

ABB

Refer to important disclosures at the end of this report

Stellar performance; maintain Buy

CMP	Target Price
Rs 1,208 as of (10/31/2018)	Rs 1,596 (■) 12 months
Rating	Upside
BUY (■)	32.1 %

- ABB reported better-than-expected operational performance, largely driven by the strong execution of the RP 800 HVDC project. While revenues increased by 31% yoy, EBITDAM expanded by 74bps yoy to 7.7% and PAT increased 30%.
- The exports and service segments have maintained the growth momentum. While export orders grew by 171% yoy, the inflows in the service segment increased by 18% yoy. Both the exports and service segments each constitute ~13-14% of the total revenues.
- Aggregate order inflows increased 22% yoy to Rs24bn, largely helped by 16% growth in base orders. Order backlog increased by 5.5% yoy to Rs114bn (ex-RP 800).
- We maintain our revenue and profitability estimates. At CMP of Rs1,208, ABB trades at 30x CY20E EPS. We maintain Buy with a target price of Rs1,596 (40x CY20E EPS).

Strong Performance: ABB's operational performance surpassed our and Street expectations. While revenues surged 31% yoy to Rs25bn, both EBIDTA and PAT increased by 45% and 30% yoy to Rs1.9bn and Rs1.08bn, respectively. Management commentary indicates that ~30% of the revenues and 40% of the profitability were attributable to RP 800 HVDC projects. Revenue growth was reported across all the segments, Power Grid (PG) Rs10.3bn (+71% yoy), Robotic and Motion (RM) Rs5.9bn (+33% yoy), Electrification Products (EP) Rs5.7bn (21% yoy), and Industrial Automation (IA) Rs3.5bn (+19% yoy). However, margin expansion was reported only in the PG segment (12.4%, +274bps yoy), while it contracted in other segments - RM to 8.8% (-22bps), EP to 8.6%(-109bps), and IA to 11.5% (-186 bps). Other income decreased to Rs285mn (-25% yoy). While the ordering from PGCIL is likely to remain muted, ABB expects strong order pipeline from SEBs. Private sector capex remains weak as the industry is focused on improving productivity gains by sweating the existing assets and acquiring stressed assets.

Maintain Buy: Going forward, we expect exports to become a significant driver of ABB's revenue and profitability growth. Management commentary indicate that ~75% of ABB's global products are now manufactured in India with ABB India been designated as the Global feeder factory for nine product lines. The company has been able to localize the best of ABB global technologies, set up the value chain, and integrate them backward with the global network. We believe that ABB's export play has just commenced and has a long way ahead. The Railways segment, which currently constitutes ~7-8% of revenue, is also expected to report similar growth. The company has recently bagged orders for power equipment as well as electric propulsion systems and is actively looking for opportunities in high-speed trains. The focus on industrial digitization, analyzing big data, internet of things (IoT), and artificial intelligence (AI) — collectively known as ABB Ability — should enable the company to fully integrate digital offerings across customer segments. We expect ABB to post revenue/PAT CAGR of 16%/26% over CY17-20E. At the CMP, the stock trades at 30xCY20E earnings. We maintain our Buy rating with a target price of Rs1,596 (40x CY20E EPS).

Financial Snapshot (Standalone)

(Rs mn)	CY16	CY17	CY18E	CY19E	CY20E
Net Sales	86,422	90,873	1,06,613	1,19,900	1,40,075
EBITDA	6,945	7,361	9,211	11,548	14,081
EBITDA Margin (%)	8.0	8.1	8.6	9.6	10.1
APAT	3,745	4,200	5,410	6,857	8,453
EPS (Rs)	17.7	19.8	25.5	32.4	39.9
EPS (% chg)	24.9	12.1	28.8	26.7	23.3
ROE (%)	11.9	12.2	14.1	15.7	16.8
P/E (x)	68.4	61.0	47.3	37.3	30.3
EV/EBITDA (x)	36.0	33.2	26.3	20.6	16.5
P/BV (x)	7.8	7.1	6.3	5.5	4.7

Source: Company, Emkay Research

Change in Estimates

EPS Chg CY18E/CY19E (%)	-/
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	CY18E	CY19E
Emkay	25.5	32.4
Consensus	25.8	31.6
Mean Consensus TP (12M)	Rs 1,449	

Stock Details

Bloomberg Code	ABB IN
Face Value (Rs)	2
Shares outstanding (mn)	212
52 Week H/L	1,749 / 1,123
M Cap (Rs bn/USD bn)	256 / 3.47
Daily Avg Volume (nos.)	1,33,518
Daily Avg Turnover (US\$ mn)	2.4

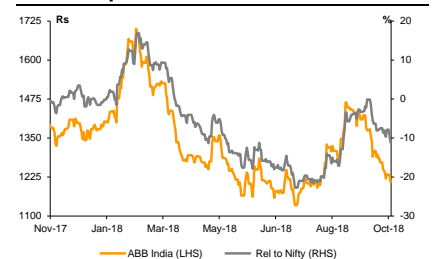
Shareholding Pattern Sep '18

Promoters	75.0%
FIIIs	3.2%
DIIIs	13.5%
Public and Others	8.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(14)	-	(11)	(14)
Rel. to Nifty	(8)	11	(6)	(12)

Relative price chart



Source: Bloomberg

This report is solely produced by Emkay Global. The following person(s) are responsible for the production of the recommendation:

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Exhibit 1: Actual vs Estimates

(Rs mn)	Actual	Estimates		% variation		Comment
		Emkay	Consensus	Emkay	Consensus	
Sales	25,154	23,535	24,455	6.9	2.9	Higher-than-expected revenue in the PG segment
EBITDA	1,940	1,596	1,738	21.5	11.6	Higher EBITM in PG segment drives profitability
EBITDA, margin	7.7%	6.8%	7.1%	93bps	60bps	
PAT	1,083	854	966	26.9	12.2	Higher revenues and margins aids PAT

