

ABB India

ADD

CMP Rs1,423

Target Rs1472

Upside 3%

✓ **Our view:** We retain our CY21E/CY22E earnings estimates as we have already factored in earnings recovery led by margin expansion on the account of i) Increasing contribution of high margin 'electrification products', ii) Parent's endeavor to increase margins by leveraging relatively low cost India operations, iii) Exit from solar inverter business which had wafer thin margins, iv) Higher sales contribution by exports and services, v) Increase in local content, and vi) Efficiency improvement through cost rationalization. We believe, ABB will retain its focus on growth segments like Data Center, Electronics manufacturing, Food & beverages, Pharma, Renewables, Rail & Metros while conventional sectors like Powergen, Oil & Gas, Metal & Mining would continue to remain muted. Post our Q3CY20 result note, the stock has rallied by ~50% and we now lot of positives are priced in at current levels. Hence, we downgrade the stock to ADD from BUY for a target price of Rs1472.

Exhibit 1: Financial Summary (Consolidated)

Year ending December	CY18	CY19	CY20	CY21e	CY22e
Total operating revenues	66,901	73,151	58,210	69,727	78,730
Growth (%)	9.8	9.3	(20.4)	19.8	12.9
EBITDA	4,578	5,312	2,759	5,156	6,601
EBITDA margin (%)	6.8	7.3	4.7	7.4	8.4
Growth (%)	9.2	16.0	(48.0)	86.8	28.0
Depreciation & amortization	928	904	1,204	1,064	1,108
EBIT	3,650	4,408	1,556	4,091	5,492
EBIT margin (%)	5.5	6.0	2.7	5.9	7.0
Interest	539	214	169	120	120
Other income	840	943	1,069	1,350	1,580
Profit before tax	3,951	5,137	2,456	5,321	6,952
Tax	1,410	1,418	739	1,341	1,752
Associate income	0	0	0	0	0
Minority interest	0	0	0	0	0
Adjusted net profit	2,542	3,719	1,717	3,980	5,200
Extraordinary items	0	697	(588)	0	0
Reported net profit	2,542	3,022	2,304	3,980	5,200
Adjusted net margin (%)	3.8	5.1	2.9	5.7	6.6
Diluted EPS (Rs)	12.0	17.6	8.1	18.8	24.5
Growth (%)	12.7	46.3	(53.8)	131.9	30.7

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CONCALL HIGHLIGHTS

- ✓ The company is witnessing highest growth in data center followed by renewables, electronics manufacturing, Food & Beverage (growing in mid-double digit), Power distribution (electrification distribution portfolio has seen lot of initiatives by government), water & waste treatment (continues to see traction), railway and metro (growing at 10%), and automotive (witnessing a comeback). Some of the muted segments are building & Infrastructure, Oil & Gas, chemicals, cement, steel, metal & mining, with Power generation at the bottom.
- ✓ **Key highlights of the quarter** – i) ABB completed commissioning of winder drives for ITC, ii) ABB launched new series of high-output motors in India, iii) ABB became the first company in India to offer LV motors on a e-market place, and iv) ABB has set up world's largest pipe conveyor belt for JSW.

Segmental performance

- ✓ **Electrification** – the segment witnessed an order inflow of Rs6.3 bn during the quarter with order backlog of Rs13.2 bn. The major orders were from Data Centers, Metro rail, Food & Beverage. ABB launched Mid-Range (Formulae Air) LV Breakers during the quarter.

In case of electrification the company has focused on best-in-class technology in Low Voltage that goes with OEM, panel builder who serve market with high rise buildings, this segment has continued to grow rapidly. Moreover, EV charging is a part of Electrification portfolio for which market is yet to develop in India and ABB is the largest supplier of EV charging globally. Besides, building automation, Hotel & Home automation, Large data centers have preference for ABB given its global expertise built over the years.

- ✓ **Motion** – the segment witnessed an order inflow of Rs5.4bn during the quarter with order backlog of Rs15.1bn. The focus was on transportation, digitalization and services. The Q4 order basket had good share of Channel business, Exports and Packaging. The profitability improved substantially due to cost optimization, higher capacity utilization, and favorable product mix.
- ✓ **Industrial Automation** – the segment witnessed an order inflow of Rs2.8bn during the quarter with order backlog of Rs12.2bn. The segment was impacted by one-offs which was in line with the strategic decision to ramp-down and de-risk exposure. The revenues were impacted due to – i) delay in customer clearances and lower service revenues, and ii) Impact of legacy projects of power generation. Profitability was impacted due to – i) Project mix & execution challenges (EPC & conventional power generation segment), ii) Rs0.8bn of one-time provision based on the strategic decision to ramp down and de-risk exposure in conventional power generation segment, iii) Higher personnel costs due to certain employees availing voluntary retirement, and iv) Decline in service & export component.
- ✓ **Robotics and Discrete Automation** – The segment witnessed an order inflow of Rs0.47bn with order backlog of Rs1.28bn. The segment witnessed early signs of recovery from 2-wheeler and electronics segment, however, orders remained muted from Auto OEMs and Tier1 as they continued to be cautious on investments.
- ✓ **Key challenges** – the challenges on the macro side are i) pace of vaccination coverage and slowdown led by pandemic would affect the growth, and ii) Geopolitical risk between India and China. While on the Operational side: i) Inflation might inch upwards, ii) The company is experiencing strong increase in commodities – Oil, copper, steel, and aluminum which are key ingredient for material cost, and iii) Currencies are gaining against Indian rupee, so business with high import content might be impacted.
- ✓ **Shift from conventional power gen** – In case of Conventional power generation, the focus has shifted toward renewable sources of energy. Besides, the number of conventional greenfield project coming up have receded. Though company continues to keep focus on services portion of installed bases but when it comes to greenfield it would be extremely selective. This has allowed company to focus on few areas – pharmaceuticals, renewables, Chemicals and paints.

