

Initiating Coverage

ABB Power Products and Systems India Ltd.

21-May-2021



ABB Power Products and Systems

Industry	LTP	Recommendation	Fair Value	Bull Case Value	Time Horizon
Capital Goods	Rs. 1711	Buy at LTP and add on further dip on Rs. 1537	Rs. 1883	Rs. 2075	4 quarters

HDFC Scrip Code	APPSIL
BSE Code	543187
NSE Code	POWERINDIA
Bloomberg	POWERIND IN
CMP April 30, 2021	1711.0
Equity Capital (Rs cr)	8.5
Face Value (Rs)	2
Equity Share O/S (cr)	4.8
Market Cap (Rs cr)	7,271.0
Book Value (Rs)	933
Avg. 52 Wk Volumes	
52 Week High	1860.0
52 Week Low	789.1

Share holding Pattern % (Mar, 2021)	
Promoters	75.00
Institutions	20.28
Non Institutions	6.53
Total	100.0

Fundamental Research Analyst

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Our take

ABB Power Products and System India Ltd (APPSIL) was incorporated in the first quarter of CY19 after its demerger from ABB India. It is the Indian arm of Hitachi ABB Power Grid, a global leader in power solutions and provider of grid portfolios. APPSIL is betting big on India's energy transition. Its revenue is expected to expand through (1) grid automation and modernisation, (2) electrification in rail, (3) expansion in metro projects, (4) rise of e-mobility, and (5) hypergrowth in data centers. It is aiming to achieve higher sales growth from export markets and leveraging the presence of the parent.

Valuation and recommendation

We estimate robust revenue growth of 14% CAGR over CY20-CY23E, driven by (1) a healthy order book of Rs. 48.0bn, (2) leveraging the parent's presence at various global locations for boosting exports, (3) a good order inflow from rail and metro projects, (4) market share gain through their preferred supplier, and (5) growth in data centers. A robust EBITDA and PAT growth of 24% and 41.5% CAGR over CY20-CY23E is expected based on its local product portfolio and margin expansion led by a favorable operational mix. The balance sheet remains debt-free with efficient use of working capital.

Future energy solutions, electrification of rail, urban transport - metro rails, rising digitalisation and penetration of internet on the back of higher usage of social media, OTTs, IoT products that lead to need for massive data centers, rise of electric mobility and subsequent need for grid modernisation and use of smart grid – all these factors provide a sustainable business opportunity for APPSIL. We believe that it would capture this opportunity, drive order inflows, and its estimated revenue would grow at a CAGR of 14% during CY20-CY23E.

We believe APPSIL has a robust business model, healthy order book, and fresh order inflows on account of government spending on infrastructure, stable and efficient use of working capital, healthy return ratios, and superior quality of management. APPSIL's parent Hitachi has a legacy of innovation globally and can play a significant role in introducing innovative product lines that would give excellent technological and competitive advantage over peers.

We expect revenue/EBITDA/PAT to grow at CAGRs 14%/~24%/41.5% over CY20-CY23E on account of grid automation and modernisation, rise of e-mobility, electrification of rail, smart cities, and local data centers. The company is currently trading at EV/EBITDA multiple of 28x/22.5x/18x CY21E/CY22E/CY23E respectively.

APPSIL is currently trading at an attractive valuation of 22.2x EPS of CY23E. With improved return ratios, a top market position vis-à-vis peers, and preferred supplier status, APPSIL deserves a premium valuation. We recommend investors to buy the stock at CMP and add on declines around Rs. 1,537 for a target price of Rs. 1883, which implies forward PE 24.5x EPS of CY23E. Our Bull case target price of Rs. 2075, attributed upside of 21.6%.

Financial Summary

Particulars (Rs in cr)	CY20	CY21E	CY22E	CY23E
Revenue	3,348	3,749	4,312	4,959
Growth (%)	5.0%	12.0%	15.0%	15.0%
EBITDA (In Rs. Cr)	251	312	389	478
EBITDA Margin (%)	7.5%	8.3%	9.0%	9.6%
PAT (In Rs. Cr)	100	175	224	283
Growth (%)	-39.7%	75.5%	27.8%	26.3%
EPS (In Rs.)	23.5	41.3	52.8	66.7
Growth (%)	-47.3%	75.5%	27.8%	26.3%
RoE	11.3%	17.5%	19.1%	20.3%
RoCE	17.9%	20.3%	22.2%	23.3%

Having a Japanese parent, the company will get a preference as a supplier if JICA/JIBC funds the project.

Robust and sustainable order book in Q1CY21; second wave of COVID impacts business operations

APPSIL clocked revenue of Rs. 1,015 crore, a decline of ~3% QoQ and growth of 25.3% YoY. The company's order inflow grew 2.8% QoQ to Rs. 848.9 crore. The single-digit growth in the order book and decline in revenue on QoQ basis are mainly due to the second wave of COVID-19 that has impacted several businesses; disruptions across the value chain remain key risk for the coming quarter. EBITDA declined by ~25% compared to the previous quarter due to a surge of 43% in subcontracting charges. The company's operating margin has contracted by 212 bps to 7.3% on higher operating and other expenses. The company is still using ABB's IT infrastructure, and it is in a transition phase to build its own IT infrastructure, which can take at least three years. Thus, we can see higher other expenses on the IT side as it is implementing its ERP system. According to management, in this quarter, it paid higher freight cost which impacted the margin. However, going forward, the company aims to achieve a double-digit margin as it leverages parent Hitachi's expertise and presence to

boost exports growth. The company is currently trying to achieve export revenue contribution of 25% (from 18% of total sales). Adjusted profit grew by ~55%/44% on QoQ/YoY basis to Rs. 39.4 crore. In Q4CY20, the reported profit was higher as it included the exceptional gain of Rs. 32.41 crore from a reversed provision. The company remains debt-free at the close of Q1CY21. The order backlog in Q1 is Rs. 4,777.7 crores.

