

## Another strong performance...

**About the stock:** ABB India (ABB) is a leader in technology solutions 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

**Q2CY22 Results:** ABB reported another strong quarter with Q2CY22\* results.

- Revenue at ₹ 2052.5 crore, grew 44% YoY, owing to better execution and value added volume mix
- EBITDA came in at ₹ 198.9 crore with margins of 9.7%. Margin growth was supported by quality execution
- Hence, PAT came in at ₹ 147.1 crore, up 109.3% YoY
- Order inflows for Q2CY22 came pretty strong at ~₹ 2767 crore, up 64% 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 retain our **BUY** rating on the stock

**Target Price and Valuation:** We value ABB at ₹ 3275 (75x 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 ~25.2%, 41.8%, 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 ₹ 3040



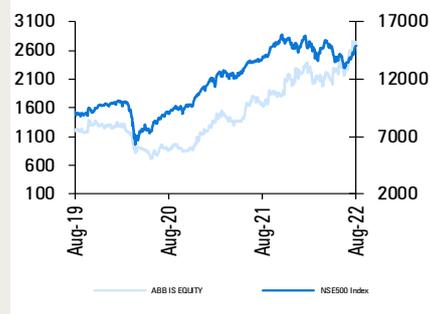
### Particulars

Particular	Amount
Market Capitalization	₹ 59016 Crore
Total Debt (CY21)	₹ 5.2 Crore
Cash and Inv. (CY21)	₹ 2657.7 crore
EV (CY21)	₹ 56364 Crore
52 week H/L (₹)	2850 / 1618
Equity capital	₹ 42.4 Crore
Face value	₹ 2

### Shareholding pattern

(in %)	Sep-21	Dec-21	Mar-22	Jun-22
Promoter	75.0	75.0	75.0	75.0
FII	3.5	3.8	3.7	3.5
DII	7.0	8.0	8.2	8.6
Others	14.6	13.2	13.1	12.9

### 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

### Research Analyst

Chirag Shah  
shah.chirag@icicisecurities.com

Ameya Mahurkar  
ameya.mahurkar@icicisecurities.com

### Key Financial Summary

(₹ crore)	CY19	CY20	CY21	CY22E	CY23E	CY21E-CY23E
Revenues	7,315	5,821	7,088	8,757	11,104	25.2
EBITDA	531	276	626	842	1,257	41.8
Adj Net Profit	351	175	449	604	925.7	43.6
EPS (₹)	14.3	10.3	25.5	38.9	43.7	
P/E (x)	168.2	337.8	131.5	97.7	63.8	
Price / Book (x)	16.8	16.4	14.7	12.7	11.2	
EV/EBITDA (x)	108.1	205.9	90.1	66.6	44.3	
RoCE (%)	27.5	18.6	45.0	49.2	64.9	
RoE (%)	10.0	4.8	11.2	13.0	17.6	

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

## Key takeaways of recent quarter & conference call highlights

### Q2CY22 Results: Another strong quarterly performance

- ABB reported revenue at ₹ 2052.5 crore (vs. our estimate of ₹ 1741.3 crore) which grew 44% on a YoY basis on strong order execution. Robotics & Motion segment grew 49.6% on a YoY basis to ₹ 882 crore; electrification segment grew 45.3% on a YoY basis to ₹ 838 crore while industrial automation segment revenue grew 38.5% YoY to ₹ 370 crore. Robotics & motion, electrification, industrial automation segments contributed ~42.9%, ~40.8%, 18%, respectively
- EBITDA came in at ₹ 198.8 crore (vs. our estimate of ₹ 135.8 crore) with EBITDA margin of 9.7% (our estimate was 7.8%) (vs. 6.6% in Q2CY21), while gross margins improved 290 bps to 39% YoY. Robotics & Motion reported EBIT Margin of 9.1% (Vs. 10.1% in Q2CY21), Electrification EBIT margin was at 11.5% (vs. 6.8% in Q2CY21) while industrial automation EBIT margin saw improvement at 10.8% vs. 6% YoY
- Adjusted PAT came in at ₹ 147.1 crore (vs. our estimate of ₹ 101.1 crore), up 109.3% YoY on a low base
- Order inflows came pretty strong at ₹ 2767 crore, up 64% YoY, registering healthy growth in all business segment. This was led by process automation with significant orders from the paint industry and cold rolling mills. The motion business also posted growth from sectors such as railways, renewable energy, F&B and mining as well as, process industries such as steel and chemicals. In electrification, all divisions registered growth and were able to convert a lot of the pent-up opportunities especially in the smart power, building and infra and distribution solutions businesses. Similarly, robotics and discrete automation business clocked higher paint orders. The order backlog as of Q2CY22 was at ₹ 5995 crore, up 30.8% YoY.

