

October 28, 2021

Q3CY21 Result Update

Change in Estimates | Target | Reco

Change in Estimates

	Current		Previous	
	CY22E	CY23E	CY22E	CY23E
Rating	HOLD		UNDER REVIEW	
Target Price	1,832		-	
Sales (Rs. m)	81,288	96,397	84,716	94,802
% Chng.	(4.0)	1.7		
EBITDA (Rs. m)	7,316	9,158	7,201	8,532
% Chng.	1.6	7.3		
EPS (Rs.)	24.2	30.5	23.8	28.1
% Chng.	1.8	8.6		

Key Financials - Standalone

Y/e Dec	CY20	CY21E	CY22E	CY23E
Sales (Rs. m)	58,210	69,473	81,288	96,397
EBITDA (Rs. m)	2,759	5,905	7,316	9,158
Margin (%)	4.7	8.5	9.0	9.5
PAT (Rs. m)	2,304	4,062	5,127	6,470
EPS (Rs.)	10.9	19.2	24.2	30.5
Gr. (%)	(23.8)	76.3	26.2	26.2
DPS (Rs.)	5.0	5.8	7.3	9.2
Yield (%)	0.3	0.3	0.4	0.5
RoE (%)	6.5	10.9	12.7	14.6
RoCE (%)	4.3	12.5	14.8	17.1
EV/Sales (x)	6.5	5.4	4.6	3.9
EV/EBITDA (x)	136.2	63.5	51.4	41.1
PE (x)	172.4	97.8	77.5	61.4
P/BV (x)	11.0	10.3	9.4	8.5

Key Data

ABB.BO | ABB IN

52-W High / Low	Rs.1,971 / Rs.869
Sensex / Nifty	61,143 / 18,211
Market Cap	Rs.397bn/ \$ 5,296m
Shares Outstanding	212m
3M Avg. Daily Value	Rs.533.97m

Shareholding Pattern (%)

Promoter's	75.00
Foreign	3.83
Domestic Institution	7.26
Public & Others	13.91
Promoter Pledge (Rs bn)	-

Stock Performance (%)

	1M	6M	12M
Absolute	1.1	35.5	101.7
Relative	(0.7)	8.4	33.7

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Strong operational performance

Quick Pointers:

- EBITDA margins expanded to 9.5% in Q3CY21 vs 7.5% in Q3CY20.
- Ordering momentum continues to remain strong at Rs19.1bn in Q3CY21 (up 46% YOY).

ABB India (ABB) reported strong set of number with EBITDA margin expanding by 197bps YoY to 9.5% mainly led by 1) improved capacity utilization, 2) revenue mix, 3) operational efficiency and 4) cost optimization. Order inflow came in at Rs19.1bn driven by order win in new high growth sectors like renewables water, data centers, railways, metro and F&B and other traditional sectors such as steel, cement, energy and power distribution etc. OB stands strong at Rs47.7bn (0.7x TTM revenue) providing revenue visibility for next 2-3 quarter. Going forward ABB will continue to focus on order wins and execution across projects.

We believe ABB's is well placed to capitalize on revival in economic activity given its strong business model, healthy global distribution network and diversified business portfolio. The stock is currently trading PE of 97.8x/77.5x/61.4x CY21E/CY22E/CY23E. Given 1) improving economic activity, 2) pickup in orders plus strong order backlog, 3) improving operational efficiency and 4) cost optimization process we have revised upwards our earnings estimate by 2%/9% for CY22E/CY23E. Assign 'HOLD' rating (earlier UR) on stock with revised TP of Rs1,832.

Strong operational performance drives profitability: Sales came in at ~Rs17.8bn, up by 10.3% YoY (PLe ~Rs17.5bn) led by growth in Robotics/Motions/Electrification which grew by 42%/11.3%/16.6% YoY, while Process Automation segment declined 7.6% YoY due to delay in dispatch clearance from customer. Gross margin expanded to 37.9% vs 34.9% in Q3CY20. EBITDA grew 39.2% YoY to Rs1.7bn (PLe: Rs1.3bn) with margins expanding by 197bps YoY to 9.5% vs 7.5% in 3QCY20 owing to healthy gross margin. PBT grew 45.1% to Rs1,654mn led by strong operational performance and higher other income (up 23.4% YoY). Reported PAT grew 40.3% YoY to Rs1,200mn (PLe ~Rs965mn).

