

Engineering companies in focus after hive-offs

ABB India's Q1 show negates concerns on separating power grid business; focus now shifts to Siemens' restructuring

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ABB India has ensured a good start to the year, with its March quarter (Q1) revenues rising 18 per cent year-on-year (YoY) to ₹1,850 crore and net profit surging 93 per cent to ₹89 crore, on the back of better execution. The company follows a January-December financial year.

Despite the numbers meeting the Street's estimates, its stock price fell over a per cent on Tuesday — the day it announced the results — hit by weak market conditions.

The Q1 results are seen as critical for ABB, given it is the first quarter after the firm hived off its power grid business.

A major reason behind the move was to improve productivity of assets and hence improve profitability. This was reflected in the Q1 numbers, with operating margins improving to about 7 per cent, from 4 per cent a year ago.

The past year's margin, including the power grid business, was about 6 per cent. ABB India is benefiting from the short-cycle orders that now fill its order book.

Much to the comfort of the Street, its order growth at 17 per cent (₹1,780 crore) comprises short-cycle orders from transportation, retail, automotive, metals, cement, and the oil and gas segments. The total order backlog stands at ₹4,700 crore.

To allay fears over lack of earnings visibility by these contracts, Chief Financial Officer T K Sridhar emphasised that the company would be a fairly predictable, going forward. "We will now connect with customers on the operating expenses side, rather

ABB: WELL-SPREAD ORDERS

- Electrification
- Robotics & motion
- Industrial automation

Source: Company



Siemens: Projected valuations after biz reorganisation

Per share value (₹)

Digital factory	295
Outgoing businesses	292
Cash & ICDs	164
Process industries & drives	135
Mobility	50
Building technologies	49
Others	131
Total SOTP	999

ICD: Inter-corporate deposits

SOTP: Sum of total parts

Source: PhillipCapital

than wait for large capital expensive orders," he added.

Amit Mahawar of Edelweiss Securities, agrees. "Predictability has increased with short-cycle orders as firms work closely with clients. The volatility of growth and profitability has reduced over time, too," he said.

After ABB's good show, focus shifts to its closest competitor, Siemens India, whose parent firm unveiled a

similar restructuring move on Tuesday, albeit more complex on the execution front.

Siemens AG plans to hive off its traditional business — gas and power — into a new independent entity, Siemens Gas and Power.

This will comprise Siemens' oil and gas, and conventional power generation business, as well as its transmission units.

While the move is seen as positive at the parent level, the story back home is different. Given how these businesses aren't so lucrative in terms of revenue (about 28 per cent share) and Ebit (earnings before interest and tax), the contribution of which stands at 14 per cent.

Traditional businesses account for over 55 per cent of Siemens India's revenues and about 57 per cent of Ebit. Other verticals — building technologies and digital factories — contribute about 20 per cent, on both counts.

Analysts at PhillipCapital expect over 45 per cent of Siemens India's revenues to be impacted by the move, though operating margins will steeply improve to 14-18 per cent. The Siemens India stock shed about 3 per cent on Wednesday.

As a result, the question for investors is whether they should endure the near-term pain for potential long-term gains. Analysts believe they should. "We view this sharpened growth focus as a strategic long-term positive for Siemens India's stakeholders," Mahawar said.

However, trading at 35-40 times their 1-year forward valuation, the ABB India and Siemens India stocks don't come cheap.