

## Strong performance coupled with robust outlook

**About the stock:** ABB India (ABB) is a leader in technology solutions by connecting software to its electrification, robotics, automation and motion portfolio.

- It operates in mainly three key segments including robotics & motion (41%), electrification (38%), industrial/ process automation (22%)
- Well placed to gain from the overall energy market transformation from electrification to automation & digitisation

**Q1CY22 Results:** ABB reported strong Q1CY22\* results in a difficult time.

- Revenue at ₹ 1968.3 crore, up 20.8% YoY. Uptick in exports and service business along with strong backlog execution led to the positive movement in revenue
- EBITDA came in at ₹ 187.8 crore with margins of 9.5%. Margin growth was supported by quality execution
- Hence, PAT came in at ₹ 370.1 crore, up 161.8% YoY, including exceptional item of ₹ 293 crore pertaining to profit on sale of turbocharger business
- Order inflows for Q1CY22 came in strong at ~₹ 2291 crore, up 26% YoY

**What should investors do?** Overall, further penetration of automation & digitisation products and services across segments to drive long term growth.

- We remain long term positive and change our rating on the stock from HOLD to BUY

**Target Price and Valuation:** We value ABB at ₹ 2625 (70x on CY23E EPS)

**Key triggers for future price performance:**

- It expects operating margins to improve with increase in capacity utilisation, change in revenue mix, cost optimisation programmes and localisation
- ABB continues to see recovery in certain segments and industries like datacentre, renewables, electronics, food & beverages and pharma. It continues to focus on order win and seamless execution across projects
- Expect revenue, EBITDA to grow at CAGR of ~21.3%, 30.9%, respectively, in CY21E-23E due to strong traction in short cycle products and services

**Alternate Stock Idea:** We also like Siemens Ltd in our coverage.

- Further penetration of valued added automation and digitisation products & services across segments to drive margins, long term growth
- BUY with target price of ₹ 2855



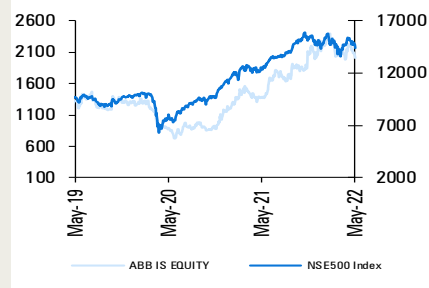
### Particulars

Particular	Amount
Market Capitalization	₹ 47044 Crore
Total Debt (CY21)	₹ 5.3 Crore
Cash and Inv. (CY21)	₹ 2502.7 crore
EV (CY21)	₹ 44546.2 Crore
52 week H/L (BSE) (₹)	2470 / 1361
Equity capital	₹ 42.4 Crore
Face value	₹ 2

### Shareholding pattern

(in %)	Jun-21	Sep-21	Dec-21	Mar-22
Promoter	75.0	75.0	75.0	75.0
FII	3.7	3.5	3.8	3.7
DII	7.1	7.0	8.0	8.2
Others	14.2	14.6	13.2	13.1

### Price Performance



### Recent events & Key risks

- Key risk:** (i) Any slowdown in capex across infrastructure, transportation, industrials, power, manufacturing etc. (ii) Any slowdown in R&D spending towards automation and digitisation.

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### Key Financial Summary

(₹ crore)	CY19	CY20	CY21	CY22E	CY23E	CY21E-CY23E
Revenues	7,315	5,821	7,088	8,494	10,429	21.3
EBITDA	531	276	626	794	1,072	30.9
Adj Net Profit	351	175	449	571	793.8	33.0
EPS (₹)	14.3	10.3	25.5	37.3	37.5	
P/E (x)	134.1	269.3	104.8	82.4	59.3	
Price / Book (x)	13.4	13.0	11.8	10.2	9.1	
EV/EBITDA (x)	85.6	162.5	71.2	55.6	40.9	
RoCE (%)	27.5	18.6	40.8	46.1	56.1	
RoE (%)	10.0	4.8	11.2	12.4	15.4	