Source: Company, Emkay Research

Exhibit 2: Quarterly Financials - Standalone

Rs mn	Q3CY18	Q3CY17	Q2CY18	YoY (%)	QoQ (%)	YTD FY17	YTD FY18	YoY (%)
Revenues	25,154	19,234	27,127	30.8	(7.3)	63,079	77,536	22.9
Material cost	15,921	12,186	18,030	30.7	(11.7)	40,168	51,181	27.4
as % of sales	63.3	63.4	66.5	-6 bps	-317 bps	63.7	66.0	233 bps
Employee Cost	2,127	2,023	2,231	5.1	(4.7)	6,124	6,541	6.8
as % of sales	8.5	10.5	8.2	-207 bps	23 bps	9.7	8.4	-127 bps
Other expenditure	5,167	3,684	4,908	40.3	5.3	12,364	14,025	13.4
as % of sales	20.5	19.2	18.1	139 bps	245 bps	19.6	18.1	-151 bps
Total expenditure	23,214	17,893	25,168	29.7	(7.8)	58,656	71,747	22.3
EBITDA	1,940	1,342	1,959	44.6	(1.0)	4,424	5,789	30.9
Depreciation	371	389	356	(4.6)	4.1	1,148	1,083	(5.7)
EBIT	1,569	953	1,603	64.6	(2.2)	3,276	4,706	43.7
Other Income	285	378	236	(24.5)	21.0	1,022	790	(22.7)
Interest	201	152	232	32.0	(13.3)	595	665	11.7
PBT	1,653	1,178	1,607	40.3	2.8	3,703	4,831	30.5
Taxes	569	344	586	65.4	(2.8)	1,218	1,701	39.6
Adjusted PAT	1,083	834	1,022	29.9	6.1	2,484	3,130	26.0
Extra ord / Exceptional item	-	-	-	-	-	-	-	-
Reported PAT	1,083	834	1,022	29.9	6.1	2,484	3,130	26.0
Adjusted EPS	5	4	5	29.9	6.1	12	15	26.0
Margins (%)				bps	bps			bps
Gross Margins	36.7	36.6	33.5	6.0	316.9	36.3	34.0	(233.2)
EBIDTAM	7.7	7.0	7.2	73.6	48.8	7.0	7.5	45.3
EBITM	6.2	5.0	5.9	128.3	32.7	5.2	6.1	87.6
PBTM	6.6	6.1	5.9	44.5	64.7	5.9	6.2	36.0
PATM	3.2	2.4	2.9	80.2	27.7	2.3	3.0	70.0
Effective Tax rate	34.4	29.2	36.4	523.0	(198.8)	32.9	35.2	230.5

Source: Company, Emkay Research

Exhibit 3: Segmental Performance

Rs in mn	Q3CY18	Q3CY17	Q2CY18	YoY (%)	QoQ (%)	YTD FY17	YTD FY18	YoY (%)
Segment Revenue								
Robotics and Motion	5,920	4,463	6,152	32.7	(3.8)	14,042	18,041	28.5
Electrification products	5,711	4,722	6,461	20.9	(11.6)	18,059	18,680	3.4
Industrial Automation	3,455	2,911	3,768	18.7	(8.3)	9,405	10,246	8.9
Power Grids	10,321	6,025	10,606	71.3	(2.7)	20,389	30,625	50.2
Unallocated	745	1,799	884	(58.6)	(15.8)	6,127	2,431	(60.3)
Total	26,151	19,918	27,870	31.3	(6.2)	68,021	80,023	17.6
Less : inter segment revenue	997	684	743	45.7	34.2	2,064	2,487	20.5
Total	25,154	19,234	27,127	30.8	(7.3)	65,957	77,536	17.6
Segment Results								
Robotics and Motion	518	401	507	29.4	2.3	1,088	1,456	33.8
Electrification products	493	460	576	7.4	(14.4)	1,888	1,739	(7.8)
Industrial Automation	399	390	382	2.2	4.4	820	1,175	43.3
Power Grids	1,276	580	1,098	120.1	16.3	1,958	3,400	73.6
Total	2,687	1,830	2,562	46.8	4.9	5,754	7,770	35.0
Less:- Unall (Exp)	1,118	877	959	27.5	16.6	2,478	3,064	23.7
Add:- Other Income	285	378	236	(24.5)	21.0	1,022	790	(22.7)
Less:- Interest Exp	201	152	232	32.0	(13.3)	595	665	11.7
Other Exceptional Item	-	-	-	-	-	-	-	-
PBT	1,653	1,178	1,607	40.3	2.8	3,703	4,831	30.5

Segment Margins (%)				bps	bps				bps
Robotics and Motion	8.8	9.0	8.2	(22.0)	52.0	7.7	8.1	32.0	
Electrification products	8.6	9.7	8.9	(109.4)	(28.0)	10.5	9.3	(114.1)	
Industrial Automation	11.5	13.4	10.1	(185.8)	140.7	8.7	11.5	275.0	
Power Grids	12.4	9.6	10.3	274.3	201.9	9.6	11.1	149.7	
Average	10.7	9.5	9.4	116.7	123.6	8.5	9.7	125.1	

Source: Company, Emkay Research

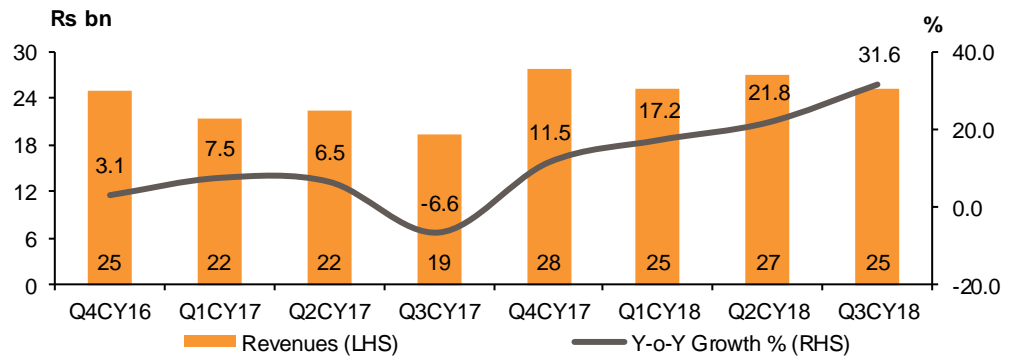
Exhibit 4: Revision in Earnings Estimates

