



Company Name	: ABB INDIA
BSE Code	: 500002
Time Duration	: 1 year
CMP	: ₹1,434.25 (as on 13 Dec., 2018)
Target Price	: ₹1,730

The Value Pick for the month of December is ABB India Limited, which has expertise in manufacturing of electric motors, generators, transformers, electrical equipments and electricity distribution and control apparatus. It currently operates through four segments, namely, power grids, electrification products, robotics and motion and industrial automation. Over the past few years, all the segments have performed well and, in the recent quarter, all four segments have delivered double digit growth.

ABB has expertise and leadership in power and electrical segments market and the government's high spending on power transmission and distribution, renewables and railways electrification places it in a sweet spot. One of biggest opportunities the company has bagged recently is its partnership with Niti Aayog, which is the think-tank of the Indian government for taking the 'Make in India' initiative forward. Both these entities would work towards preparing economy's key sectors like power, water utilities, food, transport, infrastructure for digitisation, Internet of Things (IoT) and Artificial Intelligence (AI). Also, the company's exports have been growing consistently. The order book is strong and the order inflow across all segments is increasing in every quarter, giving high revenue visibility.

Robust Segmental Performance

Power grid (41% of revenue) : Power grid division offers power and automation products, systems and services across the power value chain. During Q3CY18, the revenue from this segment stood at Rs 1,032 crore, as against Rs 775 crore in Q3CY17. The growth recorded was 33.2% YoY. The EBIT margin stood at 12.4% as against 6.7%. The renewables outlook looks brighter, which is expected to get accelerated upto 175 GW by 2022. The metro rail projects and network expansion continue to receive significance with various projects in different stages of planning and ordering. As ABB supplies traction transformers to the metro projects, it has huge opportunity going forward.

Electrification products (25% of revenue) : During Q3CY18, the revenue from this segment stood at Rs. 571 crore as against Rs. 472 crore in the corresponding quarter of last year, a growth of 21.1% YoY. The EBIT margin stood at 8.6% as against 8.9%.

This segment of the company is expected to see traction, driven by strong government spending in power, infrastructure, transportation and housing sector. The demand for energy-efficient solutions, smart systems in infrastructure and innovative product solutions in the renewable space is expected to boost the growth of this segment in the near term.

Robotics & Motion (20% of revenue) : The division continued to focus on the light industry with increased penetration in the foods and beverages, water and waste water. The revenue from this segment grew by 32.7% YoY to Rs. 592 crore from Rs. 446 crore. The EBIT margin stood at 8.8% as against 8.2%. Higher investments by the government in energy-efficiency technologies, renewable sector, oil & gas, F&B, and water waste management is leading to higher demand. While heavy industries are expected see some rebound, the light industry portfolio, together with infrastructure and transportation, holds promise to drive future growth.

Industrial Automation (14% of revenue) : The revenue from this segment grew by 21.1% YoY to Rs. 345 crore as against Rs. 285 crore. The EBIT margin stood at 11.5%, as against 10.1%. The brownfield expansion activities in the cement sector and the acquisitions by steel players would help the segment to grow further. Other sectors from which further traction in demand for automation is expected are metals, oil & gas, hydro-electric, water and waste management, F&B and pharma.

Healthy Order book

The total orders increased to Rs 2,355 crore during the third quarter of 2018, driven by a base order growth of 16%. Of the total orders, the company's service-based orders grew by 18% YoY and the export orders surged by 171% YoY. The segment-wise order book stood at - power grids: Rs 828 crore vs Rs 646 crore last year, electrification products : Rs 641 crore vs Rs 558 crore last year, robotics and motion: Rs 590 crore vs Rs 435 crore and industrial automation : Rs 482 crore vs Rs 335 crore last year. The order backlog as on September 30, 2018 was Rs 11,368 crore and this is expected to provide revenue visibility for the next 4-5 quarters.

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DSIJ Pvt. Ltd. : C - 305, Trade Center, North Main Road, Near Axis Bank, Opp. Lane no. 6, Koregaon Park, Pune - 411001 | For Customer Service : 020-49072626 OR service@dsij.in

Registered Office Address: 419-A, 4th Floor, Arun Chambers, Tardeo, Next to AC Market, Mumbai - 400034

CIN No. : CIN-U22120MH2003PTC139276 SEBI Registration No: INA000001142

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Strong customer base

The company's key customers include Asian Paints, Vedanta Group, Lafarge Holcim, National Aluminium Corporation Limited (NALCO), Reliance Group, Power Grid Corporation of India (PGCIL), Jindal Steel Works (JSW) Group, Oil and Natural Gas Corporation Limited (ONGC), Steel Authority of India Limited (SAIL), Adani Group, Ultratech Cement, Tata Sons, Indian Oil, National Thermal Power Corporation (NTPC), among others.