Key order wins

- Rs. 117 crore 400kV GIS substation order from BALCO
- Rs. 160 crore order from rail customers including Chittaranjan Locomotive and CORE
- Rs. 76 crore order for transformer Palkadul Hydra Project
- Rs. 57 crore order from BMRCL expansion
- Rs. 33 crore transformer for Nepal Electricity Authority
- Rs. 18 crore order to power new age datacenter

Particulars (Rs in cr)	Q1CY21	Q4CY20	QoQ (%)	Q1CY20	YoY (%)
Revenue	1,015.5	1,043.6	(2.7)	810.6	25.3
Cost of goods sold	505.7	542.2	(6.7)	354.6	42.6
Gross Profit	509.8	501.4	1.7	456.0	11.8
Subcontracting Charges	94.8	66.1	43.4	101.6	(6.6)
Employee Expenses	97.3	92.2	5.5	98.0	(0.7)
Other Expenses	243.9	245.2	(0.5)	191.1	27.6
EBITDA	73.7	97.9	(24.7)	65.4	12.8
Depreciation/Amortisation	20.2	20.0	1.1	18.8	7.1
EBIT	53.6	78.0	(31.3)	46.5	15.1
Finance Cost	8.1	5.6	44.1	5.4	50.0
Other Income	8.2	0.1	7,390.9	0.3	2,323.5
PBT	53.7	72.5	(25.8)	41.5	29.5
Tax Expenses	14.3	20.6	(30.6)	10.5	36.2
Reported PAT	39.4	55.0	(28.2)	29.2	35.2
Adj. PAT*	39.4	25.5	54.8	27.4	44.1

EPS	9.31	12.97	(28.2)	6.88	35.3
Adj. EPS	9.31	6.02	54.8	6.46	44.1
Gross Profit Margin (%)	50.2%	48.0%	215 bps	56.3%	-606 bps
EBITDA Margin (%)	7.3%	9.4%	-212 bps	8.1%	-80 bps
EBIT Margin (%)	5.3%	7.5%	-219 bps	5.7%	-46 bps
Adj. PAT Margin (%)	3.9%	2.4%	144 bps	3.4%	51 bps

Source: Company, HDFC Research; Data in Rs crore *Adjusted PAT = Reported PAT + Exceptional Gains/Loss (Reverse provision and Demerger Expenses)

APPSIL addresses the future of sustainable energy solution

The GoI has set a target of 450 GW of energy by 2030 through grid automation and modernisation, where the company can play a significant role. In India, ~50% of all HVDC links are commissioned by APPSIL. Once the situation is normalised, the company sees many opportunities due to India's focus on "Make in India" and strengthening local ecosystems. These include industries like power transmission, rail, metro, e-mobility renewal integration, and data centers. APPSIL is betting big on the transition of energy and foresees substantial investment opportunities.

Electrification in railways may lead higher-order inflow for APPSIL

An ambitious target of electrification set by Indian railways could benefit APPSIL as its range of transformers is an ideal product portfolio for railway electrification. Indian railways is marching towards its target of 100% electrification of the entire railway network by 2023 to reduce its operating cost, dependency on diesel, and carbon footprint. Indian railways has logged the highest-ever route electrification despite unforeseen challenges of the COVID-19 pandemic, registering a 37% YoY growth. According to the railways, electrification of 6,015 route kilometer (RKM) has been carried out in the financial year 2020-21, surpassing the previous highest electrification of 5,276 RKM in 2018-19. Out of Indian railways' broad-gauge network of 64,689 RKM, a length of 45,881 RKM (71%), was electrified by 31 March 2021. Presently, 57% of passengers and 65% of freight traffic are carried on electric traction. Railways have already set a target of 6,000 RKM for FY22.

APPSIL is the preferred partner for Power Grid Corporation of India (PGCIL), bringing higher-order inflow for railway electrification projects. The complete electrification of the rail route would require an electric locomotive; thus, Indian railways has decided to replace the 2,700 diesel locomotives with electric locomotives in the next five years. For electric locomotive, the manufacturer has to procure traction motors,

and APPSIL is already a major supplier of these kinds of systems worldwide. We believe that APPSIL would get the sustainable business over the next 3-5 years as Indian railways move to procure electric locomotives.

Exhibit 1: Rail Route Kilometer Electrification

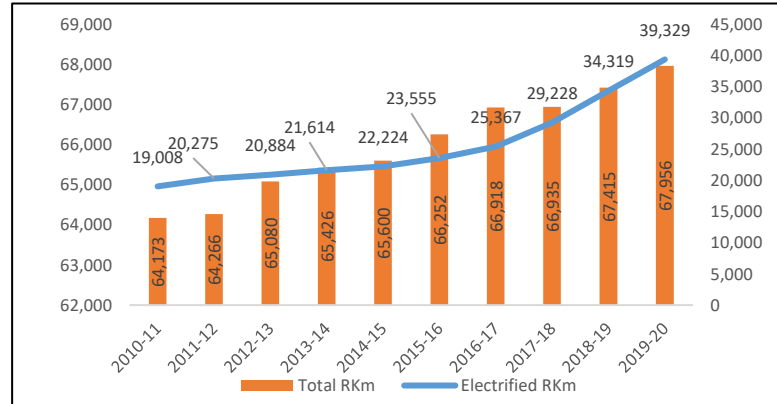


Exhibit 2: Diesel Engines Electrification Plan Out

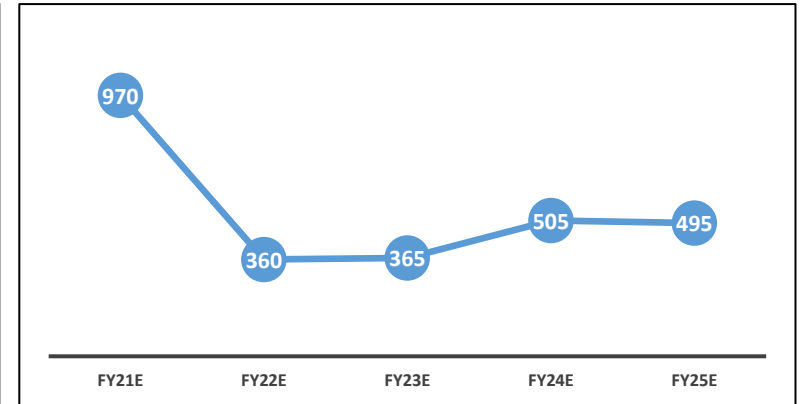


Exhibit 3: Electrified corridors completed by the wiring of missing links in 2020-21

Mumbai – Howrah via Jabalpur	2 159
Delhi – Darbhanga – Jaynagar	1 279
Mumbai – Bareilly	1 470
Gorakhpur – Varanasi via Aunrihar	231
Jabalpur – Howrah	1 151
Jabalpur – Nainpur – Gondia – Ballarshah	488
Chennai – Trichy	401
Mumbai – Kurudwadi – Mohol	425
Indore – Guna – Gwalior – Amritsar	1 344
Delhi – Jaipur – Udaipur	741

New Delhi – Sri Rampur via Patna and Katihar	1 635
Ajmer – Howrah	2 013
Mumbai – Marwar	831
Howrah – Sri Rampur via New Farakka	744
Delhi – Moradabad – Tanakpur	395
Total km	15 307

Source: Indian Railways, HDFC Research; Data in km

Metro network expansion offers business opportunities

In India, rapid urbanisation in metro cities and other top cities has led to serious traffic problems and pollution. Over the next five years, metro rail of more than 1,500 km is likely to get commissioned at an estimated capex of Rs. 3 trillion. The ministry of housing & urban affairs has already approved a policy to commission eco-friendly metro rail in cities with more than one million. It will help reduce pollution and make commuting in cities easier. APPSIL has provided electrification and power solutions to all operational metros in the country. It offers an opportunity to become a preferred choice of partner for future projects. In the past, the company had received the order for Supervisory Control and Data Acquisition (SCADA) solution, dry type distribution transformer, and traction transformers for various metro projects across the country. All products of Hitachi ABB Power for metro projects are produced in India and suitable for local conditions. The rise of rapid mass transport systems would lead to the demand for dry type of transformers. Under construction and proposed metro rail network provides sustainable business opportunity and higher-order inflow over the next five years.