Y/E, Mar (Rs. mn)	CY18E			CY19E			CY20E		
	Earlier	Revised	% Change	Earlier	Revised	% Change	Earlier	Revised	% Change
Revenues	1,04,408	1,06,613	2%	1,21,000	1,19,900	-1%	1,42,789	1,40,075	-2%
EBITDA	9,804	9,211	-6%	12,113	11,548	-5%	14,708	14,081	-4%
EBITDAM (%)	9.4%	8.6%	-75 bps	10.0%	9.6%	-38 bps	10.3%	10.1%	-25 bps
APAT	5,404	5,410	0%	6,826	6,857	0%	8,443	8,453	0%
EPS (Rs)	26	26	0%	32	32	0%	40	40	0%

Source: Company, Emkay Research

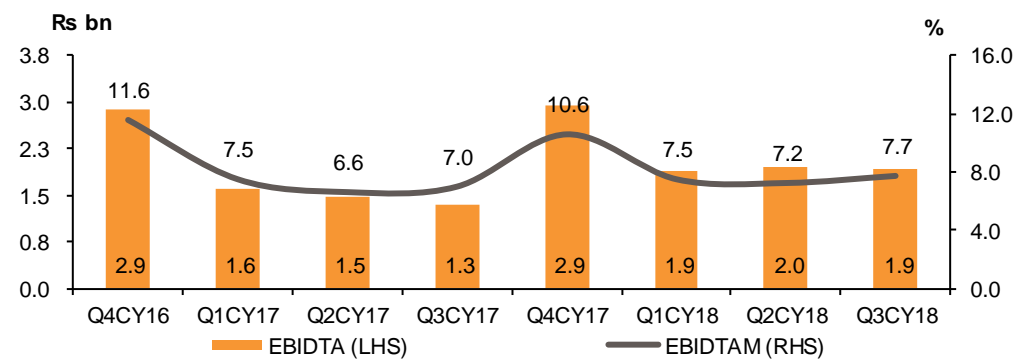
Quarterly Financials

Exhibit 5: Revenues



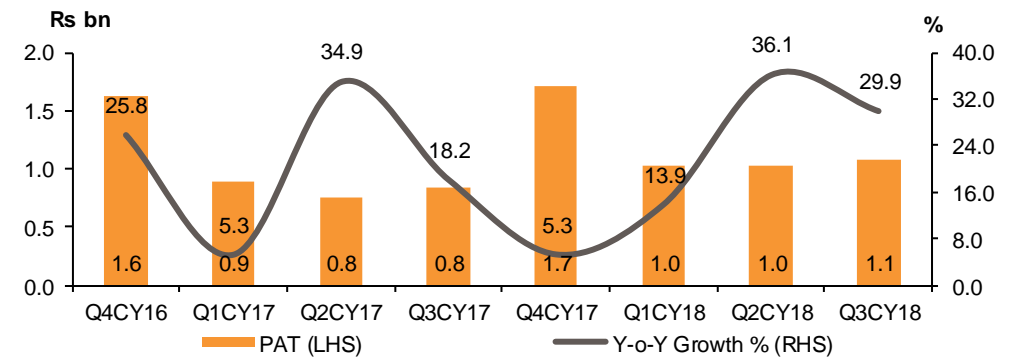
Source: Company, Emkay Research

Exhibit 6: EBIDTA and EBIDTAM



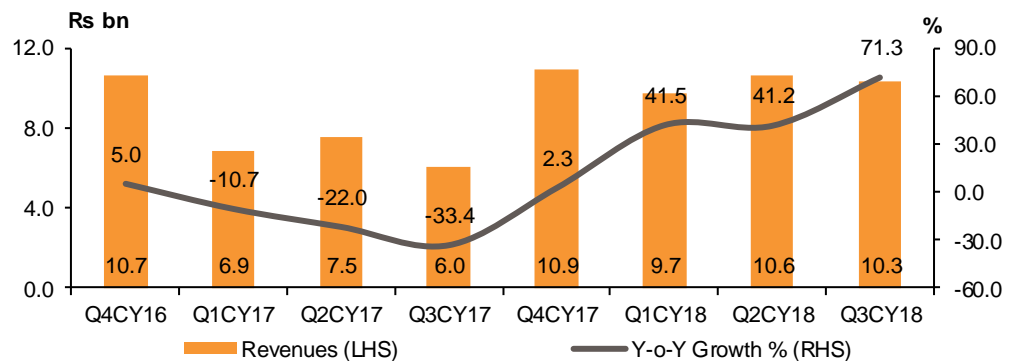
Source: Company, Emkay Research

Exhibit 7: PAT



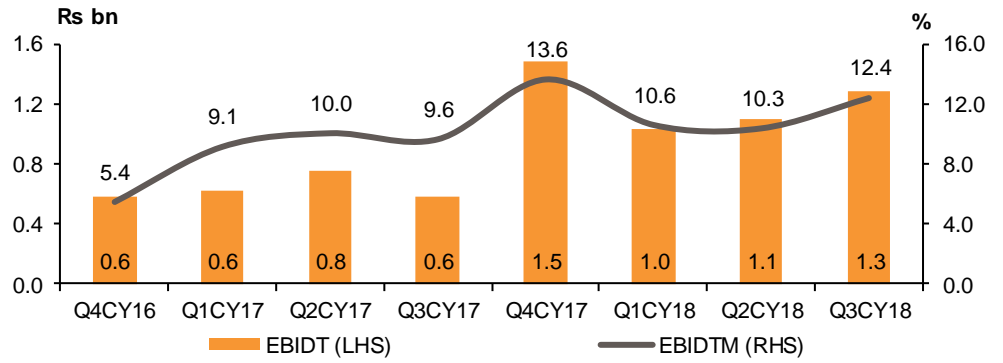
Source: Company, Emkay Research

Exhibit 8: Power Grid - Revenue