### Q2CY22 Earnings Conference Call highlights

- Better execution and value added volume mix led to the positive movement in revenues. ABB's order inflow grew pretty strong, up 64% YoY to ₹ 2767 crore, and order backlog is at ₹ 5995 crore. Operational efficiencies and customer connect driving business momentum in the quarter
- The management is striving to reach double digit, 10% growth at PBT level, going forward, on an organic based, without any one offs
- Exports revenue grew 45% YoY for ABB India. Share of exports is at 12% in total revenues and the same is likely to witness strong growth in CY22E given ordering trends are strong from group entities
- ABB's cash position continues to remain robust at ₹ 2,787 crore at the end of Q2CY22 and can be utilised to expand capacities. There are opportunities to grow organically as well as inorganically (the company may make an announcement in October)
- **Electrification:** There was continued execution momentum on the back of healthy order book in electrification segment. Currently orders at ₹ 967 crore. Uninterrupted operations and efficient supply chain management supporting revenue performance in electrification segment. This segment experiences higher capacity utilisation and better price realisation offsetting commodity volatility
- **Motion:** Faster conversion of backlog and export led growth in large motors division led to uptick in Motion's revenue performance. Also, it bagged large traction convertor orders from railways. Higher volume with better product mix and price realisation. Orders inflows were at ₹ 1041 crore with backlog of ₹ 2169 crore

- **Process Automation:** Successful order backlog execution drove revenue growth in Process Automation especially conversions of systems order with energy, paints and steel majors. Service revenues contributed 28%. Volumes and higher service revenues resulted in better profitability. At the end of Q2CY22 orders were at ₹715 crore
- **Robotics and Discrete Automation:** Robotics last year had a one-time conversion of a significant electronics book and bill order. This quarter was impacted in a limited way by supply chain constraints. It witnessed service orders led by system upgrades, automotive segments showing signs of investments and higher paint related orders. Orders are at ₹ 70 crore
- **Business outlook:** Focused growth segments contribute 85% of ABB's business in that electronics, data centres and warehouse & logistics. These segments provide 15%+ growth. Renewables, Railways & Metro, Food & Beverage, Water & Wastewater, Pharmaceuticals and Automotive segments provide 13-15% growth. Power distribution, rubber & plastics, buildings & infra, cement, oil, gas & chemicals metals & mining, marine & ports, pulp & paper, rubber & plastics, textile and healthcare provide sub 10% growth to the company
- While profitability improvement was witnessed across all business areas, continued fluctuating commodity prices and currency volatility remain key external headwinds

Exhibit 1: Variance analysis

	Q2CY22	Q2CY21	YoY (%)	Q1CY22	QoQ (%)	Comments
Revenue	2,052.5	1,425.0	44.0	1,968.3	4.3	Better execution and value added volume mix helped for revenue growth
Other Income	25.3	25.2	0.5	37.3	-32.0	
Total Revenue	2,077.8	1,450.2	43.3	2,005.6	3.6	
Raw material cost	1,110.7	785.7	41.4	1,090.3	1.9	
Purchase of traded goods	173.5	181.6	-4.5	179.8	-3.5	
Changes in inventory	-31.3	-57.4		-27.2		
Sub-contract & direct exp	56.7	36.1	57.1	56.9	-0.5	
Employee Expenses	145.7	139.1	4.7	175.0	-16.8	
Other expenses	398.5	245.1	62.6	305.7	30.4	
Operating Profit (EBITDA)	198.8	94.8	109.8	187.8	5.8	
EBITDA Margins	9.7%	6.6%	303 bps	9.5%	14 bps	Margin growth supported by quality execution.
Interest	2.8	1.6	76.9	1.5	91.2	
Depreciation	25.3	28.4	-10.8	25.7	-1.3	
Total Tax	48.9	21.6	125.8	121.2	-59.7	
Extraordinary items	-6.8	1.9		2.9		
PAT	147.1	70.3	109.3	370.1	-60.3	