Exhibit 4: Operational & Under Construction Metro Projects In India

City & state	Operational network	Under construction new routes	Approved new routes	Proposed new routes	Operator
Agra Metro, Uttar Pradesh	0 km	4 km	25.4 km	0 km	UPMRCL
Ahmedabad Metro, Gujarat	6 km	39.74 km	21.776 km	0 km	GMRC
Bangalore Metro, Karnataka	48.1 km	68.13 km	56.24 km	105.55 km	BMRCL
Bhopal Metro, Madhya Pradesh	0 km	6.22 km	21.65 km	77.13 km	MPMRCL
Chennai Metro, Tamil Nadu	54.1 km	0 km	118.90 km	15.30 km	CMRL
Delhi Metro, Delhi-NCR	347 km	43.46 km	24.99 km	57.3 km	DMRC
Gurgaon Rapid Metro, Haryana	12.1 km	0 km	0 km	200 km	RMRG (now DMRC)

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Hyderabad Metro, Telangana	67 km	0 km	0 km	58 km	HMRL
Indore Metro, Madhya Pradesh	0 km	5.29 km	26.24 km	57.18 km	MPMRCL
Jaipur Metro, Rajasthan	11.98 km	0 km	0 km	26.36 km	JMRC
Kanpur Metro, Uttar Pradesh	0 km	8.73 km	23.66 km	0 km	UPMRCL
Kochi Metro, Kerala	25 km	2.94 km	12.36 km	0 km	KMRL
Kolkata Metro, West Bengal	39.25 km	56.32 km	28.2 km	15.7 km	Metro Railway & KMRC
Lucknow Metro, Uttar Pradesh	22.90 km	0 km	0 km	85 km	UPMRCL
Meerut Metro, Uttar Pradesh	0 km	3 km	17 km	15 km	NCRTC, UPMRC
Mumbai Metro, Maharashtra	11.40 km	169 km	21.29 km	136.40 km	MMOPL, MMRC & MMMOCL
Nagpur Metro, Maharashtra	22.90 km	18.80 km	48.30 km	0 km	Maha-Metro
Navi Mumbai Metro, Maharashtra	0 km	11.10 km	0 km	95.30 km	CIDCO
Noida Metro, Uttar Pradesh	29.70 km	0 km	14.95 km	70 km	NMRC
Patna Metro, Bihar	0 km	6.107 km	24.803 km	0 km	PMRC
Pune Metro, Maharashtra	0 km	58.58 km	4.41 km	26.46 km	Maha-Metro & Pune IT City Metro Rail Ltd.

Source: themetrorailguy.com, HDFC Research

Exhibit 5: Approved Metro, Metrolite & Metro Neo Projects in India

City & state	Network length	Approval date	Total cost	Operator
Gorakhpur Metrolite Uttar Pradesh	27.41 km	Oct-20	Rs. 4,672 crore	UPMRC
Kozhikode Metrolite, Kerala	13.13 km	Feb-21	Rs. 4,673 crore	KRTL
Nashik Metro Neo, Maharashtra	32 km	Aug-19	Rs. 2100	Maha-Metro
Surat Metro, Gujarat	40.35 km	Mar-19	Rs. 12,020.32 crore	GMRC
Trivandrum Metro, Kerala	21.82 km	Feb-21	Rs. 2,773 crore	KRTL

Source: themetrorailguy.com, HDFC Research

Exhibit 6: Proposed Metro / Metrolite / Metro Neo Projects in India

City & state	Proposed network length
Delhi Metrolite, Delhi	40.88 km
Bangalore Metrolite, Karnataka	60 km
Chennai Metrolite, Tamil Nadu	15.50 km
Coimbatore Metro, Tamil Nadu	136 km
Guwahati Metro, Assam	61.40 km
Jammu Metro, J&K UT	43.50 km
Prayagraj Metro, Uttar Pradesh	42 km
Raipur Metro, Chhattisgarh	Unknown
Srinagar Metro, J&K UT	25 km
Uttarakhand Metro, Uttarakhand	58 km
Varanasi Metro, Uttar Pradesh	29.235 km
Vijayawada Metro, Andhra Pradesh	66.2 km
Visakhapatnam Metro, Andhra Pradesh	79.91 km
Warangal Metro Neo, Telangana	17 km

Source: themetrorailguy.com, HDFC Research

Digital Transformation in India leads demand for data centres; APPSIL derives the benefits from growing markets

Digital transformation is led by (1) penetration of e-commerce and social media, (2) OTT Platforms, (3) 4G/5G telecom revolution, and (4) IoT devices.

Expected data localisation norms, where India needs to increase its data storage capacity (Data Centers) exponentially, are an added advantage for APPSIL. The Indian Data Center industry is at the cusp of hyper-growth and can grow by 15x over the next decade. APPSIL has the unique ability to design, supply, and install the entire system from grid substations to the circuit breakers at the server, utilising the system and products. APPSIL's latest smart substations are helping reduce carbon and real-estate footprints with the growing demand of data centers by using innovative modular components while reducing the 50% quantity of copper cables. To mitigate global warming, APPSIL has introduced eco-efficient switchgear with new AirPlus, a ground breaking gas mixture with 99.99% lower global warming potential than

SF6. For the rapidly growing data centre industry, APPSIL has introduced a purpose-built substation. The new smart substation is 30% smaller than traditional substations and uses fewer copper cables, thereby reducing the site construction time, installation costs, and risk.

A rise of smart grids through modernisation and automation

The power grid is set to change significantly in the next 5-10 years, driven by an increase in demand for electricity with improvements in technology contributing to energy efficiency. A rise of electric vehicles (EVs) like cars, buses, trucks, and scooters will increase demand for a resilient and efficient grid. It requires modernisation and automation of the grid throughout the digitalised products. GoI has launched National Smart Grid Mission (NSGM) to take this initiative forward on a fast-track basis. Under this program, GoI will launch various projects in conjunction with other ongoing programs/projects of central and state governments to build phase-wise smart grids.