Source: Company, ICICI Direct Research, \* December year end

## Key takeaways of recent quarter & conference call highlights

### Q1CY22 Results: Strong performance, across all business areas

- ABB reported revenue at ₹ 1968.3 crore, which grew 20.8% YoY amid strong order execution. Robotics & motion segment grew 14.9% on a YoY basis to ₹ 780.4 crore. Electrification segment grew 36% YoY to ₹ 861 crore while industrial automation segment revenue grew 5.1% YoY to ₹ 342 crore. Robotics & Motion, Electrification, Industrial Automation segments contributed ~39.1%, ~43.2%, 17.2%, respectively
- EBITDA came in at ₹ 187.8 crore with EBITDA margin of 9.5% (vs. 8.1% in Q1CY21) supported by controlled employee expenses while gross margins improved marginally by 70 bps to 36.9%. Robotics & motion reported EBIT Margin of 13% (vs. 14% in Q1CY21), Electrification EBIT margin was at 13.7% (vs. 11.8% in Q1CY21) while industrial automation EBIT margin saw improvement at 10.4% vs. 8.8% YoY
- Adjusted PAT came in at ₹ 370.1 crore, up 161.8% YoY. This includes exceptional item of ₹ 293 crore pertains to profit on sale of turbocharger business
- Order inflows came in at ₹ 2291 crore, up 26% YoY supported by a healthy increase in export orders across multiple businesses. Electrification was marked by higher orders across divisions especially in smart power and distribution business. Motion business area witnessed uptick in systems drives and HV and LV motors continuing the short cycle opportunities. Process automation gained from conversions in steel industry and refinery segment with higher focus on resource efficiency and clean energy transitions. Energy management systems was another area for order inflows. Service comprising system upgrades made up a significant portion of the order basket for robotics and discrete automation. The order backlog as of Q1CY22 was at ₹ 5229 crore, up 21%, YoY

### Q1CY22 Earnings Conference Call highlights

- Uptick in exports and service business along with strong backlog execution led to the positive movement in revenue. ABB's base order book grown by 26% YoY basis to ₹ 2291 crore, and order backlog is at ₹ 5229 crore. In Q1CY22, 26% revenue growth came from ~18-20% price increase and balance from volume led growth
- The management is striving to reach double digit/10% growth in PBT level going forward on an organic based, without any one offs
- Exports order booking grew by 33% YoY for ABB India. This on the back of Indian subsidiary becoming a supply hub for other group entities in North and South America
- Cash can be utilised to expand capacities, there are opportunities to grow organically as well as inorganically (company may announce something in October). Exceptional item of ₹ 293 crore pertains to profit on sale of Turbocharger business
- **Electrification:** Electrification segment witnessed strong order flows at ₹925 crores. Strong customer connect & segment focus resulted in solid order booking across all divisions. Capacity utilization efficiencies due to higher volume. Penetration in Tier 2 & Tier 3 markets
- **Motion:** Good order backlog seen in motion segment i.e. at ₹ 1970 crore. Typically, these orders are short cycle orders and growth comes through customer engagement and penetration to tier II & III markets. Good contribution from channel business, exports & packaging
- **Process Automation:** In this segment system orders starting to make a comeback, also seen traction in steel, paint industry and downstream units. Service revenues supported overall growth for process automation

- **Robotics & Discrete Automation:** Robotics started getting good orders in the market, strong order backlog at ₹151 crores. Service orders led by system upgrades and Automotive segments showing signs of recovery, there are supply chain headwinds but better revenue mix in this segment
- **Business outlook:** Focused growth segments contribute 85% of ABB's business in that Renewables, Water & Wastewater, Warehouse & Logistics, Electronics these segments provide 15%+ growth, Food & Bev, Pharma, Data Centre, Railways & Metro, Power distribution, Automotive, Buildings & Infra these segments provide 13-15% growth and Marine & Ports, Cement, Oil & Gas, Chemicals metals, mining pulp, Paper, Rubber & plastics, Textiles and Healthcare they provide sub 10% growth to company
- From business slicing perspective, the revenue from product business came in at 77% while services contributed 14%. Projects business contributed to 9% of the overall revenues. The company find this mix as more encouraging and inelastic to demand scenario as well. The pressure of commodity risks to such mix is less given most of the orders are short cycle orders and long term call on commodity is not required to be taken
- Share of exports is at 12% in revenues and the same is likely to witness strong growth in CY22E given ordering trends are strong from the group entities

Exhibit 1: Variance analysis

	Q1CY22	Q1CY21	YoY (%)	Q4CY21	QoQ (%)	Comments
Revenue	1,968.3	1,629.2	20.8	2,101.5	-6.3	Uptick in exports and service business along with strong backlog execution led to the positive movement in revenue
Other Income	37.3	25.3	47.5	59.9	-37.8	
Total Revenue	2,005.6	1,654.4	21.2	2,161.4	-7.2	
Raw material cost	1,090.3	889.9	22.5	1,108.2	-1.6	
Purchase of traded goods	179.8	148.5	21.1	197.4	-9.0	
Changes in inventory	-27.2	1.3		56.4		
Sub-contract & direct exp	56.9	46.5	22.4	66.7	-14.7	
Employee Expenses	175.0	153.8	13.8	151.3	15.6	
Other expenses	305.7	257.0	18.9	336.1	-9.1	
Operating Profit (EBITDA)	187.8	132.3	42.0	185.2	1.4	
EBITDA Margins	9.5%	8.1%	142 bps	8.8%	73 bps	Margin growth supported by quality execution.
Interest	1.5	3.2	-53.5	3.9	-62.0	
Depreciation	25.7	25.3	1.6	22.7	12.9	
Total Tax	121.2	53.0	128.7	71.7	69.0	
Extraordinary items	2.9	-9.3		-5.4		
PAT	370.1	141.3	161.8	193.6	91.2	