Segment-wise	Q2CY22	Q2CY21	YoY (%)	Q1CY22	QoQ (%)
<b>Revenue</b>					
Robotics and Motion	882.0	589.4	49.6	780.4	13.0
Electrification Products	838	576.6	45.3	861	-2.7
Industrial Automation	370	267.4	38.5	342	8.3
Total	2052.5	1425.0	44.0	1968.4	4.3
<b>EBIT Margin</b>					
Robotics and Motion	9.1%	10.1%		13.0%	
Electrification Products	11.5%	6.8%		13.7%	
Industrial Automation	10.8%	6.0%		10.4%	

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

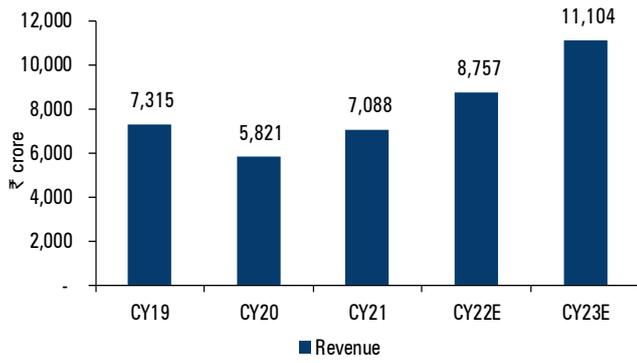
Exhibit 2: Change in estimates

	CY20	CY21	CY22E			CY23E		
(₹ Crore)	Actual	Actual	Old	New	% Change	Old	New	% Change
Revenue	5,927.8	7,087.6	8,494.0	8,757.2	3.1	10,428.6	11,104.2	6.5
EBITDA	275.9	625.5	793.6	842.1	6.1	1,072.0	1,257.2	17.3
EBITDA Margin (%)	4.7%	8.8%	9.3%	9.6%	2.9	10.3%	11.3%	10.1
PAT	219.2	448.9	790.5	604.4	-23.5	793.8	925.7	16.6
EPS (₹)	10.3	25.5	37.3	38.9	4.2	37.5	43.7	16.5

Source: Company, ICICI Direct Research

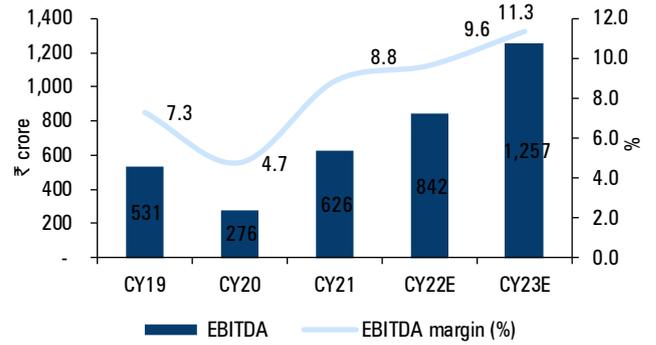
Financial story in charts:

Exhibit 3: Revenue trend...