Exhibit 7: Smart Grid Projects

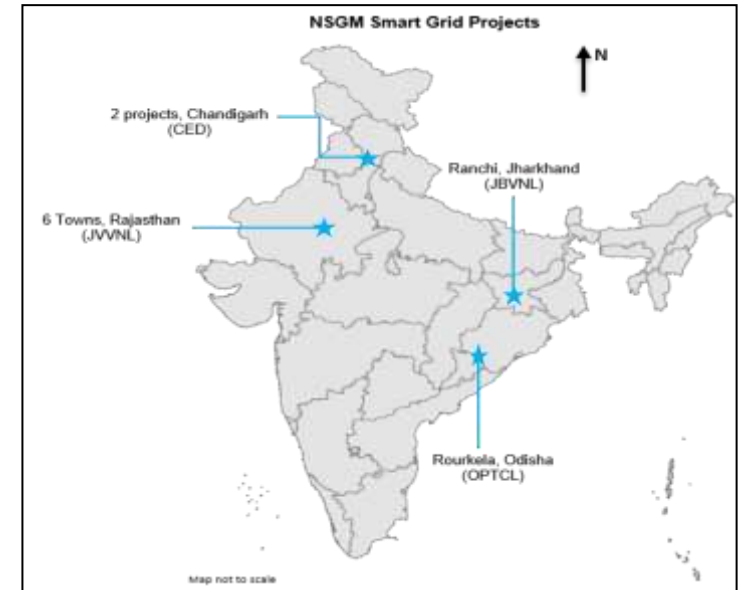
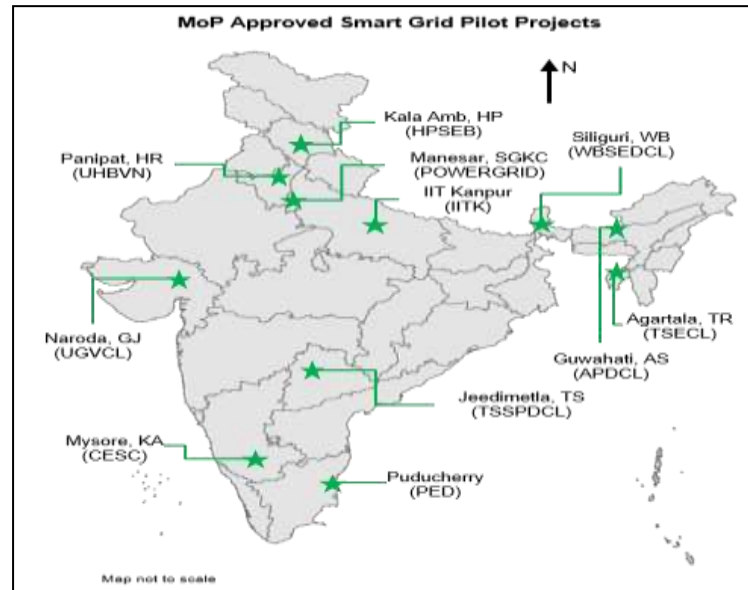


Exhibit 8: Status of Smart Grid Projects

<p>1. CED, Chandigarh (Sub DIV-5)</p> <ul style="list-style-type: none"> Till date 5,934 single phase smart meters, 61 LTCT meters installed. Bay Control Protection Units and transformer differential relays installed on 44 motorized feeders. Functionalities – AMI, DTMU, SCADA. Consumers – 29,433. Area – Sub Division 5 of Chandigarh. SGIA – M/s Analogics, M/s Synergy. PMA – M/s RECPDCL. Approved Project Cost: ₹28.58 Cr. Gol Support: ₹8.57 Cr. Released: ₹7.7124 Cr. <p>2. JVVNL, Rajasthan (6 Towns)</p> <ul style="list-style-type: none"> Till date 13,301 smart meters installed. Balance meter installation in progress Functionalities – AMI. Consumers – 1.5 lakh. Areas – Baran, Bharatpur, Bundi, Dholpur, Jhalawar, Karauli Approved Project Cost: ₹87.43 Cr. Gol Support: ₹26.23 Cr. Released: ₹2.61 Cr. 	<p>1. IIT Kanpur Smart City Pilot</p> <ul style="list-style-type: none"> Project completed. Area – Smart City Pilot in IITK Campus. Project Cost: ₹11,394 Cr. Gol Support: ₹5,697 Cr. <p>2. CESC, Mysore</p> <ul style="list-style-type: none"> Project completed. Functionalities – AMI, OMS, PLM, MG/DG. Consumers – 21,824. Area – V V Mohalla, Mysore. SGIA – M/s Enzen. Project Cost: ₹32.55 Cr. Gol Support: ₹16.28 Cr. <p>3. UHBVN, Haryana</p> <ul style="list-style-type: none"> Project completed. Functionalities – AMI, PLM, OMS. Consumers – 10,158. Area – Panipat City Sub Division. Project implemented under grant from NEDO (Japan). 	<p>7. PED, Puducherry</p> <ul style="list-style-type: none"> Project completed. Functionalities – AMI. Consumers – 33,499. Area – Division 1 of Puducherry. SGIA – M/s DFE China. Project Cost: ₹35.43 Cr. Gol Support: ₹17.72 Cr. <p>8. WBSECL, West Bengal</p> <ul style="list-style-type: none"> Project completed. Functionalities – AMI, PLM. Consumers – 5,265. Area – Siliguri Town. SGIA – M/s Chemtrols. Project Cost: ₹6.955 Cr. Gol Support: ₹3.48 Cr.
<p>3. CED, Chandigarh (Complete City Excl. SD-5)</p> <ul style="list-style-type: none"> The tender evaluation for appointment of Project Design and Management Agency put under hold by Chandigarh administration. Functionalities – AMI, SCADA, DTMU, ERP. Consumers – 1.84 lakh. Area – Complete Chandigarh City (excl. SD5). Approved Project Cost: ₹241.49 Cr. Gol Support: ₹72.45 Cr. Released: ₹7.25 Cr. 	<p>4. Smart Grid Knowledge Center, Manesar</p> <ul style="list-style-type: none"> Project completed. Functionalities: AMI, OMS, MG/DG, EVCL, HEMS, Cyber Security & Training Infra. Area – POWERGRID Complex, Manesar. SGIA – M/s Genus. Project Cost: ₹5.96 Cr. Gol Support: ₹5.96 Cr. 	<p>9. APOCL, Assam</p> <ul style="list-style-type: none"> Project completed. Final claim being processed at MoP. Functionalities – AMI, PLM. Consumers – 14,519. Area – Guwahati Division. SGIA – M/s Fluentgrid. Project Cost: ₹20.92 Cr. Gol Support: ₹10.45 Cr. Released: ₹8.368 Cr.
<p>4. OPTCL, Odisha (Rourkela)</p> <ul style="list-style-type: none"> Bid opening rescheduled to 6th May 2021. Functionalities – AMI, DTMU. Consumers – 0.87 lakh. Area – Rourkela City. Approved Project Cost: ₹96.97 Cr. Gol Support: ₹29.09 Cr. Released: ₹2.91 Cr. 	<p>5. HPSEB, Himachal Pradesh</p> <ul style="list-style-type: none"> Project completed. Functionalities – AMI, OMS, PLM. Consumers – 1,335. Area – Kala Amb Industrial Area. SGIA – M/s GE T&D. Project Cost: ₹19.45 Cr. Gol Support: ₹9.73 Cr. 	<p>10. TSECL, Tripura</p> <ul style="list-style-type: none"> Project declared go-live on 30.06.2019. Final claim to be submitted. Functionalities – AMI, PLM. Consumers – 45,290. Area – Electrical Division No.1, Agartala. SGIA – M/s Wipro. Project Cost: ₹63.43 Cr. Gol Support: ₹31.72 Cr. Released: ₹25.373 Cr.
<p>5. JBVNL, Jharkhand (Ranchi)</p> <ul style="list-style-type: none"> JBVNL submitted revised DPR. Functionalities – AMI, DTMU. Consumers – 3.6 lakh. Area – Ranchi City. Approved Project Cost: ₹228.69 Cr. Gol Support: ₹68.61 Cr. 	<p>6. UGWCL, Gujarat</p> <ul style="list-style-type: none"> Project completed. Functionalities – AMI, OMS, PLM, PQ. Consumers – 22,230. Area – Naroda. SGIA – M/s Genus. Project Cost: ₹23.18 Cr. Gol Support: ₹11.59 Cr. 	<p>11. TSSPDCL, Telangana</p> <ul style="list-style-type: none"> Project declared go-live on 30.03.2019. Final claim to be submitted. Functionalities – AMI, PLM, OMS, PQ. Consumers – 11,206. Area – Jeedimetla Industrial Area. SGIA – M/s ECL. Project Cost: ₹34.93 Cr. Gol Support: ₹17.47 Cr. Released: ₹13.981 Cr.