Segment-wise	Q1CY22	Q1CY21	YoY (%)	Q4CY21	QoQ (%)	
<b>Revenue</b>						
Robotics and Motion	780.4	679.1	14.9	814.3	-4.2	
Electrification Products	861	633.0	36.0	849	1.4	
Industrial Automation	342	325.6	5.1	471	-27.3	
Total	1994.5	1629.2	22.4	2101.5	-5.1	
<b>EBIT Margin</b>						
Robotics and Motion	13.0%	14.0%		13.0%		
Electrification Products	13.7%	11.8%		12.8%		
Industrial Automation	10.4%	8.8%		8.7%		

Source: Company, ICICI Direct Research, \* December Year End.

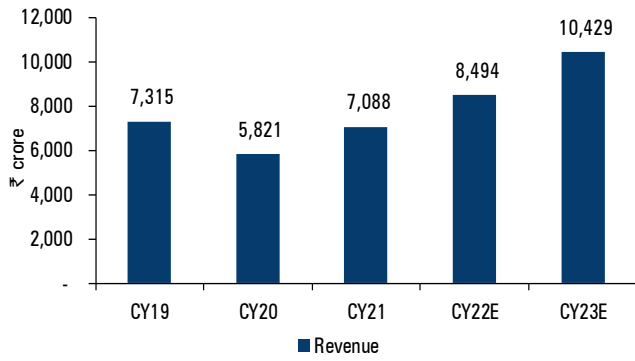
Exhibit 2: Change in estimates

(₹ Crore)	CY20	CY21	CY22E			CY23E		
	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	5,927.8	7,087.6	8,558.3	8,494.0	-0.8	10,065.9	10,428.6	3.6
EBITDA	275.9	625.5	799.1	793.6	-0.7	1,037.5	1,072.0	3.3
EBITDA Margin (%)	4.7%	8.8%	9.3%	9.3%	0.5	10.3%	10.3%	-0.2
PAT	219.2	539.6	574.4	790.5	37.6	771.7	793.8	2.9
EPS (₹)	10.3	25.5	27.1	37.3	37.7	36.4	37.5	2.9

Source: Company, ICICI Direct Research

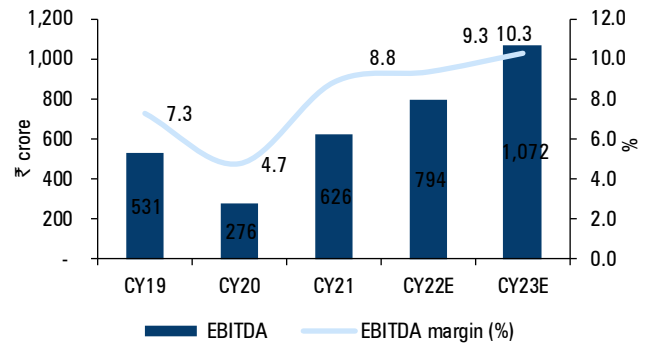
Financial story in charts:

Exhibit 3: Revenue trend...



