



ABB Ltd.				Rating Legend	
Date	CMP (INR)	Target Price (INR)	Recommendation	Strong Buy	More than 15%
October 31, 2018	1209	1417	Strong Buy	Buy	5% - 15%
				Hold	0 – 5%
				Reduce	-5% - 0
				Sell	Less than -5%

Disclaimer:

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Following table contains the disclosure of interest in order to adhere to utmost transparency in the matter;

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Details of Nalanda Securities Pvt. Limited (NSPL)	<ul style="list-style-type: none"> NSPL is a Stock Broker registered with BSE, NSE and MCX - SX in all the major segments viz. Cash, F & O and CDS segments. Further, NSPL is a Registered Portfolio Manager and is registered with SEBI SEBI Registration Number: INH000004617
Details of Disciplinary History of NSPL	No disciplinary action is / was running / initiated against NSPL
Research analyst or NSPL or its relatives'/associates' financial interest in the subject company and nature of such financial interest	No (except to the extent of shares held by Research analyst or NSPL or its relatives'/associates')
Whether Research analyst or NSPL or its relatives'/associates' is holding the securities of the subject company	NO
Research analyst or NSPL or its relatives'/associates' actual/beneficial ownership of 1% or more in securities of the subject company, at the end of the month immediately preceding the date of publication of the document	NO
Research analyst or NSPL or its relatives'/associates' any other material conflict of interest at the time of publication of the document	NO
Has research analyst or NSPL or its associates received any compensation from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates managed or co-managed public offering of securities for the subject company in the past 12 month	NO
Has research analyst or NSPL or its associates received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months	NO
Has research analyst or NSPL or its associates received any compensation or other benefits from the subject company or third party in connection with the document.	NO
Has research analyst served as an officer, director or employee of the subject company	NO
Has research analyst or NSPL engaged in market making activity for the subject company	NO
Other disclosures	NO