Source: Ministry of Power, HDFC Research

Hitachi's IoT business has a turnover of ~ USD 20bn globally. The company has massive analytics and data capabilities to help customers across various industries. Considering Hitachi's large installed base globally, APPSIL has a potential to achieve multifold growth in its services business by offering a cost efficient option.

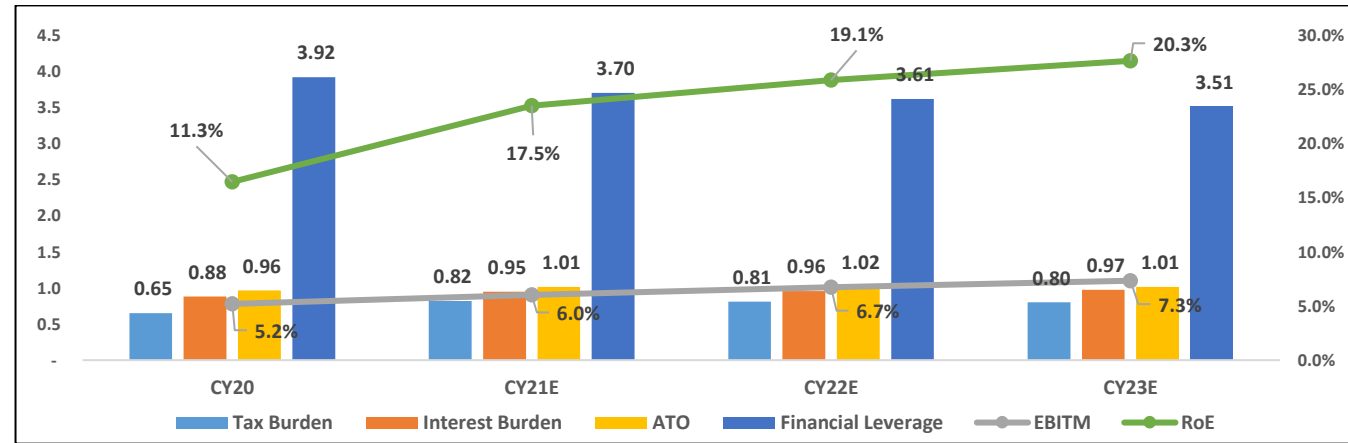
Electric mobility ecosystem may provide immense opportunity

The rise of EVs and high degree of adoption of electric mobility may require change and modernisation of infrastructure such as ports and roadways. The adoption of EVs can address pollution as well. For electric mobility infrastructure, India has not only relied on coal and gas-based power plants, but it has also increased the penetration of renewable energy like solar and wind.. Approximately 2 million buses on Indian roads emit carbon dioxide (CO2) on an average of 100 tonnes per year. APPSIL has already captured this opportunity and set up pilot

projects with industry and academic institutions to increase the ecosystem for efficient and greener electric mobility (electric bus). Electric mobility will depend on the automobile industry, but it requires significant support from the power and technology side to create a robust infrastructure that can reduce the stress of charging EVs for the people. FAME-II (Faster Adoption and Manufacturing of Hybrid and Electric vehicles) with a planned outlay of Rs100bn (FY20: Rs15bn, FY21E: Rs50bn, and FY22E: Rs35bn) is expected to provide traction; in addition to direct subsidies, the policy has envisaged setting up public charging infrastructure with 2,700 charging stations in metros (cities with million-plus population and highways). APPSIL's TOSHA, a flash charging system, quickly tops up the battery while passengers get on and off the bus. The rise and adoption of e-mobility space may require infrastructure in the form of grid upgradation, charging stations, and technology to provide business opportunities and drive the order inflow for APPSIL.

Superior earnings growth profile and robust FCF generation

APPSIL has a dominant market share and market position, and we believe that the company is well placed to take advantage of evolving trends in the industry. We expect overall revenue to grow at a 14% CAGR over CY20-23E, primarily driven by higher-order inflow and addressing of the future energy solutions. We expect EBITDA to grow faster at a ~24% CAGR over CY20-23E, driven by margin expansion. We estimate PAT to grow at a 41% CAGR over CY20-23E.



(Source: Company, HDFC sec.)

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Earnings to remain strong. We expect APPSIL to deliver healthy operating earnings growth at a ~28% CAGR over CY20-23E, mainly driven by healthy order inflow, robust revenue growth, and decline in operational costs as 80% of the company's product portfolio is manufactured in India.