Ordering momentum continues to remain strong: Order inflow came in at Rs19.1bn, mainly contributed by Motion (42%), Electrification (37%), Process Automation (19%). Order inflow was driven by new high growth sectors such as renewables, water, data centers, railways, metro and F&B. Order book stands strong at Rs47.7bn and provides revenue visibility for next 2-3 quarters, comprising of Motion, Electrification and Process Automation order.

Exhibit 1: Strong EBITDA margin

Y/e March (Rs mn)	Q3CY20	Q4CY20	Q1CY21	Q2CY21	Q3CY21	YoY gr. (%)	QoQ gr. (%)	9M CY21	9M CY20	YoY gr. (%)
Revenue	16,122	17,008	16,292	14,250	17,784	10.3	24.8	48,325	41,202	17.3
Total Revenues	16,122	17,008	16,292	14,250	17,784	10.3	24.8	48,325	41,202	17.3
Expenditure	14,908	15,982	14,969	13,302	16,095	8.0	21.0	44,366	39,609	12.0
as % of sales	92.5	94.0	91.9	93.4	90.5			91.8	96.1	
Consumption of RM	10,500	11,168	10,396	9,099	11,037	5.1	21.3	30,533	26,031	17.3
as % of sales	65.1	65.7	63.8	63.9	62.1			63.2	63.2	
Employee Cost	1,352	1,493	1,538	1,391	1,441	6.5	3.6	4,369	4,187	4.3
as % of sales	8.4	8.8	9.4	9.8	8.1			9.0	10.2	
Other expenditure	3,056	3,321	3,035	2,812	3,617	18.4	28.6	9,464	9,390	0.8
as % of sales	19.0	19.5	18.6	19.7	20.3			19.6	22.8	
EBITDA	1,214	1,026	1,323	948	1,689	39.2	78.3	3,959	1,593	148.5
Depreciation	247	297	253	284	263	6.3	(7.4)	800	767	4.2
EBIT	967	729	1,070	664	1,426	47.5	115.0	3,160	826	282.4
Other Income	201	144	253	252	248	23.4	(1.6)	753	925	(18.6)
Interest	28	69	32	16	20	(27.5)	26.9	68	99	(31.5)
Exceptional Item	-	-	(745)	-	-			(745)	(588)	
PBT	1,140	804	2,036	900	1,654	45.1	83.9	4,590	2,240	104.9
Total Tax	285	182	530	216	454	59.6	109.9	1,201	557	115.4
Reported PAT	855	622	1,506	683	1,200	40.3	75.6	3,389	1,682	101.4
Adjusted PAT	855	622	761	683	1,200	40.3	75.6	2,644	1,094	141.6
EPS	4.0	2.9	7.1	3.2	5.7	40.3	75.6	16.0	7.9	101.4
Margins (%)	Q3CY20	Q4CY20	Q1CY21	Q2CY21	Q3CY21	Bps	bps	9M CY21	9M CY20	bps
EBIDTA	7.5	6.0	8.1	6.6	9.5	197	285	8.2	3.9	433
EBIT	6.0	4.3	6.6	4.7	8.0	202	336	6.5	2.0	453
EBT	7.1	4.7	12.5	6.3	9.3	223	299	9.5	5.4	406
PAT	5.3	3.7	4.7	4.8	6.7	144	195	5.5	2.7	281
Effective Tax rate	25.0	22.6	26.0	24.1	27.5	248	341	26.2	24.9	127