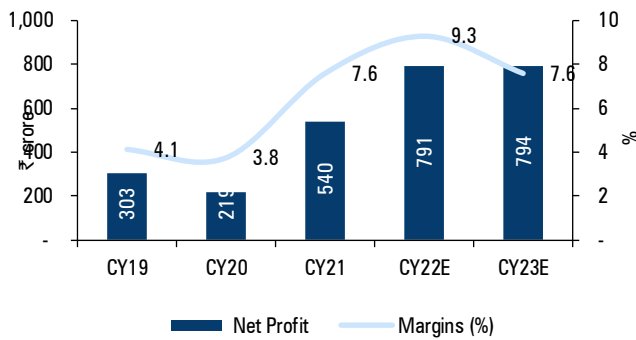
Source: ICICI Direct Research, Company

Exhibit 4: EBITDA and EBITDA margin trend



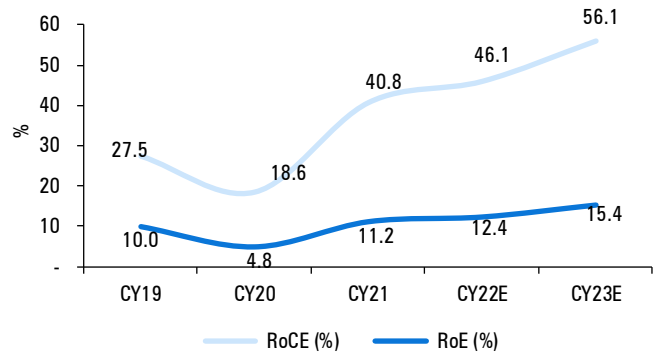
Source: ICICI Direct Research, Company

Exhibit 5: PAT and PAT margin (%) trend...



Source: Company, ICICI Direct Research

Exhibit 6: RoE, RoCE (%) trend...



Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(₹ Crore)	CY20	CY21	CY22E	CY23E
Net Sales	5,757	7,003	8,404	10,331
Operating income	64	85	90	98
Revenue	5,821	7,088	8,494	10,429
% Growth	(28.5)	21.8	19.8	22.8
Other income	106.9	110.0	120.0	150.0
Total	5,899	7,219	8,634	10,579
% Growth	(27.6)	22.4	19.6	22.5
Total Raw Material Costs	3,706	4,461	5,337	6,519
Employee Expenses	568	595	660	785
other expenses	1,107	1,197	1,437	1,736
Total Operating Expenditure	5,545	6,462	7,700	9,357
<b>Operating Profit (EBITDA)</b>	<b>276</b>	<b>626</b>	<b>794</b>	<b>1,072</b>
% Growth	(61.3)	126.7	26.9	35.1
Interest	17	15	21	22
PBDT	366	721	893	1,200
Depreciation	120	120	129	139
PBT before Exceptional Items	246	600	764	1,061
Total Tax	74	182	266	267
PAT before MI	230	540	791	794
Minority Interest	-	-	-	-
<b>PAT</b>	<b>219</b>	<b>540</b>	<b>791</b>	<b>794</b>
% Growth	(26.9)	146.1	46.5	0.4
<b>EPS</b>	<b>10.3</b>	<b>25.5</b>	<b>37.3</b>	<b>37.5</b>

Source: Company, ICICI Direct Research, \* December Year End

Exhibit 8: Cash flow statement				
	₹ crore			
(₹ Crore)	CY20	CY21	CY22E	CY23E
Profit after Tax	219	540	791	794
Depreciation	120	120	129	139
Interest	17	15	21	22
Cash Flow before WC changes	356	675	941	955
Changes in inventory	21	(305)	(181)	(216)
Changes in debtors	253	(91)	(203)	(267)
Changes in loans & Advances	349	1	(3)	(5)
Changes in other current assets	152	68	(65)	(78)
Net Increase in Current Assets	924	(328)	(452)	(566)
Changes in creditors	(181)	376	207	268
Changes in provisions	4	(1)	33	37
Net Inc in Current Liabilities	22	235	277	374
<b>Net CF from Operating activities</b>	<b>1,302</b>	<b>582</b>	<b>766</b>	<b>762</b>
Changes in deferred tax assets	(7)	-	-	-
(Purchase)/Sale of Fixed Assets	(102)	(125)	(150)	(175)
<b>Net CF from Investing activities</b>	<b>(538)</b>	<b>(125)</b>	<b>(150)</b>	<b>(175)</b>
Dividend and Dividend Tax	(102)	(135)	(172)	(239)
<b>Net CF from Financing Activities</b>	<b>(155)</b>	<b>(161)</b>	<b>(209)</b>	<b>(277)</b>
<b>Net Cash flow</b>	<b>609</b>	<b>296</b>	<b>407</b>	<b>310</b>
Opening Cash/Cash Equivalent	1,597	2,207	2,503	2,910
Closing Cash/ Cash Equivalent	2,207	2,503	2,910	3,220