Exhibit 9: Earnings Growth Remains Robust

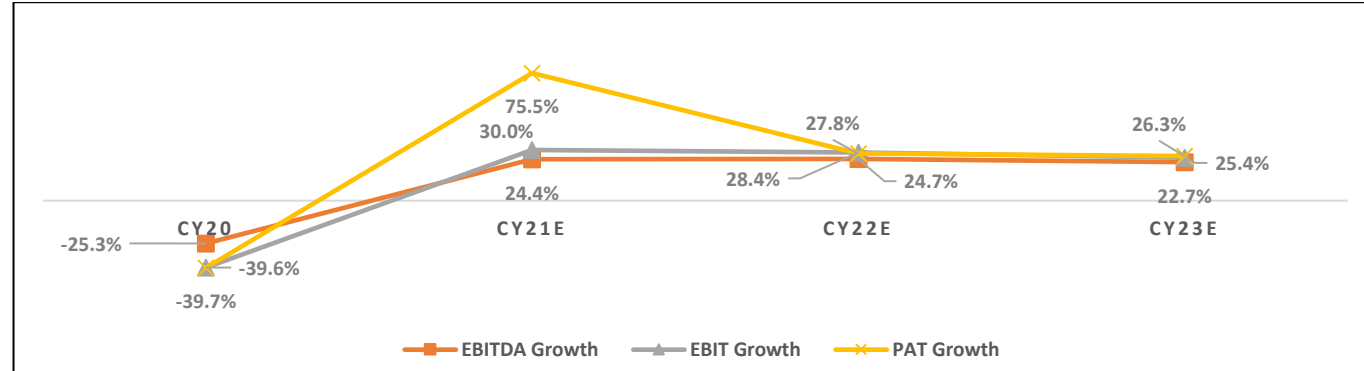
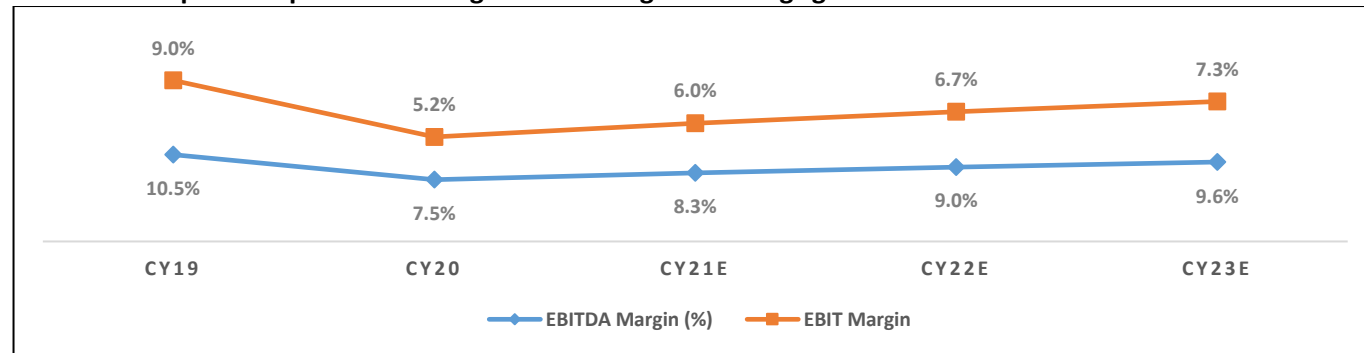


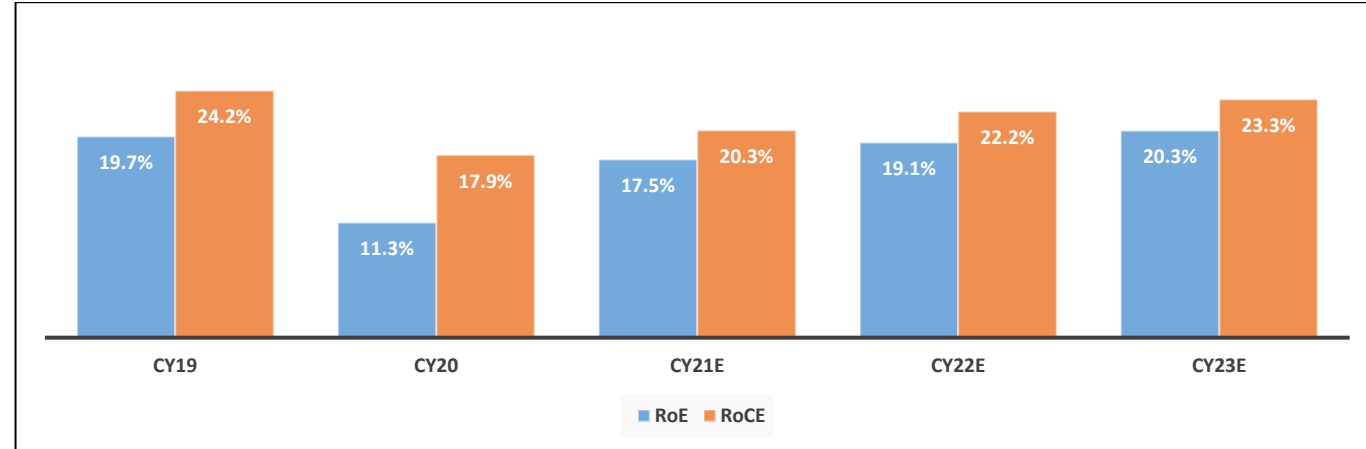
Exhibit 10: Improved operational margin leads to higher earnings growth



(Source: Company, HDFC sec.)

Return ratios to improve. APPSIL's return ratios were lower in CY20 due to demerger expenses, and higher operational costs weighed on profitability. However, we expect overall profitability to improve on the back of higher earnings and revenue growth, which would enhance the company's return ratio. In our forecasts, RoE improves from 11.3% in CY20 to an average RoE of 19% over CY21E-23E.

Exhibit 11: Improved return ratio on the back of higher profitability



(Source: Company, HDFC sec.)

Working capital. We expect the company to maintain steady and stable working capital requirements ahead.

What could go wrong?

A slowdown in capex on infrastructure and utilities

A capex or spending slowdown in infrastructure and utilities can delay order inflows from railways, metro, and smart cities projects, which would impact the order book and revenue.

Increase in royalty and raw material prices

Presently, royalty outgo is 4.3% of sales. Any further increase in royalty fees may put pressure on operating margin and earnings growth. Increase in raw material prices would impact gross profit profitability margins.

Delay in project execution and in getting new large orders

The company may face cost increases due to increase in execution time than expected timeline in large projects, which may lead to margin pressure. Moreover, any delay in getting new orders from large projects will impact the growth of the company.

Forex Fluctuations

Approximately 15% of the company's revenue comes from export markets as the company supplies to various countries across the world. In the next 3-4 years, the company plans to increase export share to 25%. Due to exposure of foreign currencies, the company is exposed to forex risk. Any adverse movement in the foreign currencies will impact the company's financials.

Company profile:

Hitachi ABB Power Products' Indian arm APPSIL is a global technology leader with a combined heritage of almost 250 years, employing around 36,000 people in 90 countries. Headquartered in Switzerland, the business serves utility, industry, and infrastructure customers across the value chain and emerging areas like e-mobility, smart cities, energy storage, and data centers. With a proven track record, global footprint, and unparalleled installed base, Hitachi ABB Power Grids balance social, environmental, and economic values. It is committed to powering well for a sustainable energy future, with pioneering and digital technologies, as the partner of choice for enabling a more robust, smarter, and greener grid.