Financial Performance

ABB follows calendar year as its financial year. The company's net profit has grown at a CAGR of 22.5% over last three years. Its working capital cycle has improved with receivable days decreasing from 145 days in FY13 to 112 days in FY17. The debt-equity ratio for FY17 stood at 0.17x leading to better interest coverage ratio of 8.03x. It is a regular dividend paying company and has maintained dividend payout ratio of 23.6%.

The revenue for the quarter was Rs 2,515 cr., up by 31% YoY from Rs 1,923 cr., led by double digit growth across divisions with

quick conversions and timely delivery. The strong execution and delivery further stabilised solid net cash position, thereby supporting revenue momentum. The EBITDA grew by 45% YoY from Rs 134 cr to Rs 194 cr and the EBITDA margin was maintained at 8%. Its PAT rose by 30% YoY to Rs 108 cr from Rs 83 cr. The continued focus on cost saving measures contributed to a strong growth in profits. The PAT margin stood constant at 4.3%.

Valuation

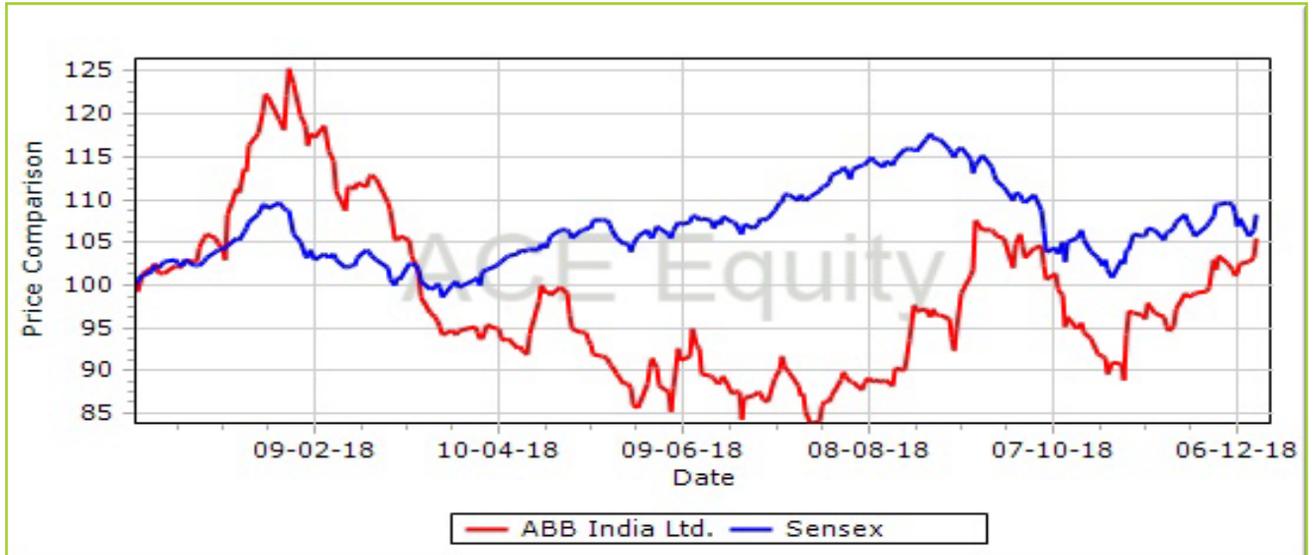
The company is currently trading at TTM P/E of 62.7x with TTM EPS of Rs 22.8. Such premium valuation is justifiable considering its strong business model and expertise in technical capabilities. Despite high volatility in commodity prices and domestic currency, ABB has delivered good performance over the years. Its strong order pipeline and efficient and speedy execution will trigger topline growth in the upcoming quarters. We see a potential upside of 20% with a target price of Rs 1,730 over a period of one year.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201712	201612	201512	201412	201312
Net Sales	9087.32	8642.21	8140.27	7733.27	7721.99
Total Income	9208.29	8763.78	8154.05	7751.58	7728.98
Total Expenditure	8340.17	7931.97	7418.99	7161.52	7237.15
PBIDT	868.12	831.81	735.06	590.06	491.83
PAT	419.95	374.47	299.88	228.51	176.89
Dividend %	220.00	200.00	185.00	185.00	150.00
Adj. EPS(Rs)	19.82	17.67	14.15	10.78	8.35

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201809	201806	Q on Q Var%	201709	Y on Y Var%
Net Sales	2489.61	2680.64	-7.13	1892.11	31.58
Total Expenditure	2321.40	2516.79	-7.76	1789.25	29.74
PBIDT (Excl OI)	193.96	195.94	-1.01	134.15	44.58
PAT	108.34	102.15	6.06	83.39	29.92
PBIDTM% (Excl OI)	7.71	7.22	6.79	6.97	10.62
PBIDTM%	8.84	8.09	9.27	8.94	-1.12
PATM%	4.31	3.77	14.32	4.34	-0.69
Adj. EPS(Rs)	5.11	4.82	6.02	3.94	29.70



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