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(₹ Crore)	CY20	CY21	CY22E	CY23E
Equity Capital	42.4	42.4	42.4	42.4
Reserve and Surplus	3,564	3,958	4,561	5,100
Total Shareholders funds	3,606	4,000	4,603	5,142
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>3,670</b>	<b>4,064</b>	<b>4,666</b>	<b>5,205</b>
Total Debt	5	5	5	5
Gross Block	1,024	1,159	1,309	1,484
Acc: Depreciation	315	436	565	704
Net Block	708	723	744	780
Capital WIP	75	65	65	65
Total Fixed Assets	783	788	809	845
Non Current Assets	724	724	724	724
Inventory	841	1,146	1,326	1,543
Debtors	1,695	1,786	1,990	2,257
Loans and Advances	18	17	20	25
Other Current Assets	436	369	433	511
Cash	2,207	2,503	2,910	3,220
Total Current Assets	6,084	6,707	7,567	8,443
Current Liabilities	1,721	2,097	2,304	2,571
Provisions	290	289	323	360
Net Current Assets	2,163	2,552	3,134	3,637
<b>Total Assets</b>	<b>3,670</b>	<b>4,064</b>	<b>4,666</b>	<b>5,205</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
(Year-end March)	CY20	CY21	CY22E	CY23E
<b>Per Share Data</b>				
EPS	10.3	25.5	37.3	37.5
Cash per Share	104.1	118.1	137.3	152.0
BV	170.2	188.8	217.2	242.6
Dividend per share	4.8	5.3	6.7	9.4
Dividend payout ratio	46%	21%	18%	25%
<b>Operating Ratios</b>				
EBITDA Margin	4.7	8.8	9.3	10.3
PAT Margin	3.8	7.6	9.3	7.6
<b>Return Ratios</b>				
RoE	4.8	11.2	12.4	15.4
RoCE	18.6	40.8	46.1	56.1
RoIC	42.6	152.3	117.7	108.2
<b>Valuation Ratios</b>				
EV / EBITDA	162.5	71.2	55.6	40.9
P/E	269.3	104.8	82.4	59.3
EV / Net Sales	7.7	6.3	5.2	4.2
Sales / Equity	1.6	1.8	1.8	2.0
Market Cap / Sales	8.1	6.6	5.5	4.5
Price to Book Value	13.0	11.8	10.2	9.1
<b>Turnover Ratios</b>				
Asset turnover	4.1	4.7	5.0	5.4
Debtors Turnover Ratio	3.2	4.1	4.5	4.9
Creditors Turnover Ratio	3.2	3.7	3.9	4.3
<b>Solvency Ratios</b>				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	0.9	1.0	1.0
Quick Ratio	0.6	0.6	0.6	0.7

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap			EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating	(₹ Cr)	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E		
L&T (LARTOU)	1636	2,270	Buy	229564	54.7	55.7	64.1	29.9	29.4	25.5	8.0	9.3	10.1	12.0	11.7	12.7		
Siemens Ltd	2305	2,856	Buy	82086	29.5	37.8	45.6	78.2	61.0	50.5	13.9	16.1	17.5	10.1	11.9	13.0		
AIA Engineering (AIAENG)	1911	1,895	Hold	18025	56.8	59.9	67.8	33.6	31.9	28.2	14.4	14.2	14.5	11.8	11.3	11.6		
Thermax (THERMA)	2075	2,445	Buy	24725	27.4	42.5	48.9	75.8	48.8	42.4	12.1	17.2	18.1	9.5	13.4	13.9		
KEC International (KECIN)	377	379	Hold	9693	12.7	15.8	25.3	29.7	23.9	14.9	12.3	13.3	16.9	10.7	11.0	15.4		
Greaves Cotton (GREAVE)	157	220	Hold	3618	1.3	2.8	4.4	117.3	56.8	35.6	3.5	10.4	15.7	2.4	7.4	11.4		
Elgi Equipment (ELGEQU)	338	410	Hold	10702	4.0	6.3	8.2	85.1	53.4	40.9	12.7	18.0	20.3	14.0	19.1	20.7		
Bharat Electronics (BHAELE)	235	250	Buy	57187	9.4	11.2	12.5	25.1	20.9	18.8	26.2	28.7	28.6	19.4	21.4	21.3		
Cochin Shipyard (COCSHI)	327	500	Buy	4301	44.0	55.6	-	7.4	5.9	-	15.2	16.0	-	13.0	14.7	-		
SKF (SKFIND)	3220	4,115	Buy	15919	77.0	81.0	102.9	41.8	39.8	31.3	26.0	26.5	28.6	20.6	21.0	21.5		
Timken India (TIMIND)	1925	2,405	Buy	14480	37.8	43.3	50.1	59.5	46.2	46.2	21.1	27.1	31.3	16.4	21.1	24.4		
NRB Bearing (NRBBEA)	120	220	Buy	1167	7.8	9.2	12.1	20.6	17.3	17.3	15.0	15.3	19.2	12.6	12.6	14.8		
Action Construction (ACTCON)	220	290	Buy	2617	9.8	12.7	16.2	22.4	17.3	13.6	22.5	24.4	25.9	15.1	16.6	17.7		

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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