APPSIL - post its demerger from ABB India Ltd. - was incorporated in Feb 2019. In December 2018, ABB Ltd announced the divestment of its global power grids business unit into a JV, where Hitachi would be the majority shareholder with 80.1%. APPSIL has 16 manufacturing facilities at five locations, with 17 sales offices, 2,200+ employees and a 1,000+ client base.

ABB Power Product and System India Ltd (APPSIL) is a well-known and established global player in various utilities and industries, including companies operating in industries like railways, oil & gas, IT, and electric power companies. APPSIL operates in four segments:

Grid automation: Hitachi Power Grids provide a protection control and remote monitoring control system to realise grid network stabilisation, and management system for supply and demand of electricity market for trading.

Grid integration: Provides grid integration portfolio that spans a wide range of transmission and substation applications, facilitating reliable and efficient system integration of the future digital electric network with minimum environmental impact. It incorporates the integrated systems, solutions, and services of its business' DC and AC fields, including HVDC, substations, FACTS, Offshore Wind Connections, Semiconductors, and Power Consulting, for utility and industrial grid applications as well as e-transportation solutions.

High voltage products: Offering a wide range of high-voltage products up to 1,200-kilovolt (kV) and help to amend the safety, reliability, and efficiency of power networks while minimising the environmental impact. The company's technology leadership continues to facilitate innovations in areas such as ultra-high-voltage power transmission, enabling smart grids and enhancing eco-efficiency.

Transformers: Through its innovative and diverse transformers' team and pioneering technology, it provides power, distribution, and transaction transformers for railways.

Exhibit 12: More than 60 years of experience in India

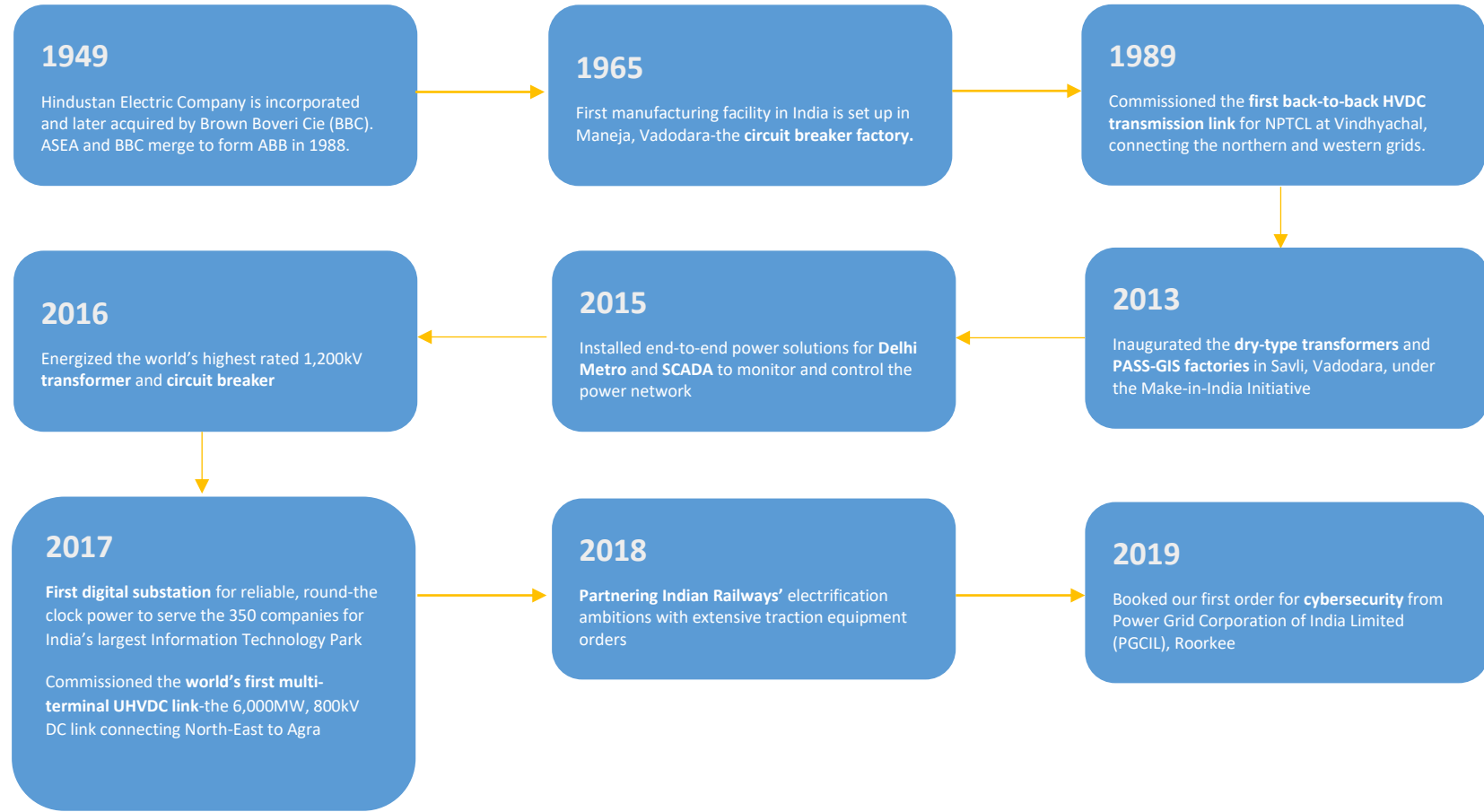


Exhibit 13: Product Portfolio

Grid Automation

Products, Systems, Services

- Communication Networks
- Enterprise Software
- Grid Edge Solutions
- Grid Automation Products
- Grid Automation Systems
- Asset Management Solutions
- Energy Portfolio Management
- Workforce Management Solutions

Grid Integration

Products, Systems, Services

- System Integration
- HVDC – Grid Interconnectors
- Power Consulting
- FACTS & Power Quality
- E-Bus Charging Systems (TOSA)
- Substation and Services – Digital Substations
- Hybrid and mobile solutions

High Voltage Products

Products, Systems, Services

- Live Tank Breakers
- HV instrument Transformers
- Capacitor & Filters
- Disconnectors
- GIS
- Hybrid switchgear - PASS

Transformer

Products, Systems, Services

- Power Transformer
- Reactors
- Traction Transformers
- Dry Transformer
- I&C (Insulation & Bushings)
- Service

ABB Power Products and Systems

Financials (Consolidated)