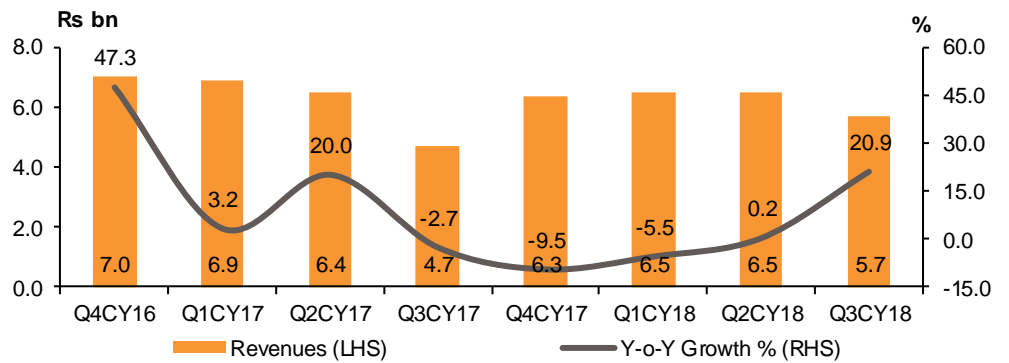
Source: Company, Emkay Research

Exhibit 9: Power Grid - EBIT and EBITM



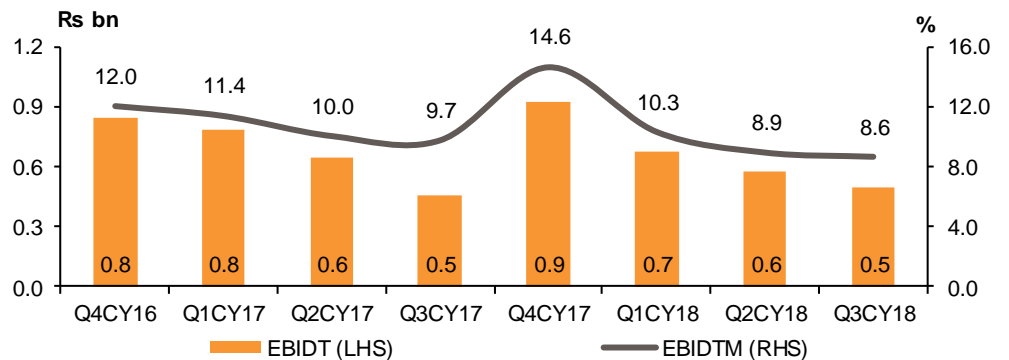
Source: Company, Emkay Research

Exhibit 10: Electrification Products - Revenues



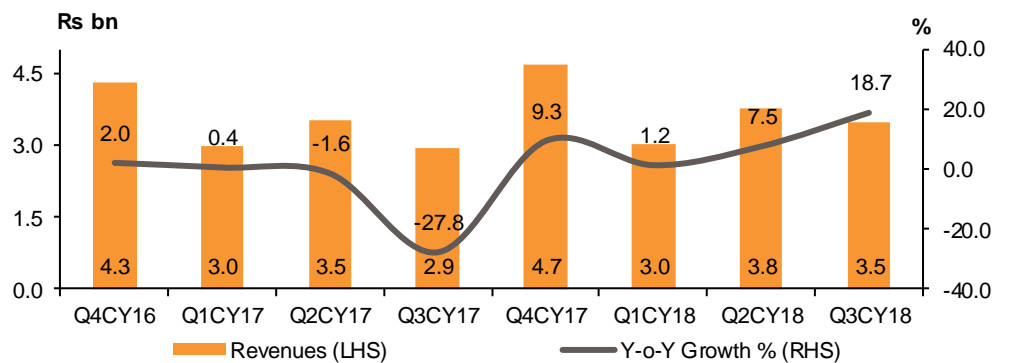
Source: Company, Emkay Research

Exhibit 11: Electrification products - EBIT and EBITM



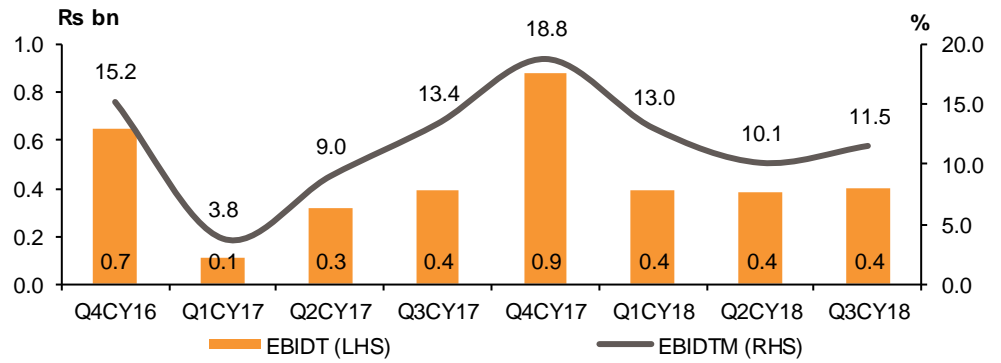
Source: Company, Emkay Research

Exhibit 12: Industrial Automation - Revenues



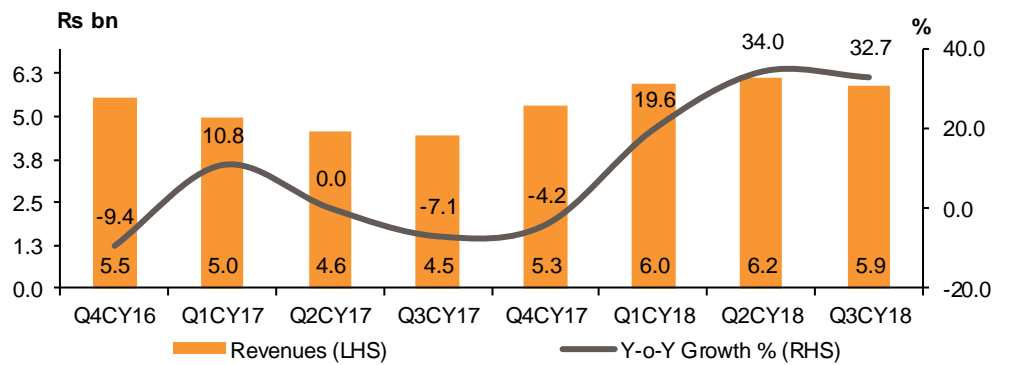
Source: Company, Emkay Research

Exhibit 13: Electrification automation - EBIT and EBITM



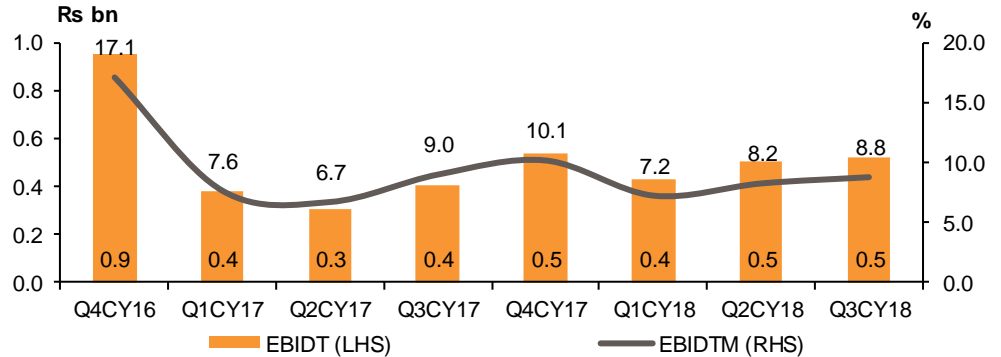
Source: Company, Emkay Research

Exhibit 14: Robotic and Motions - Revenues



Source: Company, Emkay Research

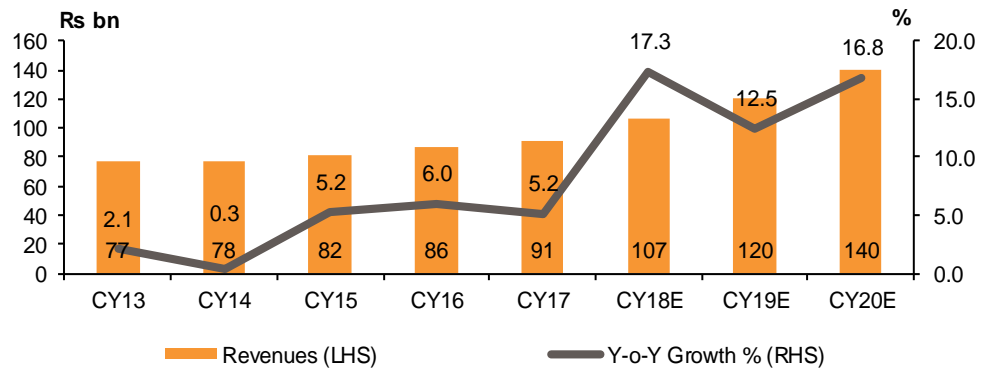
Exhibit 15: Robotics & Motions - EBIT and EBITM



