

# ABB India: Will ride recovery in capex

Fall in valuations, pick-up in traditional segments and faster growth in new business make the counter attractive.

**W**ith year-on-year revenue and net profit growth of 17% and 14% respectively, ABB India reported decent results for the first quarter of 2018-19. The engineering services company's strong performance in power grid, robotics, and motion and renewable energy segments bolstered its overall performance. ABB India's exports too did reasonably well during this period.

All power equipment manufacturers have been underperforming because the demand from the traditional capital expenditure market—conventional energy projects—has been weak. However, after several years of stagnation, now green shoots are visible in the capital expenditure cycle with most of the demand coming from sectors such as cement, FMCG and transportation.

ABB India's new verticals are doing well now. Its focus on future-ready segments such as solar inverters, fast-charging infrastructure for electric vehicles, micro grids, etc. will help the company in the long term. The market for export of these new solutions is also big. For instance, ABB India has signed agreements with Volkswagen to set up fast-charging stations for electric vehicles in the US. Successful implementation of this project will give the company a head start when similar projects come up in India. Upgrading of emission norms by the Indian auto industry from Bharat IV to Bharat VI will also bring new opportunities to ABB India.

While the recent jump in commodity prices has brought its margins under pressure, ABB India is expected to main-

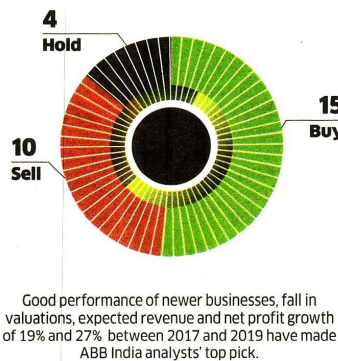
tain its Ebitda margin by raising prices and improving operational efficiency. Ebitda stands for earnings before interest, tax, depreciation and amortisation. According to analysts' consensus estimate, ABB India is expected to report annualised revenue and net profit growth of 19% and 27% respectively between 2017 and 2019.

Though ABB India is a quality company and is a good proxy for the expected cyclical recovery in capital expenditure, its high valuation used to be a major deterrent. This has been partly offset by the counter's 35% under performance compared to the Sensex during the past year (see *Relative Performance chart*). But even though the counter is now trading at close to the lower range of its six-year valuation history, it is still expensive compared to its peers. So, investors should get into this counter only with a long-term view of at least three years.

**Selection Methodology:** We pick the stock that has shown the maximum increase in 'consensus analyst rating' in the past one month. Consensus rating is arrived at by averaging all analyst recommendations after attributing weights to each of them (5 for strong buy, 4 for buy, 3 for hold, 2 for sell and 1 for strong sell) and any improvement in consensus analyst rating indicates that the analysts are getting more bullish on the stock. To make sure that we pick only companies with decent analyst coverage, this search is restricted to stocks that are covered by at least 10 analysts. You can see similar consensus analyst rating changes during the past week in the ETW 50 table.

—Narendra Nathan

## Analysts' views



buy, 3 for hold, 2 for sell and 1 for strong sell) and any improvement in consensus analyst rating indicates that the analysts are getting more bullish on the stock. To make sure that we pick only companies with decent analyst coverage, this search is restricted to stocks that are covered by at least 10 analysts. You can see similar consensus analyst rating changes during the past week in the ETW 50 table.

## Fundamentals

	ACTUAL		CONSENSUS ESTIMATE	
	2016	2017	2018	2019
Net revenue (₹ cr)	8,509.4	8,961.4	10,626.3	12,212.3
EBITDA (₹ cr)	745.6	769.6	949.1	1,158.1
Net profit (₹ cr)	356.5	424.6	557.1	704.2
EPS (₹)	16.8	20.0	26.4	33.3