P&L (Rs in crore)	CY20	CY21E	CY22E	CY23E
Revenue	3,348	3,749	4,312	4,959
Other Operating	73	87	105	126
Total Revenue	3,420	3,837	4,417	5,084
Cost of Goods Sold	1,761	1,968	2,259	2,588
Subcontracting Charges	267	300	323	372
Employee Expenses	369	405	461	526
Royalty	144	161	185	213
Other Expenses	629	690	776	883
EBITDA	251	312	411	502
Depreciation & Amortisation	77	76	79	82
EBIT	174	236	332	421
Finance Cost	20	12	13	10
Profit Before Tax	153	224	319	411
Other Income	19	20	22	25
Exceptional Items	36	-	-	-
Tax Expenses	36	62	86	110
Profit After Tax	100	183	256	326
Earnings per share (EPS)	23.5	43.2	60.3	76.9
Dividend per share (DPS)	2	4.3	6	7.7

Balance sheet (Rs in crore)	CY20	CY21E	CY22E	CY23E
Fixed Assets	624	662	705	754
CWIP	32	32	32	32
Goodwill	32	32	32	32
Deferred Tax Assets (Net)	22	22	22	22
Other Non-Current Assets	19	19	19	19
Total Non-Current Assets	729	767	810	859
Inventories	495	514	532	543
Trade Receivables	1,585	1,746	1,902	1,997
Cash and Cash Equivalents	319	755	1,333	1,871
Other Current Assets	375	375	375	375
Total Current Assets	2,774	3,390	4,142	4,787
Total Assets	3,503	4,157	4,952	5,647
Lease Liabilities	27	27	27	27
Other Financial Liabilities	1	1	1	1
Total Non-Current Liabilities	28	28	28	28
Lease Liabilities	12	12	12	12
Trade Payables	1,578	1,623	1,748	1,834
Other Current Liabilities	764	764	764	764
Provision	188	188	188	188
Total Current Liabilities	2,543	2,588	2,713	2,799
Net Current Assets	231	462	909	1,232
Equity Share Capital	8	8	8	8
Other Equity	924	1,089	1,319	1,612
Total Equity	933	1,079	1,302	1,588
Total Equity & Liabilities	3,503	4,157	4,952	5,647

(Source: Company, HDFC sec.)

ABB Power Products and Systems

Cash Flow (Rs in crores)	CY20	CY21E	CY22E	CY23E
PBT	136	245	342	435
Depreciation & Amortisation	77	76	79	82
Finance Cost	20	12	13	10
Other Adjustment	42	-	-	-
Operating Profit Before Working Capital	276	333	433	527
Inc./Dec in Payables	192	45	125	86
Inc./Dec in Liabilities	69	-	-	-
(Inc)/Dec in Receivables	184	162	156	95
(Inc)/Dec in Inventories	-2	19	18	12
(Inc)/Dec in Assets	-75	-	-	-
Cash generated from operation	644	558	732	720
Direct taxes paid (net of refunds)	35	62	86	110
Cash flow from Operating Activities	610	496	646	610
Capex	-91	-37	-43	-50
Sale of PPE	1	-	-	-
Interest Received	2	-	-	-
Cash flows from investing activities	-89	-37	-43	-50
Proceeds from ST Borrowings	1,250	-	-	-
Repay of ST Borrowings	-1,598	-	-	-
Finance cost paid	-30	-12	-13	-10
Payment of principal portion of lease liabilities	-10	-10	-10	-10
Payment of interest portion of lease liabilities	-2	-2	-2	-2
Cash flows from financing activities	-390	-24	-25	-22

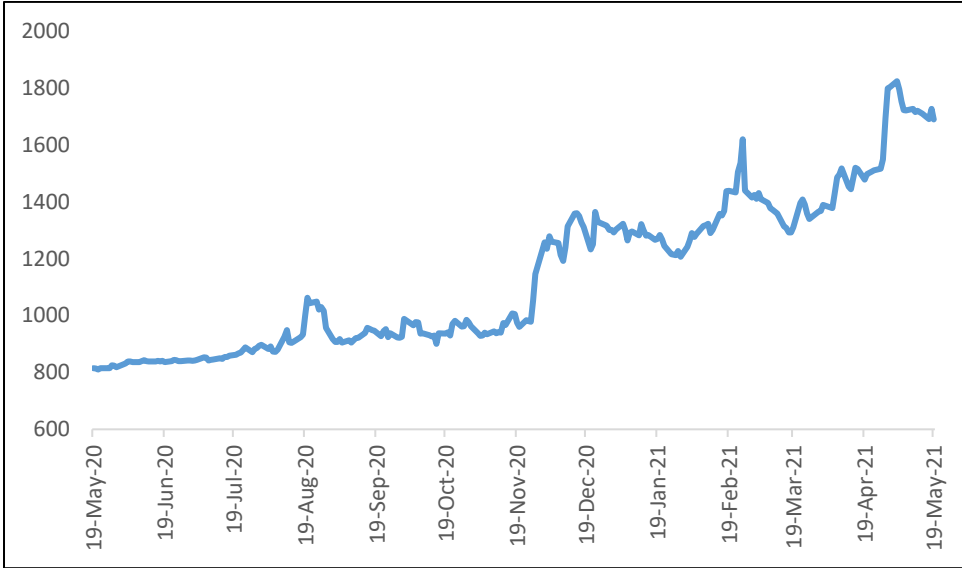
(Source: Company, HDFC sec.)

Ratios	CY20	CY21E	CY22E	CY23E
EBITDA Margin (%)	7.50%	8.30%	9.50%	10.10%
EBIT Margin	5.20%	6.30%	7.70%	8.50%
PAT Margin	3.00%	4.90%	5.90%	6.60%
Revenue Growth	5.00%	12.00%	15.00%	15.00%
EBITDA Growth	-25.30%	24.40%	31.60%	22.30%
EBIT Growth	-39.60%	35.90%	40.70%	26.60%
PAT Growth	-39.70%	83.30%	39.70%	27.40%
Inventory Turnover	6.76	7.3	8.11	9.13
Receivables Turnover	1.99	2.15	2.27	2.48
Payables Turnover	2.27	2.31	2.47	2.7
Asset Turnover	0.96	0.98	0.95	0.94
Current Ratio	1.09	1.31	1.53	1.71
Inventory Day	54	50	45	40
Receivables Days	184	170	161	147
Payables Days	161	158	148	135
Cash Conversion Cycle	76	62	58	52
RoE	11.30%	18.20%	21.50%	22.50%
RoCE	17.90%	21.10%	24.80%	25.90%
RoA	2.80%	4.40%	5.20%	5.80%
RoIC	13.20%	16.00%	18.70%	19.50%
PE (x)		39.5x	28.3x	22.2x
EV/EBITDA (x)		27.7x	22.3x	16.9x

ABB Power Products and Systems



One Year Price Chart



(Source: Company, HDFC sec.)

ABB Power Products and Systems

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