Source: Company, PL

Exhibit 2: Strong revenue growth across segment except Process Automation

Segmental Performance	Q3CY20	Q4CY20	Q1CY21	Q2CY21	Q3CY21	YoY gr. (%)	QoQ gr. (%)	9M CY21	9M CY20	YoY gr. (%)
Revenue										
Robotics & Discrete Automation	449	431	480	890	639	42.2	(28.2)	2,008	1,121	79.2
Motion	6,292	6,483	6,312	5,005	7,002	11.3	39.9	18,318	15,898	15.2
Electrification	5,945	6,472	6,330	5,766	6,933	16.6	20.2	19,029	15,752	20.8
Process Automation	3,675	3,868	3,256	2,674	3,396	(7.6)	27.0	9,326	8,983	3.8
Others	89	54	247	90	108	21.0	20.6	444	383	16.0
Less Intersegmental	(328)	(300)	(332)	(174)	(294)	(10.5)	68.4	(800)	934	(185.7)
Total	16,122	17,008	16,292	14,250	17,784	10.3	24.8	48,325	43,070	12.2
EBIT										
Robotics & Discrete Automation	45	34	53	46	76	67.5	66.4	175	13	1,242.3
<i>EBIT margin (%)</i>	<i>10.1</i>	<i>7.9</i>	<i>11.1</i>	<i>5.1</i>	<i>11.9</i>			<i>8.7</i>	<i>1.2</i>	
Motion	693	1,191	896	550	762	9.9	38.7	2,207	1,224	80.2
<i>EBIT margin (%)</i>	<i>11.0</i>	<i>18.4</i>	<i>14.2</i>	<i>11.0</i>	<i>10.9</i>			<i>12.0</i>	<i>7.7</i>	
Electrification	864	910	745	394	835	(3.4)	112.2	1,974	1,434	37.7
<i>EBIT margin (%)</i>	<i>14.5</i>	<i>14.1</i>	<i>11.8</i>	<i>6.8</i>	<i>12.0</i>			<i>10.4</i>	<i>9.1</i>	
Process Automation	102	(701)	285	161	422	312.6	161.4	868	132	560.1
<i>EBIT margin (%)</i>	<i>2.8</i>	<i>(18.1)</i>	<i>8.8</i>	<i>6.0</i>	<i>12.4</i>			<i>9.3</i>	<i>1.5</i>	

Source: Company, PL

Conference call highlights

- Management indicated revenue growth was led by strong order book execution, improved customer connect and growth in service business.
 - Exports contributed 13% of total revenue.
 - Service accounted for 16% of total revenue in Q3CY21.
- Despite input cost pressure, EBITDA margins expanded to 9.5% owing to increased capacity utilization level, better revenue mix, operational efficiency and cost optimization.
- During Q3, order inflow came in at Rs19.1bn (up 46% YoY), led by ordering activity in new high growth sectors such as renewables, water, data centers, railways, metro and F&B.
- Cash balance stands strong at Rs24.8bn vs Rs15.9bn in Q3CY20.
- During the quarter ABB expanded manufacturing capacity for Low Voltage (LV) motors at its Faridabad facility.
- ABB eMart is witnessing strong growth and supporting ABB to reach customers in tier3-4 city and more remote areas in India.
- **Outlook:** Management indicated demand outlook remains strong going forward and gross margin to be in range of 34-37%. It also targets to reach double digit EBITDA margin.
- **Electrification:** Revenue came in at Rs6.9bn (up 16.6% YoY) led by bounce back of service revenue streams and exports market. Good traction is witnessed across all division resulting in OI of Rs7.1bn (up 44% YoY).
- **Motions:** Revenue growth was witnessed across division except for propulsion equipment segment. Order inflow stood healthy at Rs8.1bn. During the quarter segment received high value LCI orders.
- **Robotics and Discrete Automation:** Order inflow came in at Rs650mn led by recovery witnessed in Auto sector.
- **Process Automation:** Revenue came in at Rs3.4bn led by order book conversion. Order inflow came in at Rs3.6bn, traction is being witnessed from sectors like mining, minerals processing and cement and chemical.

Financials

Income Statement (Rs m)

Y/e Dec	CY20	CY21E	CY22E	CY23E
Net Revenues	58,210	69,473	81,288	96,397
YoY gr. (%)	(20.4)	19.3	17.0	18.6
Cost of Goods Sold	37,059	43,768	51,414	60,971
Gross Profit	21,151	25,705	29,873	35,426
Margin (%)	36.3	37.0	36.8	36.8
Employee Cost	5,680	5,558	5,893	6,989
Other Expenses	5,786	6,253	7,519	8,917
EBITDA	2,759	5,905	7,316	9,158
YoY gr. (%)	(48.0)	114.0	23.9	25.2
Margin (%)	4.7	8.5	9.0	9.5
Depreciation and Amortization	1,204	1,170	1,276	1,476
EBIT	1,556	4,735	6,040	7,682
Margin (%)	2.7	6.8	7.4	8.0
Net Interest	169	257	301	357
Other Income	1,069	938	1,097	1,301
Profit Before Tax	3,044	5,416	6,836	8,626
Margin (%)	5.2	7.8	8.4	8.9
Total Tax	739	1,354	1,709	2,157
Effective tax rate (%)	24.3	25.0	25.0	25.0
Profit after tax	2,304	4,062	5,127	6,470
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,304	4,062	5,127	6,470
YoY gr. (%)	(23.8)	76.3	26.2	26.2
Margin (%)	4.0	5.8	6.3	6.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,304	4,062	5,127	6,470
YoY gr. (%)	(23.8)	76.3	26.2	26.2
Margin (%)	4.0	5.8	6.3	6.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,304	4,062	5,127	6,470
Equity Shares O/s (m)	212	212	212	212
EPS (Rs)	10.9	19.2	24.2	30.5