Source: Company, Emkay Research

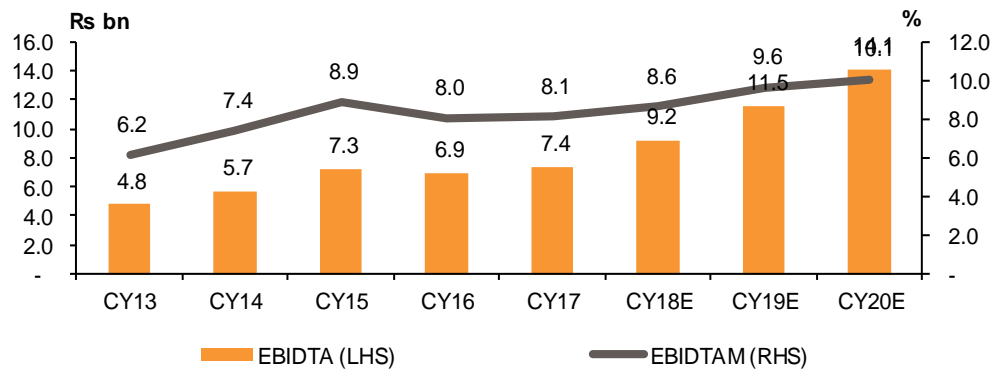
Financials

Exhibit 16: Revenues



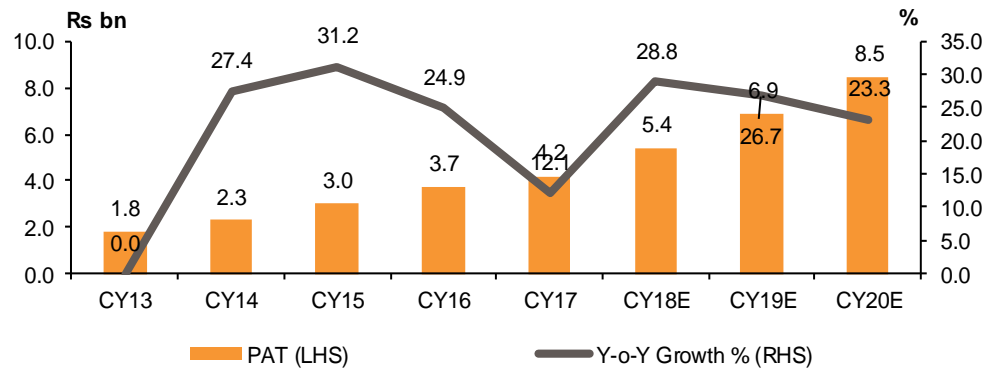
Source: Company, Emkay Research

Exhibit 17: EBIDTA and EBIDTAM



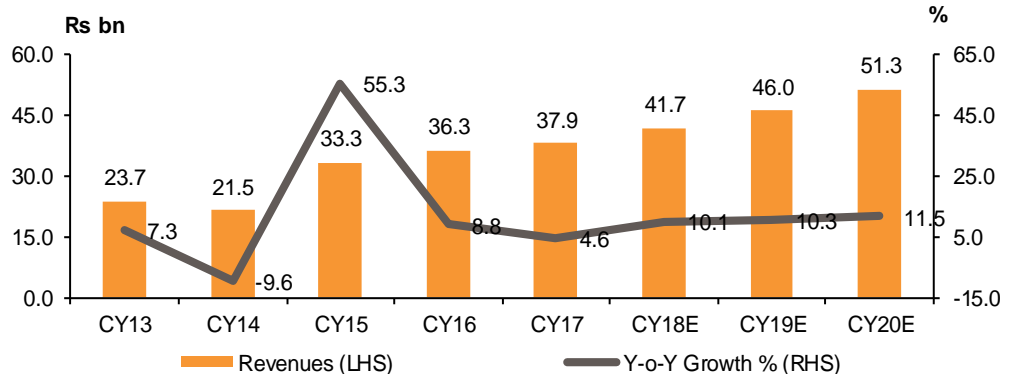
Source: Company, Emkay Research

Exhibit 18: PAT



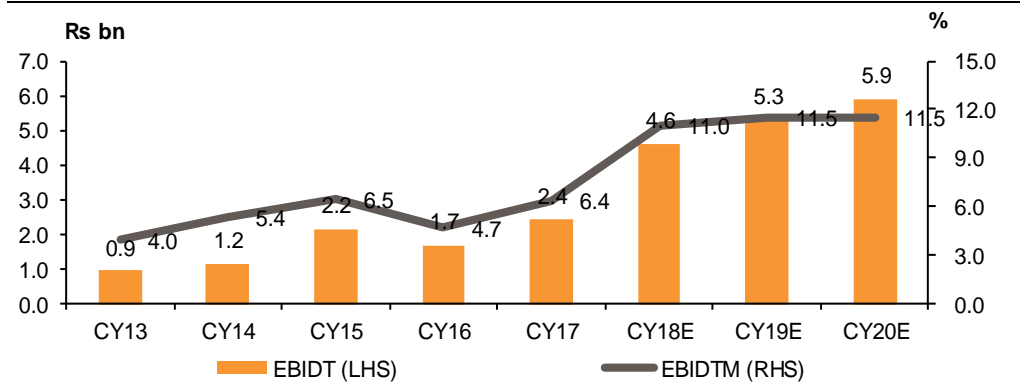
Source: Company, Emkay Research

Exhibit 19: Power Grid - Revenues



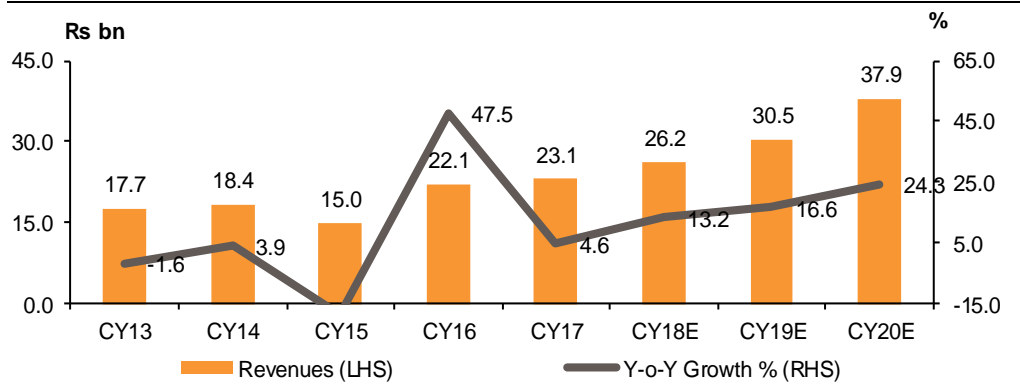
Source: Company, Emkay Research

Exhibit 20: Power Grid - EBIT and EBITM



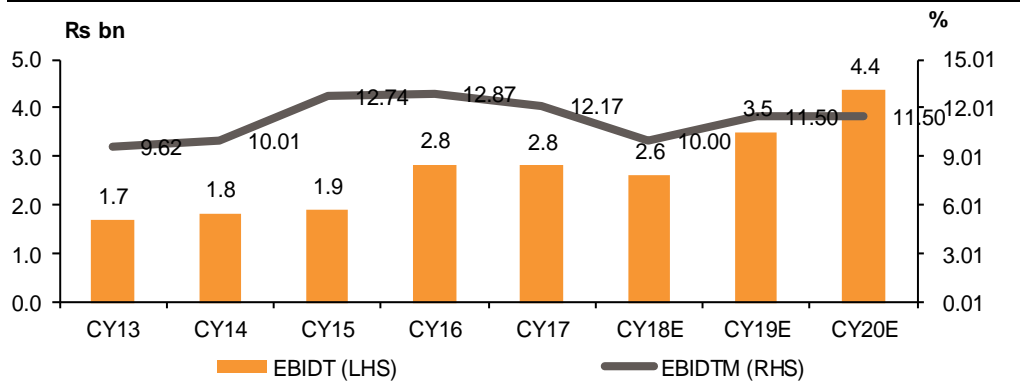
Source: Company, Emkay Research

Exhibit 21: Electrification Products - Revenues



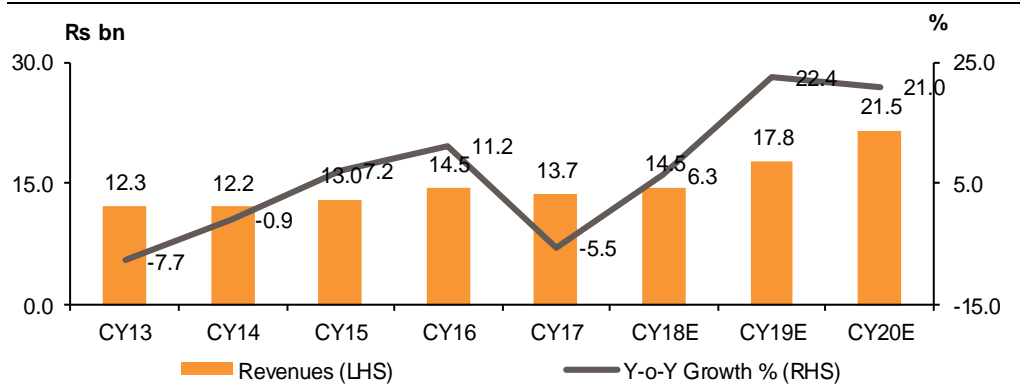
Source: Company, Emkay Research

Exhibit 22: Electrification Products - EBIT and EBITM



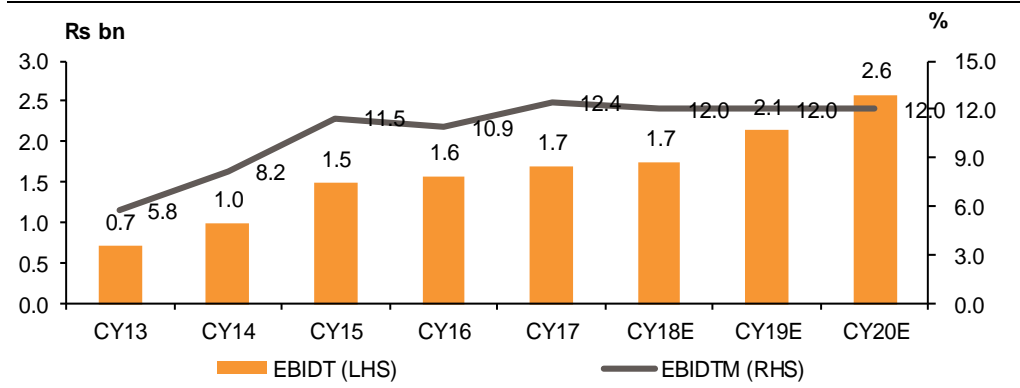
Source: Company, Emkay Research