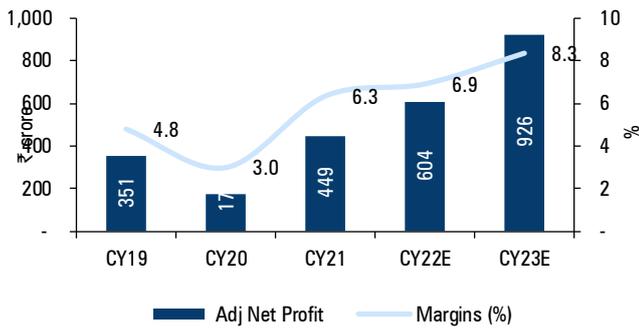
Source: ICICI Direct Research, Company

Exhibit 4: EBITDA and EBITDA margin trend



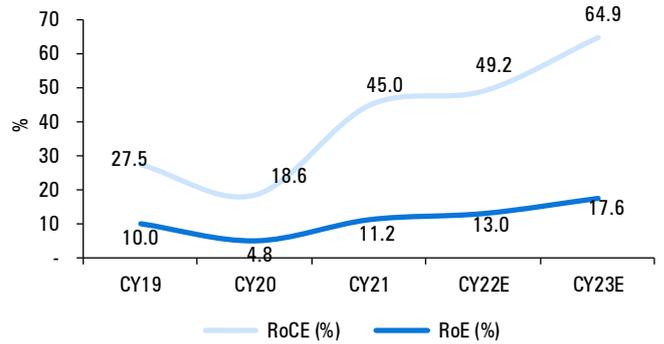
Source: ICICI Direct Research, Company

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	8,667	11,006
Operating income	64	85	90	98
Revenue	5,821	7,088	8,757	11,104
% Growth	(28.5)	21.8	23.6	26.8
Other income	106.9	110.0	120.0	150.0
Total	5,899	7,219	8,901	11,254
% Growth	(27.6)	22.4	23.3	26.4
Total Raw Material Costs	3,706	4,461	5,504	6,824
Employee Expenses	568	595	680	836
other expenses	1,107	1,197	1,465	1,849
Total Operating Expenditure	5,545	6,462	7,915	9,847
<b>Operating Profit (EBITDA)</b>	<b>276</b>	<b>626</b>	<b>842</b>	<b>1,257</b>
% Growth	(61.3)	126.7	34.6	49.3
Interest	17	15	21	22
PBDT	366	721	941	1,385
Depreciation	120	120	133	148
PBT before Exceptional Items	246	600	808	1,238
Total Tax	74	182	278	312
PAT before MI	230	540	824	926
Minority Interest	-	-	-	-
<b>PAT</b>	<b>219</b>	<b>540</b>	<b>824</b>	<b>926</b>
% Growth	(26.9)	146.2	52.6	12.4
<b>EPS</b>	<b>10.3</b>	<b>25.5</b>	<b>38.9</b>	<b>43.7</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	824	926
Depreciation	120	120	133	148
Interest	17	15	21	22
Cash Flow before WC changes	356	675	978	1,095
Changes in inventory	21	(168)	(358)	(275)
Changes in debtors	253	(189)	(168)	(352)
Changes in loans & Advances	349	(1)	(2)	(6)
Changes in other current assets	152	129	(140)	(97)
Net Increase in Current Assets	924	(71)	(668)	(730)
Changes in creditors	(181)	241	414	363
Changes in provisions	4	44	(2)	51
Net Inc in Current Liabilities	22	65	367	503
<b>Net CF from Operating activities</b>	<b>1,302</b>	<b>670</b>	<b>677</b>	<b>868</b>
Changes in deferred tax assets	(7)	23	-	-
(Purchase)/Sale of Fixed Assets	(102)	(185)	(150)	(175)
<b>Net CF from Investing activities</b>	<b>(538)</b>	<b>(72)</b>	<b>(150)</b>	<b>(175)</b>
Dividend and Dividend Tax	(102)	(106)	(182)	(279)
<b>Net CF from Financing Activities</b>	<b>(155)</b>	<b>(146)</b>	<b>(219)</b>	<b>(319)</b>
<b>Net Cash flow</b>	<b>609</b>	<b>451</b>	<b>308</b>	<b>374</b>
Opening Cash/Cash Equivalent	1,597	2,207	2,658	2,965
<b>Closing Cash/ Cash Equivalent</b>	<b>2,207</b>	<b>2,658</b>	<b>2,965</b>	<b>3,339</b>

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	3,973	4,598	5,227
Total Shareholders funds	3,606	4,015	4,641	5,269
Minority Interest	-	-	-	-
<b>Total Liabilities</b>	<b>3,670</b>	<b>4,057</b>	<b>4,682</b>	<b>5,311</b>
Gross Block	1,024	1,120	1,282	1,457
Acc: Depreciation	315	349	482	629
Net Block	708	771	800	828
Capital WIP	75	77	65	65
Total Fixed Assets	783	848	865	893
Non Current Assets	724	589	589	589
Inventory	841	1,009	1,368	1,643
Debtors	1,695	1,884	2,051	2,403
Loans and Advances	18	19	21	26
Other Current Assets	436	307	447	544
Cash	2,207	2,658	2,965	3,339
Total Current Assets	6,084	6,605	7,581	8,685
Current Liabilities	1,721	1,961	2,375	2,738
Provisions	290	335	333	383
Net Current Assets	2,163	2,620	3,228	3,829
<b>Total Assets</b>	<b>3,670</b>	<b>4,057</b>	<b>4,682</b>	<b>5,311</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	38.9	43.7
Cash per Share	104.1	125.4	139.9	157.6
BV	170.2	189.5	219.0	248.6
Dividend per share	4.8	5.0	7.1	10.9
Dividend payout ratio	46%	20%	18%	25%
<b>Operating Ratios</b>				
EBITDA Margin	4.7	8.8	9.6	11.3
PAT Margin	3.8	7.6	9.4	8.3
<b>Return Ratios</b>				
RoE	4.8	11.2	13.0	17.6
RoCE	18.6	45.0	49.2	64.9
RoIC	42.6	92.1	85.1	94.2
<b>Valuation Ratios</b>				
EV / EBITDA	205.9	90.1	66.6	44.3
P/E	337.8	131.5	97.7	63.8
EV / Net Sales	9.8	8.0	6.4	5.0
Sales / Equity	1.6	1.8	1.9	2.1
Market Cap / Sales	10.1	8.3	6.7	5.3
Price to Book Value	16.4	14.7	12.7	11.2
<b>Turnover Ratios</b>				
Asset turnover	4.1	5.2	5.2	5.7
Debtors Turnover Ratio	3.2	4.0	4.5	5.0
Creditors Turnover Ratio	3.2	3.8	4.0	4.3
<b>Solvency Ratios</b>				
Debt / Equity	0.0	0.0	0.0	0.0
Current Ratio	0.9	0.9	1.0	1.1
Quick Ratio	0.6	0.6	0.7	0.7