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Dec	CY20	CY21E	CY22E	CY23E
Non-Current Assets				
Gross Block	10,950	13,450	15,950	18,450
Tangibles	10,950	13,450	15,950	18,450
Intangibles	-	-	-	-
Acc: Dep / Amortization	3,321	4,491	5,767	7,243
Tangibles	3,321	4,491	5,767	7,243
Intangibles	-	-	-	-
Net fixed assets	7,630	8,960	10,184	11,208
Tangibles	7,630	8,960	10,184	11,208
Intangibles	-	-	-	-
Capital Work In Progress	946	946	946	946
Goodwill	-	-	-	-
Non-Current Investments	100	244	285	339
Net Deferred tax assets	1,172	1,172	1,172	1,172
Other Non-Current Assets	5,221	6,253	7,316	8,676
Current Assets				
Investments	1	1	1	1
Inventories	8,408	8,565	10,022	11,885
Trade receivables	16,950	19,034	22,271	26,410
Cash & Bank Balance	22,066	22,934	21,916	21,946
Other Current Assets	4,362	4,863	5,690	6,748
Total Assets	74,733	82,428	91,880	103,870
Equity				
Equity Share Capital	424	424	424	424
Other Equity	35,640	38,051	41,640	46,169
Total Networkth	36,064	38,474	42,063	46,592
Non-Current Liabilities				
Long Term borrowings	449	449	449	449
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	133	133	133	133
Trade payables	17,207	19,034	22,271	26,410
Other current liabilities	22,051	25,510	28,136	31,457
Total Equity & Liabilities	74,733	82,428	91,880	103,870

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Dec	CY20	CY21E	CY22E	CY23E
PBT	2,894	5,416	6,836	8,626
Add. Depreciation	1,204	1,170	1,276	1,476
Add. Interest	169	257	301	357
Less Financial Other Income	1,069	938	1,097	1,301
Add. Other	78	-	-	-
Op. profit before WC changes	4,344	6,843	8,413	10,459
Net Changes-WC	(130)	(212)	(3,383)	(3,474)
Direct tax	(1,033)	(1,354)	(1,709)	(2,157)
Net cash from Op. activities	3,182	5,277	3,321	4,828
Capital expenditures	310	(2,500)	(2,500)	(2,500)
Interest / Dividend Income	639	-	-	-
Others	3,476	(1)	0	0
Net Cash from Inv. activities	4,424	(2,501)	(2,500)	(2,500)
Issue of share cap. / premium	-	-	-	-
Debt changes	(337)	-	-	-
Dividend paid	(1,017)	(1,219)	(1,538)	(1,941)
Interest paid	(169)	(257)	(301)	(357)
Others	-	(433)	-	-
Net cash from Fin. activities	(1,523)	(1,908)	(1,839)	(2,298)
Net change in cash	6,084	868	(1,018)	30
Free Cash Flow	1,968	2,777	821	2,328

Source: Company Data, PL Research

Quarterly Financials (Rs m)