Exhibit 23: Industrial Automation - Revenues



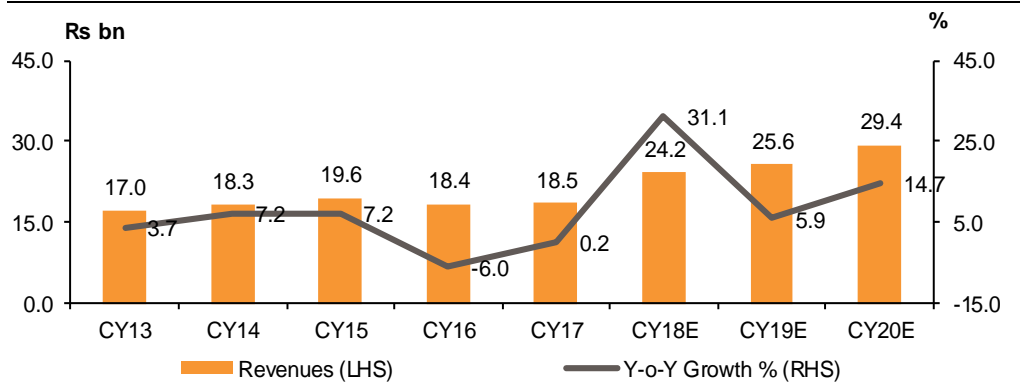
Source: Company, Emkay Research

Exhibit 24: Industrial Automation - EBIT and EBITM



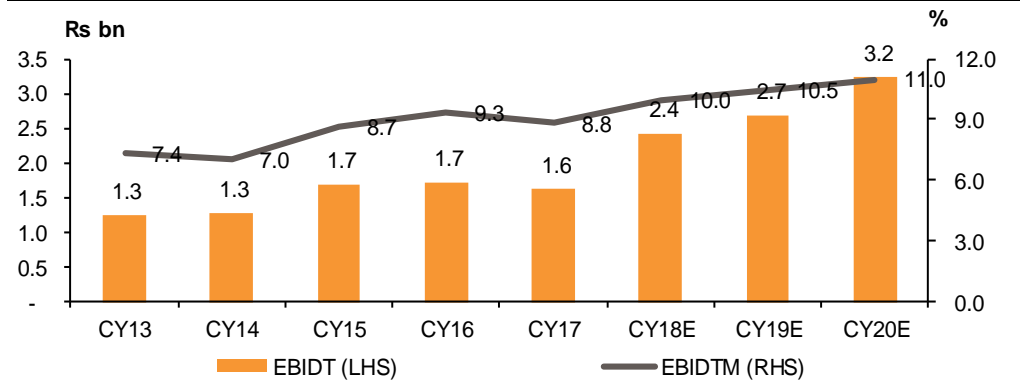
Source: Company, Emkay Research

Exhibit 25: Robotic and Motions



Source: Company, Emkay Research

Exhibit 26: Robotics and Motion - EBIT and EBITM



Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Dec (Rs mn)	CY16	CY17	CY18E	CY19E	CY20E
Net Sales	86,422	90,873	1,06,613	1,19,900	1,40,075
Expenditure	79,477	83,513	97,401	1,08,352	1,25,994
EBITDA	6,945	7,361	9,211	11,548	14,081
Depreciation	1,510	1,580	1,342	1,427	1,512
EBIT	5,436	5,781	7,869	10,121	12,569
Other Income	1,216	1,210	1,305	1,219	1,221
Interest expenses	919	773	852	791	785
PBT	5,733	6,218	8,323	10,549	13,005
Tax	1,988	2,018	2,913	3,692	4,552
Extraordinary Items	0	0	0	0	0
Minority Int./Income from Assoc.	0	0	0	0	0
Reported Net Income	3,745	4,200	5,410	6,857	8,453
Adjusted PAT	3,745	4,200	5,410	6,857	8,453

Balance Sheet

Y/E Dec (Rs mn)	CY16	CY17	CY18E	CY19E	CY20E
Equity share capital	424	424	424	424	424
Reserves & surplus	32,443	35,645	40,207	46,217	53,823
Net worth	32,867	36,069	40,631	46,640	54,246
Minority Interest	0	0	0	0	0
Loan Funds	6,000	6,084	6,084	6,084	6,042
Net deferred tax liability	(1,304)	(1,173)	(1,173)	(1,173)	(1,173)
Total Liabilities	37,564	40,979	45,542	51,551	59,115
Net block	12,549	12,187	11,845	11,418	10,906
Investment	163	2,706	2,706	2,706	2,706
Current Assets	62,618	71,650	80,698	92,884	1,09,691
Cash & bank balance	11,892	14,917	17,432	21,733	26,567
Other Current Assets	0	0	0	0	0
Current liabilities & Provision	38,445	46,728	49,707	55,457	64,188
Net current assets	24,174	24,922	30,991	37,427	45,503
Misc. exp	0	0	0	0	0
Total Assets	37,564	40,979	45,542	51,551	59,115