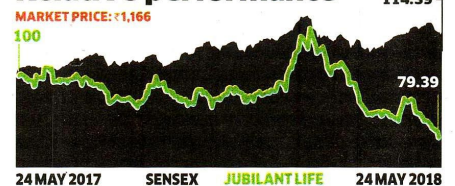
## Valuation

	PBV	PE	DIVIDEND YIELD (%)
ABB India	6.86	57.19	0.34
Siemens	4.77	30.63	3.25
Bharat Heavy Electricals	0.85	48.60	1.41
Cummins India	5.14	28.20	1.95
Larsen & Toubro	3.70	23.91	1.04

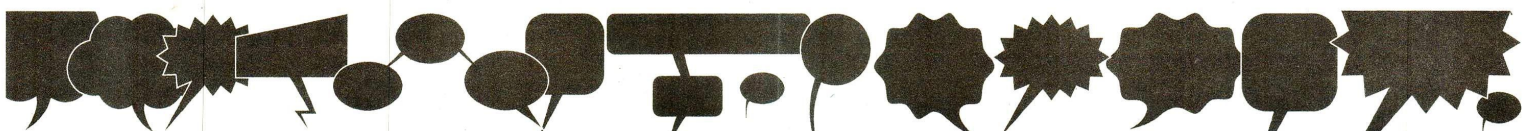
## Latest brokerage calls

RECO DATE	RESEARCH HOUSE	ADVICE	TARGET PRICE (₹)
17 May '18	J.P. Morgan	Overweight	1,470
10 May '18	Reliance Securities	Buy	1,678
9 May '18	Jefferies	Buy	2,050
9 May '18	Axis Capital	Buy	1,910
9 May '18	Edelweiss Capital	Buy	1,850

## Relative performance



PERFORMANCE OF JUBILANT LIFE COMPARED WITH THE SENSEX. STOCK PRICES AND INDEX VALUE NORMALISED TO A BASE OF 100. SOURCE: ETG DATABASE & BLOOMBERG



## WHAT EXPERTS ADVISE

### BUY

STOCK	RESEARCH HOUSE	ADVICE	MARKET PRICE* (₹)	1-YEAR TARGET PRICE (₹)	POTENTIAL UPSIDE (%)	COMMENT
Mahanagar Gas	HDFC securities	Buy	790	1,259	59	Upgrade to 'buy'. CNG prices are at 39% and 45% discount to diesel and petrol respectively. This should provide Mahanagar Gas the pricing power to maintain its margins at ₹7/scm till 2019-20.
Symphony	Edelweiss Research	Buy	1,439	1,915	33	Upgrade to 'buy'. Symphony is in a sweet spot due to its capacity to innovate, its asset-light business model and focus on enhancing its international presence through acquisitions.
Tata Motors	Prabhudas Lilladher	Buy	289	378	31	Upgrade to 'buy'. Though Tata Motors' fourth quarter performance was below expectations, valuations are attractive and management guidance is buoyant.
DLF	Axis Capital	Buy	196	253	29	Maintain 'buy'. With completion of inventory and sales restarting, volumes are expected to improve. With debt concerns allayed, DLF has also advanced plans for new launches.

### SELL

STOCK	RESEARCH HOUSE	ADVICE	MARKET PRICE* (₹)	1-YEAR TARGET PRICE (₹)	POTENTIAL DOWNSIDE (%)	COMMENT
Cummins India	Ambit Capital	Sell	718	554	-23	Reiterate 'sell'. It faces market-share loss, structural decline in gross margin due to deceleration in distribution revenue and there's risk of replacement of gensets by storage-led solar rooftop.
Astral Poly Technik	IDBI Capital	Reduce	961	842	-12	Downgrade to 'reduce'. Though Astral Poly Technik's fourth quarter numbers beat the estimates, downgraded to reduce due to rich valuations.
Petronet LNG	JP Morgan	Underweight	211	192	-9	Retains 'underweight'. Best of volume growth is behind Petronet. It may report a volume CAGR of just 2% between 2017-18 and 2021-22 due to higher competition.

\*MARKET PRICE AS ON 24 MAY