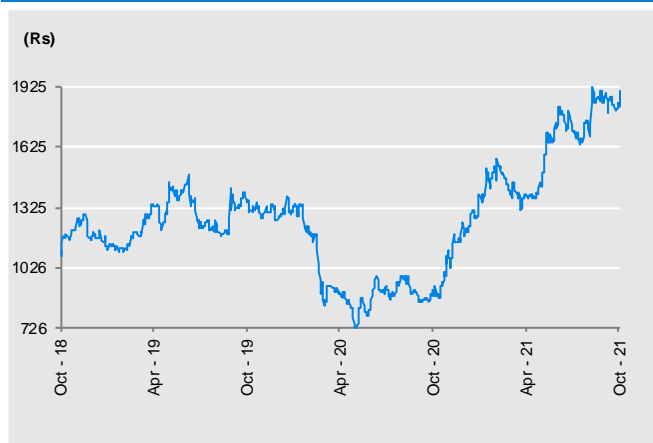
Y/e Dec	Q4CY20	Q1CY21	Q2CY21	Q3CY21
Net Revenue	17,008	16,292	14,250	17,784
YoY gr. (%)	(12.9)	7.0	44.6	10.3
Raw Material Expenses	11,168	10,396	9,099	11,037
Gross Profit	5,840	5,896	5,150	6,747
Margin (%)	34.3	36.2	36.1	37.9
EBITDA	1,026	1,323	948	1,689
YoY gr. (%)	(25.9)	812.1	304.2	39.2
Margin (%)	6.0	8.1	6.6	9.5
Depreciation / Depletion	297	253	284	263
EBIT	729	1,070	664	1,426
Margin (%)	4.3	6.6	4.7	8.0
Net Interest	69	32	16	20
Other Income	144	253	252	248
Profit before Tax	804	2,036	900	1,654
Margin (%)	4.7	12.5	6.3	9.3
Total Tax	182	530	216	454
Effective tax rate (%)	22.6	26.0	24.1	27.5
Profit after Tax	622	1,506	683	1,200
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	622	1,506	683	1,200
YoY gr. (%)	(3.8)	128.2	307.9	40.3
Margin (%)	3.7	9.2	4.8	6.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	622	1,506	683	1,200
YoY gr. (%)	(3.8)	128.2	307.9	40.3
Margin (%)	3.7	9.2	4.8	6.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	622	1,506	683	1,200
Avg. Shares O/s (m)	212	212	212	212
EPS (Rs)	2.9	7.1	3.2	5.7

Source: Company Data, PL Research

Key Financial Metrics

Y/e Dec	CY20	CY21E	CY22E	CY23E
Per Share(Rs)				
EPS	10.9	19.2	24.2	30.5
CEPS	16.6	24.7	30.2	37.5
BVPS	170.2	181.6	198.5	219.9
FCF	9.3	13.1	3.9	11.0
DPS	5.0	5.8	7.3	9.2
Return Ratio(%)				
RoCE	4.3	12.5	14.8	17.1
ROIC	8.5	23.8	23.9	25.1
RoE	6.5	10.9	12.7	14.6
Balance Sheet				
Net Debt : Equity (x)	(0.6)	(0.6)	(0.5)	(0.5)
Net Working Capital (Days)	51	45	45	45
Valuation(x)				
PER	172.4	97.8	77.5	61.4
P/B	11.0	10.3	9.4	8.5
P/CEPS	113.3	75.9	62.1	50.0
EV/EBITDA	136.2	63.5	51.4	41.1
EV/Sales	6.5	5.4	4.6	3.9
Dividend Yield (%)	0.3	0.3	0.4	0.5

Source: Company Data, PL Research

Price Chart
Recommendation History


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	5-Oct-21	UR	-	1,878
2	29-Jul-21	Hold	1,687	1,684
3	6-Jul-21	UR	-	1,758
4	28-Apr-21	Hold	1,337	1,388
5	7-Apr-21	Reduce	1,195	1,372
6	11-Feb-21	Reduce	1,195	1,423
7	8-Jan-21	Hold	880	1,303
8	5-Nov-20	Hold	880	894

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB India	UR	-	1,878
2	Apar Industries	BUY	790	661
3	Bharat Electronics	BUY	245	206
4	BHEL	Sell	34	66
5	Cummins India	Accumulate	1,051	900
6	Engineers India	BUY	129	78
7	GE T&D India	Hold	139	126
8	Kalpataru Power Transmission	BUY	576	409
9	KEC International	Accumulate	445	456
10	Larsen & Toubro	BUY	1,855	1,717
11	Siemens	Accumulate	2,310	2,248
12	Thermax	Accumulate	1,559	1,349
13	Triveni Turbine	UR	-	178
14	Voltamp Transformers	Accumulate	1,825	1,493

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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