Cash Flow

Y/E Dec (Rs mn)	CY16	CY17	CY18E	CY19E	CY20E
PBT (Ex-Other income) (NI+Dep)	4,517	5,008	7,018	9,330	11,784
Other Non-Cash items	0	0	0	0	0
Chg in working cap	3,173	2,408	(3,554)	(2,135)	(3,242)
Operating Cashflow	8,626	7,998	2,744	5,721	6,288
Capital expenditure	(1,309)	(1,704)	165	(1,000)	(1,000)
Free Cash Flow	7,316	6,294	2,909	4,721	5,288
Investments	1	(2,543)	0	0	0
Other Investing Cash Flow	(589)	(249)	0	0	0
Investing Cashflow	(681)	(3,287)	1,470	219	221
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	0	83	0	0	(41)
Dividend paid (incl tax)	(944)	(1,020)	(848)	(848)	(848)
Other Financing Cash Flow	74	0	0	0	0
Financing Cashflow	(1,788)	(1,710)	(1,699)	(1,638)	(1,674)
Net chg in cash	6,156	3,001	2,515	4,301	4,834
Opening cash position	5,736	11,892	14,917	17,432	21,733
Closing cash position	11,892	14,917	17,432	21,733	26,567

Source: Company, Emkay Research

Key Ratios

Profitability (%)	CY16	CY17	CY18E	CY19E	CY20E
EBITDA Margin	8.0	8.1	8.6	9.6	10.1
EBIT Margin	6.3	6.4	7.4	8.4	9.0
Effective Tax Rate	34.7	32.5	35.0	35.0	35.0
Net Margin	4.3	4.6	5.1	5.7	6.0
ROCE	18.2	17.8	21.2	23.4	24.9
ROE	11.9	12.2	14.1	15.7	16.8
RoIC	20.1	24.6	33.1	38.5	44.1

Per Share Data (Rs)	CY16	CY17	CY18E	CY19E	CY20E
EPS	17.7	19.8	25.5	32.4	39.9
CEPS	24.8	27.3	31.9	39.1	47.0
BVPS	155.1	170.2	191.7	220.1	256.0
DPS	4.0	4.4	4.0	4.0	4.0

Valuations (x)	CY16	CY17	CY18E	CY19E	CY20E
PER	68.4	61.0	47.3	37.3	30.3
P/CEPS	48.7	44.3	37.9	30.9	25.7
P/BV	7.8	7.1	6.3	5.5	4.7
EV / Sales	2.9	2.7	2.3	2.0	1.7
EV / EBITDA	36.0	33.2	26.3	20.6	16.5
Dividend Yield (%)	0.3	0.4	0.3	0.3	0.3

Gearing Ratio (x)	CY16	CY17	CY18E	CY19E	CY20E
Net Debt/ Equity	(0.2)	(0.3)	(0.3)	(0.4)	(0.4)
Net Debt/EBIDTA	(0.8)	(1.6)	(1.5)	(1.6)	(1.6)
Working Cap Cycle (days)	51.9	40.2	46.4	47.8	49.3

Growth (%)	CY16	CY17	CY18E	CY19E	CY20E
Revenue	6.0	5.2	17.3	12.5	16.8
EBITDA	(4.3)	6.0	25.1	25.4	21.9
EBIT	(3.9)	6.4	36.1	28.6	24.2
PAT	24.9	12.1	28.8	26.7	23.3

Quarterly (Rs mn)	Q3CY17	Q4CY17	Q1CY18	Q2CY18	Q3CY18
Revenue	19,234	27,794	25,255	27,127	25,154
EBITDA	1,342	2,937	1,890	1,959	1,940
EBITDA Margin (%)	7.0	10.6	7.5	7.2	7.7
PAT	834	1,715	1,025	1,022	1,083
EPS (Rs)	3.9	8.1	4.8	4.8	5.1

Source: Company, Emkay Research

Shareholding Pattern (%)	Sep-17	Dec-17	Mar-18	Jun-18	Sep-18
Promoters	75.0	75.0	75.0	75.0	75.0
FIs	3.2	3.1	3.2	3.2	3.2
DIs	13.8	13.7	13.6	13.4	13.5
Public and Others	8.1	8.2	8.2	8.4	8.3

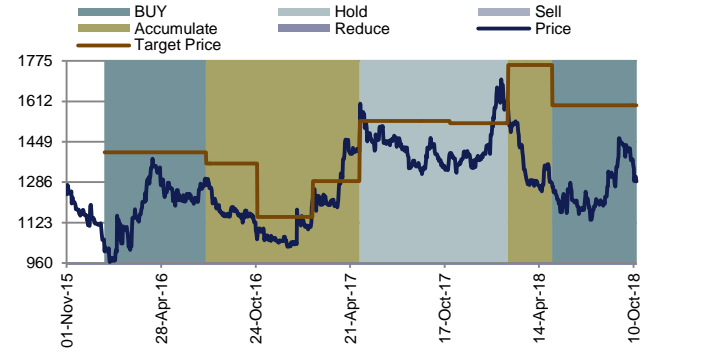
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
09-May-18	1,267	1,596	12m	Buy	John Perinchery
14-Feb-18	1,572	1,758	12m	Accumulate	John Perinchery
30-Jan-18	1,606	1,524	12m	Hold	John Perinchery
27-Oct-17	1,404	1,524	12m	Hold	John Perinchery
21-Jul-17	1,463	1,533	12m	Hold	John Perinchery
09-May-17	1,532	1,533	12m	Hold	John Perinchery
09-Feb-17	1,226	1,290	12m	Accumulate	John Perinchery
27-Oct-16	1,066	1,146	12m	Accumulate	John Perinchery
22-Jul-16	1,288	1,362	12m	Accumulate	John Perinchery
26-Apr-16	1,289	1,407	12m	Buy	John Perinchery
05-Feb-16	1,134	1,407	12m	Buy	John Perinchery
11-Jan-16	1,007	1,407	12m	Buy	John Perinchery

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

Completed Date: 31 Oct 2018 12:04:02 (SGT)

Dissemination Date: 31 Oct 2018 12:05:02 (SGT)

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