- ✓ **Digital marketplace** – Globally digital market for ABB has grown from USD200mn to USD400mn in last 2-2.5 years. Most of the digital offering goes into process automation and analytics based products. When it comes to MO/RA/EL, RA is very digitalized solution. In case of EL & MO, all the products which were non-digital earlier are being 'IoT'ized and are integrated as a part of digital network. Though for ABB, focus remains on core with layers of digital on top of it
- ✓ **Nascent markets** – The current geopolitical situation has certainly led to de-risking with companies setting up facilities in India by leveraging footprints of local companies. The management stated it is witnessing large scale manufacturing that might double up every two and half year. The other area where manufacturing is visible is 2W-electric vehicles. On the electronics manufacturing especially mobile devices and ancillary material that goes into the device is witnessing traction at this point.
- ✓ **Utilization of cash** – The cash will be a strong support to plan investments in a market. Besides, in terms of capex investment, when the company builds strategy going forward as pandemic situation normalizes in Q3/Q4 would enable management to have long term view and to complement this company has good amount of land. Going forward, ABB India would be investment destination globally.

The management emphasized more importance on cash over revenue and when the market picks up focus would be selective and only in niche area.

Q4 CY20 Result summary

- ✓ ABB's sales declined by 13%YoY to Rs17bn (-6% vs our estimates) as Motion(MO)/ Industrial Automation (IA)/ Electrification (EL)/ Robotics & Discrete Automation (RA) segment reported a revenue decline of 5%/7%/22%/35% YoY
- ✓ EBITDA declined by 26%YoY to Rs1.02bn (-24% vs our estimates) with margin contracting by 105bps at 6% (7.4% vs our estimates). Adjusted PAT stood at Rs622mn, down by 54%YoY (-36% vs our estimates).
- ✓ Order inflow de-grew by 8%YoY to Rs14.7bn as ABB secured orders for – i) Enhancement of distribution networks for a large construction company in Nepal, ii) Orders for double fed induction generators (DFIG) for a private energy major for wind energy and flue gas desulphurization (FGD) for power plants, iii) Process automation for a bottling plant of a refining major, and iv) Rectifier and busbar solutions for a large mining company.
- ✓ During the quarter, ABB India's Motion business area became the first business to list its low voltage motors online on eMart- ABB's online marketplace. In line with increased focus on self-reliance in manufacturing, Motion business area launched the sturdy, made in India M3BP high performance motors, which delivers higher output than the defined standard of the same frame size standard motors.
- ✓ Electrification business area launched Formula DIN-Rail, a complete range of Miniature Circuit Breakers (MCBs), Residual Current Circuit Breakers (RCCBs) and Isolators for the electrical retail market.
- ✓ The Robotics and Discrete Automation business area also launched a compact interior paint application and easy programming tool for IRB 1100 robots for customers globally

Exhibit 2: Result table (Consolidated)

Particulars (Rs mn)	Q4CY20	Q4CY19	% yoy	Q3CY20	% qoq
Total sales	17,008	19,533	(13)	16,122	5
EBITDA	1,026	1,384	(26)	1,214	(15)
EBITDAM (%)	6.0	7.1	(105) bps	7.5	(150)bps
Depreciation	297	224	32	247	20
Interest	69	47	47	28	148
Other income	144	384	(63)	201	(29)
PBT	804	1,497	(46)	1,140	(29)
Tax	182	153	19	285	(36)
Adjusted PAT	622	1,344	(54)	855	(27)
Exceptional item	0	697		0	
Reported PAT	622	647	(4)	855	(27)
PATM (%)	3.7	6.9	(322) bps	5.3	(165) bps
EPS (Rs)	2.9	6.3	(54)	4.0	(27)

Y/e 31 Dec	Q4CY20	Q4CY19	% yoy	Q3CY20	% qoq
Revenues (Rs mn)					
Robotics and Discrete Automation	431	652	(34)	449	(4)
Motion	6,483	6,848	(5)	6,292	3
Electrification	6,472	8,331	(22)	5,945	9
Industrial Automation	3,868	4,140	(7)	3,675	5
PBIT (Rs mn)					
Robotics and Discrete Automation	34	79	(57)	45	(25)
Motion	1,191	632	89	693	72
Electrification	910	998	(9)	864	5
Industrial Automation	(701)	10	NA	102	NA
PBIT margins (%)					
Robotics and Discrete Automation	7.9	12.2	(428)	10.1	(220)
Motion	18.4	9.2	915	11.0	736
Electrification	14.1	12.0	207	14.5	(49)
Industrial Automation	(18.1)	0.2	NA	2.8	NA

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