Source: Company, ICICI Direct Research

Exhibit 11: ICICI Direct coverage universe (Capital Goods)

Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
L&T (LARTOU)	1,870	2,175	Buy	262398	56.8	65.0	76.7	32.9	28.8	24.4	8.9	10.2	11.6	12.1	12.7	13.6
Siemens Ltd	2,844	3,040	Buy	101281	29.5	36.7	48.5	96.4	77.4	58.6	13.9	15.7	18.6	10.1	11.6	13.7
AIA Engineering (AIAENG)	2,600	3,011	Buy	24523	64.6	79.8	86.0	40.3	32.6	30.2	16.5	17.9	17.1	13.2	14.3	13.6
Thermax (THERMA)	2,126	2,405	Buy	25333	26.2	38.7	53.4	81.1	54.9	39.8	11.3	15.4	18.7	8.9	12.0	14.6
KEC International (KECIN)	396	474	Hold	10181	12.9	15.5	29.6	30.7	25.6	13.4	11.9	13.5	19.3	10.6	10.8	17.6
Greaves Cotton (GREAVE)	170	179	Buy	3930	0.7	2.6	3.3	240.2	64.5	51.5	2.5	8.9	10.2	1.3	6.3	7.3
Elgi Equipment (ELGEQU)	436	390	Buy	13817	5.7	6.6	8.7	76.4	66.1	50.2	18.9	17.8	20.2	18.7	18.5	20.3
Bharat Electronics (BHAELE)	287	315	Buy	69808	9.6	11.3	12.6	29.7	25.4	22.8	26.2	28.5	28.6	19.6	21.3	21.4
Cochin Shipyard (COCSHI)	336	340	Hold	4420	42.9	38.6	42.3	7.8	8.7	7.9	10.9	12.5	12.7	12.7	10.8	11.1
SKF (SKFIND)	4,434	4,920	Buy	21921	77.0	104.8	122.9	57.6	42.3	36.1	26.0	29.8	30.1	20.6	22.7	22.4
Timken India (TIMIND)	3,123	2,810	Buy	23491	43.5	54.8	62.5	101.9	80.9	70.9	25.3	32.3	36.8	19.7	24.9	28.4
NRB Bearing (NRBBEA)	141	220	Buy	1362	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)	227	230	Buy	2703	9.8	11.5	13.6	23.2	19.7	16.7	22.5	20.9	21.3	15.1	14.5	14.7
Data Patterns (DATPAT)	837	900	Buy	4343	18.1	21.7	28.0	46.2	38.6	29.9	23.8	24.4	26.4	16.4	18.1	19.6
HAL (HINAER)	2,258	2,200	Buy	75505	151.9	123.6	137.4	14.9	18.3	16.4	27.4	29.7	30.5	26.3	22.5	23.2

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%



Pankaj Pandey

Head – Research

[pankaj.pandey@icicisecurities.com](mailto:pankaj.pandey@icicisecurities.com)

ICICI Direct Research Desk,  
ICICI Securities Limited,  
1st Floor, AkruTI Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
[research@icicidirect.com](mailto:research@icicidirect.com)

## ANALYST CERTIFICATION

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